

SCHNITZER STEEL INDUSTRIES INC  
Form 10-Q  
April 02, 2009  
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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 February 28, 2009

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)

**93-0341923**  
(I.R.S. Employer  
Identification No.)

**3200 N.W. Yeon Ave.**

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

**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 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.

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 21,837,500 shares of Class A common stock, par value of \$1.00 per share, and 6,344,569 shares of Class B Common Stock, par value of \$1.00 per share, outstanding at March 27, 2009.

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## SCHNITZER STEEL INDUSTRIES, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited, in thousands, except per share amounts)

	February 28, 2009	August 31, 2008
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 8,736	\$ 15,039
Accounts receivable, net	127,213	314,993
Inventories, net	238,112	429,061
Deferred income taxes	23,632	7,808
Refundable income taxes	24,044	
Prepaid expenses and other current assets	9,605	12,625
<b>Total current assets</b>	<b>431,342</b>	<b>779,526</b>
Property, plant and equipment, net	463,375	431,898
Other assets:		
Investment in and advances to joint venture partnerships	14,029	11,896
Goodwill	358,283	306,186
Intangibles, net	22,652	15,389
Other assets	10,270	9,958
<b>Total assets</b>	<b>\$ 1,299,951</b>	<b>\$ 1,554,853</b>
<u>Liabilities and Shareholders' Equity</u>		
Current liabilities:		
Short-term borrowings and capital lease obligations, current	\$ 19,155	\$ 25,490
Accounts payable	76,198	161,288
Accrued payroll and related liabilities	15,235	64,453
Environmental liabilities	3,114	3,652
Accrued income taxes	3,643	45,040
Other accrued liabilities	45,920	44,999
<b>Total current liabilities</b>	<b>163,265</b>	<b>344,922</b>
Deferred income taxes	18,160	16,807
Long-term debt and capital lease obligations, net of current maturities	130,636	158,933
Environmental liabilities, net of current portion	39,273	40,052
Other long-term liabilities	10,955	11,588
Minority interests	2,840	4,399
Commitments and contingencies		
Shareholders' equity:		
Preferred stock 20,000 shares authorized, none issued		
Class A common stock 75,000 shares \$1.00 par value authorized, 21,838 and 21,592 shares issued and outstanding	21,838	21,592
Class B common stock 25,000 shares \$1.00 par value authorized, 6,345 and 6,345 shares issued and outstanding	6,345	6,345
Additional paid-in capital	13,367	11,425
Retained earnings	897,258	939,181
Accumulated other comprehensive loss	(3,986)	(391)
<b>Total shareholders' equity</b>	<b>934,822</b>	<b>978,152</b>

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Total liabilities and shareholders' equity	\$ 1,299,951	\$ 1,554,853
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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)

	For The Three Months Ended		For The Six Months Ended	
	2/28/2009	2/29/2008	2/28/2009	2/29/2008
Revenues	\$ 433,602	\$ 751,472	\$ 932,167	\$ 1,355,370
Operating expense:				
Cost of goods sold	403,717	642,552	917,477	1,161,929
Selling, general and administrative	47,964	51,917	91,046	96,810
Environmental matters	(467)	(157)	(6,080)	(157)
(Income) from joint ventures	(56)	(1,637)	(2,312)	(3,377)
Operating income (loss)	(17,556)	58,797	(67,964)	100,165
Other income (expense):				
Interest expense	(840)	(2,648)	(2,194)	(4,996)
Other income, net	873	97	1,151	710
Other income (expense)	33	(2,551)	(1,043)	(4,286)
Income (loss) before income taxes and minority interests	(17,523)	56,246	(69,007)	95,879
Income tax (expense) benefit	10,604	(19,881)	27,838	(34,106)
Income (loss) before minority interests	(6,919)	36,365	(41,169)	61,773
Minority interests, net of tax	(46)	(494)	201	(1,191)
Net income (loss)	\$ (6,965)	\$ 35,871	\$ (40,968)	\$ 60,582
Net income (loss) per share - basic	\$ (0.25)	\$ 1.27	\$ (1.46)	\$ 2.13
Net income (loss) per share - diluted	\$ (0.25)	\$ 1.25	\$ (1.46)	\$ 2.10

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>For The Six Months Ended</b>	
	<b>2/28/2009</b>	<b>2/29/2008</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ (40,968)	\$ 60,582
<b>Noncash items included in net income (loss):</b>		
Depreciation and amortization	29,947	24,212
Inventory write-down	51,968	
Minority interests	(201)	1,191
Deferred income taxes	1,324	807
Undistributed equity in earnings of joint ventures	(40)	(326)
Share-based compensation expense	3,514	6,502
Excess tax (benefit) from stock options exercised	(775)	(94)
(Gain)/loss on disposal of assets	(2,419)	167
Environmental matters	(6,080)	(157)
Incentive award forfeitures	(5,504)	
Unrealized loss on derivatives	3,735	
Bad debt expense	8,134	584
<b>Changes in assets and liabilities:</b>		
Accounts receivable	183,919	18,821
Inventories	144,458	(24,758)
Refundable income taxes	(24,044)	
Prepaid expenses and other	(11,609)	(5,668)
Intangibles and other assets	(1,532)	(567)
Accounts payable	(81,323)	6,915
Other accrued liabilities	48,532	(12,440)
Accrued income taxes	(41,715)	(752)
Environmental liabilities	(477)	(107)
Other long-term liabilities	(695)	1,519
<b>Net cash provided by operating activities</b>	<b>161,085</b>	<b>76,431</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(38,803)	(34,222)
Acquisitions, net of cash acquired	(90,016)	(34,568)
Advances to joint ventures, net	(2,092)	(493)
Proceeds from sale of assets	2,946	411
Cash flows from (used in) non-hedge derivatives		(628)
<b>Net cash used in investing activities</b>	<b>(127,965)</b>	<b>(69,500)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from line of credit	171,500	203,500
Repayment of line of credit	(178,000)	(223,500)
Borrowings from long-term debt	359,013	479,500
Repayment of long-term debt	(388,584)	(414,642)
Issuance of Class A common stock		725
Repurchase of Class A common stock		(25,707)

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Stock withheld for taxes under employee share-based compensation plan	(2,699)	
Excess tax benefit from stock options exercised	775	94
Stock options exercised	598	
Distributions to minority interests	(841)	(2,304)
Dividends declared and paid	(478)	(592)
Net cash provided by (used in) financing activities	(38,716)	17,074
Effect of exchange rate changes on cash	(707)	101
Net increase (decrease) in cash and cash equivalents	(6,303)	24,106
Cash and cash equivalents at beginning of period	15,039	13,410
Cash and cash equivalents at end of period	\$ 8,736	\$ 37