

SCHNITZER STEEL INDUSTRIES INC
Form 10-K
October 21, 2010
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended August 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 of Incorporation)

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

3200 NW Yeon Ave.,

Portland, OR
(Address of principal executive offices)

97210
(Zip Code)

Registrant's telephone number, including area code: (503) 224-9900

Securities registered pursuant to Section 12(b) of the Act:

Class A Common Stock, \$1 par value
(Title of Each Class)

The NASDAQ Global Select Market
(Name of each Exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:

None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 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 aggregate market value of the registrant's voting common stock outstanding held by non-affiliates on February 28, 2010 was \$1,012,089,697.

The Registrant had 22,699,657 shares of Class A common stock, par value of \$1.00 per share, and 4,720,760 shares of Class B common stock, par value of \$1.00 per share, outstanding as of October 12, 2010.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the January 2011 Annual Meeting of Shareholders are incorporated herein by reference in Part III.

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FORWARD-LOOKING STATEMENTS

Statements and information included in this Annual Report on Form 10-K by Schnitzer Steel Industries, Inc. (the Company) that are not purely historical are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All references to we, our, us and SSI refer to the Company.

Forward-looking statements in this Annual Report on Form 10-K include statements regarding our expectations, intentions, beliefs and strategies regarding the future, including statements regarding trends, cyclicalities and changes in the markets we sell into; strategic direction; changes to manufacturing processes; the cost of compliance with environmental and other laws; expected tax rates and deductions; the realization of deferred tax assets; planned capital expenditures; liquidity positions; ability to generate cash from continuing operations; the potential impact of adopting new accounting pronouncements; expected results, including pricing, sales volumes and profitability; obligations under our retirement plans; savings or additional costs from business realignment and cost containment programs; and the adequacy of accruals.

When used in this report, the words believes, expects, anticipates, intends, assumes, estimates, evaluates, may, could, or future, forward, potential, probable, and similar expressions are intended to identify forward-looking statements.

We may make other forward-looking statements from time to time, including in press releases and public conference calls. All forward-looking statements we make are based on information available to us at the time the statements are made, and we assume no obligation to update any forward-looking statements, except as may be required by law. Our business is subject to a number of risks and uncertainties that could cause actual results to differ materially from those included in, or implied by, such forward-looking statements. Some of these risks and uncertainties are discussed in Item 1A. Risk Factors of Part I of this Form 10-K. Other examples include volatile supply and demand conditions affecting prices and volumes in the markets for both our products and raw materials we purchase; world economic conditions; world political conditions; our ability to match raw material intake and finished product output with demand; changes in federal and state income tax laws; government regulations and environmental matters; the impact of pending or new laws and regulations regarding imports into and exports from the United States and other countries; foreign currency fluctuations; competition; seasonality, including weather; energy supplies; freight rates and availability of transportation; loss of key personnel; the inability to obtain sufficient quantities of scrap metal to support current orders; purchase price estimates made during acquisitions; business integration issues relating to acquisitions of businesses; creditworthiness of and availability of credit to suppliers and customers; new accounting pronouncements; availability of capital resources; business disruptions resulting from installation or replacement of major capital assets; and the adverse impact of climate change, including as a result of treaties, legislation or regulations.

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PART I

ITEM 1. BUSINESS

General

Founded in 1906, Schnitzer Steel Industries, Inc., an Oregon corporation, is one of the nation's largest recyclers of ferrous and nonferrous scrap metal, a leading recycler of used and salvaged vehicles and a manufacturer of finished steel products. Our founding business practice is a commitment to sustainability—recycling metal to generate additional value while achieving profitable growth. The worldwide demand for scrap metal is driven by continued demand for new steel products, electric arc furnace steel mill technology which relies on scrap metal as its primary feedstock and, to a certain extent, the use by blast furnaces of scrap metal because it reduces energy costs, virgin materials use, water use and mining wastes.

Through our North American metals recycling business, we collect and recycle autobodies, rail cars, home appliances, industrial machinery, manufacturing scrap and construction demolition from bridges, buildings and other obsolete structures. With 43 operating facilities located in 14 states and Puerto Rico, we are uniquely positioned to efficiently collect scrap metal throughout North America and export product to where demand is greatest. Utilizing our seven deep water ports, we have the capability to export to customers around the world.

Our metals recycling business also benefits from synergies with our auto parts business. Our auto parts business, which has 45 retail locations, buys end-of-life vehicles, sells parts to retail customers and sells scrap metal to our metals recycling business depending upon location. In addition, our metals recycling business benefits from synergies with our steel manufacturing business by selling scrap metal to our steel mini-mill that produces finished steel products such as rebar, wire rod, coiled rebar, merchant bar and other specialty products using nearly 100% recycled metal.

We report the operations of these three businesses in three segments: the Metals Recycling Business (MRB), the Auto Parts Business (APB) and the Steel Manufacturing Business (SMB). See Note 20—Segment Information in the notes to the consolidated financial statements in Part II, Item 8 of this report.

Metals Recycling Business

Business

MRB buys, collects, processes, recycles, sells and brokers ferrous scrap metal (containing iron) to foreign and domestic steel producers, including SMB, and nonferrous scrap metal (not containing iron) to both foreign and domestic markets. MRB processes mixed and large pieces of scrap metal into smaller pieces by sorting, shearing, shredding and torching, resulting in scrap metal pieces of a size, density and purity required by customers to meet their production needs. The manufacturing process includes physical separation of materials through manual and sophisticated mechanical processes into ferrous and nonferrous sub-classifications, each of which has a value and metal content of importance to different customers for their end product.

One of the most efficient ways to process and sort recycled scrap metal is through the use of shredding systems. Currently, each of MRB's facilities in Everett, Massachusetts; Portland, Oregon; Oakland, California; and Tacoma, Washington has a mega-shredder capable of processing over 2,500 tons of scrap metal per day. MRB's Johnston, Rhode Island facility operates a large shredder capable of processing up to 1,500 tons of scrap metal per day, MRB's Salinas, Puerto Rico facility operates a shredder that can process up to 500 tons of scrap metal per day and the Kapolei, Hawaii; Anchorage, Alaska; and Concord, New Hampshire facilities each operate smaller shredders. Mega-shredders are designed to provide a denser product and, in conjunction with new separation equipment, a more refined and preferable form of ferrous scrap metal which can be more efficiently used by steel mills. The larger shredders are also able to accept more types of material, resulting in more efficient processing. Shredders can reduce autobodies, home appliances and other scrap metal into fist-size pieces of shredded recycled scrap metal. The shredded material is then carried by conveyor under magnetized drums that attract the recycled ferrous scrap metal and separate it from the nonferrous scrap metal and other residue found in the shredded material, resulting in a consistent and high quality shredded ferrous product. The remaining nonferrous scrap metal and residue then pass through a series of

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additional mechanical and manual sorting systems designed to separate the nonferrous metal from the residue. The remaining nonferrous metal is then hand-sorted and graded before being sold or sold as a mixed product. MRB continues to invest in nonferrous metal separation technologies in order to maximize the recoverability of valuable nonferrous metal. MRB also purchases nonferrous metal directly from industrial vendors and other suppliers and bundles this metal to sell to customers.

Products

MRB sells both ferrous and nonferrous scrap metal. The primary product produced is ferrous scrap metal, which is a key feedstock used in the production of finished steel products. Ferrous scrap metal is categorized into plate and structural, or bonus, heavy melting steel (HMS) and shredded scrap. Our nonferrous products include aluminum, copper, stainless steel, nickel, brass, titanium, lead, high temperature alloys and joint products such as zorba (primarily mixed nonferrous material) and zurik (predominantly stainless steel).

Customers

MRB sells its products to steel mills and smelters located in the United States (US) and around the world and provides substantially all of the ferrous scrap metal required by SMB.

Presented below are MRB revenues by continent for the last three years ended August 31 (dollars in thousands):

	2010	% of Revenue	2009	% of Revenue	2008	% of Revenue
Asia	\$ 1,228,022	67%	\$ 981,127	70%	\$ 1,437,850	53%
North America	503,651	28%	301,093	22%	917,485	34%
Europe	162,284	9%	176,754	13%	446,012	16%
Africa	85,813	5%	48,681	3%	261,503	9%
Sales to SMB	(155,310)	(9%)	(109,985)	(8%)	(328,412)	(12%)
Total revenues (net of intercompany)	\$ 1,824,460	100%	\$ 1,397,670	100%	\$ 2,734,438	100%

In fiscal 2010, MRB generated revenues of \$10 million or more from customers in 12 countries, including the United States, China, South Korea, Taiwan, Malaysia, Thailand, India, Turkey, Egypt, Greece, Indonesia and Japan. MRB generated revenues of \$10 million or more from customers in 12 countries in fiscal 2009 and 14 countries in fiscal 2008. MRB had no external customers that accounted for 10% or more of consolidated revenues in fiscal 2010, 2009 or 2008.

MRB's five largest external ferrous scrap metal customers accounted for 35%, 35% and 37% of recycled ferrous metal revenues in fiscal 2010, 2009 and 2008, respectively. Customer purchase volumes of ferrous scrap metal vary from year to year due to demand, competition, economic growth, infrastructure spending, relative currency values, availability of credit and other factors. Ferrous metal sales are generally denominated in US dollars, and almost all of the largest shipments of ferrous scrap metal to foreign customers are supported by letters of credit.

The table below sets forth, on a revenue and volume basis, the amount of recycled ferrous scrap metal sold by MRB to foreign and domestic customers during the last three fiscal years ended August 31:

	2010		2009		2008	
	Revenues⁽¹⁾	Volume⁽²⁾	Revenues⁽¹⁾	Volume⁽²⁾	Revenues⁽¹⁾	Volume⁽²⁾
Foreign	\$ 1,188,490	3,122	\$ 1,032,571	3,436	\$ 1,935,084	3,655
SMB	155,310	458	109,985	335	328,412	737
Other domestic	214,864	651	106,752	418	327,300	805

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Total	\$ 1,558,664	4,231	\$ 1,249,308	4,189	\$ 2,590,796	5,197
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- (1) Revenues stated in thousands of dollars.
- (2) Volume stated in thousands of long tons (one long ton = 2,240 pounds).

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MRB also sells nonferrous scrap metal to foreign and domestic customers. MRB continues to grow its nonferrous volumes available for sale by extracting higher amounts of nonferrous products due to improvements in the extraction processes used to recover nonferrous metal from the shredding process and by expanding its nonferrous collection facilities.

The table below sets forth, on a revenue and volume basis, the amount of recycled nonferrous scrap metal sold by MRB to foreign and domestic customers during the last three fiscal years ended August 31:

	2010		2009		2008	
	Revenues ⁽¹⁾	Volume ⁽²⁾	Revenues ⁽¹⁾	Volume ⁽²⁾	Revenues ⁽¹⁾	Volume ⁽²⁾
Foreign	\$ 288,472	351,821	\$ 174,756	294,016	\$ 239,765	260,798
Domestic	124,455	126,665	76,752	103,040	220,874	178,672
Total	\$ 412,927	478,486	\$ 251,508	397,056	\$ 460,639	439,470

(1) Revenues stated in thousands of dollars.

(2) Volume stated in thousands of pounds.

Pricing

Domestic and foreign prices for ferrous scrap metal are generally based on prevailing market rates, which can differ by region and are subject to market cycles that are influenced by worldwide demand from steel and other metal producers and by the availability of materials that can be processed into saleable scrap metal, among other factors. Export recycled ferrous metal sales contracts generally provide for shipment within 30 to 90 days after the price is agreed to which, in most cases, includes freight. MRB responds to changing price levels by adjusting scrap metal purchase prices at its recycling facilities in order to manage the impact on its operating income. The spread between selling prices and the cost of purchased material is subject to a number of factors, including differences in the market conditions in the domestic regions where recycled metal is acquired and the areas in the world where the processed materials are sold, market volatility from the time the selling price is agreed with the customer until the time the raw material is purchased, and changes in the assumed costs of transportation to the buyer's facility. We believe MRB generally benefits from rising recycled metal selling prices, which allow it to better maintain or expand both operating income and unprocessed metal flow into its facilities, and suffers when recycled metal selling prices decline, which tend to compress its operating margins.

Markets

In recent years, worldwide demand for finished steel products has been growing at a faster rate than the available supply of recycled ferrous metal, which is one of the primary raw materials used in manufacturing steel. During this time, the demand for finished steel has been growing most rapidly in developing countries in Asia and the Mediterranean, which currently do not possess an adequate supply of raw materials to produce steel. As a result of this demand, MRB's ferrous exports have made up 74%, 82% and 70% of its total ferrous sales volume in fiscal 2010, 2009 and 2008, respectively. The Asian developing countries have also been the primary recipients of MRB's nonferrous products with nonferrous exports making up 74%, 74% and 59% of its total nonferrous sales volumes in fiscal 2010, 2009 and 2008, respectively. Unlike the ferrous export market, China has been the largest destination for MRB's nonferrous export sales.

Consolidation in the Scrap Metal Industry

The metals recycling industry has been consolidating over the last several years, primarily due to a high degree of fragmentation and the ability of large, well-capitalized processors to achieve competitive advantages by investing in capital improvements to improve efficiencies and lower processing costs. We believe that we are in a position to make reasonably priced acquisitions in the metals recycling industry as a result of our low levels of debt, historical ability to generate cash from operations and available borrowing capacity.

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Distribution

MRB delivers recycled ferrous and nonferrous scrap metal to foreign customers by ship and to domestic customers by barge, rail and over the road transportation networks. Cost efficiencies are achieved by operating deep water terminal facilities at Everett, Massachusetts; Portland, Oregon; Oakland, California; Tacoma, Washington; and Providence, Rhode Island, all of which are owned except for the Providence, Rhode Island facility, which is operated under a long-term lease. We also have access to deep water terminal facilities at Kapolei, Hawaii and Salinas, Puerto Rico through public docks. These seven deep water terminals enable us to load large vessels capable of trans-oceanic shipments. Additionally, because we own most of the terminal facilities in which MRB operates, MRB is not normally subject to the same berthing delays often experienced by users of unaffiliated terminals. We believe that MRB's loading costs are lower than they would be if it utilized third party terminal facilities. From time to time MRB may enter into contracts of affreightment, which guarantee the availability of ocean going vessels, in order to manage the risks associated with ship availability and freight costs.

Sources of Unprocessed Metal

The most common forms of purchased raw metal are obsolete machinery and equipment, such as automobiles, railroad cars, railroad tracks, home appliances and other consumer goods, waste metal from manufacturing operations and demolition metal from buildings and other obsolete structures. This metal is acquired from suppliers who unload at MRB's facilities, from drop boxes at a diverse base of suppliers' industrial sites and through negotiated purchases from other large suppliers, including railroads, industrial manufacturers, automobile salvage facilities, metal dealers, various government entities and individuals. The majority of MRB's scrap metal collection and processing facilities receive raw metal via major railroad routes, waterways or major highways. Metal recycling facilities situated near unprocessed metal sellers and major transportation routes have the competitive advantage of reduced freight costs because of the significant cost of freight relative to the cost of metal. The locations of MRB's West Coast facilities allow it to competitively purchase raw metal from the Northern California region, northwards up the West Coast to Western Canada and Alaska and to the east, including Idaho, Montana, Utah, Colorado and Nevada. The locations of the East Coast facilities provide access to sources of unprocessed metal in New York, Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont, Eastern Canada and, from time to time, the Midwest. In the Southeastern US, approximately half of MRB's ferrous and nonferrous unprocessed metal volume is purchased from industrial companies, including domestic and international auto manufacturers, with the remaining volume being purchased from smaller dealers and individuals. These industrial companies provide MRB with metals that are by-products of their manufacturing processes. The supply of scrap metal from these manufacturers can fluctuate with the level of automotive and other manufacturing production in the region.

Backlog

As of October 13, 2010, MRB had a backlog of orders to sell \$221 million of export ferrous metal compared to \$73 million as of October 13, 2009. Additionally, as of September 30, 2010, MRB had a backlog of orders to sell \$20 million of export nonferrous metal compared to \$18 million as of September 30, 2009.

Competition

MRB faces stiff competition for both the purchase and sale of scrap metal. MRB competes domestically for the purchase of scrap metal with large, well-financed recyclers of scrap metal, steel mills that own scrap yards and smaller metal facilities and dealers. In general, the competitive factors impacting the purchase of scrap metal are the price offered by the purchaser and the proximity of the purchaser to the scrap metal source. MRB also competes with brokers who buy scrap metal on behalf of domestic and foreign steel mills.

MRB competes globally for the sale of processed recycled metal to finished steel producers. The predominant competitive factors that impact recycled metal sales are price (including shipping cost), reliability of service, product quality and availability of scrap metal and scrap metal substitutes.

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We believe MRB's ability to process substantial volumes of scrap metal products, state of the art equipment, number of locations, access to a variety of different modes of transportation, geographic dispersion and cross-divisional synergies provide its business with competitive advantages.

Auto Parts Business**Business and Products**

APB procures used and salvaged vehicles and sells serviceable used auto parts from these vehicles through its 45 self-service auto parts stores which are located across the US and Western Canada. The remaining portions of the vehicles, primarily autobodies, cores (which include engines, transmissions, alternators and catalytic converters) and nonferrous materials, are sold to metal recyclers, including MRB where geographically feasible. APB completed the sale of its full-service used auto parts operation to LKQ Corporation in October 2009.

Customers

Self-service stores generally serve customers who are looking to obtain serviceable used auto parts at a competitive price. These customers remove the used auto parts from vehicles in inventory without the assistance of store employees. In addition, APB sells the cores to a variety of wholesale buyers and the scrap metal from end-of-life vehicles to MRB and third party recycling yards throughout the US and Western Canada.

We believe that APB has an enhanced competitive advantage through its various information technology systems, which are used to centrally manage and operate the geographically diverse network of stores; by applying a consistent approach to offering customers a large selection of vehicles from which to obtain parts; and by its efficient processing of autobodies. APB had no external customers that accounted for 10% or more of consolidated revenues in fiscal 2010, 2009 or 2008.

APB is dedicated to supplying low-cost used auto parts to its customers. In general, we believe that the sale prices of auto parts at APB's self-service stores are significantly lower than those offered at full-service auto dismantlers, retail car parts stores and car dealerships. Each self-service store offers an extensive selection of vehicles (including domestic and foreign cars, vans and light trucks) from which consumers can remove parts. APB regularly rotates its vehicle inventory to provide its customers greater access to a continually changing parts inventory.

The table below sets forth APB revenues from domestic and foreign customers for the last three fiscal years ended August 31 (in thousands):

	2010	2009	2008
Domestic	\$ 225,403	\$ 144,346	\$ 213,643
Foreign	15,830	8,861	14,439
Sales to MRB	(49,538)	(26,916)	(48,759)
Total revenues (net of intercompany)	\$ 191,695	\$ 126,291	\$ 179,323

Fragmentation of the Auto Parts Industry

The auto parts industry is characterized by diverse and fragmented competition and is comprised of a large number of aftermarket and used auto parts suppliers of all sizes. These companies range from large, multinational corporations, which serve both original equipment manufacturers and the aftermarket on a worldwide basis, to small, local producers which supply only a few parts for a particular car model.

Distribution

APB sells used auto parts from each of its self-service retail stores. Upon arriving at a self-service store, a customer typically pays an admission charge and signs a liability waiver before entering the car lot. When a customer finds a desired part on a vehicle, the customer removes it and pays a pre-established price for the part.

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The wholesale component of APB's business consists of core and scrapped vehicle sales. Once the vehicle is removed from the customer area, cores are removed from the vehicle and consolidated at central facilities in California, Florida,

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Texas and Calgary, Canada. From these facilities, the cores are sold to a variety of wholesale buyers through a competitive bidding process. Due to the larger quantities generated by this consolidation process, APB is able to obtain higher prices by focusing on larger wholesale customers that purchase in volume. After the core removal process is complete, the remaining autobody is crushed and sold as scrap metal in the wholesale market. The autobodies are sold on a price per ton basis, which is subject to fluctuations in the recycled ferrous metal markets. During fiscal 2010, 2009 and 2008, APB generated revenues of \$50 million, \$27 million and \$49 million, respectively, from sales to MRB, making MRB the single largest customer of APB.

Marketing

APB has customized marketing initiatives that are unique to its self-service brand. The brand marketing plan focuses on the acquisition of private party vehicles and attracting auto parts customers into the stores. The marketing plan targets the local markets surrounding the stores and incorporates various strategies including the use of radio advertising to promote vehicle purchasing, regularly scheduled in-store promotions and other forms of product promotion. Each store has a customized marketing calendar designed for its market and the community it serves.

APB typically seeks to locate its facilities with convenient access to major streets and in major population centers. By operating at locations that are convenient and visible to the target customer, the stores seek to become the customer's first stop in acquiring used auto parts.

Sources of Vehicles

APB obtains vehicles from five primary sources: private parties, tow companies, charities, auto auctions and city contracts. APB has a program to purchase vehicles from private parties called "Cash for Junk Cars," which is advertised in local markets. Private parties call a toll-free number and receive a quote for their vehicle. The private party can either deliver the vehicle to one of APB's retail locations or arrange for the vehicle to be picked up. APB also employs car buyers who travel to vendors and bid on vehicles. In fiscal 2010, APB's ability to obtain additional and higher quality vehicles was temporarily enhanced through the government's Cash-For-Clunkers stimulus program.

Competition

APB competes for the purchase of vehicles with other auto dismantlers, used car dealers, auto auctions and metal recyclers. APB competes for the sale of used auto parts with other self-service and full-service auto dismantlers as well as larger well-financed retail auto parts businesses.

Steel Manufacturing Business

Business

SMB operates a steel mini-mill in McMinnville, Oregon that produces a wide range of finished steel products using recycled metal and other raw materials. SMB purchases substantially all of its recycled metal from MRB at rates that approximate export market prices for shipments from the West Coast of the US.

Manufacturing

SMB's melt shop includes an electric arc furnace (EAF), a ladle refining furnace, a five-strand continuous billet caster and has enhanced steel chemistry refining capabilities, permitting the mill to produce special alloy grades of steel not currently produced by other mills on the US West Coast. The melt shop produced 494 thousand, 401 thousand and 802 thousand tons of steel in the form of billets during fiscal 2010, 2009 and 2008, respectively. SMB continues to reinvest in its melt shop to improve efficiencies in the melting process.

SMB also operates two computerized rolling mills that allow for synchronized operations of the rolling mills and related equipment. Billets produced in SMB's melt shop are reheated in two natural gas-fueled furnaces and are then hot-rolled through one of the two rolling mills to produce finished products. SMB has completed a number of improvement projects to both mills designed to increase both their operating efficiency and the types of products that can be competitively produced. SMB continues to monitor the market for new products and, through discussions with customers, identify additional opportunities to expand its product lines and sales.

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SMB's effective annual finished goods production capacity is approximately 800 thousand tons under current conditions.

Products

SMB produces semi-finished goods (billets) and finished goods consisting of rebar, coiled rebar, wire rod, merchant bar and other specialty products. Semi-finished goods are predominantly used for SMB's finished products, but also have been produced for sale to other steel mills. Rebar is produced in either straight length steel bars or coils and used to increase the tensile strength of poured concrete. Coiled rebar is preferred by some manufacturers because it reduces the waste generated by cutting individual lengths to meet customer specifications and, therefore, improves yield. Wire rod is steel rod, delivered in coiled form, used by manufacturers to produce a variety of products such as chain link fencing, nails, wire and stucco netting. Merchant bar consists of round, flat, angle and square steel bars used by manufacturers to produce a wide variety of products, including gratings, steel floor and roof joists, safety walkways, ornamental furniture, stair railings and farm equipment. SMB is also certified to produce high quality rebar to support nuclear power plant construction.

The table below sets forth, on a revenue and volume basis, the sales of these products during the last three fiscal years ended August 31:

	2010		2009		2008	
	Revenues ⁽¹⁾	Volume ⁽²⁾	Revenues ⁽¹⁾	Volume ⁽²⁾	Revenues ⁽¹⁾	Volume ⁽²⁾
Rebar	\$ 122,879	217,302	\$ 129,750	226,796	\$ 352,087	470,111
Wire rod	102,690	157,677	67,800	88,512	133,815	178,508
Coiled rebar	25,762	43,005	25,404	38,618	51,020	67,598
Merchant bar	19,381	25,432	22,221	27,181	49,324	59,565
Other products ⁽³⁾	14,373	40,199	18,094	32,664	16,943	32,048
Total	\$ 285,085	483,615	\$ 263,269	413,771	\$ 603,189	807,830