

SCHNITZER STEEL INDUSTRIES INC
Form 10-Q
July 01, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the Quarter Ended May 31, 2008

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)

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 definition 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

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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 21,818,408 shares of Class A common stock, par value of \$1.00 per share, and 6,350,824 shares of Class B Common Stock, par value of \$1.00 per share, outstanding at June 20, 2008.

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SCHNITZER STEEL INDUSTRIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited, in thousands, except per share amounts)

	May 31, 2008	August 31, 2007
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 9,205	\$ 13,410
Accounts receivable, net	285,708	170,212
Inventories, net	385,274	258,568
Deferred income taxes	12,584	8,685
Prepaid expenses and other current assets	11,722	10,601
Total current assets	704,493	461,476
Property, plant and equipment, net	410,241	383,910
Other assets:		
Investment in and advances to joint venture partnerships	11,132	9,824
Goodwill	298,798	277,083
Intangibles, net	14,305	12,090
Other assets	11,286	7,031
Total assets	\$ 1,450,255	\$ 1,151,414
<u>Liabilities and Shareholders' Equity</u>		
Current liabilities:		
Short-term borrowings and capital lease obligations, current	\$ 24,522	\$ 20,275
Accounts payable	141,842	89,526
Accrued payroll and related liabilities	52,094	43,145
Environmental liabilities	4,218	4,036
Accrued income taxes	20,451	4,787
Other accrued liabilities	41,480	30,420
Total current liabilities	284,607	192,189
Deferred income taxes	21,194	19,920
Long-term debt and capital lease obligations, net of current maturities	215,023	124,079
Environmental liabilities, net of current portion	41,137	39,249
Other long-term liabilities	13,108	5,540
Minority interests	4,564	5,373
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, 21,778 and 21,231 shares issued and outstanding	21,778	21,231
Class B common stock 25,000 shares \$1.00 par value authorized, 6,361 and 7,328 shares issued and outstanding	6,361	7,328
Additional paid-in capital	26,769	41,344
Retained earnings	813,278	693,470
Accumulated other comprehensive income	2,436	1,691
Total shareholders' equity	870,622	765,064

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Total liabilities and shareholders' equity	\$	1,450,255	\$	1,151,414
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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 INCOME

(Unaudited, in thousands, except per share amounts)

	For The Three Months Ended		For The Nine Months Ended	
	5/31/08	5/31/07	5/31/08	5/31/07
Revenues	\$ 972,141	\$ 709,449	\$ 2,327,511	\$ 1,823,746
Operating expense:				
Cost of goods sold	798,531	593,736	1,960,303	1,544,060
Selling, general and administrative	74,172	47,213	170,982	132,813
(Income) from joint ventures	(2,853)	(1,270)	(6,230)	(3,738)
Operating income	102,291	69,770	202,456	150,611
Other income (expense):				
Interest expense	(1,707)	(2,852)	(6,703)	(6,219)
Other income, net	879	1,192	1,589	2,593
Other income (expense)	(828)	(1,660)	(5,114)	(3,626)
Income before income taxes and minority interests	101,463	68,110	197,342	146,985
Income tax expense	(38,620)	(23,631)	(72,726)	(51,967)
Income before minority interests	62,843	44,479	124,616	95,018
Minority interests, net of tax	(1,124)	(725)	(2,315)	(1,660)
Net income	\$ 61,719	\$ 43,754	\$ 122,301	\$ 93,358
Net income per share - basic	\$ 2.19	\$ 1.48	\$ 4.32	\$ 3.09
Net income per share - diluted	\$ 2.14	\$ 1.47	\$ 4.23	\$ 3.06

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SCHNITZER STEEL INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	For The Nine Months Ended	
	5/31/08	5/31/07
Cash flows from operating activities:		
Net income	\$ 122,301	\$ 93,358
Noncash items included in net income:		
Depreciation and amortization	37,343	28,790
Minority interests	2,315	1,660
Deferred income taxes	95	3,973
Distributed (undistributed) equity in earnings of joint ventures	(2,680)	(1,393)
Share-based compensation expense	18,068	4,969
Excess tax benefit from stock options exercised	(258)	(1,021)
Loss on disposal of assets	349	1,543
Environmental matters	193	1,486
Changes in assets and liabilities, net of the effects of acquisitions:		
Accounts receivable	(111,891)	(50,713)
Inventories	(125,780)	(18,810)
Prepaid expenses and other	(864)	(249)
Other assets	(2,749)	(1,315)
Accounts payable	53,566	17,557
Other accrued liabilities	29,014	13,508
Investigation reserve		(15,225)
Environmental liabilities	(143)	(3,572)
Other long-term liabilities	1,688	2,584
Net cash provided by operating activities	20,567	77,130
Cash flows from investing activities:		
Capital expenditures	(57,219)	(65,320)
Acquisitions, net of cash acquired	(34,616)	(43,891)
(Advances to) payments from joint ventures, net	1,244	1,689
Proceeds from sale of assets	732	189
Cash flows from (used in) non-hedge derivatives	(822)	(857)
Restricted cash		7,725
Net cash used in investing activities	(90,681)	(100,465)
Cash flows from financing activities:		
Proceeds from line of credit	329,500	341,700
Repayment of line of credit	(325,500)	(335,700)
Borrowings from long-term debt	923,500	726,000
Repayment of long-term debt	(832,724)	(661,104)
Issuance of Class A common stock	256	1,192
Repurchase of Class A common stock	(25,707)	(56,441)
Excess tax benefit from stock options exercised	258	1,021
Distributions to minority interests	(2,850)	(3,079)
Dividends declared and paid	(959)	(1,537)

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Net cash provided by financing activities	65,774	12,052
Effect of exchange rate changes on cash	135	178
Net increase (decrease) in cash and cash equivalents	(4,205)	(11,105)
Cash and cash equivalents at beginning of period	13,410	25,356
Cash and cash equivalents at end of period	\$ 9,205	\$ 14,251

SUPPLEMENTAL DISCLOSURES:

Cash paid during the period for:

Interest	\$ 6,054	\$ 6,324
Income taxes, net of refunds received	\$ 53,361	\$ 35,718

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.

Note 1 - Summary of Significant Accounting Policies***Basis of Presentation***

The accompanying unaudited condensed consolidated financial statements of Schnitzer Steel Industries, Inc. (the Company) have been prepared pursuant to generally accepted accounting principles in the United States of America (U.S. GAAP) for interim financial information and the rules and regulations of the United States Securities and Exchange Commission (SEC) for Form 10-Q, including Article 10 of Regulation S-X. The prior year-end condensed consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP for annual financial statements. Certain information and note disclosures normally included in annual financial statements have been condensed or omitted pursuant to those rules and regulations. In the opinion of management, all normal, recurring adjustments considered necessary for a fair presentation have been included. Although management believes the disclosures made are adequate to ensure the information presented is not misleading, management suggests that these unaudited condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's annual report on Form 10-K for the fiscal year ended August 31, 2007. The results for the three and nine months ended May 31, 2008 and 2007 are not necessarily indicative of the results of operations for the entire year.

Cash and Cash Equivalents

Cash and cash equivalents include short-term securities that are not restricted by third parties and have an original maturity date of 90 days or less. Included in accounts payable are book overdrafts of \$49 million and \$26 million as of May 31, 2008 and August 31, 2007, respectively.

Accounts Receivable, net

Accounts receivable represent amounts due from customers on product and other sales. These accounts receivable, which are reduced by an allowance for doubtful accounts, are recorded at the invoiced amount and do not bear interest. The Company evaluates the collectibility of its accounts receivable based on a combination of factors. In cases where management is aware of circumstances that may impair a specific customer's ability to meet its financial obligations, management records a specific allowance against amounts due and reduces the net recognized receivable to the amount the Company believes will be collected. For all other customers, the Company maintains a reserve that considers the total receivables outstanding, historical collection rates and economic trends. The allowance for doubtful accounts was \$1 million at May 31, 2008 and \$2 million at August 31, 2007.

Accrued Workers' Compensation Costs

The Company is self-insured up to a maximum amount for workers' compensation claims and as such, a reserve for the estimated costs of unpaid claims and incurred but not reported claims has been recorded as of the balance sheet date. The Company's exposure to claims is protected by various stop-loss insurance policies. The estimate of this reserve is based on historical claims experience. The Company accrued \$6 million and \$7 million for the estimated cost of workers' compensation claims as of May 31, 2008 and August 31, 2007, respectively.

Comprehensive Income

The following table sets forth the reconciliation of comprehensive income (in thousands):

	For the Three Months Ended		For the Nine Months Ended	
	5/31/08	5/31/07	5/31/08	5/31/07
Net income	\$ 61,719	\$ 43,754	\$ 122,301	\$ 93,358
Foreign currency translation adjustment (net of tax)	(103)	(1,816)	745	(488)