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

FORM 10-Q/A
(Amendment No 1.)

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

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

For Quarter ended February 28, 2003
Commission File Number 1-4304

COMMERCIAL METALS COMPANY

(Exact Name of registrant as specified in its charter)

Delaware

75-0725338

(State or other Jurisdiction of
incorporation of organization)

(I.R.S. Employer
Identification Number)

6565 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 [X]

No []

As of April 4, 2003 there were 28,123,750 shares of the Company's common stock issued and outstanding excluding 4,141,416 shares held in the Company's treasury.

EXPLANATORY NOTE

This Amendment No. 1 to Commercial Metals Company's quarterly report on Form 10-Q for the quarter ended February 28, 2003 is being filed to include certain

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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, included additional information on the annual meeting of stockholders and made various other modifications, corrections and clarifications, including the reconciliation of non-GAAP financial measures that is now required by Regulation G.

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ITEM 1 - FINANCIAL STATEMENTS

COMMERCIAL METALS COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

ASSETS

(In thousands except share data)

	February 28, 2003*	August 31, 2002
	-----	-----
CURRENT ASSETS:		
Cash and cash equivalents	\$ 49,746	\$ 124,3
Accounts receivable (less allowance for collection losses of \$8,521 and \$8,877)	338,329	350,8
Inventories	322,362	268,0
Other	55,638	50,9
	-----	-----
TOTAL CURRENT ASSETS	766,075	794,2
PROPERTY, PLANT AND EQUIPMENT:		
Land	32,920	29,0
Buildings	123,618	119,5
Equipment	736,683	727,6
Leasehold improvements	35,763	34,6
Construction in process	15,788	10,8
	-----	-----
	944,772	921,7
Less accumulated depreciation and amortization	(571,279)	(543,6
	-----	-----
	373,493	378,1
OTHER ASSETS	55,356	57,6
	-----	-----
	\$ 1,194,924	\$ 1,230,0
	=====	=====

*As restated, see Note K.

See notes to condensed consolidated financial statements.

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COMMERCIAL METALS COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

LIABILITIES AND STOCKHOLDERS' EQUITY

(In thousands except share data)

	February 28, 2003*	August 31, 2002
	-----	-----
CURRENT LIABILITIES:		
Short-term borrowings	\$ --	\$ --
Accounts payable	264,650	275,232
Accrued expenses and other payables	106,309	133,608
Income taxes payable	4,461	5,676
Current maturities of long-term debt	611	631
	-----	-----
TOTAL CURRENT LIABILITIES	376,031	415,147
DEFERRED INCOME TAXES	33,788	32,813
OTHER LONG-TERM LIABILITIES	28,235	24,841
LONG-TERM DEBT	257,414	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 28,213,050 and 28,518,453		
shares	161,326	161,326
Additional paid-in capital	772	170
Accumulated other comprehensive income (loss)	762	(1,458)
Retained earnings	392,592	392,004
	-----	-----
	555,452	552,042
Less treasury stock,		
4,052,116 and 3,746,713 shares at cost	(55,996)	(50,736)
	-----	-----
	499,456	501,306
	-----	-----
	\$ 1,194,924	\$ 1,230,076
	=====	=====

*As restated, see Note K.

See notes to condensed consolidated financial statements.

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

	Three months ended February 28,		
	2003	2002	
NET SALES	\$ 660,809	\$ 574,317	\$ 1,
COSTS AND EXPENSES:			
Cost of goods sold	592,897	499,445	1,
Selling, general and administrative expenses	56,772	56,078	
Employees' retirement plans	2,930	3,125	
Interest expense	3,553	5,069	
	-----	-----	
	656,152	563,717	1,
	-----	-----	
EARNINGS BEFORE INCOME TAXES	4,657	10,600	
INCOME TAXES	1,724	4,028	
	-----	-----	
NET EARNINGS	\$ 2,933	\$ 6,572	\$
	=====	=====	
Basic earnings per share	\$ 0.10	\$ 0.24	\$
Diluted earnings per share	\$ 0.10	\$ 0.24	\$
Cash dividends per share	\$ 0.08	\$ 0.065	\$
Average basic shares outstanding	28,320,223	26,832,546	28,
Average diluted shares outstanding	28,825,167	27,932,996	28,

See notes to condensed consolidated financial statements.

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COMMERCIAL METALS COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(Unaudited)

	Six month Februa
	----- 2003* -----
CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES:	
Net earnings	\$ 5,138
Adjustments to earnings not requiring cash:	
Depreciation and amortization	30,271
Provision for losses on receivables	1,257
Deferred income taxes	975
Tax benefits from stock plans	101
Other	763
Changes in operating assets and liabilities, net of effect of Coil Steels Group acquisition:	
Decrease (increase) in accounts receivable	(5,760)
Funding from accounts receivable sold	30,550
Decrease (increase) in inventories	(54,197)
Decrease (increase) in other assets	(15,333)
Increase (decrease) in accounts payable, accrued expenses, other payables and income taxes	(39,276)
Increase in other long-term liabilities	3,394
Net Cash From (Used By) Operating Activities	----- (42,117)
CASH FLOWS FROM (USED BY) INVESTING ACTIVITIES:	
Purchases of property, plant and equipment	(23,455)
Acquisition of Coil Steels Group, net of cash received	--
Sales of property, plant and equipment	162
Net Cash Used By Investing Activities	----- (23,293)
CASH FLOWS USED BY FINANCING ACTIVITIES:	
Short-term borrowings - net change	--
Payments on long-term debt	(33)
Stock issued under incentive and purchase plans	4,533
Treasury stock acquired	(9,191)
Dividends paid	(4,550)
Net Cash From (Used by) Financing Activities	----- (9,241)
Decrease in Cash and Cash Equivalents	----- (74,651)
Cash and Cash Equivalents at Beginning of Year	----- 124,397 -----

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Cash and Cash Equivalents at End of Period

\$ 49,746
=====

*As restated, See Note K.

See notes to condensed consolidated financial statements.

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COMMERCIAL METALS COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(In thousands except share data)
(Unaudited)

	Common Stock		Add'l Paid-in Capital	Accumulated Other Comprehensive	Retained Earnings
	Number of Shares	Amount		Income (Loss)	
Balance September 1, 2002:	32,265,166	\$161,326	\$170	\$(1,458)	\$392,004
Comprehensive income:					
Net earnings for six months ended February 28, 2003					5,138
Other comprehensive income:					
Foreign currency translation adjustment, net of taxes of \$1,195				2,220	
Comprehensive income					
Cash dividends					(4,550)
Stock issued under incentive and purchase plans			501		
Tax benefits from stock plans			101		
Treasury stock acquired					
Balance February 28, 2003	32,265,166	\$161,326	\$772	\$762	\$392,592

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See notes to condensed consolidated financial statements.

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COMMERCIAL METALS COMPANY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE A - QUARTERLY FINANCIAL DATA

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of only normal recurring accruals, except for the voidable preference accrual as discussed in Note H, Contingencies) necessary to present fairly the financial position as of February 28, 2003 and August 31, 2002 and the results of operations for the three and six months ended February 28, 2003 and 2002 and cash flows for the six months ended February 28, 2003 and 2002. The results of operations for the six month periods are not necessarily indicative of the results to be expected for a full year. These interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended August 31, 2002 included in its Form 10-K/A filed with the Securities and Exchange Commission.

NOTE B - ACCOUNTING POLICIES

Effective September 1, 2002, goodwill was no longer amortized. Goodwill was \$6.8 million at February 28, 2003 and August 31, 2002. The comparison to the prior year period was as follows (in thousands):

	Three months ended February 28,		Six months ended February 28,	
	2003	2002	2003	2002
Reported net earnings	\$ 2,933	\$ 6,572	\$ 5,138	\$15,054
Add: goodwill amortization	--	171	--	337
Adjusted net earnings	\$ 2,933	\$ 6,743	\$ 5,138	\$15,391

The goodwill amortization was \$0.01 per basic and diluted share for the three and six months ended February 28, 2002.

During the three months ended February 28, 2003, the Company adopted

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Statement of Financial Accounting Standards (SFAS) No. 146, Accounting for Costs Associated with Exit or Disposal Activities. The adoption of SFAS No. 146 had no significant impact on the Company's financial position or results of operations.

During the three months ended February 28, 2003, the Company accrued \$773 thousand for medical benefits provided under early retirement arrangements.

In November 2002, the Financial Accounting Standards Board (FASB) issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees on Indebtedness of Others which applies to all guarantees issued or modified after December 31, 2002. The Company has not entered into or modified any significant guarantees since December 31, 2002, and therefore no liability was recorded at February 28, 2003. The Company's existing guarantees at December 31, 2002 had been given at the request of a customer and its surety bond issuer. The Company has agreed to indemnify the surety against all costs that the surety may incur should the customer fail to perform its obligations under construction contracts covered by payment and performance bonds issued by the surety. As of December 31, 2002 and February 28, 2003, the surety had issued bonds in the total amount (without reduction for the work performed to date) of \$11.9 million, which are subject to the Company's guarantee obligation under the indemnity agreement. The fair value of these guarantees is not significant.

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COMMERCIAL METALS COMPANY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

On January 17, 2003, the FASB issued Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities, which requires consolidation of certain special purpose entities. The Company does not anticipate that FIN 46 will have a material impact on its results of operations or financial position.

PROPERTY, PLANT AND EQUIPMENT

During the three months ended February 28, 2003, the Company acquired \$1.5 million in property, plant and equipment after foreclosing on a delinquent note receivable from a customer.

The Company evaluates 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. Pursuant to such an evaluation, the Company wrote-down \$630 thousand on certain equipment at a fabrication-related facility during the three months ended February 28, 2003. During the three months ended February 28, 2002, the Company closed its recycling facility in Midland, Texas, resulting in a write-down of \$455 thousand on certain equipment. These write-downs were included in selling, general and administrative expenses.

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

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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 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 February 28, 2003 and August 31, 2002, uncollected accounts receivable of \$128 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 February 28, 2003 and August, 2002, \$15 million and \$0, respectively of Participation Interests in CMCR's accounts receivable pool were owned by the Buyer and therefore reflected as a reduction in accounts receivable on the Company's consolidated balance sheets.

Discounts (losses) on the sales of accounts receivable to the Buyer under this Securitization Program were \$188 thousand and \$311 thousand for the three and six months ended February 28, 2003, respectively. These discounts were \$284 thousand and \$630 thousand for the three and six months ended February 28, 2002, 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 \$113 million in the revolving pool of receivables of \$128 million at February 28, 2003. At August 31, 2002, the carrying amount of the Company's retained interest was \$146 million (100%) in the revolving pool of receivables of \$146 million. The carrying amount of the Company's retained interest in the receivables approximated fair value due to the short-term nature of the collection period. The retained interest is determined reflecting 100% of any allowance for collection losses on the entire receivables pool. No other material assumptions are made in determining the fair value of the retained interest. The Company is responsible for servicing the entire pool of receivables.

In addition to the Securitization Program described above, the Company's international subsidiaries periodically sell accounts receivable. These arrangements also constitute true sales and, once the accounts are sold, they are no longer available to satisfy the Company's creditors in the event of bankruptcy. Uncollected accounts receivable that had been sold under these arrangements and removed from the consolidated balance sheets were \$17.7 million at February 28, 2003 and \$2.1 million at August 31, 2002.

NOTE D - INVENTORIES

Before deduction of LIFO reserves of \$10.9 million and \$8.1 million at February 28, 2003 and August 31, 2002, respectively, inventories valued under the first-in, first-out method approximated replacement cost. The majority of the Company's inventories are in finished goods, with minimal work in process. Approximately \$13.3 million and \$16.5 million were in raw materials at February 28, 2003 and August 31, 2002, respectively.

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COMMERCIAL METALS COMPANY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE E - LONG TERM DEBT

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

	February 28, 2003	August 31, 2002
	-----	-----
7.20% notes due 2005	\$ 106,232	\$ 104,775
6.80% notes due 2007	50,000	50,000
6.75% notes due 2009	100,000	100,000
Other	1,793	1,825
	-----	-----
	258,025	256,600
Less current maturities	611	631
	-----	-----
	\$ 257,414	\$ 255,969
	=====	=====

On April 9, 2002 the Company entered into two interest rate swaps to convert a portion of the Company's long term debt from a fixed interest rate to a floating interest rate. The impact of these swaps is to adjust the amount of fixed rate and floating rate debt and to reduce overall financing costs. The swaps effectively convert the interest rate on the \$100 million debt due July 2005 from the fixed rate of 7.20% to six month LIBOR (determined in arrears) plus a spread of 2.02%. The interest rate is set on January 15th and July 15th, and for the quarter ended February 28, 2003, was estimated to be an annualized rate of 3.25%. The total fair value of both swaps was \$6.2 million and \$4.8 million at February 28, 2003 and August 31, 2002, respectively. The swaps are recorded in other long-term assets, with a corresponding increase in the 7.20% long-term notes, representing the change in fair value of the hedged debt.

NOTE F - EARNINGS PER SHARE

On May 20, 2002, the Company's Board of Directors declared a two-for-one stock split in the form of a 100% stock dividend on its common stock. All 2002 per share and weighted average share amounts in the accompanying condensed consolidated 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 or six months ended February 28, 2003 or 2002. The reconciliation of the denominators of earnings per share calculations are as follows:

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	Three months ended February 28,		Six
	2003	2002	2003
Shares outstanding for basic earnings per share	28,320,223	26,832,546	28,403,4
Effect of dilutive securities-stock options/purchase plans	504,944	1,100,450	491,0
Shares outstanding for diluted earnings per share	28,825,167	27,932,996	28,894,4

Stock options with total share commitments of 1,208,863 at February 28, 2003 were anti-dilutive based on the average share price for the quarter of \$15.42. All stock options expire by 2010.

At February 28, 2003, the Company had authorization to purchase 473,952 of its common shares. On March 17, 2003, the Company's Board of Directors authorized the purchase of an additional 1,000,000 shares.

In January 2003, the Company's stockholders approved an amendment to the Company's General Employees Stock Purchase Plan that increased by 1,000,000 the maximum number of shares that may be eligible for issuance and increased the maximum number of shares that an eligible employee may purchase annually from 200 to 400 shares.

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COMMERCIAL METALS COMPANY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE G - DERIVATIVES AND RISK MANAGEMENT

The Company's worldwide operations and product lines expose it to risks from fluctuations in foreign currency exchange rates and metals commodity prices. The objective of the Company's risk management program is to mitigate these risks using futures or forward contracts (derivative instruments). The Company enters into metal commodity forward contracts to mitigate the risk of unanticipated declines in gross margin due to the volatility of the commodities' prices, and enters into foreign currency forward contracts which match the expected settlements for purchases and sales denominated in foreign currencies. The Company designates only those contracts as hedges for accounting purposes which closely match the terms of the underlying transaction. These hedges resulted in substantially no ineffectiveness in the statements of earnings for the three or six months ended February 28, 2003 and 2002. Certain of the foreign currency and all of the commodity contracts were not designated as hedges for accounting purposes, although management believes they are essential economic hedges. The changes in fair value of these instruments resulted in a \$158 thousand decrease and a \$180 thousand decrease in cost of goods sold for the three months ended February 28, 2003 and 2002, respectively. Also, cost of goods sold decreased by \$497 thousand and decreased by \$333 thousand for the six

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months ended February 28, 2003 and 2002, respectively, due to changes in the fair value of these instruments. All of the instruments are highly liquid, and none are entered into for trading purposes or speculation.

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

NOTE H - CONTINGENCIES

CONSTRUCTION CONTRACT DISPUTES

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

At February 28, 2003 and August 31, 2002, \$9.8 million and \$9.6 million, respectively, were accrued (including interest) relating to an adverse trial judgment. The judgment was upheld on appeal in February 2003 and paid subsequent to the quarter end.

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 that 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. During 2002, the Company recovered \$15 million from the insurance company, of which \$7.4 million was recorded as deferred insurance proceeds (in other long-term liabilities at February 28, 2003 and August 31, 2002) pending final resolution of the Company's disputes with the D/B. The Company has 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 claim seeks recovery of unpaid contract receivables, amounts for delays and change orders all of which have not been paid by the D/B. At February 28, 2003 and August 31, 2002, 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.

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COMMERCIAL METALS COMPANY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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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.

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. Management 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.

ENVIRONMENTAL AND OTHER MATTERS

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

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

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

NOTE I - RECLASSIFICATIONS

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

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NOTE J - BUSINESS SEGMENTS

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

	Three months ended February 28, 20			
	Manufacturing	Recycling	Marketing & Distribution	
Net sales - unaffiliated customers	\$ 306,739	\$ 93,952	\$ 259,967	\$
Inter-segments sales	760	6,516	4,839	(
	307,499	100,468	264,806	(
Adjusted operating profit (loss)	1,148	4,050	5,341	

	Three months ended February 28, 20			
	Manufacturing	Recycling	Marketing & Distribution	
Net sales - unaffiliated customers	\$ 322,624	\$ 78,526	\$ 173,126	\$
Inter-segments sales	816	4,392	5,255	(
	323,440	82,918	178,381	(
Adjusted operating profit (loss)	15,850	198	2,206	

	Six months ended February 28,			
	Manufacturing	Recycling	Marketing & Distribution	
Net sales - unaffiliated customers	\$ 602,269	\$ 183,659	\$ 510,703	\$
Inter-segments sales	1,560	13,165	10,466	(
	603,829	196,824	521,169	(
Adjusted operating profit (loss)	4,892	5,454	10,113	
Total assets - February 28, 2003	709,228	96,769	312,025	

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	Six months ended February 28,		
	Manufacturing	Recycling	Marketing & Distribution
Net sales - unaffiliated customers	\$ 660,416	\$ 156,407	\$ 329,531
Inter-segments sales	1,620	9,142	8,043
	-----	-----	-----
	662,036	165,549	337,574
Adjusted operating profit (loss)	36,050	(1,024)	4,486
Total assets - February 28, 2002	741,079	84,970	237,177

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

SEGMENT	MANUFACTURING	RECYCLING	MARKETING AND DISTRIBUTION	CORPORATE ELIMINATIONS
THREE MONTHS ENDED FEBRUARY 28, 2003:				
Net earnings (loss)	\$ 723	\$ 2,565	\$ 4,304	\$ (4,650)
Income taxes	350	1,465	501	(590)
Interest expense	33	(1)	499	3,020
Discounts on sales of accounts receivable	42	21	37	80
	-----	-----	-----	-----
Adjusted operating profit (loss)	\$ 1,148	\$ 4,050	\$ 5,341	\$ (2,140)
	=====	=====	=====	=====
THREE MONTHS ENDED FEBRUARY 28, 2002:				
Net earnings (loss)	\$ 9,785	\$ 103	\$ 1,123	\$ (4,430)
Income taxes	5,903	56	610	(2,540)
Interest expense	74	--	405	4,590
Discounts on sales of accounts receivable	88	39	68	80
	-----	-----	-----	-----
Adjusted operating profit (loss)	\$15,850	\$ 198	\$ 2,206	\$ (2,300)
	=====	=====	=====	=====
SIX MONTHS ENDED FEBRUARY 28, 2003:				
Net earnings (loss)	\$ 3,006	\$ 3,465	\$ 7,131	\$ (8,460)
Income taxes	1,737	1,950	2,044	(2,710)
Interest expense	66	--	862	6,960
Discounts on sales of accounts receivable	83	39	76	110
	-----	-----	-----	-----
Adjusted operating profit (loss)	\$ 4,892	\$ 5,454	\$10,113	\$ (4,100)
	=====	=====	=====	=====
SIX MONTHS ENDED FEBRUARY 28, 2002:				
Net earnings (loss)	\$22,199	\$ (733)	\$ 2,193	\$ (8,600)
Income taxes	13,423	(403)	1,193	(4,960)

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Interest expense	161	1	896	8,97
Discounts on sales of accounts receivable	267	111	204	4
	-----	-----	-----	-----
Adjusted operating profit (loss)	\$36,050	\$(1,024)	\$ 4,486	\$(4,55)
	=====	=====	=====	=====

NOTE K-RESTATEMENT

In October 2003, the Company determined that the amounts previously reported at February 28, 2003 and August 31, 2002 as temporary investments should have been classified as "cash equivalents" and combined with the amounts reported as cash on its consolidated balance sheets. Also, the Company has determined that it should have consolidated its interests in CMCR, the primary effect of which is to combine the amounts previously reported as notes receivable 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 February 28, 2003 and August 31, 2002 have been increased by \$20 million and \$91 million, respectively, from the amounts previously reported as cash, and the previously reported temporary investments line has been removed. As a result of consolidating CMCR, accounts receivable as of February 28, 2003 and August 31, 2002 have been increased by \$111 million and \$143 million, respectively, from the amounts previously reported, and the previously reported notes receivable from affiliates line has been removed. In conjunction with these balance sheet changes, net cash from (used by) investing activities in the accompanying statements of cash flows for the six months ended February 28, 2003 and 2002 have been changed from \$48 million and (\$22) million, respectively, to (\$23) million and (\$25) million. In addition, the disclosures in Note C, Sales of Accounts Receivable, have been revised. Other changes were also made to the consolidated balance sheets and statements of cash flows and accompanying notes as a result of the consolidation of CMCR, none of which are material to the financial statements.

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ITEM 2.

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

CONSOLIDATED RESULTS OF OPERATIONS

(in millions)

	Three Months Ended February 28,		Six Months Ended February 28,	
	2003	2002	2003	2002
	----	----	----	----
Net sales	\$ 661	\$ 574	\$ 1,297	\$ 1,146
Net earnings	2.9	6.6	5.1	15.1
EBITDA	23.3	31.1	46.3	65.5
Ending LIFO reserve	10.9	6.5		

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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 principles (GAAP). Earnings before interest expense, income taxes, depreciation and amortization (EBITDA) is a non-GAAP financial performance measure. In calculating EBITDA, we exclude our largest recurring non-cash charge, depreciation and amortization. We use EBITDA as one guideline to assess our ability to pay our current debt obligations as they mature and a tool to calculate possible future levels of leverage capacity. Reconciliations to the most comparable GAAP measure, net earnings, are provided below (in millions):

	Three Months Ended February 28,		Six Months Ended February 28,	
	2003	2002	2003	2002
	-----	-----	-----	-----
Net earnings	\$ 2.9	\$ 6.6	\$ 5.1	\$15.1
Income taxes	1.7	4.0	3.0	9.2
Interest expense	3.6	5.1	7.9	10.0
Depreciation and amortization	15.1	15.4	30.3	31.2
	-----	-----	-----	-----
EBITDA	\$23.3	\$31.1	\$46.3	\$65.5
	=====	=====	=====	=====

Our management uses a non-GAAP measure, adjusted operating profit, to compare and evaluate the financial performance of our segments. See Note J, Business Segments to the condensed consolidated 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 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 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
-----	-----	-----	-----	-----
THREE MONTHS ENDED FEBRUARY 28, 2003:				
Net earnings (loss)	\$ 723	\$ 2,565	\$ 4,304	\$ (4,650)
Income taxes	350	1,465	501	(59)
Interest expense	33	(1)	499	3,020
Discounts on sales of accounts receivable	42	21	37	8
	-----	-----	-----	-----
Adjusted operating profit (loss)	\$ 1,148	\$ 4,050	\$ 5,341	\$ (2,140)
	=====	=====	=====	=====
THREE MONTHS ENDED FEBRUARY 28, 2002:				
Net earnings (loss)	\$ 9,785	\$ 103	\$ 1,123	\$ (4,430)
Income taxes	5,903	56	610	(2,540)
Interest expense	74	--	405	4,590

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Discounts on sales of accounts receivable	88	39	68	8
	-----	-----	-----	-----
Adjusted operating profit (loss)	\$15,850	\$ 198	\$ 2,206	\$ (2,30
	=====	=====	=====	=====

SIX MONTHS ENDED FEBRUARY 28, 2003:

Net earnings (loss)	\$ 3,006	\$ 3,465	\$ 7,131	\$ (8,46
Income taxes	1,737	1,950	2,044	(2,71
Interest expense	66	--	862	6,96
Discounts on sales of accounts receivable	83	39	76	11
	-----	-----	-----	-----
Adjusted operating profit (loss)	\$ 4,892	\$ 5,454	\$10,113	\$ (4,10
	=====	=====	=====	=====

SIX MONTHS ENDED FEBRUARY 28, 2002:

Net earnings (loss)	\$22,199	\$ (733)	\$ 2,193	\$ (8,46
Income taxes	13,423	(403)	1,193	(4,96
Interest expense	161	1	896	8,97
Discounts on sales of accounts receivable	267	111	204	4
	-----	-----	-----	-----
Adjusted operating profit (loss)	\$36,050	\$ (1,024)	\$ 4,486	\$ (4,55
	=====	=====	=====	=====

The following financial events were significant during the second quarter ended February 28, 2003:

- Key markets in our manufacturing segment remained weak early in the quarter, but improved some in January and February 2003.
- Our steel and the copper tube minimills' earnings decreased due primarily to higher scrap, utility and other input costs which were not offset by increased selling prices.
- Margins were lower at the steel group's fabrication operations due to lower selling prices.
- LIFO expense (primarily in manufacturing) was \$1.9 million (after-tax) for the three months ended February 28, 2003 compared to \$404 thousand last year.
- We accrued \$650 thousand (after-tax) during the three months ended February 28, 2003 for our estimated likely loss in a lawsuit relating to a customer's bankruptcy.
- Our recycling segment reported better adjusted operating profits with continued improvements in both ferrous and nonferrous scrap markets over last year.
- Marketing and distribution's adjusted operating profit was higher than last year's second 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 cash equivalents and no short-term debt at February 28, 2003.

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CONSOLIDATED DATA -

The last in, first out (LIFO) method of inventory valuation decreased net earnings by \$1.9 million and \$1.8 million for the three and six months ended February 28, 2003, respectively. LIFO reduced diluted earnings per share by 7 cents and 6 cents for the three and six months ended February 28, 2003, respectively. For the three months ended February 28, 2002, LIFO decreased net earnings by \$404 thousand (1 cent per diluted share). LIFO had substantially no impact on the six months ended February 28, 2002. We have restated the prior year's per share numbers to reflect the stock split referred to in Note F, Earnings per Share, to the condensed consolidated financial statements.

SEGMENT OPERATING DATA -

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

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

	Three months ended February 28,		Six mon Febr
	(in thousands)		
	2003	2002	2003
	-----	-----	-----
NET SALES:			
Manufacturing	\$ 307,499	\$ 323,440	\$ 603,829
Recycling	100,468	82,918	196,824
Marketing and Distribution	264,806	178,381	521,169
Corporate and Eliminations	(11,964)	(10,422)	(24,835)
	-----	-----	-----
	\$ 660,809	\$ 574,317	\$ 1,296,987
	=====	=====	=====
OPERATING PROFIT (LOSS):			
Manufacturing	\$ 1,148	\$ 15,850	\$ 4,892
Recycling	4,050	198	5,454
Marketing and Distribution	5,341	2,206	10,113
Corporate and Eliminations	(2,141)	(2,301)	(4,104)
	-----	-----	-----
	\$ 8,398	\$ 15,953	\$ 16,355
	=====	=====	=====

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 coppertube mill and the steel group's fabrication operations. Our manufacturing adjusted operating profit for the three months ended February 28, 2003 decreased \$14.7 million (93%) as compared to 2002 on \$15.9 million (5%) less net sales. Scrap purchase prices rose significantly because of the high demand for U.S. scrap, export restrictions in Russia and

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Ukraine, severe weather hampering transportation, the decline in the value of the U.S. dollar and increased demand in Asia, particularly China. Our steel minimills implemented higher selling prices late in the second quarter 2003, but these price increases will take effect gradually in our third and fourth quarters of fiscal 2003. Therefore, the price increases did not offset higher scrap and utility costs. Gross margins were significantly lower as a result of these conditions. Our copper tube mill's gross margins were also lower due to increased copper scrap purchase prices and lower selling prices for its products. Our steel group's downstream fabrication operations were less profitable due to much lower selling prices combined with slightly lower shipments. Lower business spending and commercial construction in the United States resulted in reduced demand for the segment's products, and thus resistance to selling price increases.

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The table below reflects steel and scrap prices per ton:

	Three months ended February 28,	
	2003	2002
	-----	-----
Average mill selling price (total sales)	\$271	\$266
Average mill selling price (finished goods)	277	270
Average fabrication selling price	535	620
Average ferrous scrap purchase price	89	71

Adjusted operating profit for our four steel minimills decreased 62% for the three months ended February 28, 2003 compared to 2002. Modest increases in selling prices and more shipments were not enough to offset the higher input costs. Our adjusted operating profits at SMI Texas decreased \$1.2 million (22%) for the three months ended February 28, 2003 as compared to 2002. SMI South Carolina lost \$2.4 million for the three months ended February 28, 2003 as compared to a \$1.9 million adjusted operating profit in 2002. Combined results for SMI Alabama and SMI Arkansas were slightly better than last year. The mills shipped 537,000 tons in the current quarter compared to 501,000 last year, an increase of 7%. We scheduled downtime at the mills in December in order to manage inventories. As a result, mill production decreased with tons rolled down 10% to 429,000. Tons melted decreased 1% to 475,000. The average total mill selling price at \$271 per ton was \$5 (2%) above last year. Our mill selling price for finished goods increased \$7 per ton (3%). Average scrap purchase costs were \$18 per ton (25%) higher than last year. Utility expenses increased by \$2.0 million as compared to last year, mostly due to higher natural gas costs. During the three months ended February 28, 2003, we accrued \$773 thousand for medical benefits provided under early retirement arrangements at SMI Alabama and SMI South Carolina. In the three months ended February 28, 2002, the mills received \$2.5 million from a graphite electrode litigation settlement.

The steel group's fabrication and other businesses reported a combined adjusted operating loss of \$2.0 million for the three months ended February 28, 2003 as compared to an adjusted operating profit of \$6.6 million in 2002. We recorded a \$1.3 million expense to value our inventories under the last-in, first-out

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(LIFO) method during the three months ended February 28, 2003, as compared to a \$487 thousand expense in 2002. Excluding SMI-Owen (which was sold in March 2002), adjusted operating profits decreased by \$8.2 million. Fabrication plant shipments totaled 231,000 tons, 2% less than last year's second quarter shipments of 235,000 tons. Excluding SMI Owen, shipments increased by 3,000 tons (1%). One of our subsidiaries has been notified that a bankrupt customer alleges the subsidiary received payments from the customer within 90 days of bankruptcy filing. The customer claims that these payments are voidable and should be returned to the bankruptcy estate. The payments were for materials and services that we sold to the customer. We accrued \$1 million during the 2003 second quarter related to this matter. The average fabrication selling price for the three months ended February 28, 2003 decreased \$85 per ton (14%). Our rebar fabrication, construction-related products and post plants reported higher adjusted operating profits during the second quarter 2003, as compared to 2002. We recognized a \$482 thousand gain on the trade-in of rental forms in construction-related products. Also, selling prices increased for rebar fabricators. However, our joist and structural steel fabrication plants reported adjusted operating losses on a combined basis for the second quarter 2003, as compared to adjusted operating profits in 2002. In general, our continued cost reduction efforts and initiatives to improve productivity were not enough to offset the drop in gross margins. Joist shipments and joist and structural fabrication selling prices decreased during the second quarter 2003 as compared to 2002. During the three months ended February 28, 2003 the joist plants reduced their inventory book values by \$747,000 to their estimated current market value. Also, during the three months ended February 28, 2003, we wrote-down \$630 thousand on equipment at one of our other facilities because our projected cash flows from this operation decreased significantly. During the second quarter 2003, we acquired substantially all of the operating assets of E.L. Wills, Inc. in Fresno, California, and D&G Enterprises, Inc., in San Antonio, Texas and American Steel Fabricators in Ft. Myers, Florida. These operations are rebar fabricators. The aggregate purchase price for these operations was not significant.

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Our Copper tube division's adjusted operating profit decreased \$748 thousand (67%) despite 6% more net sales. Copper tube shipments increased 9% to 13.7 million pounds. Production increased 11% to 14.8 million pounds. However, the average selling price dropped 3 cents per pound (3%) to \$1.19 for the three months ended February 28, 2003 as compared to \$1.22 in 2002. The average copper scrap price increased 6 cents per pound (9%) during the three months ended February 28, 2003 as compared to 2002. Although construction of new homes held up relatively well, other market sectors were weaker, which put pressure on selling prices. Other copper tube producers switched production to compete in our primary product line. We delayed some shipments due to bad weather. The division continued to expand its sales of line sets.

RECYCLING -

Our recycling segment reported an adjusted operating profit of \$4.1 million for the three months ended February 28, 2003. This was our most profitable quarter since 1997. For the same period in 2002, the segment reported an adjusted operating profit of \$198 thousand after incurring a \$455 thousand charge for the closure of its shredder operation in Midland, Texas. Net sales for the three months ended February 28, 2003 were 21% higher at \$100 million. Gross margins were 30% higher than the same period last year. The segment processed and shipped 374,000 tons of ferrous scrap during the three months ended February 28, 2003, 11% more than 2002. Ferrous sales prices were on average \$94 per ton, or

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32% higher than 2002. The following factors contributed to the increase:

- o Greater demand from overseas markets caused by higher Chinese demand for steel-making raw materials,
- o winter weather which caused lower scrap collections,
- o the weaker U.S. dollar,
- o export restrictions from Russia and Ukraine.

Nonferrous shipments were slightly lower at 55,000 tons. The average nonferrous scrap sales price of \$1,020 per ton for the three months ended February 28, 2003 was 12% higher than in 2002. The total volume of scrap processed, including the steel group's processing plants, was 642,000 tons, an increase of 10% from the 583,000 tons processed in 2002.

MARKETING AND DISTRIBUTION -

Net sales in the three months ended February 28, 2003 for our marketing and distribution segment increased to \$265 million, a 48% increase from 2002. Most of the increase related to sales outside of the United States. Adjusted operating profit for the three months ended February 28, 2003 was \$5.3 million, up 142% from 2002, mostly due to better results from our international operations. Our U.S. divisions were also more profitable on a combined basis for the three months ended February 28, 2003, as compared to 2002. Sales to and within Asia, especially China, were up significantly. Also, the economy in Australia was still strong. Except for nonferrous semi-finished goods, prices and shipments were generally higher. More demand in several of our key markets, including that for processed material contributed to the improved results. Also, 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. Overall, the weaker U.S. dollar had a positive impact on our marketing and distribution segment.

OTHER -

Employee's retirement plan expenses were lower for the three months ended February 28, 2003 as compared to 2002, and selling general and administrative expenses were flat. Discretionary items, such as bonuses, contributions and profit sharing were much lower commensurate with less profitability. Interest expense was lower due to two interest rate swaps, (see Note E, Long Term Debt, to the condensed consolidated financial statements) which resulted in interest expense savings.

CONTINGENCIES -

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

In the ordinary course of conducting our business, we become involved in litigation, administrative proceedings, governmental investigations including environmental matters, and contract disputes. We may incur settlements, fines,

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

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

OUTLOOK -

Assuming limited geopolitical fallout, we expect the second half of our fiscal year ending August 31, 2003 to be more profitable due to increased production, shipments and selling prices. We are expecting to achieve between 50% and 60% of our historical second half net earnings over the past three years. During the second half of fiscal 2003, we anticipate that public construction and institutional building will increase despite tighter budgets at the state and local level. Construction activity typically increases in the spring partially due to better weather conditions. We are expecting some improvement in demand from the industrial sector as well, and no further deterioration in commercial construction.

During the second quarter 2003, we implemented two price increases for most of our steel mill products. These price increases totaled \$35 per ton and will become partly effective in the third quarter and fully effective during our fourth quarter fiscal 2003. These increases should help restore gross margins at our steel minimills. We are also anticipating better profits at our copper tube mill during the second half of fiscal 2003 due to higher demand in the spring. We are expecting ferrous scrap prices to possibly decline by our fiscal year end. We think that nonferrous prices will flatten. The recycling segment should continue to be profitable under these conditions. We believe that our marketing and distribution markets will have continued good results.

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

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, steel import restrictions, 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 and political uncertainties
- o currency fluctuations
- o energy and insurance prices
- o decisions by governments impacting the level of steel imports and pace of overall economic activity.

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 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.

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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 \$256 million at February 28, 2003 and is investment grade rated by Standard & Poors' 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 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

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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 February 28, 2003.

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

Our manufacturing and recycling businesses are capital intensive. Our capital requirements include construction, purchases of equipment and maintenance capital at existing facilities. We plan to invest in new operations. We also plan to invest in working capital to support the growth of our businesses, 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 major acquisitions could require additional financing from external sources including the issuance of common or preferred stock.

Cash Flows

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

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

We used \$42.1 million of net cash flows in our operating activities for the six months ended February 28, 2003 as compared with the \$16.3 million of net cash flows provided from our operating activities for the six months ended February 28, 2002. This was due partly to lower net earnings. During the six months ended February 28, 2003, we paid more bonuses and other discretionary expenses, which had been accrued at August 31, 2002, than we did during the six months ended February 28, 2002. Net working capital increased to \$390 million at February 28, 2003 from \$379 million at August 31, 2002. We used funds from cash equivalents to pay the accrued expenses as warranted. Also, inventories in marketing and distribution increased mostly due to higher sales orders from outside of the United States and for goods in transit. The current ratio was 2.0 at February 28, 2003, up from 1.9 at August 31, 2002.

We invested \$23.5 million in property, plant and equipment during the six months ended February 28, 2003, which was comparable to 2002. In 2002, we acquired the remaining shares of the Coil Steels Group (CSG) for \$6.8 million. We expect our capital spending for fiscal 2003 to be less than our \$87 million budget, including both new construction and acquisitions to expand our downstream businesses.

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We assess our capital spending each quarter and reevaluate our requirements based upon current and expected results. We believe that our capital spending may be about \$50 million for fiscal 2003.

Our short-term financing needs were minimal during the six months ended February 28, 2003 mostly due to continued management of working capital and our significant amount of cash and cash equivalents. We had no short-term borrowings at February 28, 2003 or 2002. We have no significant amounts due on our long-term debt until July 2005. During the six months ended February 28, 2003, we used \$30.6 million from sales of accounts receivable to financial institutions. See Note C, Sales of Accounts Receivable, to the condensed consolidated financial statements.

At February 28, 2003, 28,213,050 common shares were issued and outstanding, with 4,052,116 held in our treasury. We paid dividends of \$4.6 million during

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the six months ended February 28, 2003, compared to the \$3.4 million paid during 2002. During the six months ended February 28, 2003, we purchased 593,610 shares of our common stock at an average price of \$15.48 per share. These shares were held in our treasury.

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

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CONTRACTUAL OBLIGATIONS

The following table represents our contractual obligations as of February 28, 2003 (dollars in thousands):

	Payments Due Within *				
	Total	1 Year	2-3 Years	4-5 Years	After 5 Years
Contractual Obligations:					
Long-term Debt (1)	\$258,025	\$ 611	\$107,313	\$ 50,027	\$100,077
Operating Leases (2)	54,131	7,889	13,054	9,831	23,355
Unconditional Purchase Obligations (3)	84,821	29,185	31,740	6,902	16,999
Total Contractual Cash Obligations	\$396,977	\$ 37,685	\$152,107	\$ 66,760	\$140,421

* Cash obligations herein are not discounted.

- (1) Total amounts are included in the February 28, 2003 condensed consolidated balance sheet. See Note E, Long-Term Debt, to the condensed consolidated financial statements.
- (2) Includes minimum lease payment obligations for noncancelable equipment and real-estate leases in effect as of February 28, 2003.
- (3) About 54% 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 February 28, 2003, we received \$32.7 million of net funding from the sales of accounts receivable. See Note C, Sales of Accounts Receivable, to the condensed consolidated financial statements. If we terminated the accounts receivable program on February 28, 2003 we would have to pay the first \$32.7 million of collections from accounts sold to third party financial institutions. We have complied with the terms of this program as of, and for the six months ended February 28, 2003.

Other Commercial Commitments

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

At the request of a customer and its surety bond issuer, we have agreed to indemnify the surety against all costs the surety may incur should our customer 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 February 28, 2003, the surety had issued bonds in the total amount (without reduction for the work performed to date) of \$11.9 million which are subject to our guaranty obligation under the indemnity agreement. See Note B, Accounting Policies, to the condensed consolidated financial statements.

ACCOUNTING POLICIES-

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

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PART II OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the registrant's annual meeting of stockholders held January 23, 2003, the three nominees named in the Company's Proxy Statement dated December 11, 2002, were elected to serve as directors until the 2006 annual meeting, the proposal to amend the Company's General Employee Stock Purchase Plan to increase by 1,000,000 the number of shares available for issuance pursuant to the Plan, and to increase the maximum number of shares that an eligible employee may elect to purchase annually from 200 to 400 was approved and the appointment of Deloitte & Touche, LLP, as auditors of the registrant for the fiscal year ending August 31, 2003 was ratified. There was no solicitation in opposition to management's nominees for directors.

Additional information as to the vote on each director standing for election, all matters voted on at the meeting and directors continuing in office is provided below:

Proposal 1 - Election of Directors

	For -----	Withheld -----
Anthony A. Massaro	25,231,205	807,252
Robert D. Neary	25,221,841	816,616
Clyde P. Selig	25,707,256	331,201

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Directors continuing in office are:

Moses Feldman
A. Leo Howell
Ralph E. Loewenberg
Dorothy G. Owen
Stanley A. Rabin
Robert R. Womack

Proposal 2 - Amendment to the general employees' stock purchase plan to increase by 1,000,000 the number of shares available for issuance pursuant to the plan and to increase the maximum number of shares that an eligible employee may elect to purchase annually from 200 to 400 shares.

For 24,881,105 Against 1,131,646 Abstain 25,706

Proposal 3 - Ratification of appointment of Deloitte & Touche LLP as independent auditors for the year ending August 31, 2003.

For 25,782,903 Against 241,581 Abstain 13,973

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

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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

William B. Larson
Vice President
& Chief Financial Officer

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INDEX TO EXHIBITS

Exhibit No	Description
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