

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: 1996-01-11 | Period of Report: 1995-11-30
SEC Accession No. 0000950134-96-000068

(HTML Version on secdatabase.com)

FILER

COMMERCIAL METALS CO

CIK: 22444 | IRS No.: 750725338 | State of Incorp.: DE | Fiscal Year End: 0831
Type: 10-Q | Act: 34 | File No.: 001-04304 | Film No.: 96502881
SIC: 5051 Metals service centers & offices

Mailing Address
7800 STEMMONS FRWY
PO BOX 1046
DALLAS TX 75221

Business Address
7800 STEMMONS FRWY
P O BOX 1046
DALLAS TX 75221
2146894300

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, 1995
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 or organization)

(I.R.S. Employer
Identification Number)

7800 Stemmons Freeway
P. O. Box 1046 Dallas, Texas 75221

(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 November 30, 1995 there were 14,902,247 shares of the Company's common
Stock issued and outstanding excluding 1,230,336 shares held in the
Company's treasury.

COMMERCIAL METALS COMPANY AND SUBSIDIARIES

INDEX

<TABLE>
<CAPTION>

Page No.

<S>
PART I - Financial Statements:

<C>

Consolidated Balance Sheets - November 30, 1995 and August 31, 1995	2 - 3
Consolidated Statements of Earnings - Three Months ended November 30, 1995 and November 30, 1994	4
Consolidated Statements of Cash Flows - Three Months ended November 30, 1995 and November 30, 1994	5
Consolidated Statement of Stockholders' Equity - November 30, 1995	6
Notes to Consolidated Financial Statements	7
Management's Discussion and Analysis of the Consolidated Financial Statements	8 - 12
PART II - Other Information and Signatures	13- 14
Exhibit 11 (a) - Calculation of Primary and Fully Diluted Earnings per Share	15

Page 1

3

COMMERCIAL METALS COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

(In thousands except share data)

<TABLE>
<CAPTION>

	November 30, 1995	August 31, 1995
	-----	-----
	<C>	<C>
CURRENT ASSETS:		
Cash	\$10,872	\$21,018
Accounts receivable (less allowance for collection losses of \$4,965 and \$4,743)	284,342	268,657
Inventories	200,813	208,114
Other	33,809	36,316
	-----	-----
TOTAL CURRENT ASSETS	529,836	534,105
OTHER ASSETS	4,217	4,259
PROPERTY, PLANT, AND EQUIPMENT, at cost:		
Land	16,637	16,629
Buildings	40,366	40,178

Equipment	386,677	372,644
Leasehold improvements	17,746	16,972
Construction in process	12,718	10,282
	-----	-----
	474,144	456,705
Less accumulated depreciation and amortization	(257,124)	(246,966)
	-----	-----
	217,020	209,739
	-----	-----
	\$751,073	\$748,103
	=====	=====

</TABLE>

See notes to consolidated financial statements.

Page 2

4

COMMERCIAL METALS COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

(In thousands except share data)

<TABLE>
<CAPTION>

	November 30, 1995	August 31 1995
	-----	-----
<S>	<C>	<C>
CURRENT LIABILITIES:		
Commercial paper	\$ --	\$ --
Notes payable	5,848	5,189
Accounts payable	112,592	107,906
Other payables and accrued expenses	135,213	137,933
Income taxes payable	5,299	3,246
Current maturities of long-term debt	14,084	14,108
	-----	-----
TOTAL CURRENT LIABILITIES	273,036	268,382
DEFERRED INCOME TAXES	21,393	18,553
LONG-TERM DEBT	155,840	158,004
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Capital stock:		
Preferred stock	--	--
Common stock, par value \$5.00 a share; authorized 40,000,000 shares; issued 16,132,583 shares, outstanding 14,902,247 and 15,369,592 shares	80,663	80,663
Additional paid-in capital	12,476	11,946
Retained earnings	232,980	223,994

	-----	-----
	326,119	316,603
Less treasury stock, 1,230,336 and 762,991 shares at cost	(25,315)	(13,439)
	-----	-----
	300,804	303,164
	-----	-----
	\$751,073	\$748,103
	=====	=====

</TABLE>

See notes to consolidated financial statements.

Page 3

5

COMMERCIAL METALS COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands except share data)

<TABLE>
<CAPTION>

	Three Months ended November 30,	
	1995	1994
	-----	-----
<S>	<C>	<C>
REVENUES:		
Net sales	\$588,238	\$411,434
Other revenue	1,981	2,304
	-----	-----
	590,219	413,738
COSTS AND EXPENSES:		
Cost of goods sold	530,282	365,683
Selling, general and administrative expenses	35,712	27,324
Interest expense	3,697	3,029
Employees' pension and profit sharing plans	3,402	2,354
Litigation accrual	--	6,650
	-----	-----
	573,093	405,040
EARNINGS BEFORE INCOME TAX	17,126	8,698
INCOME TAXES	6,294	2,326
	-----	-----
NET EARNINGS	\$10,832	\$6,372
	=====	=====
Net earnings per share	\$0.70	\$0.44
Cash dividends per share	\$0.12	\$0.12

See notes to consolidated financial statements.

Page 4

6

COMMERCIAL METALS COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>

<CAPTION>

(In thousands)	Three months ended	
	November 30,	
	1995	1994
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$10,832	\$6,372
Adjustments to earnings not requiring cash:		
Depreciation and amortization	10,563	8,202
Provision for losses on receivables	256	331
Other	(82)	(188)
	-----	-----
Cash flows from operations before changes in operating assets and liabilities	21,569	14,717
Changes in operating assets and liabilities net of effect of Owen acquisition:		
Decrease (increase) in accounts receivable	(17,090)	7,525
Decrease (increase) in inventories	7,301	(4,887)
Decrease (increase) in other assets	2,549	987
Increase (decrease) in accounts payable, accrued expenses and income taxes	2,779	(12,271)
	-----	-----
Net Cash Flows from Operating Activities	17,108	6,071

CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of Owen Steel, net of cash acquired	(2,232)	(24,994)
Temporary investments	--	13,168
Purchase of property, plant and equipment	(9,359)	(5,018)
Sales of property, plant and equipment	82	188
	-----	-----
Net Cash Used by Investing Activities	(11,509)	(16,656)

CASH FLOWS FROM FINANCING ACTIVITIES:		
Commercial paper - net change	--	(10,000)
Notes payable - net change	659	(6,253)
New long-term debt	--	60,000
Refinance long-term debt of acquisition	--	(32,000)
Payments on long-term debt	(2,188)	(2,181)
Stock issued under stock option/bonus plans	389	(1,315)
Treasury stock acquired	(12,759)	--
Tax benefits related to stock option plan	--	1,332
Dividends paid	(1,846)	(1,714)
	-----	-----
Net Cash Provided (Used by) Financing Activities	(15,745)	7,869

Decrease in Cash and Cash Equivalents	(10,146)	(2,716)
Cash and Cash Equivalents at Beginning of Year	21,018	19,095
Cash and Cash Equivalents at End of Period	\$10,872	\$16,379

</TABLE>

See notes to consolidated financial statements.

Page 5

7

COMMERCIAL METALS COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(In thousands except share data)

<TABLE>
<CAPTION>

	Common Stock		Add'l Paid-In Capital	Retained Earnings	Treasury Stock	
	Number of Shares	Amount			Number of Shares	Amount
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance September 1, 1995	16,132,583	\$80,663	\$11,946	\$223,994	(762,991)	(\$13,439)
Net earnings for three months ended November 30, 1995				10,832		
Cash dividends - \$.12 a share				(1,846)		
Treasury stock acquired					(527,600)	(12,759)
Additional treasury stock issued for Owen acquisition			550		37,196	472
Stock issued under stock option, purchase and bonus plans			(20)		23,059	411
Balance, November 30, 1995	16,132,583	\$80,663	\$12,476	\$232,980	(1,230,336)	(\$25,315)

</TABLE>

See notes to consolidated financial statements.

Page 6

COMMERCIAL METALS COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - LONG-TERM DEBT AND EQUITY (in thousands):

<TABLE>
<CAPTION>

	Amount Outstanding	Current Maturities	Long-Term Debt
<S> <C>	<C>	<C>	<C>
7.20% notes due 2005	\$100,000	\$ --	\$100,000
8.49% notes due 2001	42,857	7,143	50,000
8.75% note due 1999	12,856	4,286	17,142
8.15% note due 1996		2,500	2,500
Other	127	155	282
	-----	-----	-----
	\$155,840	\$14,084	\$169,924
	=====	=====	=====

</TABLE>

NOTE B - TAXES ON INCOME:

Provision for taxes on income includes estimated United States taxes on undistributed earnings of subsidiaries outside the United States.

NOTE C - QUARTERLY FINANCIAL DATA:

In the opinion of Management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of November 30, 1995, the results of operations for the three months then ended and cash flows for the same periods. The results of operations for the three month periods are not necessarily indicative of the results to be expected for a full year.

Page 7

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED RESULTS OF OPERATIONS

<TABLE>
<CAPTION>

(in millions)

	1ST QTR FY 1996	1st Qtr FY 1995
<S>	<C>	<C>
Revenues	\$ 590	\$ 414
Net earnings	10.8	6.4
Cash flow	21.6	14.7

</TABLE>

SIGNIFICANT EVENTS AFFECTING THE COMPANY THIS QUARTER:

- Record first quarter net earnings, an increase of 70% over the same period last year.
- Record cash flow from operations, an increase of 47%.
- Steel Group achieved record sales, shipments, and profit for a first quarter.
- Marketing and Trading had a strong quarter.

CONSOLIDATED DATA

The LIFO method of inventory valuation had the effect of increasing net earnings for the quarter \$146 thousand (1 cent per share) compared to a decrease in net earnings of \$73 thousand (1 cent per share) last year.

In connection with its November 15, 1994 acquisition of Owen Steel Company, Inc. and affiliates (Owen), the Company settled contingencies related to the net worth purchase price calculation and certain uncollected accounts receivable of Owen. The net worth adjustment resulted in the Company

Page 8

10

paying the former shareholders \$3.2 million, half in cash and half in the Company's common stock as a purchase price adjustment. Conversely, the Company assigned certain uncollected accounts receivable to the former shareholders and was reimbursed \$1.1 million. Under the acquisition agreement, the Company has until November 15, 1996 to present certain claims against the portion of the purchase price remaining in escrow which was \$4.4 million at November 30, 1995.

The first quarter of last year included a nonrecurring charge for litigation which reduced net earnings by \$4.1 million. This was partially offset by a credit to income tax expense of \$1.0 million resulting from the favorable resolution of tax issues with the Internal Revenue Service.

SEGMENT OPERATING DATA

Revenues and operating profit by business segment are shown in the following table:

<TABLE>

<CAPTION>

Three months ended November 30,

	1995	1994
	-----	-----
<S>	<C>	<C>
REVENUES:		
Manufacturing	\$244,740	\$161,738
Recycling	122,628	100,821
Marketing and Trading	236,107	162,463
Corporate and Eliminations	(13,256)	(11,284)
	-----	-----
	\$590,219	\$413,738
	=====	=====
OPERATING PROFIT:		
Manufacturing	\$ 15,188	\$ 13,822

Recycling	1,514	2,269
Marketing and Trading	4,500	3,715
Corporate and Eliminations	(379)	(8,079)
	-----	-----
	\$ 20,823	\$ 11,727
	=====	=====

</TABLE>

Page 9

11

MANUFACTURING -

Led by record Steel Group sales, shipments, and profits for a first quarter, the segment achieved a 51% increase in revenues and a 10% increase in operating profits. The SMI Owen companies were profitable for the quarter.

First quarter records were set for steel mill tons melted, rolled and shipped. Shipments by the four mills totaled 409,000 tons or 31% higher than last year's first quarter (which excluded SMI South Carolina). SMI Birmingham's operating profits tripled. SMI Texas had a solid quarter despite a week's melt shop downtime due to an electrical fire. Estimated loss expenses were accrued without consideration of insurance recovery which is still pending.

Results in our steel fabrication businesses were excellent with operating profits about two-thirds above last year. Fabricated shipments were 149,000 tons for the quarter versus 95,000 tons and the average selling price increased 8%.

Copper Tube operating profits were down a third from last year; demand for plumbing tube weakened early in the quarter and spreads were under pressure. Shipments were 6% lower than the first quarter last year.

RECYCLING -

The Recycling segment operating profit declined 33% compared with the same period last year, reflecting lower percentage gross margins on scrap processed. Prices for steel scrap, aluminum, copper and brass all declined during the quarter; however, scrap prices were mixed compared with 1995's first quarter. Scrap flow remained fairly good; the volume of ferrous scrap shipped increased 9% to 300,000 tons while nonferrous shipments increased 15% to 50,000 tons.

MARKETING AND TRADING -

Operating income was 21% above last year on significantly higher revenues. In September, Dallas Trading exported the largest known single cargo shipment of steel scrap, 85,000 metric tons. For the quarter Intra-Asia steel trading was strong and steel marketing and distribution in Australia reported good results. Demand for nonferrous semis remained good. The global markets generally have an oversupply imbalance leading to intense competition and lower prices.

Page 10

12

ENVIRONMENTAL ACTIVITIES

The Company is subject to federal, state and local pollution control laws and regulations in all locations where it has operating facilities. It anticipates that compliance with these laws and regulations will involve continuing capital expenditures and operating costs.

In the ordinary course of conducting its business, the Company becomes involved in environmental litigation, administrative proceedings, and governmental

investigations. Certain of these environmental matters or other proceedings may result in fines, penalties or judgments against the Company which may have a material impact on earnings for a particular quarter. While the Company is unable to estimate precisely the ultimate dollar amount of exposure to losses in connection with such matters, it makes timely accruals as warranted. It is the opinion of the Company's management that the outcome of such proceedings, individually or in the aggregate, are not expected to have a material adverse effect on the business or consolidated financial position of the Company.

OUTLOOK

It appears that markets will remain weaker during the second quarter but consumption in the U.S. should reaccelerate once inventory levels are corrected and the drop in interest rates begins to work its way through the economy. Underlying construction markets are firm, however, the manufacturing sector is sluggish. The Southwest and Southeast U.S. markets are expected to continue to do well. The economies in Asia should pick up after the current pause. Europe is weaker but interest rate cuts should help.

LIQUIDITY

Cash flow from operations before changes in operating assets and liabilities was \$21.6 million, a record first quarter. Depreciation expense increased from \$8.2 million to \$10.6 million due mainly to the SMI Owen acquisition. Accounts receivable increased \$17.1 million since August 31 due to increased business activity. The Company invested \$9.4 million in capital expenditures as part of its anticipated \$61 million annual capital program.

Page 11

13

During the quarter the Company repurchased 527,600 shares of common stock at an average cost of \$24.19 per share including 350,000 shares at \$24 per share from former Owen shareholders. At November 30, 1995 there were 14,902,247 shares issued and outstanding with 1,230,336 shares held in the Company's treasury. Stockholders' equity at November 30, 1995 was \$301 million or \$20.19 per share.

Net working capital was \$257 million at November 30, 1995 compared to \$266 million at August 31, 1995. The current ratio was 1.9 compared to 2.0 at August 31, 1995. The Company's effective tax rate for the first quarter was 36.8%; the rate for the comparable quarter last year was 26.7% due to a credit of \$1 million to income tax expense from the favorable resolution of tax issues with the Internal Revenue Service.

Long-term debt as a percent of total capitalization was 32.6% at November 30, 1995 compared to 32.9% at August 31, 1995. The ratio of total debt to total capitalization plus short-term debt stood at 35%.

Page 12

14

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Reference is made to the information incorporated by reference from Item 3. Legal Proceedings in the Company's Annual Report on Form 10-K for the year ending August 31, 1995 filed November 27, 1995, with the Securities and Exchange Commission.

ITEM 2. CHANGES IN SECURITIES

Not Applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

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

Not Applicable

ITEM 5. OTHER INFORMATION

Not Applicable

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

A. Exhibits required by Item 601 of Regulation S-K.

Exhibit No.

11. Computation of Per Share Earnings

(a) Calculation of Primary and Fully Diluted
Earnings Per Share

27. Financial Data Schedule

Page 13

15

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

January 11, 1996

/s/ Lawrence A. Engels
Lawrence A. Engels
Vice President, Treasurer
& Chief Financial Officer

January 11, 1996

/s/ William B. Larson
William B. Larson
Controller

Page 14

16

INDEX TO EXHIBITS

Exhibit No. Description

11. Computation of Per Share Earnings
 - (a) Calculation of Primary and Fully Diluted Earnings Per Share
27. Financial Data Schedule

EXHIBIT 11 (a)

COMMERCIAL METALS COMPANY AND SUBSIDIARIES

CALCULATION OF PRIMARY AND FULLY DILUTED EARNINGS PER SHARE*

(In thousands except share data)

<TABLE>

<CAPTION>

	Three Months ended November 30,	
	1995	1994
<S>	<C>	<C>
Net earnings	\$10,832	\$6,372
Weighted average number of shares outstanding	15,297,899	14,261,097
Dilutive effect of stock option and purchase plans, after application of treasury stock method	273,720	276,619
Shares used in calculating primary net earnings per share	15,571,619	14,537,716
Earnings per share	\$0.70	\$0.44

</TABLE>

*Fully diluted earnings per share are identical to primary earnings per share.

<TABLE> <S> <C>

<ARTICLE> 5

<MULTIPLIER> 1,000

<S>	<C>
<PERIOD-TYPE>	3-MOS
<FISCAL-YEAR-END>	AUG-31-1996
<PERIOD-START>	SEP-1-1995
<PERIOD-END>	NOV-30-1995
<CASH>	10,872
<SECURITIES>	0
<RECEIVABLES>	289,307
<ALLOWANCES>	4,965
<INVENTORY>	200,813
<CURRENT-ASSETS>	529,836
<PP&E>	474,144
<DEPRECIATION>	257,124
<TOTAL-ASSETS>	751,073
<CURRENT-LIABILITIES>	273,036
<BONDS>	155,840
<COMMON>	80,663
<PREFERRED-MANDATORY>	0
<PREFERRED>	0
<OTHER-SE>	220,141
<TOTAL-LIABILITY-AND-EQUITY>	751,073
<SALES>	588,238
<TOTAL-REVENUES>	590,219
<CGS>	530,282
<TOTAL-COSTS>	530,282
<OTHER-EXPENSES>	38,858
<LOSS-PROVISION>	256
<INTEREST-EXPENSE>	3,697
<INCOME-PRETAX>	17,126
<INCOME-TAX>	6,294
<INCOME-CONTINUING>	10,832
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	10,832
<EPS-PRIMARY>	.70
<EPS-DILUTED>	0

</TABLE>