

SCHNITZER STEEL INDUSTRIES INC
Form 10-Q
June 30, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
For the Quarterly Period Ended May 31, 2015

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 93-0341923
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

299 SW Clay St., Suite 350 97201
Portland, OR
(Address of principal executive offices) (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 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 26,524,472 shares of Class A common stock, par value of \$1.00 per share, and 305,900 shares of Class B common stock, par value of \$1.00 per share, outstanding as of June 25, 2015.

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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)

	May 31, 2015	August 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$8,929	\$25,672
Accounts receivable, net of allowance for doubtful accounts of \$2,644 and \$2,720	117,311	189,359
Inventories	197,008	216,172
Deferred income taxes	6,804	6,865
Refundable income taxes	11,824	1,756
Prepaid expenses and other current assets	20,461	24,108
Total current assets	362,337	463,932
Property, plant and equipment, net of accumulated depreciation of \$678,687 and \$659,872	432,309	523,433
Investments in joint venture partnerships	15,232	14,624
Goodwill	176,804	325,903
Intangibles, net of accumulated amortization of \$6,655 and \$15,612	6,794	9,835
Other assets	16,823	17,483
Total assets	\$1,010,299	\$1,355,210
Liabilities and Equity		
Current liabilities:		
Short-term borrowings	\$637	\$523
Accounts payable	67,889	103,453
Accrued payroll and related liabilities	20,039	32,127
Environmental liabilities	455	1,062
Accrued income taxes	—	3,202
Other accrued liabilities	38,465	36,903
Total current liabilities	127,485	177,270
Deferred income taxes	21,767	22,746
Long-term debt, net of current maturities	262,746	318,842
Environmental liabilities, net of current portion	46,871	47,287
Other long-term liabilities	15,116	13,088
Total liabilities	473,985	579,233
Commitments and contingencies (Note 6)		
Schnitzer Steel Industries, Inc. (“SSI”) shareholders’ equity:		
Preferred stock – 20,000 shares \$1.00 par value authorized, none issued	—	—
Class A common stock – 75,000 shares \$1.00 par value authorized, 26,480 and 26,384 shares issued and outstanding	26,480	26,384
Class B common stock – 25,000 shares \$1.00 par value authorized, 306 and 306 shares issued and outstanding	306	306
Additional paid-in capital	24,601	19,164
Retained earnings	514,416	737,571
Accumulated other comprehensive loss	(33,737	) (12,641
Total SSI shareholders’ equity	532,066	770,784
Noncontrolling interests	4,248	5,193
Total equity	536,314	775,977

Total liabilities and equity	\$1,010,299	\$1,355,210
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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)

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2015	2014	2015	2014
Revenues	\$467,309	\$635,473	\$1,458,382	\$1,845,163
Operating expense:				
Cost of goods sold	424,312	584,420	1,338,976	1,693,565
Selling, general and administrative	39,798	45,309	126,696	136,831
Income from joint ventures	(40	) (147	) (1,148	) (924
Goodwill impairment charge	—	—	141,021	—
Other asset impairment charges	1,281	532	45,119	1,460
Restructuring charges and other exit-related costs	5,978	2,762	11,964	6,444
Operating income (loss)	(4,020	) 2,597	(204,246	) 7,787
Interest expense	(2,375	) (2,529	) (7,044	) (7,944
Other income, net	84	492	3,011	604
Income (loss) from continuing operations before income taxes	(6,311	) 560	(208,279	) 447
Income tax (expense) benefit	(1,396	) 3,894	8,171	3,266
Income (loss) from continuing operations	(7,707	) 4,454	(200,108	) 3,713
Loss from discontinued operations, net of tax	(1,234	) (330	) (6,314	) (2,315
Net income (loss)	(8,941	) 4,124	(206,422	) 1,398
Net income attributable to noncontrolling interests	(687	) (1,014	) (1,318	) (2,726
Net income (loss) attributable to SSI	\$ (9,628	) \$ 3,110	\$ (207,740	) \$ (1,328
Net income (loss) per share attributable to SSI:				
Basic:				
Income (loss) per share from continuing operations attributable to SSI	\$ (0.31	) \$ 0.13	\$ (7.46	) \$ 0.04
Loss per share from discontinued operations attributable to SSI	(0.05	) (0.01	) (0.23	) (0.09
Net income (loss) per share attributable to SSI	\$ (0.36	) \$ 0.12	\$ (7.69	) \$ (0.05
Diluted:				
Income (loss) per share from continuing operations attributable to SSI	\$ (0.31	) \$ 0.13	\$ (7.46	) \$ 0.04
Loss per share from discontinued operations attributable to SSI	(0.05	) (0.01	) (0.23	) (0.09
Net income (loss) per share attributable to SSI	\$ (0.36	) \$ 0.12	\$ (7.69	) \$ (0.05
Weighted average number of common shares:				
Basic	27,043	26,853	27,003	26,811
Diluted	27,043	27,017	27,003	26,811
Dividends declared per common share	\$0.1875	\$0.1875	\$0.5625	\$0.5625

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 COMPREHENSIVE INCOME (LOSS)

(Unaudited, in thousands)

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2015	2014	2015	2014
Net income (loss)	\$(8,941	) \$4,124	\$(206,422	) \$1,398
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	250	2,620	(19,623	) (3,959
Cash flow hedges, net	1,860	412	(1,833	) 304
Pension obligations, net	301	45	360	134
Total other comprehensive income (loss), net of tax	2,411	3,077	(21,096	) (3,521
Comprehensive income (loss)	(6,530	) 7,201	(227,518	) (2,123
Less net income attributable to noncontrolling interests	(687	) (1,014	) (1,318	) (2,726
Comprehensive income (loss) attributable to SSI	\$(7,217	) \$6,187	\$(228,836	) \$(4,849

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)

	Nine Months Ended May 31,	
	2015	2014
Cash flows from operating activities:		
Net income (loss)	\$(206,422	) \$1,398
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Goodwill impairment charge	141,021	—
Other asset impairment charges	45,119	1,460
Other exit-related asset impairments and accelerated depreciation	6,502	566
Depreciation and amortization	52,420	60,114
Inventory write-down	3,031	—
Deferred income taxes	(764	) 1,447
Undistributed equity in earnings of joint ventures	(1,148	) (924
Share-based compensation expense	7,596	10,257
Excess tax benefit from share-based payment arrangements	(94	) (54
Gain on disposal of assets	(1,752	) (916
Unrealized foreign exchange gain (loss), net	(1,623	) 409
Bad debt (recoveries) expense, net	(112	) 399
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	60,639	(16,849
Inventories	25,833	18,107
Income taxes	(14,095	) (6,678
Prepaid expenses and other current assets	2,844	(2,418
Intangibles and other long-term assets	560	590
Accounts payable	(29,405	) 2,245
Accrued payroll and related liabilities	(11,834	) (47
Other accrued liabilities	(558)