

SCHNITZER STEEL INDUSTRIES INC

Form 10-Q

July 01, 2010

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**  
**FORM 10-Q**

**x Quarterly Report Pursuant to Section 13 or 15(d)**

**of the Securities Exchange Act of 1934**

For the Quarterly Period Ended May 31, 2010

Or

**.. Transition Report Pursuant to Section 13 or 15(d)**

**of the Securities Exchange Act of 1934**

For the Transition Period from            to

Commission file number 0-22496

**SCHNITZER STEEL INDUSTRIES, INC.**

(Exact name of registrant as specified in its charter)

**OREGON**  
(State or other jurisdiction of

incorporation or organization)

**3200 NW Yeon Ave.**

**Portland, OR**  
(Address of principal executive offices)

**93-0341923**  
(I.R.S. Employer

Identification No.)

**97210**  
(Zip Code)

**(503) 224-9900**

(Registrant's telephone number, including area code)

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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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (check one)

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller Reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The Registrant had 23,018,898 shares of Class A common stock, par value of \$1.00 per share, and 4,783,833 shares of Class B Common Stock, par value of \$1.00 per share, outstanding at June 24, 2010.

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## SCHNITZER STEEL INDUSTRIES, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited, in thousands, except per share amounts)

	May 31, 2010	August 31, 2009
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 31,524	\$ 41,026
Accounts receivable, net	138,371	117,666
Inventories, net	291,273	184,455
Deferred income taxes	7,333	10,027
Refundable income taxes	7,940	46,972
Prepaid expenses and other current assets	11,693	10,868
<b>Total current assets</b>	<b>488,134</b>	<b>411,014</b>
Property, plant and equipment, net	438,354	447,228
Other assets:		
Investment in and advances to joint venture partnerships	12,339	10,812
Goodwill	380,719	366,559
Intangibles, net	21,164	20,422
Other assets	9,448	12,198
<b>Total assets</b>	<b>\$ 1,350,158</b>	<b>\$ 1,268,233</b>
<u>Liabilities and Equity</u>		
Current liabilities:		
Short-term borrowings and capital lease obligations	\$ 1,238	\$ 1,317
Accounts payable	90,972	72,289
Accrued payroll and related liabilities	28,060	23,636
Environmental liabilities	2,564	3,148
Accrued income taxes	14,001	776
Other accrued liabilities	33,698	38,963
<b>Total current liabilities</b>	<b>170,533</b>	<b>140,129</b>
Deferred income taxes	51,004	44,523
Long-term debt and capital lease obligations, net of current maturities	99,371	110,414
Environmental liabilities, net of current portion	39,180	38,760
Other long-term liabilities	10,004	11,657
Commitments and contingencies (Note 7)		
Schnitzer Steel Industries, Inc. ( SSI ) shareholders' equity:		
Preferred stock 20,000 shares authorized, none issued	0	0
Class A common stock 75,000 shares \$1.00 par value authorized, 22,999 and 21,402 shares issued and outstanding	22,999	21,402
Class B common stock 25,000 shares \$1.00 par value authorized, 4,784 and 6,268 shares issued and outstanding	4,784	6,268
Additional paid-in capital	6,355	0
Retained earnings	942,170	894,243
Accumulated other comprehensive loss	(925)	(2,546)
<b>Total SSI shareholders' equity</b>	<b>975,383</b>	<b>919,367</b>
Noncontrolling interests	4,683	3,383

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Total equity	980,066	922,750
Total liabilities and equity	\$ 1,350,158	\$ 1,268,233

The accompanying notes to the unaudited condensed consolidated financial statements  
are an integral part of these statements.

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## SCHNITZER STEEL INDUSTRIES, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, in thousands, except per share amounts)

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2010	2009	2010	2009
Revenues	\$ 703,539	\$ 382,029	\$ 1,662,150	\$ 1,260,672
Operating expense:				
Cost of goods sold	598,721	347,434	1,446,241	1,217,561
Selling, general and administrative	42,779	38,721	116,886	118,320
Environmental matters	141	0	(241)	(6,080)
(Income) loss from joint ventures	(1,877)	116	(2,330)	(2,196)
Operating income (loss)	63,775	(4,242)	101,594	(66,933)
Other income (expense):				
Interest expense	(503)	(629)	(1,816)	(2,823)
Other income, net	201	5,634	1,091	6,785
Total other income (expense)	(302)	5,005	(725)	3,962
Income (loss) from continuing operations before income taxes	63,473	763	100,869	(62,971)
Income tax (expense) benefit	(21,715)	(723)	(33,315)	25,154
Income (loss) from continuing operations	41,758	40	67,554	(37,817)
Income (loss) from discontinued operations, net of tax	23	(1,058)	(15,023)	(4,485)
Net income (loss)	41,781	(1,018)	52,531	(42,302)
Net income attributable to noncontrolling interests	(1,328)	(509)	(3,188)	(192)
Net income (loss) attributable to SSI	\$ 40,453	\$ (1,527)	\$ 49,343	\$ (42,494)
Basic:				
Income (loss) per share from continuing operations attributable to SSI	\$ 1.45	\$ (0.01)	\$ 2.31	\$ (1.35)
Loss per share from discontinued operations attributable to SSI	0.00	(0.04)	(0.54)	(0.16)
Net income (loss) per share attributable to SSI	\$ 1.45	\$ (0.05)	\$ 1.77	\$ (1.51)
Diluted:				
Income (loss) per share from continuing operations attributable to SSI	\$ 1.43	\$ (0.01)	\$ 2.28	\$ (1.35)
Loss per share from discontinued operations attributable to SSI	0.00	(0.04)	(0.53)	(0.16)
Net income (loss) per share attributable to SSI	\$ 1.43	\$ (0.05)	\$ 1.75	\$ (1.51)
Weighted average number of common shares:				
Basic	27,898	28,280	27,856	28,173
Diluted	28,211	28,280	28,177	28,173
Dividends declared per common share	\$ 0.017	\$ 0.017	\$ 0.051	\$ 0.051

The accompanying notes to the unaudited condensed consolidated financial statements

are an integral part of these statements.

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## SCHNITZER STEEL INDUSTRIES, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	<b>Nine Months Ended May 31,</b>	
	<b>2010</b>	<b>2009</b>
Cash flows from operating activities:		
Net income (loss)	\$ 52,531	\$ (42,302)
Adjustments to reconcile net earnings to cash from operating activities:		
Depreciation and amortization	47,023	45,849
Inventory write-down	368	51,968
Deferred income taxes	4,517	(2,179)
Undistributed equity in earnings of joint ventures	(2,390)	(1,659)
Share-based compensation expense	7,886	5,428
Excess tax benefits from share-based payment arrangements	(110)	(900)
(Gain) loss on disposal of a business and other assets	16,613	(1,919)
Environmental matters	460	(2,844)
Voluntary incentive award forfeitures	0	(5,504)
Unrealized (gain) loss on derivatives	(3,337)	2,682
Bad debt expense, net of recoveries	123	8,553
Gain on settlement of joint venture separation and termination agreement	0	(6,761)
Changes in assets and liabilities:		
Accounts receivable	(24,083)	221,782
Inventories	(133,017)	172,196
Refundable income taxes	39,171	(36,749)