

SCHNITZER STEEL INDUSTRIES INC

Form 10-Q

January 07, 2011

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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 November 30, 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 24,096,863 shares of Class A common stock, par value of \$1.00 per share, and 3,378,745 shares of Class B common stock, par value of \$1.00 per share, outstanding as of December 30, 2010.

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## PART I. FINANCIAL INFORMATION

**ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)**

SCHNITZER STEEL INDUSTRIES, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited, in thousands, except per share amounts)

	November 30, 2010	August 31, 2010
<b><u>Assets</u></b>		
Current assets:		
Cash and cash equivalents	\$ 57,035	\$ 30,342
Accounts receivable, net of allowance for doubtful accounts of \$6,229 and \$6,209	161,044	126,156
Inventories, net	275,989	268,103
Deferred income taxes	8,969	9,037
Refundable income taxes	8,059	14,610
Prepaid expenses and other current assets	11,698	12,546
Total current assets	522,794	460,794
Property, plant and equipment	890,112	871,901
Less accumulated depreciation	424,282	411,091
Property, plant and equipment, net	465,830	460,810
Other assets:		
Investments in joint venture partnerships	16,642	13,706
Goodwill	383,416	380,332
Intangibles, net	19,817	20,444
Other assets	7,643	7,332
Total assets	\$ 1,416,142	\$ 1,343,418
<b><u>Liabilities and Equity</u></b>		
Current liabilities:		
Long-term debt and capital lease obligations, current	\$ 527	\$ 1,189
Accounts payable	76,866	91,879
Accrued payroll and related liabilities	20,236	34,162
Environmental liabilities	2,560	2,588
Accrued income taxes	930	1,816
Other accrued liabilities	26,399	28,479
Total current liabilities	127,518	160,113
Deferred income taxes	61,472	58,630
Long-term debt and capital lease obligations, net of current maturities	179,143	99,240
Environmental liabilities, net of current portion	37,349	37,286
Other long-term liabilities	11,018	8,517
Total liabilities	416,500	363,786
Commitments and contingencies (Note 7)		

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Schnitzer Steel Industries, Inc. ( SSI ) shareholders' equity:

Preferred stock 20,000 shares \$1.00 par value authorized, none issued	0	0
Class A common stock 75,000 shares \$1.00 par value authorized, 23,721 and 22,700 shares issued and outstanding	23,721	22,700
Class B common stock 25,000 shares \$1.00 par value authorized, 3,754 and 4,721 shares issued and outstanding	3,754	4,721
Additional paid-in capital	3,089	1,815
Retained earnings	965,969	948,642
Accumulated other comprehensive loss	(1,689)	(2,552)
<b>Total SSI shareholders' equity</b>	<b>994,844</b>	<b>975,326</b>
Noncontrolling interests	4,798	4,306
<b>Total equity</b>	<b>999,642</b>	<b>979,632</b>
 Total liabilities and equity	 \$ 1,416,142	 \$ 1,343,418

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 November 30,	
	2010	2009
Revenues	\$ 675,104	\$ 394,282
Operating expense:		
Cost of goods sold	602,546	350,938
Selling, general and administrative	45,075	34,446
Environmental matters	(200)	150
Income from joint ventures	(757)	(534)
Operating income	28,440	9,282
Other income (expense):		
Interest income	55	118
Interest expense	(598)	(618)
Other income, net	161	301
Total other expense	(382)	(199)
Income from continuing operations before income taxes	28,058	9,083
Income tax expense	(9,164)	(1,864)
Income from continuing operations	18,894	7,219
Income (loss) from discontinued operations, net of tax	23	(14,974)
Net income (loss)	18,917	(7,755)
Net income attributable to noncontrolling interests	(1,123)	(814)
Net income (loss) attributable to SSI	\$ 17,794	\$ (8,569)
Basic:		
Income per share from continuing operations attributable to SSI	\$ 0.65	\$ 0.23
Income (loss) per share from discontinued operations attributable to SSI	0.00	(0.54)
Net income (loss) per share attributable to SSI	\$ 0.65	\$ (0.31)
Diluted:		
Income per share from continuing operations attributable to SSI	\$ 0.64	\$ 0.23
Income (loss) per share from discontinued operations attributable to SSI	0.00	(0.53)
Net income (loss) per share attributable to SSI	\$ 0.64	\$ (0.30)

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Weighted average number of common shares:

Basic	27,563	27,803
Diluted	27,871	28,130
Dividends declared per common share	\$ 0.017	\$ 0.017

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)

	Three Months Ended November 30,	
	2010	2009
Cash flows from operating activities:		
Net income (loss)	\$ 18,917	\$ (7,755)
Adjustments to reconcile net income (loss) to cash used in operating activities:		
Depreciation and amortization	16,321	15,327
Inventory write-down	0	368
Deferred income taxes	2,464	1,009
Undistributed equity in earnings of joint ventures	(962)	(483)
Share-based compensation expense	3,568	2,731
Excess tax (benefit) deficiency from share-based payment arrangements	383	(16)
(Gain) loss on disposal of a business and other assets	(61)	17,103
Environmental matters	(200)	150
Net gain on derivatives	(759)	(1,586)
Changes in assets and liabilities:		
Accounts receivable	(34,740)	(9,138)
Inventories	(6,456)	(90,734)
Refundable income taxes	53	(1,946)
Prepaid expenses and other current assets	740	1,844
Intangibles and other long-term assets	(556)	(2)
Accounts payable	(7,387)	(11,259)
Accrued payroll and related liabilities	(13,942)	(6,616)
Other accrued liabilities	(1,291)	883
Accrued income taxes	5,173	401
Environmental liabilities	(65)	(303)
Other long-term liabilities	3	7
Distributed equity in earnings of joint ventures	1,175	0
Net cash used in operating activities	(17,622)	(90,015)
Cash flows from investing activities:		
Capital expenditures	(25,168)	(8,249)
Acquisitions, net of cash acquired	(6,956)	(18,126)
Joint venture (payments) receipts, net	(619)	177
Proceeds from sale of business and other assets	251	41,083
Net cash provided by (used in) investing activities	(32,492)	14,885
Cash flows from financing activities:		
Proceeds from line of credit	147,500	112,500
Repayment of line of credit	(147,500)	(89,000)
Borrowings from long-term debt		