SCHNITZER STEEL INDUSTRIES INC
Form 10-K
October 25, 2012
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
(Mark One)
[x] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended August 31, 2012
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 of Incorporation)	(I.R.S. Employer Identification No.)
3200 NW Yeon Ave., Portland, OR	97210
(Address of principal executive offices)	(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, $1.00 par value	The NASDAQ Global Select Market
(Title of Each Class)	(Name of each Exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:
None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes [x] 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 [x]
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 [x] 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 [x] No [ ]
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) 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. [x]
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 [x]	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 [x]

The aggregate market value of the registrant's outstanding common stock held by non-affiliates on February 29, 2012 was $1,089,948,838.

The registrant had 25,363,056 shares of Class A common stock, par value of $1.00 per share, and 977,566 shares of Class B common stock, par value of $1.00 per share, outstanding as of October 19, 2012.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the January 2013 Annual Meeting of Shareholders are incorporated by reference into Part III of this report.

Table of Contents

SCHNITZER STEEL INDUSTRIES, INC.
FORM 10-K
TABLE OF CONTENTS

Table of Contents

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. Except as noted herein or as the context may otherwise require, all references to "we," "our," "us" and "SSI" refer to the Company and its consolidated subsidiaries.

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, cyclicality and changes in the markets we sell into; strategic direction; changes to manufacturing and production processes; the cost of compliance with environmental and other laws; expected tax rates, deductions and credits; 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, "opinions," "forecasts," "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 the effects of changes in domestic and global economic conditions and a number of other 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. Examples of these risks include: potential environmental cleanup costs related to the Portland Harbor Superfund site; the impact of general economic conditions; volatile supply and demand conditions affecting prices and volumes in the markets for both our products and raw materials we purchase; difficulties associated with acquisitions and integration of acquired businesses; the impact of goodwill impairment charges; the realization of expected cost reductions related to restructuring initiatives; the inability of customers to fulfill their contractual obligations; the impact of foreign currency fluctuations; potential limitations on our ability to access capital resources and existing credit facilities; the impact of the consolidation in the steel industry; the impact of imports of foreign steel into the U.S.; inability to realize expected benefits from investments in technology; freight rates and availability of transportation; product liability claims; costs associated with compliance with environmental regulations; the adverse impact of climate change; inability to obtain or renew business licenses and permits; compliance with greenhouse gas emission regulations; reliance on employees subject to collective bargaining agreements; and the impact of the underfunded status of multiemployer plans in which we participate.

Table of Contents

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. The foundation of our business is a commitment to sustainability – recycling metal to generate additional value while achieving profitable growth. In recent years, the worldwide demand for scrap metal has been driven by strong demand for new steel products, electric arc furnace ("EAF") 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, which reduces energy costs and use of virgin materials. The emerging markets, the primary end markets for our recycled scrap metal, currently generate insufficient levels of scrap metal to feed their steel production. This results in a need to source recycled scrap metal from developed economies, including the United States, which, together with domestic requirements, creates ongoing demand for our products.

Through our North American metals recycling business, we collect and recycle autobodies, rail cars, home appliances, industrial machinery, manufacturing scrap and construction and demolition scrap from bridges, buildings and other structures. With 57 operating facilities located in 14 states, Western Canada and Puerto Rico, we are well-positioned to efficiently collect scrap metal throughout North America and export product to customers around the world from our seven deep water ports. In fiscal 2012, we sold our products to customers located in 20 countries. Our Metals Recycling Business benefits from synergies with our Auto Parts Business in certain geographic regions. Our Auto Parts Business, which has 51 retail locations, buys end-of-life vehicles, sells parts to retail and wholesale customers, and sells ferrous metal to metals recyclers, including our Metals Recycling Business where geographically feasible. In addition, our Steel Manufacturing Business produces finished steel products such as rebar, wire rod, coiled rebar, merchant bar and other specialty products using nearly 100% recycled metal sourced from our Metals Recycling Business, which is its sole supplier.

During the fourth quarter of fiscal 2012, we announced and initiated certain restructuring initiatives designed to extract greater synergies from the significant acquisitions and technology investments made in recent years, achieve further integration between our Metals Recycling Business and Auto Parts Business, realign our organization to support future growth and decrease operating expenses by streamlining functions and reducing organizational layers. These initiatives are expected to lower annual pre-tax operating costs by $25 million, comprising approximately $18 million of selling, general and administrative expense and $7 million of cost of goods sold, and be substantially complete by the end of fiscal 2013.

In fiscal 2012, our Metals Recycling Business processed or brokered 5.1 million tons of ferrous scrap metal and 629 million pounds of nonferrous scrap metal. Our revenues by major scrap product were approximately 78% ferrous and 21% nonferrous, and 80% of our external revenues were from export sales.

We report the operations of these three businesses in three reporting segments: the Metals Recycling Business ("MRB"), the Auto Parts Business ("APB") and the Steel Manufacturing Business ("SMB"). See Note 21 – Segment Information in the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report for a discussion of revenues from external customers, total assets by reporting segment and operating results from continuing operations.

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 crushing, sorting, shearing, shredding, and torching, resulting in scrap metal pieces of a size, density and metal content required by customers to meet their production needs. The manufacturing process includes physical separation of materials through automated and manual processes into ferrous and nonferrous and various sub-classifications, each of which has a value and metal content of importance to different customers for their end product.

To prepare scrap metal, we crush, sort and bale the material by product grade for easier handling and sale. One of the most efficient ways to process and sort recycled scrap metal is through the use of shredding systems. Currently, MRB's seven port locations are equipped with shredders. In fiscal 2012, we initiated investment in the construction of a new shredder, advanced processing equipment, and related infrastructure for our facility in Surrey, British Columbia, which was acquired in fiscal 2011. This state-of-the-art facility is expected to begin operations in fiscal 2013. Our largest port facilities in Everett, Massachusetts; Portland, Oregon; Oakland, California; and Tacoma, Washington each operate a mega-shredder with 7,000 to 9,000 horsepower. MRB's Johnston, Rhode Island; Salinas, Puerto Rico; Kapolei, Hawaii; Anchorage, Alaska; and Concord, New Hampshire facilities operate smaller shredders with 1,500 to 6,000 horsepower. 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

Table of Contents

steel mills. The shredding process reduces 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 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 nonferrous scrap metal and residue then pass through a series of additional mechanical sorting systems designed to separate the nonferrous metal from the residue. The remaining nonferrous metal is then hand-sorted and graded before being sold. MRB continues to invest in nonferrous metal extraction and 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 prepares this metal for shipment to customers.

Products

MRB sells both ferrous and nonferrous scrap metal. Ferrous scrap metal is a key feedstock used in the production of finished steel products and is primarily categorized into plate and structural (“bonus”), heavy melting steel (“HMS”) and shredded scrap, although there are various grades of each category depending on cleanliness, size of individual pieces, and residual alloy content. These attributes affect the product’s relative value. 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 globally to steel mills, foundries and smelters, and is the sole supplier of the ferrous scrap metal required by SMB.

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

	2012	% of Revenue	2011	% of Revenue	2010	% of Revenue
Asia	$1,598,889	58 %	$1,837,011	63 %	$1,228,022	67 %
North America	728,338	26 %	691,678	24 %	503,651	28 %
Europe[(1)]	480,723	17 %	325,191	11 %	162,284	9 %
Africa	130,469	5 %	216,124	7 %	85,813	5 %
South America	10,288	1 %	—	— %	—	— %
Sales to SMB	(183,906)	(7)%	(169,331)	(5)%	(155,310)	(9)%
Total (net of intercompany)	$2,764,801	100 %	$2,900,673	100 %	$1,824,460	100 %

(1) Includes sales to customers in Turkey.

In fiscal 2012, the five countries from which MRB derived its largest revenues from external customers were China, the United States, Turkey, South Korea, and Thailand, which collectively accounted for 81% of total MRB revenue. In fiscal 2011 and 2010, the five countries with the largest revenues from external customers accounted for 69% and 59% of total MRB revenue, respectively.

MRB’s five largest external ferrous scrap metal customers accounted for 38% of recycled ferrous metal revenues in fiscal 2012, compared to 46% and 35% in fiscal 2011 and 2010, respectively. MRB had no external customers that accounted for 10% or more of consolidated revenues in fiscal 2012, 2011 and 2010. 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 primarily denominated in U.S. dollars, and nearly all of the large shipments of ferrous scrap metal to foreign customers are supported by letters of credit.

Table of Contents

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, as well as to SMB, during the last three fiscal years ended August 31:

	2012		2011		2010	
	Revenues(1)	Volume(2)	Revenues(1)	Volume(2)	Revenues(1)	Volume(2)
Foreign	$1,799,991	3,928	$1,974,972	4,236	$1,188,490	3,122
SMB	180,525	431	166,259	404	155,310	458
Other domestic	317,064	756	284,257	689	214,864	651
Total	$2,297,580	5,115	$2,425,488	5,329	$1,558,664	4,231

(1) Revenues stated in thousands of dollars.
(2) Volume stated in thousands of long tons (one long ton = 2,240 pounds).

MRB sells processed nonferrous scrap metal to specialty steelmakers, foundries, aluminum sheet and ingot manufacturers, copper refineries and smelters, brass and bronze ingot manufacturers and wire and cable producers globally. MRB continues to increase its nonferrous volumes available for sale by extracting higher amounts of nonferrous products from the shredding process due to investments in advanced separation technology 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:

	2012		2011		2010	
	Revenues(1)	Volume(2)	Revenues(1)	Volume(2)	Revenues(1)	Volume(2)
Foreign	$420,378	451,163	$412,891	399,933	$288,472	351,821
Domestic	194,089	177,489	206,749	168,627	124,455	126,665
Total	$614,467	628,652	$619,640	568,560	$412,927	478,486

(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. Recycled ferrous metal export sales contracts generally provide for shipment within 30 to 60 days after the price is agreed to which, in most cases, includes freight. Nonferrous metal sales contracts generally provide for shipment in less than 30 days after the price is agreed to, which also typically includes freight.

MRB responds to changes in selling prices 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 between the domestic regions where raw scrap 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 estimated costs of transportation to the buyer’s facility. We believe MRB generally benefits from sustained periods of 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, strong worldwide demand for finished steel products generally has increased demand for raw materials, in particular recycled ferrous metal, which is one of the primary feedstocks used in EAFs to manufacture steel. Demand for finished steel has been growing most rapidly in Asia and the Mediterranean region, 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 77%, 79% and 74% of its total ferrous sales volume in fiscal 2012, 2011 and 2010, respectively. In fiscal 2012, the rate of growth for global steel production slowed as a result of decelerating economic growth, the

European sovereign debt crisis, industry production cuts and a weakening price environment for finished steel. The softening market conditions reflected these macroeconomic trends which are typical of the long-term cyclicality in our industry. We believe future demand for recycled metals will be driven by factors including global infrastructure spending, fixed asset investment, consumer spending, credit liquidity and government stimulus programs. Exports

Table of Contents

made up 72%, 70% and 74% of MRB’s total nonferrous sales volumes in fiscal 2012, 2011 and 2010, respectively, with Asian developing countries being the primary markets for our nonferrous products. While the ferrous export market is highly diversified with no single country dominating sales from year to year, in the nonferrous markets China and the U.S. have been the largest sales destinations.

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 ferrous material in large vessels capable of holding up to 50,000 tons for trans-oceanic shipments. Additionally, because we own most of the terminal facilities at 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 only 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.

Our nonferrous products are shipped in containers which hold 20 to 30 tons from container ports and rail ramps located in close proximity to our recycling facilities. Containerized shipments are exported by marine vessels to customers globally and domestic shipments are typically shipped by rail or by truck.

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. Raw metal is acquired from a diverse base of suppliers that unload at MRB’s facilities, from drop boxes at 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. Metals 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, northward 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 U.S., approximately half of MRB’s ferrous and nonferrous unprocessed metal volume is purchased from industrial companies, including 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 sources can fluctuate with the level of economic activity in the U.S. and can be sensitive to variability in scrap metal prices, particularly in the short term.

Backlog

As of September 30, 2012, MRB had a backlog of orders to sell $146 million of export ferrous metal compared to $249 million as of September 30, 2011 as a result of a decrease in selling prices compared to the prior year and timing of sales. Additionally, as of September 30, 2012, MRB had a backlog of orders to sell $53 million of export nonferrous metal compared to $30 million as of September 30, 2011 primarily due to timing of sales.

Competition

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 that buy scrap metal on behalf of domestic and foreign steel mills. In fiscal 2012, an environment of lower economic growth rates that constrained scrap generation in the U.S., coupled with incremental investments in equipment by competitors, led to increasing market pressure on supply flows and margin compression throughout the year.

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, the relative value of the U.S. dollar and availability of scrap metal and scrap metal substitutes. No single scrap metals recycler has a dominant market share in the markets in which we do business.

Table of Contents

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.

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 continue to make acquisitions in the metals recycling industry as a result of our historical ability to generate cash from operations and available borrowing capacity.

Auto Parts Business

Business and Products

APB procures used and salvaged vehicles and sells serviceable used auto parts from these vehicles through its 51 self-service auto parts stores which are located across the U.S. and Western Canada. The remaining portions of the vehicles, primarily autobodies and major parts containing ferrous and nonferrous materials such as engines, transmissions, alternators and catalytic converters, are sold to metals recyclers, including MRB where geographically feasible.

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 ferrous and nonferrous material obtained from end-of-life vehicles to a variety of wholesale buyers, including MRB and third party recycling yards throughout the U.S. and Western Canada.

We believe that APB has a competitive advantage due to its various information technology systems, which are used to centrally manage and operate the geographically diverse network of stores; its consistent approach to offering customers a large selection of vehicles from which to obtain parts; and its efficient processing of autobodies. APB had no external customers that accounted for 10% or more of consolidated revenues in fiscal 2012, 2011 and 2010.

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):

	2012	2011	2010
Domestic	$295,618	$296,554	$225,403
Foreign	21,266	23,279	15,830
Sales to MRB	(73,974)	(78,795)	(49,538)
Total (net of intercompany)	$242,910	$241,038	$191,695

Distribution

APB sells used auto parts from each of its self-service retail stores. Upon arriving at a self-service store, a customer 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 listed price for the part.

The wholesale component of APB's business consists of sales of ferrous and nonferrous materials obtained from end-of-life vehicles. Catalytic converters are removed from the vehicle prior to it being placed in the retail customer area. Once the vehicle is removed from the retail customer area, remaining parts with significant ferrous and nonferrous content, including engines, transmissions and alternators, are removed from the vehicle and items not sold to MRB are consolidated at central facilities in California, Oregon, Texas and Calgary, Canada. From our facilities, these parts 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. The remaining autobody is crushed and sold as ferrous 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. APB generated revenues of $74 million, $79 million and $50 million during fiscal 2012, 2011 and 2010, respectively, from sales to MRB, making MRB the single largest customer of APB.

Table of Contents

Marketing

APB has customized marketing initiatives that are unique to its self-service brand. The marketing plan focuses on strategies to maximize the acquisition of end-of-life vehicles and attracting auto parts customers into the stores. The marketing plan targets the regional customer base surrounding the stores and incorporates various strategies, including the use of radio and television 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 road access 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 when 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

The auto parts industry is characterized by diverse and fragmented competition and comprises 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. After a sustained period of strong demand for recycled metals, some smaller suppliers entered the market and some existing suppliers expanded their presence. This, combined with the constrained availability of end-of-life vehicles resulting from lower economic growth rates, led to a more competitive pricing environment throughout fiscal 2012.

APB competes for the purchase of vehicles with other auto dismantlers, used car dealers, auto auctions and metal recyclers. In general, the main competitive factors impacting the purchase of vehicles are the price offered by the purchaser and the proximity of the purchaser to the source of the vehicle.

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. For wholesale sales of ferrous and nonferrous materials obtained from end-of-life vehicles, APB competes globally with other metal recyclers. The main competitive factors impacting the sale of APB's products are price, availability of parts, quality and availability of scrapped product, and location of the retail stores that is convenient to customers.

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. MRB is the sole supplier for SMB's scrap metal requirements, which SMB purchases at rates that approximate export market prices for shipments from the West Coast of the U.S.

Manufacturing

SMB's melt shop includes an EAF, a ladle refining furnace, and 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 U.S. West Coast. The melt shop produced 464 thousand, 454 thousand and 494 thousand tons of steel in the form of billets during fiscal 2012, 2011 and 2010, 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. SMB’s effective annual finished goods production capacity is approximately 800,000 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

Table of Contents

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 and has a license to produce certain patented high strength composite steels.

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:

	2012		2011		2010	
	Revenues(1)	Volume(2)	Revenues(1)	Volume(2)	Revenues(1)	Volume(2)
Finished steel products	$332,719	447,254	$317,338	438,874	$270,712	443,416
Semi-finished steel products(3)	508	132	145	199	14,373	40,199
Total	$333,227	447,386	$317,483	439,073	$285,085	483,615

(1) Revenues stated in thousands of dollars.

(2) Volume stated in short tons (one short ton = 2,000 pounds).

(3) Includes primarily sales of billets except for fiscal 2012 in which $391 were recorded for sales of by-products of mill production for which volumes are not tracked.

Customers

SMB’s customers are principally steel service centers, construction industry subcontractors, steel fabricators, wire drawers and major farm and wood products suppliers. During fiscal 2012, SMB sold its finished steel products to customers located primarily in the Western U.S. and Canada. Customers in California accounted for 43% of SMB’s revenues in fiscal 2012. SMB’s ten largest customers accounted for 43%, 53% and 54% of its revenues during fiscal 2012, 2011 and 2010, respectively. No SMB customer accounted for 10% or more of consolidated revenues in fiscal 2012, 2011 and 2010.

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

	2012	2011	2010
Domestic	$290,710	$256,888	$206,943
Foreign(1)	42,517	60,595	78,142
Total	$333,227	$317,483	$285,085

(1) Includes sales to Canada of $42 million, $59 million and $56 million in fiscal 2012, 2011 and 2010, respectively.

Consolidation in the Steel Industry

The pace of consolidation in the steel industry has slowed in recent years consistent with the sluggish economic growth, particularly in the U.S. As the current outlook for construction and infrastructure spending in the U.S. remains weak, there is likely to be some contraction domestically as smaller, less well-capitalized steel producers and fabricators exit the market and other firms reduce production. Longer-term, cross-border consolidation remains attractive due to stronger demand from developing countries and the potential for achieving greater efficiency and economies of scale, particularly in response to the consolidation undertaken by raw material suppliers and consumers of steel products.

Distribution

SMB sells directly from its mini-mill in McMinnville, Oregon and its owned distribution center in El Monte, California (Los Angeles area). Products are shipped from the mini-mill to the distribution center, primarily by rail. The distribution center facilitates sales by maintaining an inventory of products close to major customers for just-in-time delivery. SMB communicates regularly with major customers to determine their anticipated needs and plans its rolling mill production schedule accordingly. Shipments to customers are made by common carrier, primarily truck or rail.

Table of Contents

Supply of Scrap Metal

We believe SMB operates the only mini-mill in the Western U.S. that obtains its scrap metal requirements from an affiliated metal recycler. MRB provides a mix of recycled metal grades to SMB, which allows SMB to achieve optimum efficiency in its melting operations.

Energy Supply

SMB needs a significant amount of electricity to run its operations, primarily its EAF. SMB purchases electricity under a long-term contract with McMinnville Water & Light, which in turn relies on the Bonneville Power Administration. After the prior contract expired in September 2011, we entered into a new contract with the same supplier in October 2011 that will expire in September 2028.

SMB also needs a significant amount of natural gas to run its reheat furnaces, which are used to reheat billets prior to running them through the rolling mills. SMB meets this demand through a natural gas agreement with a utility provider that obligates SMB at each month-end to purchase a set volume of gas for the immediately subsequent month on a take-or-pay basis priced using published natural gas indices.

Energy costs represented 5%, 5% and 7% of SMB's cost of goods sold in fiscal 2012, 2011 and 2010, respectively.

Backlog

SMB generally ships products within days after the receipt of purchase orders. As of September 30, 2012, SMB had a backlog of orders of $25 million, compared to $23 million as of September 30, 2011.

Competition

SMB's primary domestic competitors for the sale of finished steel products include Nucor Corporation's manufacturing facilities in Arizona, Utah and Washington, Gerdau Long Steel North America's facility in California and Commercial Metals Company's manufacturing facility in Arizona. In addition to domestic competition, SMB competes with foreign steel producers, principally located in Asia, Canada, Mexico and Central and South America, primarily in shorter length rebar and certain wire rod grades. Certain U.S. manufacturers have also expanded downstream distribution operations to include import products which are highly competitive due to lower production costs. The principal competitive factors in SMB's market are price, product availability, quality and service. In addition, demand and the resulting level of steel imports are impacted by general economic conditions and the relative value of the U.S. dollar.

In 2002, the U.S. government imposed anti-dumping and countervailing duties against wire rod products from eight foreign countries. These duties remain in effect today, are periodically reviewed and do not have a set expiration date. In 2007, the International Trade Commission extended existing rebar anti-dumping duties of up to 233% on imports from seven nations through 2012 and it is currently in the process of reviewing these duties.

Strategic Focus

Use of our Seven Deep Water Ports to Access Global Demand

Our seven deep water terminal facilities enable us to bulk load large vessels capable of trans-oceanic shipments, thereby allowing us to efficiently ship product globally to wherever demand is highest. We achieve cost efficiencies because we own the majority of these terminal facilities, which reduces the likelihood of berthing delays often experienced by users of unaffiliated terminals, and because we are able to ship bulk cargoes of up to 50,000 tons which generally have lower freight costs on a per-ton basis than containerized shipments that hold 20 to 30 tons.

Acquisitions

We continue to focus on growth through acquisitions consistent with our strategy. With our historically strong balance sheet, ability to generate positive cash flows from operations and available borrowing capacity, we believe we are in a position to continue to complete acquisitions fitting our long-term strategic plans.

During fiscal 2012, we made the following acquisition:

- In June 2012, we acquired substantially all of the assets of Rocky Mountain Salvage, Ltd., a metals recycler in Hinton, Alberta, which expanded MRB's presence in Western Canada.

During fiscal 2011, we made the following acquisitions:

- In September 2010, we acquired substantially all of the assets of SOS Metals Island Recycling, LLC, a metals recycler in Maui, Hawaii, to provide an additional source of scrap metal for our MRB Hawaii facility.

Table of Contents

- In November 2010, we acquired substantially all of the assets utilized by Specialized Parts Planet, Inc. at its Stockton, California used auto parts facility, which expanded APB's presence in the Western U.S.
- In December 2010, we acquired substantially all of the assets of Waco U-Pull It, Inc., a used auto parts store in Waco, Texas, which expanded APB's presence in the Southwestern U.S.
- In December 2010, we acquired substantially all of the assets of Macon Iron & Paper Stock Co., a metals recycler with two yards in Macon, Georgia, which expanded MRB's presence in the Southeastern U.S.
- In December 2010, we acquired substantially all of the assets of Steel Pacific Recycling Inc., a metals recycler with six yards on Vancouver Island, British Columbia, Canada, that previously supplied ferrous scrap to MRB's Tacoma, Washington facility. This acquisition marked MRB's initial expansion into Canada.
- In January 2011, we acquired substantially all of the assets of State Line Scrap Co., Inc., a metals recycler with one yard in Attleboro, Massachusetts, which expanded MRB's presence in the Northeastern U.S.
- In January 2011, we acquired substantially all of the mobile car crushing assets of Northwest Recycling, Inc., based in Portland, Oregon, which provides scrap metal for MRB's Portland, Oregon facility.
- In February 2011, we acquired substantially all of the assets of Ferrill's Auto Parts, Inc., a used auto parts business with three stores in Seattle, Washington, which expanded APB's presence in the Northwestern U.S.
- In March 2011, we acquired substantially all of the metals recycling business assets of Amix Salvage & Sales Ltd., which operated four metals recycling yards in British Columbia, Canada and two metals recycling yards in Alberta, Canada that previously supplied ferrous scrap to MRB's Tacoma, Washington facility. This acquisition expanded MRB's presence in Western Canada. As part of the consideration paid, we issued the seller common shares equal to 20% of the issued and outstanding capital stock of our acquisition subsidiary.
- In April 2011, we acquired substantially all of the assets of American Metal Group, Inc. and certain of its affiliates, a metals recycler with yards in San Jose and Santa Clara, California that previously supplied ferrous scrap to MRB's Oakland, California facility. This acquisition expanded MRB's presence in the Western U.S.

During fiscal 2010, we made the following acquisitions:

- In October 2009, we acquired substantially all of the assets of four of LKQ Corporation's self-service used auto parts stores located near our MRB export facility in Portland, Oregon. This acquisition represented our first used auto parts operations in the Pacific Northwest.
- In January 2010, we acquired substantially all of the assets of two of LKQ Corporation's self-service used auto parts stores, which increased to four the number of used auto parts facilities that we operate in the Dallas-Fort Worth area.
- In April 2010, we acquired substantially all of the assets of Golden Recycling and Salvage, Inc., a metals recycler in Montana, to provide an additional source of scrap metal for our Tacoma, Washington export facility.

Continuous Improvement Benefits from Technology and Growth Investments

We aim to be an efficient and competitive producer of both recycled metal and finished steel products in order to maximize the operating income for both operations. To meet this objective, we have historically focused on, and will continue to emphasize, continuous improvement programs that focus on increasing production from shredders using technology to improve ferrous and nonferrous scrap metal recovery processes and ongoing performance initiatives throughout our operations. The objective of these programs is to identify areas in existing processes that may be inefficient or where current performance could be improved and to recommend and implement solutions that could increase revenues or reduce costs by increasing output or recovery.

In the fourth quarter of 2012, we announced and initiated certain restructuring initiatives designed to extract greater synergies from the significant acquisitions and technology investments made in recent years, achieve further integration between our Metals Recycling Business and Auto Parts Business, realign our organization to support future growth and decrease operating expenses by streamlining functions and reducing organizational layers. These initiatives are expected to lower annual pre-tax operating costs by $25 million and be substantially complete by the end of fiscal 2013.

During fiscal 2012, 2011 and 2010, we spent $79 million, $105 million and $64 million, respectively, on capital improvements. These capital expenditures primarily reflect our significant investments in modern equipment to improve the efficiency and capabilities of our businesses and to further maximize our economies of scale. Our capital expenditures in fiscal 2012 included

Table of Contents

investments in the construction of a new shredder, advanced processing equipment and related infrastructure for our facility in Surrey, British Columbia, which is expected to begin operations in fiscal 2013. In addition, we made further investments in technology to improve the recovery and separation of nonferrous materials from the shredding process and investments in infrastructure to improve efficiency, increase capacity, improve worker safety, enhance environmental systems and replace equipment. We currently plan to invest up to $80 million in capital expenditures on similar projects in fiscal 2013, including the completion of the new shredder and processing equipment in Canada.

Environmental Matters

Impact of Legislation and Regulation

Compliance with environmental laws and regulations is a significant factor in our operations. Our businesses are subject to extensive local, state and federal environmental protection, health, safety and transportation laws and regulations relating to, among others:

- The U.S. Environmental Protection Agency ("EPA");
- Remediation under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA");
- The discharge of materials and emissions into the air;
- The prevention and remediation of soil and groundwater contamination;
- The management and treatment of wastewater and storm water;
- Global climate change;
- The treatment, handling and/or disposal of solid waste and hazardous waste; and
- The protection of our employees' health and safety.

These environmental laws regulate, among other things, the release and discharge of hazardous materials into the air, water and ground; exposure to hazardous materials; and the identification, storage, treatment, handling and disposal of hazardous materials. Environmental legislation and regulations have changed rapidly in recent years, and it is likely that we will be subject to even more stringent environmental standards in the future.

Concern over climate change, including the impact of global warming, has led to significant U.S. and international regulatory and legislative initiatives to limit greenhouse gas ("GHG") emissions. In 2007, the U.S. Supreme Court ruled that the EPA was authorized to regulate carbon dioxide under the U.S. Clean Air Act. As a consequence, the EPA initiated a series of regulatory efforts aimed at addressing greenhouse gases as pollutants, including finding that GHG emissions endanger public health, implementing mandatory GHG emission reporting requirements, setting carbon emission standards for light-duty vehicles and promulgating a New Source Review/Title V "tailoring rule" setting emissions thresholds beyond which stationary sources will require permits. Legislation has also been proposed in the U.S. Congress to address GHG emissions and global climate change, including "cap and trade" programs, and some form of federal climate change legislation or additional federal regulation is possible. In addition, we are required to annually report GHG emissions from our steel mill to the State of Oregon Department of Environmental Quality and the EPA. A number of other states, including states in which we have operations and facilities, have considered, are considering or have already enacted legislation to develop information or address climate change and GHG emissions as well.

Although our objective is to maintain compliance with applicable environmental regulations, we have, in the past, been found not to be in compliance with certain environmental laws and regulations and have incurred liabilities, expenditures, fines and penalties associated with such violations. In December 2000, we were notified by the EPA that we are one of the potentially responsible parties that own or operate or formerly owned or operated sites which are part of or adjacent to the Portland Harbor Superfund site (see discussion in Risk Factors in Part I, Item 1A and Note 11 – Commitments and Contingencies in the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report). In fiscal 2012, capital expenditures related to ongoing environmental compliance were $13 million, and we expect to spend up to $12 million on capital expenditures for ongoing environmental compliance in fiscal 2013.

Indirect Consequences of Future Legislation and Regulation

Increased regulation regarding climate change and GHG emissions could impose significant costs on our business and our customers and suppliers, including increased energy, capital equipment, environmental monitoring and reporting and other costs in order to comply with regulations concerning climate change and GHG emissions. The potential costs of allowances, offsets or credits that may be part of "cap and trade" programs or similar future regulatory measures are still uncertain. Any adopted future climate change and GHG regulations could negatively impact our ability (and that of our customers and suppliers) to compete with companies situated in areas not subject to such limitations. Furthermore, even without such regulation, increased awareness and any adverse publicity in the global marketplace about the GHGs emitted by companies in the metals recycling and steel manufacturing industries could harm our reputation and reduce customer demand for our products.

Table of Contents

GHG legislation and regulation is also expected to have an effect on the price of electricity, especially when generated using carbon-based fuels. Since the electricity supply for SMB includes a significant element of hydro-generated production, SMB's energy costs are less likely to be impacted than those of competitors using electricity generated by carbon-based fuels. In addition, demand for scrap metal may increase as a result of mills with blast furnaces seeking to maximize the scrap metal component of raw material infeed, as melting scrap metal involves less energy than is required for melting iron ore.

Since the use of recycled iron and steel instead of iron ore to make new steel results in savings in the consumption of energy, virgin materials and water and reduces mining wastes, we believe our recycled metal products position us to be more competitive in the future for business from companies wishing to reduce their carbon footprint and impact on the environment. In addition, our EAF generates fewer GHG emissions than traditional blast furnaces.

Physical Impacts of Climate Change on Our Costs and Operations

There has been public discussion that climate change may be associated with rising sea levels as well as extreme weather conditions such as more intense hurricanes, thunderstorms, tornadoes and snow or ice storms. Extreme weather conditions may increase our costs or cause damage to our facilities, and any damage resulting from extreme weather may not be fully insured. As many of our recycling facilities are located near deep water ports, significantly rising sea levels may disrupt our ability to receive scrap metal, process the scrap metal through our mega-shredders and ship product to our customers. Periods of extended adverse weather conditions may inhibit the supply of scrap metal to MRB and SMB and end-of-life vehicles to APB which could cause us to fail to meet our sales commitments. In addition, sustained periods of increased temperature levels in the summer in areas where our APB operations are located could result in less customer traffic, thus resulting in reduced admissions and parts sales.

Employees

As of September 30, 2012, we had 3,626 full-time employees, consisting of 1,921 employees at MRB, 1,129 employees at APB, 433 employees at SMB and 143 corporate administrative employees. Of these employees, 823 were covered by collective bargaining agreements. The SMB contract with the United Steelworkers of America, which covers 313 of these employees, was renewed and ratified in June 2012 and will expire on March 31, 2016. We believe that in general our labor relations are good.

Available Information

Our internet address is www.schnitzersteel.com. The content of our website is not incorporated by reference into this Annual Report on Form 10-K. We make available on our website, free of charge, under the caption "Investors – SEC Filings" our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports, as soon as reasonably practicable after electronically filing with or furnishing such materials to the Securities and Exchange Commission ("SEC") pursuant to Sections 13(a) or 15(d) of the Securities Exchange Act of 1934.

From time to time, we may use our website as a channel of distribution of material Company information. Financial and other material information regarding our Company is routinely posted on and accessible at http://www.schnitzersteel.com/investors.aspx. In addition, you may automatically receive e-mail alerts and other information about our Company by enrolling your e-mail address by visiting the "E-mail Alerts" section at http://www.schnitzersteel.com/investors.aspx.

ITEM 1A. RISK FACTORS

Described below are risks, which are categorized as "Risk Factors Relating to Our Business," "Risk Factors Relating to the Regulatory Environment" and "Risk Factors Relating to Our Employees," that could have a material adverse effect on our results of operations, financial condition and cash flows or could cause actual results to differ materially from the results contemplated by the forward-looking statements contained in this Annual Report. See "Forward-Looking Statements" that precedes Part I of this report. Additional risks and uncertainties that we are unaware of or that we currently deem immaterial may in the future have a material adverse effect on our results of operations, financial condition and cash flows.

Risk Factors Relating to Our Business

Potential costs related to the environmental cleanup of Portland Harbor may be material to our financial position and liquidity

In December 2000, we were notified by the EPA under CERCLA that we are a potentially responsible party ("PRP") that owns or operates or formerly owned or operated sites which are part of or adjacent to the Portland Harbor Superfund site (the "Site"). The precise nature and extent of any cleanup of the Site, the parties to be involved, the process to be followed for any cleanup and the allocation of the costs for any cleanup among responsible parties have not yet been determined, but the process of identifying additional PRPs and beginning allocation of costs is underway. A group of PRPs is conducting a remedial investigation and feasibility study ("RI/FS") to identify and characterize the contamination at the Site and develop alternative approaches to remediation of the contamination. On March 30, 2012, the group submitted to the EPA a draft feasibility study ("draft FS") based on approximately ten years of work and $100 million in costs classified as investigation-related. The draft FS identifies ten possible remedial alternatives which range in estimated cost from approximately $170 million to $250 million (net present value) for the

Table of Contents

least costly alternative to approximately $1.08 billion to $1.76 billion (net present value) for the most costly and estimates a range of two to 28 years to implement the remedial work, depending on the selected alternative. The draft FS does not determine who is responsible for remediation costs, define the precise cleanup boundaries or select remedies. The draft FS is being reviewed, and may be subject to revisions prior to its approval, by the EPA. A final decision on the nature and extent of the required remediation will occur only after the EPA has prepared a proposed plan for public review and issued a record of decision (“ROD”). Currently available information indicates that the EPA does not expect to issue its final ROD selecting a remedy for the Site until at least 2014. Separately, the natural resource damages trustees for the Site are conducting a process to determine the amount of natural resource damages at the Site and identify the persons potentially liable for such damages. Given the size of the Site, the costs to date of the RI/FS and the nature of the conditions identified to date, the total cost of the investigations, remediation and natural resource damages claims are likely to be substantial. Because there has not been a determination of the total cost of the investigations, the remediation that will be required, the amount of natural resource damages or how the costs of the ongoing investigations and any remedy and natural resource damages will be allocated among the PRPs, we believe it is not possible to reasonably estimate the amount or range of costs which we are likely or reasonably possible to incur in connection with the Site, although such costs could be material to our financial position, results of operations, cash flows and liquidity. Significant cash outflows in the future related to the Site could reduce the amount of our borrowing capacity that could otherwise be used for investment in capital expenditures, acquisitions, dividends and share repurchases. Any material liabilities incurred in the future related to the Site could result in our failure to maintain compliance with certain covenants in our debt agreements. See “Contingencies – Environmental” in Note 11 – Commitments and Contingencies in the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report.

We operate in industries that are cyclical and sensitive to general economic conditions, which could have a material adverse effect on our operating results and financial condition

Demand for most of our products is cyclical in nature and sensitive to general economic conditions. The timing and magnitude of the cycles in the industries in which our products are used including global steel manufacturing and residential construction in the U.S. are difficult to predict. The cyclical nature of our operations tends to reflect and be amplified by changes in economic conditions, both domestically and internationally, supply/demand imbalances and foreign currency exchange fluctuations. Economic downturns or a prolonged period of slow growth in the U.S. and foreign markets or any of the industries in which we operate could have a material adverse effect on our results of operations, financial condition and cash flows. While we believe that drivers such as infrastructure growth in developing economies and demand for environmentally sustainable raw materials will continue to drive long-term global demand for recycled metal, we are unable to predict the duration of the current uncertain economic conditions that are contributing to a softer demand environment for our products and constrained supply of raw materials.

Changes in the availability or price of raw materials and end-of-life vehicles could reduce our sales

Our businesses require certain materials that are sourced from third party suppliers. Although our cross-divisional synergies allow us to be our own source for some raw materials, particularly with respect to scrap metal for SMB, we rely on other suppliers for most of our raw material needs. Industry supply conditions generally involve risks, including the possibility of shortages of raw materials, increases in raw material costs and reduced control over delivery schedules. We procure our scrap inventory from numerous sources. These suppliers generally are not bound by long-term contracts and have no obligation to sell scrap metal to us. In periods of low scrap metal prices, suppliers may elect to hold scrap metal to wait for higher prices or intentionally slow their metal collection activities. If a substantial number of suppliers ceases selling scrap metal to us, we will be unable to recycle metal at desired levels, and our results of operations and financial condition could be materially adversely affected. A slowdown of industrial production in the U.S. may also reduce the supply of industrial grades of metal to the metals recycling industry, resulting in our having less recyclable metal available to process and market. In addition, increased foreign demand for scrap metal due to economic expansion in developing countries may result in increased competition for available domestic scrap metal. Failure to obtain a steady supply of scrap material could both adversely impact our ability to meet sales commitments and reduce our operating margins. Failure to obtain an adequate supply of end-of-life vehicles could adversely impact our ability to attract customers and charge admission fees and reduce our parts sales.

Failure to obtain raw materials, such as alloys used in the steel-making process, could adversely impact our ability to make steel to the specifications of our customers.
Significant decreases in scrap metal prices may adversely impact our operating results
The timing and magnitude of the cycles in the industries in which we operate are difficult to predict and are influenced by different economic conditions in the domestic market, where we typically acquire our raw materials, and foreign markets, where we typically sell the majority of our products. Purchase prices for autobodies and scrap metal and selling prices for scrap metal are volatile and beyond our control. While we attempt to respond to changing scrap metal selling prices through adjustments to our metal purchase prices, our ability to do so is limited by competitive and other market factors. As a result, we may not be able to reduce our metal purchase prices to offset a sharp reduction in scrap metal sales prices, which may adversely impact our operating income and cash flows. In addition, a sudden decrease in scrap metal prices may compress our operating margins due to the impact of average inventory cost which causes cost of goods sold recognized in the Consolidated Statements of Income to decrease at a slower rate than metal purchase prices and net selling prices.

Table of Contents

Acquisitions and integration of acquired businesses may result in operating difficulties and other unintended consequences

We have completed a number of recent acquisitions and expect to continue making acquisitions of complementary businesses to enable us to enhance our customer base and grow our revenues. Execution of our acquisition strategy involves a number of risks, including:

- Difficulty integrating the acquired businesses' personnel and operations;
- Potential loss of key employees or customers of the acquired business;
- Difficulties in realizing anticipated cost savings, efficiencies and synergies;
- Unexpected costs;
- Inaccurate assessment of or undisclosed liabilities;
- Inability to maintain uniform standards, controls and procedures; and
- Difficulty managing the growth of a larger company.

If we do not successfully execute our acquisition strategy and the acquired businesses do not perform as projected, our financial condition and results of operations could be materially adversely affected.

Goodwill impairment charges may adversely affect our operating results

We have a substantial amount of goodwill on our balance sheet generated in connection with our acquisition business growth strategy. Goodwill represents the excess purchase price over the net amount of identifiable assets acquired and liabilities assumed in a business combination measured at fair value. We test the goodwill balances allocated to our reporting units for impairment on an annual basis and if events occur or circumstances change that indicate that the fair value of one or more of our reporting units may be below its carrying amount. A decline in the quoted market price of our stock could denote a triggering event indicating that goodwill may be impaired. When testing goodwill for impairment, we determine fair value using an income approach based on the present value of expected future cash flows utilizing a market-based weighted average cost of capital. Given that market prices of our reporting units are not readily available, we make various estimates and assumptions in determining the fair value of the reporting units, including estimating revenue growth rates, operating margins, capital expenditures, working capital requirements, tax rates, terminal growth rates and an appropriate discount rate. We corroborate the reporting units' valuation using a market approach based on earnings multiple data and a reconciliation of the aggregated fair value of the reporting units to our market capitalization, including consideration of a control premium. Fair value determinations require considerable judgment and are sensitive to inherent uncertainties and changes in the estimates and assumptions described above. A further deterioration of market and economic conditions, or a sustained decline in our market capitalization, could significantly impact our goodwill impairment analysis and may result in an impairment charge, which could have a material adverse effect on our financial condition and results of operations. See Critical Accounting Policies and Estimates in Part II, Item 7 of this report.

Our restructuring initiatives may not achieve the expected cost reductions

In August 2012, we announced and began implementing restructuring initiatives designed to extract greater synergies from the significant acquisitions and technology investments made in fiscal 2011, achieve further integration between our Metals Recycling Business and Auto Parts Business, realign our organization to support future growth and decrease operating expenses by streamlining functions and reducing organizational layers. These initiatives are expected to lower annual operating costs by $25 million and be substantially complete by the end of fiscal 2013. Our ability to achieve the anticipated cost savings and other benefits from these initiatives within the expected time frame is subject to many estimates and assumptions. These estimates and assumptions are subject to significant economic, competitive and other uncertainties, some of which are beyond our control. We have incurred in the fourth quarter of fiscal 2012, and will continue to incur in the near term, restructuring charges as a result of these activities. Failure to achieve the expected cost reductions related to these restructuring initiatives could have a material adverse effect on our business and results of operations.

Uncertain economic conditions may cause customers to be unable to fulfill their contractual obligations

We enter into export ferrous sales contracts preceded by negotiations that include fixing price, quantity, shipping terms and other contractual terms. Upon finalization of these terms and satisfactory completion of other contractual contingencies, the customer typically opens a letter of credit to satisfy its obligation under the contract prior to our shipment of the cargo. Although not considered normal course of business, during uncertain economic conditions, we are at risk on consummating the transaction until the customer successfully opens the letter of credit. Customers may not be able to fulfill their contractual obligations or open letters of credit in times of illiquid market conditions. As of August 31, 2012 and 2011, 28% and 44%, respectively, of our trade accounts receivable balance was covered by letters of credit.

Increases in the value of the U.S. dollar relative to other currencies may reduce the demand for our products

A significant portion of MRB’s revenues and operating income earned is generated from sales to foreign customers, which are denominated in U.S. dollars, including customers located in Asia, Africa and Europe. A strong U.S. dollar would make our products

Table of Contents

more expensive for non-U.S. customers, which could negatively impact export sales. A strong U.S. dollar would also make imported metal products less expensive, resulting in an increase in imports of steel products into the U.S. As a result, our finished steel products, which are made in the U.S., may become more expensive for our U.S. customers relative to imported steel products.

We are exposed to translation and transaction risks associated with fluctuations in foreign currency exchange rates. Hedging instruments may not be effective in mitigating such risks and may expose us to losses or limit our potential gains

Our operations in Canada expose us to translation and transaction risks associated with fluctuations in foreign currency exchange rates as compared to the U.S. dollar, our reporting currency. As a result, we are subject to foreign currency exchange risks due to exchange rate movements in connection with the translation of the operating costs and the assets and liabilities of our foreign operations into our functional currency for inclusion in our Consolidated Financial Statements.

We are also exposed to foreign currency exchange transaction risk. As part of our risk management program, we may use financial instruments, including foreign currency exchange forward contracts. While intended to reduce the effects of fluctuations in foreign currency exchange rates, these instruments may not be effective in reducing all risks related to such fluctuations and may limit our potential gains or expose us to losses. Although we do not enter into these instruments for trading purposes or speculation, and our management believes all such instruments are entered into as hedges of underlying physical transactions, these instruments are dependent on timely performance by our counterparties. Should our counterparties to such instruments or the sponsors of the exchanges through which these transactions are offered fail to honor their obligations due to financial distress or otherwise, we would be exposed to potential losses or the inability to recover anticipated gains from the transactions covered by these instruments.

Potential limitations on our ability to access capital resources may restrict our ability to operate or execute our growth strategy

Our operations are capital intensive. Our business also requires substantial expenditures for routine maintenance. While we expect that our cash requirements, including the funding of capital expenditures, debt service, dividends, share repurchases and any contingencies, will be financed by internally generated funds or from borrowings under our unsecured committed bank credit facility, there can be no assurance that this will be the case. Additional acquisitions could require financing from external sources.

Although we believe we have adequate access to contractually committed borrowings, we could be adversely affected if our banks refused to honor their contractual commitments or ceased lending. While we believe the lending institutions participating in our credit arrangements are financially capable, recent events in the global credit markets, including the failure, takeover or rescue by various government entities of major financial institutions, have created uncertainty of credit availability to an extent not experienced in recent decades. Failure to access our credit facilities could restrict our ability to fund operations, make capital expenditures or execute acquisitions.

The agreement governing our bank credit facility imposes certain restrictions on our business and contains financial covenants

Our unsecured committed bank credit agreement contains certain restrictions on our business, including our ability to create liens, enter into transactions with affiliates, acquire and dispose of businesses, guarantee debt, and consolidate or merge. These restrictions may affect our ability to operate our business or execute our growth strategy and may limit our ability to take advantage of potential business opportunities as they arise. Our bank credit agreement also requires that we maintain certain financial and other covenants, including a minimum fixed charge coverage ratio and a maximum leverage ratio. Our ability to comply with these covenants may be affected by events beyond our control, including prevailing economic, financial and industry conditions. Our failure to comply with any of these restrictions or financial covenants could result in an event of default under the bank credit agreement, and permit our lenders to cease lending to us and declare all amounts borrowed from them to be due and payable, together with accrued and unpaid interest. This could require us to refinance our bank credit agreement, which we may not be able to do at terms acceptable to us, or at all.

Consolidation in the steel industry may reduce demand for our products

There has been a significant amount of consolidation in the steel industry in recent years that has included steel mills acquiring steel fabricators to ensure demand for their products. If any of SMB's significant remaining customers were to be acquired by competing steel mills, this could reduce the demand for our products and force us to lower our prices, reducing our revenues, or to reduce production, which could increase our unit costs and have a material adverse effect on our financial condition and results of operations.

Increases in imports of foreign steel into the U.S. may reduce domestic demand for our products

Economic expansion in China and other foreign countries has affected the availability, and increased the price volatility, of recycled metal and steel products. Expansions and contractions in these economies can significantly affect the price of commodities used and sold by our business, as well as the price of finished steel products. Additionally, in a number of foreign countries, such as China, steel producers are generally government-owned and may therefore make production decisions based on political or other

Table of Contents

factors that do not reflect market conditions. Disruptions in foreign markets from excess steel production may encourage importers to target the U.S. with excess capacity at aggressive prices, and existing trade laws and regulations may be inadequate to prevent unfair trade practices, which could have a material adverse effect on our financial condition and results of operations. Although trade regulations restrict the importation of certain products, if foreign steel production significantly exceeds consumption in those countries, imports of steel products into the U.S. could increase, resulting in lower volumes and selling prices for SMB's steel products.

Failure to realize expected benefits from investments in processing and manufacturing technology may impact our operating results and cash flows

We make significant investments in processing and manufacturing technology improvements aimed at increasing the efficiency and capabilities of our businesses and to maximize our economies of scale. Failure to realize the anticipated benefits and generate adequate returns on such capital improvement projects may have a material adverse effect on our results of operations and cash flows.

Reliance on third party shipping companies may restrict our ability to ship our products

MRB and SMB generally rely on third parties to handle and transport raw materials to their production facilities and products to customers. Despite our practice of utilizing a diversified group of suppliers of transportation, due to factors beyond our control, including changes in fuel prices, political events, governmental regulation of transportation, changes in market rates, carrier availability and disruptions in transportation infrastructure, third party shipping companies may be forced to increase their charges for transportation services or otherwise reduce the availability of their vehicles or ships, and thus we may not be able to transport our products in a timely and cost-effective manner, which could have a material adverse effect on our financial condition and results of operations and may harm our reputation.

Product liability claims may adversely impact our operating results

We could inadvertently acquire radioactive scrap metal that could potentially end up in mixed scrap metal shipped to consumers worldwide. Although we have invested in radiation detection equipment in the majority of our locations, including the facilities from which we ship directly to customers, failure to detect radioactive scrap metal remains a possibility. Even though we maintain insurance to address the risk of this failure in detection, there can be no assurance that the insurance coverage would be adequate or will continue to be available on acceptable terms. In addition, if we fail to meet contractual requirements for a product, we may be subject to product warranty costs and claims. These costs and claims could both have a material adverse effect on our financial condition and results of operations and harm our reputation.

Risk Factors Relating to the Regulatory Environment

Environmental regulations may cause us to incur significant compliance costs

Compliance with environmental laws and regulations is a significant factor in our business. We are subject to local, state and federal environmental laws and regulations in the U.S. and other countries relating to, among other matters:

- Waste disposal;
- Air emissions;
- Waste water and storm water management and treatment;
- Soil and groundwater contamination remediation;
- Global climate change;
- The discharge, storage, handling and disposal of hazardous materials; and
- Employee health and safety.

We are also required to obtain environmental permits from governmental authorities for certain operations. Violation of or failure to obtain permits or comply with these laws or regulations could result in our business being fined or otherwise sanctioned by regulators or becoming subject to litigation by private parties. Our operations use, handle and generate hazardous substances. In addition, previous operations by others at facilities that we currently or formerly owned, operated or otherwise used may have caused contamination from hazardous substances. As a result, we are exposed to possible claims under environmental laws and regulations, especially for the remediation of waterways and soil or groundwater contamination. These laws can impose liability for the cleanup of hazardous substances even if the owner or operator was neither aware of nor responsible for the release of the hazardous substances. We have, in the past, been found not to be in compliance with certain of these laws and regulations, and have incurred liabilities, expenditures, fines and penalties associated with such violations. Although we believe that we are currently in material compliance with all applicable environmental laws and regulations, future environmental compliance costs may increase because of new laws and regulations, changing interpretations and stricter enforcement of current regulations by regulatory authorities, uncertainty regarding adequate pollution control levels, the future costs of pollution control technology and issues related to global climate change. Further, the level of activity by regulatory authorities and non-governmental organizations has increased in recent years. Environmental compliance costs and potential environmental liabilities could have a material adverse effect on our financial condition and results of operations. See the risk factor "Potential costs related to the environmental cleanup of Portland Harbor may be material to our financial position and liquidity" in this Item 1A.

Climate change may adversely impact our facilities and our ongoing operations

The potential physical impacts of climate change on our operations are highly uncertain and will be particular to the geographic circumstances. These may include rising sea levels at our deep water port facilities, changing storm patterns and intensities, and changing temperature levels. As many of our recycling facilities are located near deep water ports, rising sea levels may disrupt our ability to receive scrap metal, process the scrap metal through our mega-shredders and ship products to our customers. Periods of extended adverse weather conditions may inhibit the supply of scrap metal to MRB and SMB and end-of-life vehicles to APB which could cause us to fail to meet our sales commitments. In addition, sustained periods of increased temperature levels in the summer in areas where our APB operations are located could result in less customer traffic, thus resulting in reduced admissions and parts sales.

Governmental agencies may refuse to grant or renew our licenses and permits, thus restricting our ability to operate

We conduct certain of our operations subject to licenses, permits and approvals from state and local governments. Governmental agencies often resist the establishment of certain types of facilities in their communities, including auto parts facilities. In addition, from time to time, both the U.S. and foreign governments impose regulations and restrictions on trade in the markets in which we operate. In some countries, governments can require us to apply for certificates or registration before allowing shipment of recycled metal to customers in those countries. There can be no assurance that future approvals, licenses and permits will be granted or that we will be able to maintain and renew the approvals, licenses and permits we currently hold. Failure to obtain these approvals could cause us to limit or discontinue operations in these locations or prevent us from developing or acquiring new facilities, which could have a material adverse effect on our financial condition and results of operations.

Compliance with existing and new greenhouse gas emission regulations may adversely impact our operating results

Increased regulation regarding climate change and GHG emissions could impose significant costs on our business and our customers and suppliers, including increased energy, capital equipment, environmental monitoring and reporting and other costs in order to comply with regulations concerning and limitations imposed on climate change and GHG emissions. The potential costs of allowances, offsets or credits that may be part of "cap and trade" programs or similar future regulatory measures are still uncertain. Any adopted future climate change and GHG regulations could negatively impact our ability (and that of our customers and suppliers) to compete with companies situated in areas not subject to such limitations. Until the timing, scope and extent of any future regulation becomes known, we cannot predict the effect on our financial condition, operating performance or ability to compete. Furthermore, even without such regulation, increased awareness and any adverse publicity in the global marketplace about the GHGs emitted by companies in the metal recycling and steel manufacturing industries could harm our reputation and reduce customer demand for our products. See "Business - Environmental Matters" in Part I, Item 1 of this report for further detail.

Risk Factors Relating to Our Employees

Reliance on employees subject to collective bargaining may restrict our ability to operate

Approximately 23% of our full-time employees are represented by unions under collective bargaining agreements, including substantially all of the manufacturing employees at our SMB steel manufacturing facility. As these agreements expire, we may not be able to negotiate extensions or replacements of such agreements on acceptable terms. Any failure to reach an agreement with one or more of our unions may result in strikes, lockouts or other labor actions, including work slowdowns or stoppages, which could have a material adverse effect on our results of operations.

The underfunded status of our multiemployer pension plans may cause us to increase our contributions to the plans

As discussed in Note 15 – Employee Benefits in the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report, we have been notified that the Steelworkers Western Independent Shops Pension Plan ("WISPP"), a multiemployer plan benefiting union employees of SMB, has an accumulated funding deficiency (i.e. a failure to satisfy the minimum funding requirements) and is in a certified Red Zone Status as defined by the Pension Protection

Act of 2006 as of the plan's year-end of September 30, 2011. Because the WISPP is in Red Zone Status, it is required to adopt a rehabilitation plan, which may involve contribution increases, benefit reductions or a combination of the two. At this time, we are not required to make surcharge payments as we are already signatory to an agreement that requires annual six percent contribution increases. Because we have no current intention of withdrawing from the WISPP, we have not recognized a withdrawal liability in our consolidated financial statements. However, if such a liability were triggered, it could have a material adverse effect on our results of operations, financial position, liquidity and cash flows. Our contributions to the WISPP could also increase as a result of a diminished contribution base due to the insolvency or withdrawal of other employers who currently contribute to it, the inability or failure of withdrawing employers to pay their withdrawal liability or other funding deficiencies, as we would need to fund the retirement obligations of these employers.

Table of Contents

In 2004, the Internal Revenue Service ("IRS") approved a seven-year extension of the period over which the WISPP may amortize unfunded liabilities, conditioned upon maintenance of certain minimum funding levels. Based on the actuarial valuation for the WISPP as of October 1, 2011, the funded percentage (based on the ratio of the market value of assets to the accumulated benefits liability (present value of accrued benefits) using the valuation method prescribed by the IRS) was 65.2%, which is below the targeted funding ratio specified in the agreement with the IRS. As a result, the WISPP is in the process of seeking relief from the specified funding requirement from the IRS. If the WISPP cannot obtain relief, revocation by the IRS of the amortization extension retroactively to the 2002 plan year could occur and result in a material liability for the Company's share of the resulting funding deficiency, the extent of which currently cannot be estimated.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

Table of Contents

ITEM 2. PROPERTIES

Our facilities and administrative offices by type, including their total acreage, were as follows as of August 31, 2012:

Division	No. of Facilities	Acreage Leased	Owned	Total
Corporate offices – Domestic	2	1	—	1
Metals Recycling Business:				
Domestic:				
Collection and processing	42	49	713	762
Collection	6	2	28	30
Inactive	7	5	11	16
Foreign:(2)				
Collection and processing	4	36	4	40
Collection	5	30	5	35
Inactive	2	12	—	12
Other	1	12	—	12
Auto Parts Business:				
Domestic:(1)				
Administrative offices and other	3	5	1	6
Stores	48	615	106	721
Inactive	2	—	15	15
Foreign stores(2)	3	46	—	46
Steel Manufacturing Business:				
Domestic:				
Steel mill and administrative offices	2	—	85	85
Inactive	1	—	51	51
Total company:				
Domestic	113	677	1,010	1,687
Foreign(2)	15	136	9	145
Total(3)	128	813	1,019	1,832

(1) We jointly own 36 acres in California at three of our sites with minority interest partners.

(2) All foreign facilities are located in Canada.

(3) For long-lived assets by geography, see Note 21 – Segment Information in the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report.

We consider all properties, both owned and leased, to be well-maintained, in good operating condition and suitable and adequate to carry on our business.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are involved in various litigation matters that arise in the ordinary course of business involving normal and routine claims, including environmental compliance matters. Except in connection with our status as a potentially responsible party with respect to the Portland Harbor Superfund Site, which is described in Note 11 – Commitments and Contingencies in the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report and is incorporated into this item, management currently believes that the ultimate outcome of these proceedings, individually or in the aggregate, will not have a material adverse effect on our consolidated financial position, results of operations, cash flows or business.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

Information about our executive officers is incorporated by reference from Part III, Item 10 of this annual report.

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Class A common stock is listed on the NASDAQ Global Select Market ("NASDAQ") under the symbol SCHN. There were 196 holders of record of Class A common stock on October 19, 2012. Our Class A common stock has been trading since November 16, 1993. The following table sets forth the high and low trading stock prices reported on NASDAQ and the dividends paid per share for the periods indicated.

	Fiscal 2012		
	High Price	Low Price	Dividends Per Share
First Quarter	$51.98	$32.82	$0.017
Second Quarter	$49.35	$40.85	$0.017
Third Quarter	$46.67	$25.59	$0.188
Fourth Quarter	$33.03	$22.78	$0.188
	Fiscal 2011		
	High Price	Low Price	Dividends Per Share
First Quarter	$58.00	$45.21	$0.017
Second Quarter	$69.43	$58.00	$0.017
Third Quarter	$67.14	$54.32	$0.017
Fourth Quarter	$59.41	$38.49	$0.017

Our Class B common stock is not publicly traded. There were 16 holders of record of Class B common stock on October 19, 2012.

Issuer Purchases of Equity Securities

Pursuant to a share repurchase program as amended in 2001 and 2006, we were authorized to repurchase up to 6 million shares of our Class A common stock when management deems such repurchases to be appropriate. In November 2008, our Board of Directors approved an increase in the shares authorized for repurchase by 3 million, to 9 million. Prior to fiscal 2012, we had repurchased approximately 5.8 million shares of our Class A common stock under the program. In fiscal 2012, we repurchased 1.1 million shares of our Class A common stock under this program, leaving approximately 2.1 million shares available for repurchase under existing authorizations.

The share repurchase program does not require us to acquire any specific number of shares, and we may suspend, extend or terminate the program at any time without prior notice and the program may be executed through open-market purchases, privately negotiated transactions or utilizing Rule 10(b)5-1 programs. We evaluate long- and short-range forecasts as well as anticipated sources and uses of cash before determining the course of action that would best enhance shareholder value.

During the fourth quarter of fiscal 2012, we repurchased 630,496 shares of our Class A common stock in open-market transactions at a cost of $18 million. The table below presents a summary of our share repurchases during the quarter ended August 31, 2012:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that may yet be Purchased Under the Plans or Programs
June 1, 2012 – June 30, 2012	130,400	$27.72	130,400	2,572,981
July 1, 2012 – July 31, 2012	500,096	$29.66	500,096	2,072,885
August 1, 2012 – August 31, 2012	—	—	—	2,072,885
Total Fourth Quarter	630,496		630,496	

Table of Contents

Performance Graph

The following graph and related information compares cumulative total shareholder return on our Class A common stock for the five-year period from September 1, 2007 through August 31, 2012, with the cumulative total return for the same period of (i) the S&P 500 Index, (ii) the S&P Steel Index and (iii) the NASDAQ Composite Index. These comparisons assume an investment of $100 at the commencement of the period and that all dividends are reinvested. The stock performance outlined in the performance graph below is not necessarily indicative of our future performance, and we do not endorse any predictions as to future stock performance.

	Year Ended August 31,					
	2007	2008	2009	2010	2011	2012
Schnitzer Steel Industries[1]	$100	$117	$93	$76	$78	$48
S&P 500	100	89	73	76	90	107
S&P Steel Index	100	101	60	61	65	47
NASDAQ	100	92	79	84	103	124

(1) Because we operate in three distinct but related businesses, we have no direct market peer issuers.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

	Year Ended August 31, 2012	2011	2010	2009	2008
STATEMENT OF OPERATIONS DATA:					
(in thousands, except per share and dividend data)					
Revenues	$3,340,938	$3,459,194	$2,301,240	$1,787,230	$3,516,950
Operating income (loss)	$53,668	$185,964	$125,897	$(51,124)	$403,235
Income (loss) from continuing operations	$28,917	$123,637	$84,508	$(27,149)	$254,653
Loss from discontinued operations, net of tax[(1)]	$—	$(101)	$(13,832)	$(4,214)	$(613)
Net income (loss) attributable to SSI	$27,404	$118,355	$66,750	$(32,229)	$248,683
Income (loss) per share from continuing operations attributable to SSI (diluted)	$0.99	$4.24	$2.86	$(0.99)	$8.63
Net income (loss) per share attributable to SSI (diluted)	$0.99	$4.23	$2.37	$(1.14)	$8.61
Dividends declared per common share	$0.410	$0.068	$0.068	$0.068	$0.068
OTHER DATA:					
Shipments (in thousands)[(2)]:					
Recycled ferrous metal (tons)[(3)]	5,115	5,329	4,231	4,189	4,753
Recycled nonferrous metal (pounds)	628,652	568,560	478,486	397,056	439,470
Finished steel products (tons)	447	439	444	381	776
Average net selling price[(2)(4)]:					
Recycled ferrous metal (per ton)	$415	$416	$328	$264	$436
Recycled nonferrous metal (per pound)	$0.94	$1.06	$0.83	$0.61	$1.03
Finished steel products (per ton)	$715	$697	$587	$617	$728
Number of auto parts stores[(1)]	51	50	45	39	38
Cars purchased by APB (in thousands)	339	353	329	258	311

	August 31, 2012	2011	2010	2009	2008
BALANCE SHEET DATA (in thousands):					
Total assets	$1,763,573	$1,890,169	$1,343,418	$1,268,233	$1,554,853
Long-term debt, net of current maturities	$334,629	$403,287	$99,240	$110,414	$158,933
Redeemable noncontrolling interest	$22,248	$19,053	—	—	—

(1) In fiscal 2010, the Company sold its full-service used auto parts operation, which had been operated as part of the Auto Parts Business reporting segment. The Company concluded that the divestiture met the definition of a discontinued operation. Accordingly, the results of this discontinued operation have been removed from other data for all periods presented.

(2) Tons for recycled ferrous metal are long tons (2,240 pounds) and for finished steel products are short tons (2,000 pounds).

(3) In fiscal 2008 the Schnitzer Global Exchange trading business accounted for shipments of recycled ferrous metal of 444 thousand tons which are not included in the processed ferrous metal amounts presented.

(4) In accordance with generally accepted accounting principles, the Company reports revenues that include amounts billed for freight to customers, however, average net selling prices are shown net of amounts billed for freight.

Table of Contents

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This section includes a discussion of our operations for the three years ended August 31, 2012, 2011 and 2010. The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of our results of operations and financial condition. The discussion should be read in conjunction with the Consolidated Financial Statements and the related notes thereto in Part II, Item 8 of this report and the Selected Financial Data contained in Part II, Item 6 of this report.

Business

We are 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.

We operate in three reporting segments: the Metals Recycling Business ("MRB"), the Auto Parts Business ("APB") and the Steel Manufacturing Business ("SMB") which collectively provide an end-of-life cycle solution for a variety of products through our integrated businesses. We use operating income (loss) to measure our segment performance. Restructuring charges are not allocated to the segment operating income (loss) because we do not include this information in our measurement of the segments' performance. Corporate expense consists primarily of unallocated expense for management and administrative services that benefit all three reporting segments. As a result of this unallocated expense, the operating income (loss) of each reporting segment does not reflect the operating income (loss) the reporting segment would report as a stand-alone business. For further information regarding our reporting segments, including financial information about geographic areas, see Note 21 – Segment Information in the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report.

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 crushing, sorting, shearing, shredding and torching, resulting in scrap metal pieces of a size, density and metal content required by customers to meet their production needs.

APB procures used and salvaged vehicles and sells serviceable used auto parts from these vehicles through its self-service auto parts stores. The remaining portions of the vehicles, primarily autobodies and major parts containing ferrous and nonferrous materials, are sold to metal recyclers, including MRB where geographically feasible.

SMB operates a steel mini-mill that produces a wide range of finished steel products. MRB is the sole supplier for SMB's scrap metal requirements, which SMB purchases at rates that approximate export market prices for shipments from the West Coast of the U.S. SMB uses its mini-mill near Portland, Oregon to melt recycled metal and other raw materials to produce finished steel products. SMB also maintains a mill depot in Southern California.

Our results of operations depend in large part on the demand and prices for recycled metal in foreign and domestic markets and on the supply of raw materials, including end-of-life vehicles, available to be processed at our facilities. Our deep water port facilities on both the East and West Coasts of the U.S. (in Everett, Massachusetts; Providence, Rhode Island; Oakland, California; Portland, Oregon; and Tacoma, Washington) and access to public deep water port facilities (in Kapolei, Hawaii and Salinas, Puerto Rico) allow us to efficiently meet the global demand for ferrous recycled metal by shipping bulk cargoes to steel manufacturers located in Europe, Asia, Central America and Africa. Our exports of nonferrous processed recycled metal are shipped in containers through various public docks to specialty steelmakers, foundries, aluminum sheet and ingot manufacturers, copper refineries and smelters, brass and bronze ingot manufacturers and wire and cable producers globally. We also transport both ferrous and nonferrous metals by truck and rail in order to transfer scrap metal between our facilities for further processing, to load shipments at our export facilities and to meet regional domestic demand.

Key economic factors and trends affecting the industries in which we operate

We sell recycled metals to the global steel industry for the production of finished steel. Our financial results largely depend on supply of raw materials in the U.S. and demand for recycled metal in foreign and domestic markets and for finished steel products in the Western U.S. Fluctuating or volatile supply and demand conditions affect market prices for and volumes of recycled ferrous and nonferrous metal in global markets and for steel products in the Western U.S.

and can have a significant impact on the results of operations for all three reporting segments.
In fiscal 2012, our markets were significantly impacted by the European sovereign debt crisis which escalated in the fall of 2011 and led to a slowdown of economic activity globally. Macroeconomic uncertainty resulted in deteriorating market conditions for global steel manufacturers and volatile pricing swings with an overall downward trend in commodity prices and export selling prices of recycled materials. The persistently low economic growth in the U.S. contributed to increasing market pressure on scrap flows in our MRB and APB domestic supply markets and margin compression. In addition, a relatively stronger U.S. dollar value increased competitive pressure on MRB's export activity.

Table of Contents

Strategic Factors

As we continue to closely monitor economic conditions, we remain focused on the following core strategies to meet our business objectives:

- Use of our seven deep water ports to access customers directly around the world and to meet demand wherever it is greatest;
- Growth through acquisitions in existing and new geographic regions that generate attractive returns;
- Continued investment in and benefit from technologies and process improvements which increase the separation and recovery of recycled materials from our shredding process; and
- Increased internal synergies and continuous improvement initiatives which further integrate our operations, streamline corporate functions, reduce organizational layers and drive significant cost savings.

We highly value the strategic synergies within our integrated operations. APB is a key supplier to MRB, and we opportunistically look to enhance the geographic proximity of operations within the two businesses. In fiscal 2011, we acquired substantially all of the assets of two metals recycling businesses in Canada, with a total of twelve metals collection and processing facilities, which marked MRB’s first expansion into Canada. In fiscal 2012, we acquired substantially all of the assets of an additional metals recycling business in Canada. APB has three facilities in Western Canada that are able to supply these new MRB facilities in addition to shipping to our Tacoma, WA metals recycling facility. Also in fiscal 2011, we acquired substantially all of the assets of a used auto parts business with three stores in Seattle, WA, expanding APB’s presence in the Northwestern U.S. MRB has an export facility in Tacoma, WA, which benefits from the synergies of this enhanced access to supply. Both MRB and APB also have a significant presence in Northern California, and during fiscal 2012 we implemented further enhancements to the synergies between these businesses by integrating certain operational processes.

Executive Overview of Financial Results

We generated revenues of $3.3 billion in fiscal 2012, a decrease of 3% from the $3.5 billion of consolidated revenues in the prior year. The decrease was primarily due to lower volumes of ferrous sales as a result of soft global demand for recycled metal and constrained supply of raw materials.

Operating income for fiscal 2012 decreased by $132 million, or 71%, to $54 million, including restructuring charges of $5 million, when compared with the prior year due to the deterioration in market conditions caused mainly by the escalation in the European sovereign debt crisis in the fall of 2011. This led to a slowdown of economic activity and resulted in weakening global demand and periods of volatile prices with an overall downward trend in export selling prices for recycled metals. This, combined with the constrained supply of raw materials and the adverse effect of average inventory costing on cost of goods sold during periods of sharp declines in selling prices that occurred in fiscal 2012, led to a compression in operating margins. This contrasted with the prior fiscal year, which benefited from a stronger market environment and rising prices for recycled metals.

Net income attributable to SSI decreased by $91 million, or 77%, to $27 million when compared with the prior year. Diluted net income attributable to SSI was $0.99 per share for fiscal 2012, including the adverse effect of $0.12 per share related to restructuring charges, compared to diluted net income attributable to SSI of $4.23 per share in fiscal 2011.

The following items summarize our consolidated financial performance for fiscal 2012:

Table of Contents

- Revenues of $3.3 billion, compared to $3.5 billion in the prior year;
- Operating income of $54 million, compared to $186 million in the prior year; and
- Adjusted net income attributable to SSI of $31 million, or $1.11 per diluted share, excluding restructuring charges, net of taxes, of $3 million or $0.12 per diluted share, compared to $118 million, or $4.23 per diluted share, in the prior year (see the reconciliation of Adjusted net income attributable to SSI in Non-GAAP Financial Measures at the end of Item 7).

The following items summarize our consolidated cash flow and balance sheet information for fiscal 2012:

- Net cash provided by operating activities of $245 million, compared to $140 million in the prior year;
- Debt, net of cash, of $245 million, compared to $354 million as of the prior year-end (see the reconciliation of Debt, net of cash, in Non-GAAP Financial Measures at the end of Item 7);
- Dividends of $11 million compared to $2 million in the prior year; and
- Repurchases of outstanding shares of our Class A common stock of $33 million, compared to $10 million in the prior year.

The following items highlight the financial results for our operating segments for the year ended August 31, 2012:

- MRB revenues and operating income of $2.9 billion and $64 million, respectively, compared to $3.1 billion and $165 million for the year ended August 31, 2011, respectively;
- APB revenues and operating income of $317 million and $33 million, respectively, compared to $320 million and $64 million for the year ended August 31, 2011, respectively; and
- SMB revenues and operating loss of $333 million and $2 million, respectively, compared to $317 million and operating income of $3 million for the year ended August 31, 2011, respectively.

Table of Contents

Results of Operations

($ in thousands)	For the Year Ended August 31, 2012	2011	2010	% Increase/(Decrease) 2012 vs 2011	2011 vs 2010
Revenues:					
Metals Recycling Business	$2,948,707	$3,070,004	$1,979,770	(4)%	55%
Auto Parts Business	316,884	319,833	241,233	(1)%	33%
Steel Manufacturing Business	333,227	317,483	285,085	5%	11%
Intercompany revenue eliminations(1)	(257,880)	(248,126)	(204,848)	4%	21%
Total revenues	3,340,938	3,459,194	2,301,240	(3)%	50%
Cost of goods sold:					
Metals Recycling Business	2,780,844	2,810,128	1,791,221	(1)%	57%
Auto Parts Business	228,784	203,094	147,511	13%	38%
Steel Manufacturing Business	328,900	308,319	284,258	7%	8%
Intercompany cost of goods sold eliminations(1)	(258,812)	(249,376)	(203,226)	4%	23%
Total cost of goods sold	3,079,716	3,072,165	2,019,764	—%	52%
Selling, general and administrative expense:					
Metals Recycling Business	106,462	99,979	73,176	6%	37%
Auto Parts Business	54,796	52,712	42,626	4%	24%
Steel Manufacturing Business	6,408	6,602	6,689	(3)%	(1)%
Corporate(2)	37,512	46,394	36,223	(19)%	28%
Total SG&A expense	205,178	205,687	158,714	—%	30%
Income from joint ventures:					
Metals Recycling Business	(2,471)	(4,749)	(3,076)	(48)%	54%
Change in intercompany profit elimination(3)	(165)	127	(59)	NM	NM
Total income from joint ventures	(2,636)	(4,622)	(3,135)	(43)%	47%
Operating income (loss):					
Metals Recycling Business	63,872	164,646	118,449	(61)%	39%
Auto Parts Business	33,304	64,027	51,096	(48)%	25%
Steel Manufacturing Business	(2,081)	2,562	(5,862)	NM	NM
Segment operating income	95,095	231,235	163,683	(59)%	41%
Restructuring charges(4)	(5,012)	—	—	NM	NM
Corporate expense(2)	(37,512)	(46,394)	(36,223)	(19)%	28%
Change in intercompany profit elimination(5)	1,097	1,123	(1,563)	(2)%	NM
Total operating income	$53,668	$185,964	$125,897	(71)%	48%

NM = Not Meaningful

(1) MRB sells recycled ferrous metal to SMB at rates per ton that approximate West Coast U.S. export market prices. In addition, APB sells ferrous and nonferrous material to MRB. These intercompany revenues and costs of goods sold are eliminated in consolidation.

(2) Corporate expense consists primarily of unallocated expenses for services that benefit all three business segments. As a consequence of this unallocated expense, the operating income of each segment does not reflect the operating income the segment would report as a stand-alone business.

(3) The joint ventures sell recycled ferrous metal to MRB and then subsequently to SMB at rates per ton that approximate West Coast U.S. export market prices. Consequently, these intercompany revenues produce

intercompany operating income (loss), which is not recognized until the finished products are sold to third parties; therefore, intercompany profit is eliminated while the products remain in inventory.

(4) Restructuring charges consist of expense for severance, contract termination and other exit costs that management does not include in its measurement of the performance of the operating segments.

(5) Intercompany profits are not recognized until the finished products are sold to third parties; therefore, intercompany profit is eliminated while the products remain in inventory.

Table of Contents

Revenues

Fiscal 2012 compared with fiscal 2011

Consolidated revenues for fiscal 2012 decreased primarily due to lower sales volumes of ferrous scrap metal as a result of soft global demand and constrained supply of raw materials.

Fiscal 2011 compared with fiscal 2010

Consolidated revenues for fiscal 2011 increased for all reporting segments primarily due to higher average net selling prices and higher sales volumes resulting from stronger worldwide demand from export markets as well as recovering domestic demand for scrap and recycled metal, increased availability of raw materials, including improved recovery through enhanced processing technologies. Incremental revenues from third party sales generated by fiscal 2011 acquisitions were $93 million.

Operating Income

Fiscal 2012 compared with fiscal 2011

Consolidated operating income decreased primarily due to the market deterioration that began in the first quarter of fiscal 2012 caused mainly by the escalation in the European sovereign debt crisis, which, together with slowing economic growth, resulted in weakening global demand and periods of volatile prices with an overall downward trend in export selling prices for recycled metals. This, combined with the constrained supply of raw materials and the adverse effect of average inventory costing on cost of goods sold during periods of sharp declines in selling prices that occurred in fiscal 2012, led to a compression in operating margins which contrasted with the prior fiscal year, which benefited from a stronger market environment and rising prices for recycled metals.

Included in consolidated operating income for fiscal 2012 was selling, general and administrative (“SG&A”) expense of $205 million, which approximated the prior fiscal year levels. Included in SG&A expense was a decrease in incentive compensation expenses of $15 million resulting from lower financial performance, offset by higher costs primarily associated with incremental operating expenses related to fiscal 2011 acquisitions of $8 million and the absence in fiscal year 2012 of $6 million of favorable customer contract settlements recorded in fiscal 2011.

Consolidated operating income in fiscal 2012 included restructuring charges of $5 million, consisting of severance, contract termination and other exit costs in connection with initiatives designed to extract greater synergies from the significant acquisitions and technology investments made in recent years, achieve further integration between MRB and APB, realign our organization to support future growth and decrease operating expenses by streamlining functions and reducing organizational layers. These initiatives are expected to lower annual operating costs by $25 million, comprising approximately $18 million of selling, general and administrative expense and $7 million of cost of goods sold, and be substantially complete by the end of fiscal 2013. We expect that total pre-tax charges pursuant to these restructuring initiatives will be approximately $12 million. Approximately half of the remaining $7 million of total restructuring charges is expected to be incurred in the first quarter of fiscal 2013, with the balance expected to be incurred by the end of fiscal 2013. We expect that the vast majority of the restructuring charges will require us to make cash payments.

Following is a summary of the restructuring charges incurred in the fourth quarter of fiscal 2012 by major type of cost and the total charges expected to be incurred pursuant to these restructuring initiatives (in thousands):

	MRB	APB	Corporate	Total charges in Q4 2012	Total expected charges
Severance costs	$1,212	$135	$1,394	$2,741	$4,000
Contract termination costs	440	—	—	440	4,700
Other exit costs	8	98	1,725	1,831	3,100
Total	$1,660	$233	$3,119	$5,012	$11,800

We do not include restructuring charges in the measurement of the performance of our operating segments.

Fiscal 2011 compared with fiscal 2010

The increase in consolidated operating income was primarily due to higher average net selling prices and higher sales volumes as a result of continuing strong export market conditions, increased availability of raw materials, increased yield from higher production and enhanced shredding and sorting technologies, and incremental operating income from acquisitions.

Consolidated operating income reflected an increase of $47 million in consolidated selling, general and administrative (“SG&A”) expense for fiscal 2011, primarily due to an $18 million increase in compensation expenses mainly related to increased headcount from acquisitions and a $12 million increase in professional and other third party services, including transaction costs associated with acquisitions completed in fiscal 2011. In fiscal 2011, SG&A expense was reduced by $6 million for favorable customer contract settlements, compared to a reduction of $3 million in fiscal 2010. In addition, SG&A expense was lower in fiscal 2010 as it included $9 million in benefits from favorable legal settlements and environmental cost reimbursements.

Interest Expense

Interest expense was $12 million, $8 million and $2 million for fiscal 2012, 2011 and 2010, respectively. The increase from fiscal 2011 to fiscal 2012 was due to increased average borrowings primarily related to our acquisitions in fiscal 2011 and higher average interest rates under our bank credit facilities compared to the prior year. The increase from fiscal 2010 to fiscal 2011 was the result of higher outstanding debt due to acquisitions and higher average interest rates under our bank credit facilities. For more information about our outstanding debt balances, see Note 10 – Long-Term Debt in the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report.

Other Income, Net

Other income, net was $1 million, $3 million and $2 million for fiscal 2012, 2011 and 2010, respectively. Other income, net decreased in fiscal 2012 primarily due to $3 million of transaction gains recognized in the prior year relating to foreign currency forward contracts in connection with the acquisition of a business in Canada.

Income Tax Expense

Income tax expense was $14 million, $57 million and $41 million for fiscal 2012, 2011 and 2010, respectively.

Fiscal 2012 compared with fiscal 2011

Our effective tax rate for fiscal 2012 was 32.7% compared to 31.6% for fiscal 2011. In fiscal 2012, the effective tax rate differed from the U.S. federal statutory rate of 35% primarily due to state tax benefits and research and development credits, partially offset by the adverse impact of foreign subsidiaries' results taxed at different tax rates. In fiscal 2011, the effective tax rate benefited from certain adjustments recorded in the period, including a recognition of research and development credits, a reduction in a reserve for unrecognized state income tax benefits and the correction of a prior period error that resulted in an increase to net income of $3 million.

Fiscal 2011 compared with fiscal 2010

Our effective tax rate for fiscal 2011 was 31.6% compared to 32.6% for fiscal 2010. The effective tax rate differed from the U.S. federal statutory rate of 35%, primarily due to the lower tax rate for foreign income and domestic production activities deductions. The fiscal 2011 effective tax rate also benefited from certain adjustments recorded in the period, including a recognition of research and development credits and a reduction in a reserve for unrecognized state income tax benefits. In addition, during the fourth quarter of fiscal 2011, we recorded an adjustment to correct an error that originated in a prior period pertaining to deferred tax liabilities related to our investment in a subsidiary. The correction of this error resulted in a reduction of income tax expense and an increase to net income of $3 million for the year ended August 31, 2011. See Note 18 - Income Taxes in the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report for further discussion.

Table of Contents

Financial results by reporting segment

We operate our business across three reporting segments: MRB, APB and SMB. Additional financial information relating to these reporting segments is contained in Note 21 – Segment Information in the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report.

Metals Recycling Business

	For the Year Ended August 31,			% Increase/(Decrease)	
($ in thousands, except for prices)	2012	2011	2010	2012 vs 2011	2011 vs 2010
Ferrous revenues	$2,297,580	$2,425,488	$1,558,664	(5)%	56%
Nonferrous revenues	614,467	619,640	412,927	(1)%	50%
Other	36,660	24,876	8,179	47%	204%
Total segment revenues	2,948,707	3,070,004	1,979,770	(4)%	55%
Cost of goods sold	2,780,844	2,810,128	1,791,221	(1)%	57%
Selling, general and administrative expense	106,462	99,979	73,176	6%	37%
Income from joint ventures	(2,471)	(4,749)	(3,076)	(48)%	54%
Segment operating income	$63,872	$164,646	$118,449	(61)%	39%
Average ferrous recycled metal sales prices ($/LT):(1)					
Steel Manufacturing Business	$419	$412	$339	2%	22%
Other domestic	$398	$389	$311	2%	25%
Foreign	$417	$421	$330	(1)%	28%
Average	$415	$416	$328	—%	27%
Ferrous sales volume (LT, in thousands):					
Steel Manufacturing Business	431	404	458	7%	(12)%
Other domestic	756	689	651	10%	6%
Total domestic	1,187	1,093	1,109	9%	(1)%
Foreign	3,928	4,236	3,122	(7)%	36%
Total ferrous sales volume (LT, in thousands)	5,115	5,329	4,231	(4)%	26%
Average nonferrous sales price ($/pound)(1)	$0.94	$1.06	$0.83	(11)%	28%
Nonferrous sales volumes (pounds, in thousands)	628,652	568,560	478,486	11%	19%
Outbound freight included in cost of goods sold (in thousands)	$196,924	$225,747	$187,454	(13)%	20%

LT = Long Ton, which is 2,240 pounds

(1) Price information is shown after netting the cost of freight incurred to deliver the product to the customer.

Fiscal 2012 compared with fiscal 2011

Revenues

The decrease in ferrous revenues was primarily due to lower sales volumes due to soft global demand and constrained supply of raw materials. Ferrous sales volumes decreased 214 thousand long tons, or 4%, to 5,115 thousand long tons compared to the prior year. Despite sharp but temporary periods of pricing declines that occurred in the first and third quarters of fiscal 2012, average net selling prices decreased $1 per long ton, or less than 1%, to $415 per long ton compared to the prior year, with a decrease in export prices being substantially offset by an increase in domestic prices.

The decrease in nonferrous revenues was driven by a decrease in average net selling prices as a result of weak market conditions. In fiscal 2012, average net selling prices decreased $0.12 per pound, or 11%, to $0.94 per pound compared to the prior year. This was partially offset by an increase in nonferrous sales volumes of 60 million pounds, or 11%, including higher nonferrous sales activity and the impact of improved recovery of nonferrous materials processed through our enhanced processing technologies.

Segment Operating Income

Operating income for fiscal 2012 decreased by $101 million, or 61%, compared to the prior year primarily as a result of the significant market deterioration that began in the first quarter of fiscal 2012 caused mainly by the escalation in the European sovereign debt crisis, which resulted in weakening global demand and volatile pricing trends. During fiscal 2012 global selling prices for recycled metals experienced periods of sharp declines and while selling prices subsequently recovered to a certain extent from their lows, the overall selling price environment remained on a downward trend due to softening global demand. This, combined with the constrained supply of raw materials and the adverse effect of average inventory costing on cost of goods sold during periods of sharp declines in selling prices that occurred in fiscal 2012, led to a compression in operating margins which contrasted with the prior fiscal year, which benefited from a stronger market environment and rising prices for recycled metals.

In addition, operating income for fiscal 2012 reflected an increase in SG&A expense by $6 million, or 6%, compared to the prior year primarily due to the absence of a benefit of $6 million from favorable customer contract settlements recognized in fiscal 2011 and an increase of $6 million for the operating expenses of fiscal 2011 acquisitions, partially offset by a reduction in incentive compensation expenses of $5 million resulting from lower financial performance in fiscal 2012 and a decrease in expense related to environmental liabilities of $3 million compared to the prior year.

Fiscal 2011 compared with fiscal 2010

Revenues

The increase in revenues was primarily attributable to higher average net selling prices and higher sales volumes caused by increased demand, availability of raw materials and incremental volume from acquisitions.

The increase in ferrous revenues was primarily driven by higher average net selling prices and higher sales volumes. The average net ferrous selling price increased $88 per long ton during fiscal 2011 primarily due to stronger demand from export markets as well as gradually recovering domestic demand which drove increases in foreign and domestic selling prices. Ferrous sales volumes increased by 1.1 million long tons driven by increased availability of raw materials, our focus on maximizing throughput, which is being accomplished through increased purchases of raw materials, increased production as a result of our investments in technology and continuous improvement programs, and incremental volume from acquisitions.

The increase in nonferrous revenues was driven by increases in both the average nonferrous net selling price and sales volumes. The average net selling price increased $0.23 per pound during fiscal 2011 primarily due to stronger demand and higher commodity prices. In addition, nonferrous volumes sold increased 90 million pounds for fiscal 2011, reflecting stronger global market conditions, improved recovery of nonferrous materials processed through our enhanced shredding and sorting technologies, more nonferrous collection activity and incremental volume from acquisitions.

Segment Operating Income

The increase in operating income in fiscal 2011 was primarily due to higher average net selling prices and higher sales volumes for both ferrous and nonferrous scrap metal as a result of continuing strong export market conditions, increased availability of raw materials, increased yield from higher production and enhanced shredding and sorting technologies, and incremental operating income from acquisitions. While we were able to increase the spread between selling prices and purchase prices, operating income as a percentage of revenues decreased from 6.0% in fiscal 2010 to 5.4% in fiscal 2011, primarily due to the escalation in selling prices.

Included in fiscal 2011 operating income for MRB was an increase in SG&A expense of $27 million compared to the prior year primarily due to a $10 million increase in compensation expense as a result of increased headcount from new acquisitions and a $6 million increase in expenses for professional and other third party services primarily related to transaction costs associated with acquisitions. In fiscal 2011, SG&A expense was reduced by $6 million for favorable customer contract settlements, which represented a $3 million increase over the prior year. In addition, SG&A expense was lower in fiscal 2010 as it included $3 million in benefits from environmental expense reimbursements.

Table of Contents

Auto Parts Business

	For the Year Ended August 31,			% Increase/(Decrease)	
($ in thousands)	2012	2011	2010	2012 vs 2011	2011 vs 2010
Revenues	$316,884	$319,833	$241,233	(1)%	33 %
Cost of goods sold	228,784	203,094	147,511	13 %	38 %
Selling, general and administrative expense	54,796	52,712	42,626	4 %	24 %
Segment operating income	$33,304	$64,027	$51,096	(48)%	25 %
Number of stores at period end	51	50	45	2 %	11 %
Cars purchased (in thousands)	339	353	329	(4)%	7 %

Fiscal 2012 compared with fiscal 2011

Revenues

The decrease in revenues by $3 million, or 1%, was driven by lower average commodity prices and decreased car volumes, both of which adversely impacted sales of ferrous and nonferrous material compared to the prior year.

Segment Operating Income

Operating income for fiscal 2012 decreased by $31 million, or 48%, due to the compression in operating margins caused primarily by slightly higher average vehicle purchases costs coupled with a decrease in average selling prices for ferrous and nonferrous material compared to the prior year. The compression in operating margins was exacerbated by market volatility in an overall decreasing commodity price environment. Periods of temporary but sharp declines in commodity prices due to softening global demand led to purchase prices for end-of-life vehicles decreasing at a slower pace than average net selling prices in those periods, causing an adverse effect of average inventory costing on cost of goods sold.

In addition, operating income for fiscal 2012 reflected higher SG&A expenses of $2 million, or 4%, primarily due to operating expenses related to fiscal 2011 acquisitions, increased legal expenses and higher advertising costs, which were partially offset by increased operational efficiencies and a reduction in incentive compensation expenses resulting from lower financial performance in fiscal 2012.

Fiscal 2011 compared with fiscal 2010

Revenues

The increase in revenues by $79 million, or 33%, was driven by higher commodity prices, increased car volumes, further enhancement of production operating efficiencies, and an increase in the number of self-service store locations. In fiscal 2011, APB did not benefit from the Cash-For-Clunkers government stimulus program that increased sales volumes in the prior year.

Segment Operating Income

The increase in operating income for fiscal 2011 reflected the impact of higher commodity prices, increased volumes of ferrous and nonferrous material sales, and improved production operating efficiencies. The decrease in operating income as a percentage of revenues from 21.2% in fiscal 2010 to 20.0% in fiscal 2011 reflected an increase in car purchasing costs which outpaced the increase in selling prices and an increase in SG&A expense of $10 million for fiscal 2011, primarily due to a $4 million increase in compensation expense as a result of additional headcount from acquisitions.

Table of Contents

Steel Manufacturing Business

	For the Year Ended August 31,			% Increase/(Decrease)	
($ in thousands, except price)	2012	2011	2010	2012 vs 2011	2011 vs 2010
Revenues[1]	$333,227	$317,483	$285,085	5 %	11 %
Cost of goods sold	328,900	308,319	284,258	7 %	8 %
Selling, general and administrative expense	6,408	6,602	6,689	(3)%	(1)%
Segment operating income (loss)	$(2,081)	$2,562	$(5,862)	NM	NM
Finished goods average sales price ($/ST)[2]	$715	$697	$587	3 %	19 %
Finished steel products sold (ST, in thousands)	447	439	444	2 %	(1)%
Rolling mill utilization	58 %	56 %	58 %	4 %	(3)%

ST = Short Ton, which is 2,000 pounds
NM = Not Meaningful
(1) Revenues include sales of semi-finished goods (billets) and finished steel products.
(2) Price information is shown after netting the cost of freight incurred to deliver the product to the customer.

Fiscal 2012 compared with fiscal 2011

Revenues

SMB revenues increased as a result of higher average selling prices for finished steel products and higher volumes of finished steel product sold compared to the prior year. The rise in the average selling price for finished steel products compared to the prior year was primarily driven by the impact on selling prices of increased average purchase costs of raw materials and by changes in the product mix towards higher-valued products.

Segment Operating Income (Loss)

SMB generated an operating loss for fiscal 2012 of $2 million, compared to operating income of $3 million in the prior year, in a continuing weak market environment in our U.S. West Coast markets as a result of slow economic growth that has hampered recovery in construction spending. The decrease in operating results compared to the prior year was primarily due to higher average raw material purchase prices and the adverse impact of unscheduled production downtime.

Fiscal 2011 compared with fiscal 2010

Revenues

SMB revenues increased primarily as a result of increased average selling prices for finished steel products, reflecting our ability to pass through higher purchase prices for scrap and other raw materials to end customers. The increase in average selling prices for finished steel products was driven by increased scrap metal purchase prices in global markets as a result of improved worldwide demand and was partially offset by a decrease in the volume of finished steel products sold for fiscal 2011 due to continuing weak demand in our West Coast markets as a result of slow economic growth that hampers construction spending recovery.

Segment Operating Income (Loss)

The increase in operating income reflected the impact of increased average selling prices, which outpaced the increase in scrap and other raw material purchase costs. SMB acquired its scrap metal requirements from MRB at rates that approximated export market prices for shipments from the West Coast of the U.S.

Liquidity and Capital Resources

We rely on cash provided by operating activities as a primary source of liquidity, supplemented by current cash on hand and borrowings under our existing credit facilities.

Sources and Uses of Cash

We had cash balances of $90 million and $49 million as of August 31, 2012 and 2011, respectively. Cash balances are intended to be used primarily for working capital, capital expenditures, acquisitions, dividends and share repurchases.

We also use excess cash on hand to reduce amounts outstanding under our credit facilities. As of August 31, 2012, debt, net of cash, was $245 million compared to $354 million as of August 31, 2011 (refer to Non-GAAP Financial Measures below), a decrease of $109 million primarily as a result of the use of cash generated from operating activities to repay debt. Our cash balances as of August 31, 2012 and 2011 includes $13 million and $11 million, respectively, which is indefinitely reinvested in Puerto Rico and Canada.

Operating Activities

Net cash provided by operating activities in fiscal 2012 was $245 million, compared to $140 million in fiscal 2011 and $89 million in fiscal 2010.

Cash provided by operating activities in fiscal 2012 included a decrease in inventories of $94 million due to lower volumes of material purchases and a decrease of $82 million in accounts receivable due to lower sales volumes and the timing of collections. Uses of cash included a decrease in accounts payable of $26 million due to lower levels of material purchases and timing of payments and a decrease in accrued income taxes of $20 million due to lower financial results compared to the prior fiscal year.

Cash provided by operating activities in fiscal 2011 included an increase of $45 million in accounts payable due to higher volumes of material purchases and the timing of payments and an increase in accrued income taxes of $23 million due to the improved financial results. Uses of cash included an increase in accounts receivable of $92 million due to higher sales and the timing of collections and a $45 million increase in inventory due to higher purchase costs and higher volumes of material on hand at year-end.

Cash provided by operating activities in fiscal 2010 included income tax refunds of $49 million, an increase in accrued payroll liabilities of $12 million due to increased incentive compensation and an increase of $8 million in accounts payable due to timing of payments. Uses of cash included a $109 million increase in inventory (excluding $35 million of inventory sold as a part of the divestiture of the full-service auto parts operation) due to higher purchase costs and higher volumes of material on hand at year-end, and an increase in accounts receivable of $12 million due to the timing of collections.

Investing Activities

Net cash used in investing activities in fiscal 2012 was $84 million, compared to $400 million in fiscal 2011 and $64 million in fiscal 2010.

Cash used in investing activities in fiscal 2012 included $79 million in capital expenditures, primarily to expand facilities and upgrade our equipment and infrastructure.

Cash used in investing activities in fiscal 2011 included $294 million for completed acquisitions and $105 million in capital expenditures to upgrade our equipment and infrastructure.

Cash used in investing activities in fiscal 2010 included $64 million in capital expenditures to upgrade equipment and infrastructure and $41 million for completed acquisitions, partially offset by $41 million in proceeds from the sale of the full-service auto parts business and other assets.

Financing Activities

Net cash used in financing activities for fiscal 2012 was $120 million, compared with net cash provided by financing activities of $280 million in fiscal 2011 and net cash used in financing activities of $36 million in fiscal 2010.

Cash used in financing activities in 2012 included $69 million in net repayments of debt (refer to Non-GAAP Financial Measures below) using cash generated from operations, $33 million for the repurchase of outstanding shares of our Class A common stock and $11 million for cash dividends.

Cash provided by financing activities in 2011 was primarily due to $303 million in additional net debt borrowings (refer to Non-GAAP Financial Measures below) which were mainly used to fund our acquisitions, partly offset by $10 million in repurchases of outstanding shares of our Class A common stock.

Cash used in financing activities in fiscal 2010 was primarily due to $11 million in net debt repayments (refer to Non-GAAP Financial Measures below) and $17 million in repurchases of outstanding shares of our Class A common stock.

Table of Contents

Credit Facilities

Following is a summary of our outstanding balances and availability on credit facilities and long-term debt (in thousands):

	Outstanding as of 8/31/2012	Remaining Availability
Unsecured, uncommitted credit line	$—	$25,000
Bank unsecured revolving credit facility(1)	$325,292	$370,214
Tax-exempt economic development revenue bonds due January 2021	$7,700	N/A

(1) Remaining availability is net of $5 million of outstanding stand-by letters of credit.

In April 2012, we entered into an amendment to our unsecured committed bank credit agreement (“credit agreement”) with Bank of America, N.A. as administrative agent, and other lenders party thereto. The amendment, among other things: (i) increased the aggregate commitment size of the U.S. revolving loans by $50 million such that the credit agreement provides for revolving loans of $670 million and C$30 million; (ii) reduced the applicable margin rates such that the loans outstanding under the credit agreement will bear interest based, at our option, on either the London Interbank Offered Rate (or the Canadian equivalent) plus a spread of between 1.25% and 2.25%, with the amount of the spread based on a pricing grid tied to our leverage ratio, or the greater of the prime rate, the federal funds rate plus 0.5% or the British Bankers Association LIBOR Rate plus 1.75%; (iii) reduced the rates applicable to commitment fees payable on the unused portion of the credit facility to rates between 0.15% and 0.35% based on a pricing grid tied to our leverage ratio; and (iv) extended the maturity date of the revolving loans under the credit agreement from February 2016 to April 2017. Except as modified by the amendment as described above, the terms of the credit agreement remained the same.

We had borrowings outstanding under the credit facility of $325 million and $393 million as of August 31, 2012 and 2011, respectively. The weighted average interest rate on amounts outstanding under this facility was 2.06% and 2.48% as of August 31, 2012 and 2011, respectively.

We also have an unsecured, uncommitted $25 million credit line with Wells Fargo Bank, N.A. that expires on March 1, 2013. Interest rates are set by the bank at the time of borrowing. We had no borrowings outstanding under this facility as of August 31, 2012 and 2011.

The two bank credit agreements contain various representations and warranties, events of default and financial and other covenants, including covenants regarding maintenance of a minimum fixed charge coverage ratio and a maximum leverage ratio. As of August 31, 2012, we were in compliance with all such covenants. We use these credit facilities to fund working capital requirements, acquisitions, capital expenditures, dividends and share repurchases.

In addition, as of August 31, 2012 and 2011, we had $8 million of long-term tax-exempt bonds outstanding that mature in January 2021.

Acquisitions

We continue to expand our presence in the regions in which we operate and in new locations through the acquisition of businesses. During fiscal 2012, we closed one acquisition compared to 10 acquisitions in fiscal 2011 and three acquisitions in fiscal 2010 with an aggregate purchase price of $316 million and $41 million, respectively. See Note 6 – Business Combinations in the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report for additional information on business acquisitions.

Capital Expenditures

Capital expenditures totaled $79 million, $105 million and $64 million for fiscal 2012, 2011 and 2010, respectively. Our capital expenditures in fiscal 2012 included investments in the construction of a new shredder, advanced processing equipment and related infrastructure for our facility in Surrey, British Columbia, which is expected to begin operations in fiscal 2013. In addition, we made further investments in technology to improve the recovery and separation of nonferrous materials from the shredding process and investments in infrastructure to improve efficiency, increase capacity, improve worker safety, enhance environmental systems and replace equipment.

We currently plan to invest up to $80 million in capital expenditures on similar projects in fiscal 2013, including the completion of the new shredder and processing equipment in Canada. We believe these investments will create value for our shareholders. We expect to use cash generated from operations and available lines of credit to fund capital expenditures in fiscal 2013.

Table of Contents

Dividends
Our Board of Directors declared a dividend in both the third and fourth quarters of fiscal 2012 of $0.1875 per common share, which represented an increase in the annual cash dividend to $0.75 per share from the prior annual dividend of $0.07 per share. The total dividend paid in fiscal 2012 was $0.41 per share compared to $0.07 per share in fiscal 2011 and 2010.
Environmental Compliance
Our commitment to sustainable recycling and operating our business in an environmentally responsible manner requires us to continue to invest in facilities that improve our environmental presence in the communities in which we operate. As part of our capital expenditures, we invested $13 million, $14 million and $13 million for environmental projects in fiscal 2012, 2011 and 2010, respectively. We plan to invest up to $12 million in capital expenditures for environmental projects in fiscal 2013. These projects include investments in storm water systems and equipment to ensure ongoing compliance with air quality and other environmental regulations.
We have been identified by the United States Environmental Protection Agency ("EPA") as one of the potentially responsible parties ("PRPs") that own or operate or formerly owned or operated sites which are part of or adjacent to the Portland Harbor Superfund site ("the Site"). A group of PRPs is conducting an investigation and study to identify and characterize the contamination at the Site and develop alternative approaches to remediation of the contamination. On March 30, 2012 the group submitted to the EPA a draft feasibility study ("draft FS") based on approximately ten years of work and $100 million in costs classified as investigation-related. The draft FS identifies ten possible remedial alternatives which range in estimated cost from approximately $170 million to $250 million (net present value) for the least costly alternative to approximately $1.08 billion to $1.76 billion (net present value) for the most costly and estimates a range of two to 28 years to implement the remedial work, depending on the selected alternative. The draft FS does not determine who is responsible for remediation costs, define the precise cleanup boundaries or select remedies. The draft FS is being reviewed, and may be subject to revisions prior to its approval, by the EPA. A final decision on the nature and extent of the required remediation will occur only after the EPA has prepared a proposed plan for public review and issued a record of decision ("ROD"). Currently available information indicates that the EPA does not expect to issue its final ROD selecting a remedy for the Site until at least 2014. Because there has not been a determination of the total cost of the investigations, the remediation that will be required, the amount of natural resource damages or how the costs of the ongoing investigations and any remedy and natural resource damages will be allocated among the PRPs, we believe it is not reasonably possible to estimate the amount or range of costs which we are likely or reasonably possible to incur in connection with the Site, although such costs could be material to our financial position, results of operations, future cash flows and liquidity. Any material liabilities recorded in the future related to the Site could result in our failure to maintain compliance with certain covenants in our debt agreements. Significant cash outflows in the future related to the Site could reduce the amounts available for borrowing that could otherwise be used for investment in capital expenditures, acquisitions, dividends and share repurchases. See Contingencies – Environmental in Note 11 – Commitments and Contingencies in the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report.
Share Repurchase Program
Pursuant to a share repurchase program, as amended, we have existing authorization to repurchase up to 2.1 million shares of our Class A common stock, out of a 9 million share repurchase program, when management deems such repurchases to be appropriate. We evaluate long- and short-range forecasts as well as anticipated sources and uses of cash before determining the course of action in our share repurchase program. Prior to fiscal 2012, we had repurchased approximately 5.8 million shares under the program. In fiscal 2012, we repurchased 1.1 million shares of our Class A common stock under this program in open-market transactions at a cost of $33 million.
Redeemable Noncontrolling Interest
In March 2011, we issued common stock of one of our subsidiaries to the noncontrolling interest holder of that subsidiary that is redeemable both at the option of the holder and upon the occurrence of an event that is not solely within our control. Under the terms of an agreement related to the acquisition, the noncontrolling interest holder has the right to require us to purchase its interest in our subsidiary for fair value. The noncontrolling interest becomes redeemable within 60 days after the later of (i) the third anniversary of the date of the acquisition and (ii) the date on

which certain principals of the minority shareholder are no longer employed by the Company. The conditions for redemption of the noncontrolling interest had not been met as of August 31, 2012. If the interest were to be redeemed, we would be required to purchase all of such interest at fair value on the date of redemption. As of August 31, 2012, the fair value of the redeemable noncontrolling interest was $22 million. See Note 13 – Redeemable Noncontrolling Interest in the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report.

Table of Contents

Assessment of Liquidity and Capital Resources

Historically, our available cash resources, internally generated funds, credit facilities and equity offerings have financed our acquisitions, capital expenditures, working capital and other financing needs.

We generally believe our current cash resources, internally generated funds, existing credit facilities and access to the capital markets will provide adequate short-term and long-term liquidity needs for acquisitions, capital expenditures, working capital, share repurchases, dividends, joint ventures, debt service requirements and environmental obligations. However, in the event of a sustained market deterioration, we may need additional liquidity, which would require us to evaluate available alternatives and take appropriate steps to obtain sufficient additional funds. There can be no assurance that any such supplemental funding, if sought, could be obtained or, if obtained, would be adequate or on acceptable terms.

Off-Balance Sheet Arrangements

None.

Contractual Obligations and Commitments

We have certain contractual obligations to make future payments. The following table summarizes these future obligations as of August 31, 2012 (in thousands):

	Payment Due by Period						
	2013	2014	2015	2016	2017	Thereafter	Total
Contractual Obligations							
Long-term debt[1]	$—	$—	$—	$—	$325,292	$7,700	$332,992
Interest payments on long-term debt[2]	6,722	6,722	6,722	6,722	4,486	55	31,429
Capital leases, including interest	833	641	331	234	228	999	3,266
Operating leases	19,898	17,260	13,102	7,931	6,074	22,296	86,561
Purchase obligations[3]	55,639	1,160	744	744	2,976	8,244	69,507
Other[4]	607	360	209	207	215	2,407	4,005
Total	$83,699	$26,143	$21,108	$15,838	$339,271	$41,701	$527,760

(1) Long-term debt represents the principal amounts of all outstanding long-term debt, maturities of which extend to 2021.

(2) Interest payments on long-term debt are based on interest rates in effect as of August 31, 2012. As the contractual interest rates are variable, actual cash payments may differ from the estimates provided.

(3) Purchase obligations include all enforceable, legally binding agreements to purchase goods or services that specify all significant terms, regardless of the duration of the agreement, including purchases of inventory items to be sold in the ordinary course of business.

(4) Other contractual obligations consist of pension funding obligations, other accrued liabilities and reserves for uncertain tax positions.

Our redeemable noncontrolling interest is a potential future obligation for which the exercise date and future fair value are not known and not solely within our control. See Note 13 - Redeemable Noncontrolling Interest in the Notes to the Consolidated Statements in Part II, Item 8 of this report.

We maintain stand-by letters of credit to provide support for certain obligations, including workers' compensation and performance bonds. At August 31, 2012, we had $18 million outstanding under these arrangements.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires us to make certain judgments, estimates, and assumptions regarding uncertainties that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions and judgments about matters that are inherently uncertain at the time the estimate is made, if different estimates reasonably could have been used, or if changes in the estimate that are reasonably likely to occur could materially impact our consolidated financial statements. We deem critical accounting policies to be those that are most important to the portrayal of our financial condition and results of operations. Because of the uncertainty inherent in these matters, actual results could differ from the estimates we use in applying the critical accounting policies. We are not currently aware of any reasonably likely events or circumstances that would result in materially different amounts being reported.

Our critical accounting estimates include those related to goodwill, environmental costs, inventories, accounting for business combinations, revenue recognition and redeemable noncontrolling interest.

Goodwill

We evaluate goodwill for impairment annually during the second fiscal quarter and upon the occurrence of certain triggering events or substantive changes in circumstances that indicate that the fair value of goodwill may be impaired. Impairment of goodwill is tested at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment (referred to as a 'component'). The Company has determined that its reporting units for which goodwill has been allocated are equivalent to the Company's operating segments, as all of the components of each segment have similar economic characteristics.

The goodwill impairment test follows a two-step process. In the first step, the fair value of a reporting unit is compared to its carrying value. If the carrying value of a reporting unit exceeds its fair value, the second step of the impairment test is performed for purposes of measuring the impairment. In the second step, the fair value of the reporting unit is allocated to all of the assets and liabilities of the reporting unit to determine an implied goodwill value. This allocation is similar to a purchase price allocation. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of goodwill, an impairment loss will be recognized in an amount equal to that excess.

We estimate the fair value of the reporting units using an income approach based on the present value of expected future cash flows utilizing a market-based weighted average cost of capital ("WACC") determined separately for each reporting unit. To estimate the present value of the cash flows that extend beyond the final year of the discounted cash flow model, we employ a terminal value technique, whereby we use estimated operating cash flows minus capital expenditures and adjust for changes in working capital requirements in the final year of the model, then discount it by the WACC to establish the terminal value.

The determination of fair value using the income approach requires judgment and involves the use of significant estimates and assumptions about expected future cash flows derived from internal forecasts and the impact of market conditions on those assumptions. Critical assumptions primarily include revenue growth rates driven by future commodity prices and volume expectations, operating margins, capital expenditures, working capital requirements, tax rates, terminal growth rates and appropriate discount rates.

In the third quarter of fiscal 2012, we identified the combination of the recent but significant decline of the Company's market capitalization below the carrying value of its net assets, the persistent uncertainty around global macroeconomic conditions and the impact on our fiscal 2012 operating results of current challenging market conditions in our industry as a triggering event requiring an interim impairment test of goodwill. For the APB reporting unit, the calculated fair value using the income approach substantially exceeded its carrying value. For the MRB reporting unit with goodwill of $465 million as of May 31, 2012, the calculated fair value exceeded the carrying value by approximately 11%. The projections used in the income approach for MRB took into consideration the current weak market conditions, including the challenging macroeconomic indicators in the markets in which we operate and those where our customers are based, and the cyclical nature of our industry. The projections assumed a gradual recovery of operating margins over a multi-year period, eventually returning to levels of profitability in the range of average historical levels. The market-based WACC used in the income approach for MRB was 11.7%. Assuming all other components of the fair value estimate were held constant, an increase in the WACC rate in excess of 1% could result in a failure of the Step 1 impairment test for the MRB reporting unit.

We also use a market approach based on earnings multiple data and our Company's market capitalization to corroborate our reporting units' valuations. We reconcile the Company's market capitalization to the aggregated estimated fair value of our reporting units, including consideration of a control premium representing the estimated amount an investor would pay to obtain a controlling interest. The implied control premium resulting from the difference between our market capitalization (based on the average trading price of the Company's Class A common stock for the two-week period ending May 31, 2012) and the higher aggregated estimated fair value of our reporting units was above the historical range of premiums observed in normal market conditions on transactions within the steel making and scrap processing industries and in other comparable sectors. We believe the implied control premium reflected the recent impact on our stock price of current depressed market conditions in our industry, weak

macroeconomic indicators and the cyclical nature of our business.
There were no additional triggering events during the fourth quarter of fiscal 2012 requiring an impairment test of goodwill.
As a result of the inherent uncertainty associated with forming these estimates, actual results could differ from those estimates. Future events and changing market conditions may impact our assumptions as to future revenue growth rates, pace and extent of operating margins' recovery, market-based WACC rate and other factors that may result in changes in our estimates of future cash flows. Although we believe the assumptions used in testing our reporting units' goodwill for impairment are reasonable, it is reasonably possible that market and economic conditions deteriorate further, including additional declines in or a lack of long-term recovery of market conditions from current levels, a lack of recovery in our share price from current levels, or an increase in the market-based WACC rate, among other factors, which could significantly impact our impairment analysis and increase the

Table of Contents

likelihood of future goodwill impairment charges that, if incurred, could be material to our results of operations and financial position.

Environmental Costs

We operate in industries that inherently possess environmental risks. To manage these risks, we employ both our own environmental staff and outside consultants. Environmental staff and finance personnel meet regularly to discuss environmental risks. We estimate future costs for known environmental remediation requirements and accrue for them on an undiscounted basis when it is probable that we have incurred a liability and the related costs can be reasonably estimated but the timing of incurring the estimated costs is unknown. The regulatory and government management of these projects is complex, which is one of the primary factors that make it difficult to assess the cost of potential and future remediation. When only a wide range of estimated amounts can be reasonably established and no other amount within the range is better than any other, the low end of the range is recorded in the financial statements. If further developments or resolution of an environmental matter result in facts and circumstances that are significantly different than the assumptions used to develop these reserves, the accrual for environmental remediation could be materially understated or overstated. Adjustments to these liabilities are made when additional information becomes available that affects the estimated costs to study or remediate any environmental issues or when expenditures for which reserves are established are made. The factors we consider in the recognition and measurement of environmental liabilities include:

- Current regulations, both at the time the reserve is established and during the course of the investigation or remediation process, which specify standards for acceptable remediation;
- Information about the site which becomes available as the site is studied and remediated;
- The professional judgment of senior-level internal staff, who take into account similar, recent instances of environmental remediation issues, and studies of our sites, among other considerations;
- Technologies available that can be used for remediation; and
- The number and financial condition of other potentially responsible parties and the extent of their responsibility for the costs of study and remediation.

Our accrued environmental liabilities as of August 31, 2012 included $1 million related to third party investigation costs for the Portland Harbor Superfund site. Because there has not been a determination of the total cost of the investigations, the remediation that will be required, the amount of natural resource damages or how the costs of the ongoing investigations and any remedy and natural resource damages will be allocated among the PRPs, we believe it is not possible to reasonably estimate the amount or range of costs which it is likely or reasonably possible that we may incur in connection with the Site, although such costs could be material to our financial position, results of operations, cash flows and liquidity.Therefore, no additional amounts have been accrued. See Contingencies – Environmental in Note 11 – Commitments and Contingencies in the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report.

Inventories

Our inventories primarily consist of scrap metal (ferrous, nonferrous, processed and unprocessed), nonferrous recovered joint product, used and salvaged vehicles, semi-finished steel products (billets) and finished steel products (primarily rebar, merchant bar and wire rod). Inventories are stated at the lower of cost or market. We consider estimated future selling prices when determining the estimated net realizable value for our inventory. As MRB generally sells its export recycled ferrous metal under contracts that provide for shipment within 30 to 60 days after the price is agreed, we utilize the selling prices under committed contracts and sales orders for determining the estimated market price of quantities on hand.

The accounting process we use to record metal quantities relies on significant estimates. With respect to unprocessed metal inventory, we rely on weighed quantities that are reduced by estimated amounts that are moved into production. These estimates utilize estimated recoveries and yields that are based on historical trends. Over time, these estimates are reasonably good indicators of what is ultimately produced; however, actual recoveries and yields can vary depending on product quality, moisture content and source of the unprocessed metal. If ultimate recoveries and yields are significantly different than estimated, the value of our inventory could be materially overstated or understated. To assist in validating the reasonableness of these estimates, we periodically review shrink factors and perform monthly physical inventory estimates. However, due to variations in product density, holding period and production processes utilized to manufacture the product, physical inventories will not necessarily detect all variances. To mitigate this risk, we adjust the ferrous physical inventories when the volume of a commodity is low and a physical inventory count can more accurately predict the remaining volume.

Business Combinations

In a business combination, we recognize the assets acquired, the liabilities assumed, and any noncontrolling interests in the acquiree

Table of Contents

at the acquisition date, measured at their fair values as of that date, generally using a market-based income approach. Measuring assets and liabilities at fair value requires us to determine the price that would be paid by a third party market participant based on the highest and best use of the assets or interests acquired. We utilize management estimates that incorporate input from an independent third party valuation firm in our determination of these fair values. Such estimates and valuations require us to make significant assumptions, including projections of future events and operating performance and determining the highest and best use of the assets or interests acquired. Acquisition costs are expensed as incurred.

Revenue Recognition

We recognize revenue when we have a contract or purchase order from a customer with a fixed price, the title and risk of loss transfer to the buyer and collectibility is reasonably assured. Title for both metal and finished steel products transfers based on contract terms. A significant portion of our ferrous export sales of recycled metal are made with letters of credit, reducing credit risk. However, domestic recycled ferrous metal sales, nonferrous sales and sales of finished steel are generally made on open account. Nonferrous export sales typically require a deposit prior to shipment. All sales made on open account are evaluated for collectibility prior to revenue recognition. Additionally, when detailed documents support revenue recognition based on transfer of title and risk of loss we recognize revenues on partially loaded shipments, which requires an estimate of the product weight involved in any partial shipments at period end. For APB, retail revenues are recognized when customers pay for parts, and wholesale product revenues are recognized when customer weight certificates are received following shipment. Historically, there have been very few sales returns and adjustments that impact the ultimate collection of revenues; therefore, no material provisions have been made when the sale is recognized. We present taxes assessed by governmental authorities collected from customers on a net basis. Therefore, the taxes are excluded from revenue and are shown as a liability on our Consolidated Balance Sheets until remitted. See the discussion on credit risk contained in Item 7A of this report.

Redeemable Noncontrolling Interest

We have issued common stock of one of our subsidiaries to a noncontrolling interest holder of that subsidiary that is redeemable both at the option of the holder and upon the occurrence of an event that is not solely within our control. Since redemption of the noncontrolling interest is outside of our control, this interest is presented on the Consolidated Balance Sheets in the mezzanine section under the caption “Redeemable noncontrolling interest.” If the interest were to be redeemed, we would be required to purchase all of such interest at fair value on the date of redemption. The redeemable noncontrolling interest is presented at the greater of its carrying amount (adjusted for the noncontrolling interest’s share of the allocation of income or loss of the subsidiary, dividends to and contributions from the noncontrolling interest) or its fair value as of each measurement date. Any adjustments to the carrying amount of the redeemable noncontrolling interest for changes in fair value prior to exercise of the redemption option are recorded to retained earnings.

As of August 31, 2012, the noncontrolling interest was presented at its adjusted carrying value of $22 million, which approximates its fair value. We estimate fair value using Level 3 inputs under the fair value hierarchy based on standard valuation techniques using a discounted cash flow analysis. The determination of fair value requires management to apply significant judgment in formulating estimates and assumptions used in the discounted cash flow model, including primarily revenue growth rates driven by future commodity prices and volume expectations, operating margins, capital expenditures, working capital requirements, terminal growth rates and an appropriate discount rate. The subsidiary is presently undertaking significant investments to install a shredder and related processing and sorting equipment and increase shipping capabilities. As a result, projections of future cash flows assume volumes to grow above historical levels once construction activity is complete and the new equipment is put in service. The present value of future cash flows are determined using a market-based weighted average cost of capital of 12.5%, including a subject-company risk premium. A 1% increase (decrease) in the discount rate would decrease (increase) the estimated fair value of the redeemable noncontrolling interest by approximately 8%. We also used a market approach based on earnings multiple data to corroborate the fair value estimate of the noncontrolling interest determined using the discounted cash flow model. As a result of the inherent uncertainty associated with forming these estimates, including changes in general market conditions, actual results could differ from those estimates which may result in a material change in the fair value of the redeemable noncontrolling interest.

Recently Issued Accounting Standards

For a description of recent accounting pronouncements that may have an impact on our financial condition, results of operations or cash flows, see Note 3 – Recent Accounting Pronouncements in the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report.

Non-GAAP Financial Measures

Debt, net of cash

Debt, net of cash is the difference between (i) the sum of long-term debt and short-term debt (i.e., total debt) and (ii) cash and cash equivalents. Management believes that debt, net of cash is a useful measure for investors because, as cash and cash equivalents can be used, among other things, to repay indebtedness, netting this against total debt is a useful measure of our leverage.

The following is a reconciliation of debt, net of cash (in thousands):

	August 31, 2012	August 31, 2011	August 31, 2010
Short-term borrowings	$683	$643	$1,189
Long-term debt, net of current maturities	334,629	403,287	99,240
Total debt	335,312	403,930	100,429
Less: cash and cash equivalents	89,863	49,462	30,342
Total debt, net of cash	$245,449	$354,468	$70,087

Net borrowings (repayment) of debt

Net borrowings (repayment) of debt is the sum of borrowings from long-term debt, repayments of long-term debt, proceeds from line of credit, and repayment of line of credit. Management presents this amount as the net change in the Company's borrowings (repayment) for the period because it believes it is useful for investors as a meaningful presentation of the change in debt.

The following is a reconciliation of net borrowings (repayment) of debt (in thousands):

	Fiscal 2012	Fiscal 2011	Fiscal 2010
Borrowings from long-term debt	$439,070	$811,531	$577,900
Proceeds from line of credit	495,500	655,500	402,600
Repayment of long-term debt	(507,745)	(508,675)	(589,242)
Repayment of line of credit	(495,500)	(655,500)	(402,600)
Net borrowings (repayment) of debt	$(68,675)	$302,856	$(11,342)

Adjusted net income and adjusted diluted earnings per share

Management presents adjusted net income attributable to SSI and adjusted diluted earnings per share attributable to SSI because it believes these measures provide a meaningful presentation of the Company's results from its core business operations excluding adjustments for restructuring charges that are not related to the Company's ongoing core business operations and improves the period-to-period comparability of the Company's results from its core business operations.

The following is a reconciliation of adjusted net income attributable to SSI and adjusted diluted earnings per share attributable to SSI for the year ended August 31, 2012 (in thousands, except per share data):

	August 31, 2012
Net income attributable to SSI:	
As reported	$27,404
Restructuring charges, net of tax	3,222
Adjusted	$30,626
Diluted earnings per share attributable to SSI:	
As reported	$0.99
Restructuring charges, net of tax, per share	0.12
Adjusted	$1.11

Management believes that these non-GAAP financial measures allow for a better understanding of our operating and financial performance. These non-GAAP financial measures should be considered in addition to, but not as a substitute for, the most directly comparable U.S. GAAP measures.

Table of Contents

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Commodity Price Risk

We are exposed to commodity price risk, mainly associated with variations in the market price for finished steel products, ferrous and nonferrous metals, including scrap metal, autobodies and other commodities. The timing and magnitude of industry cycles are difficult to predict and are impacted by general economic conditions. We respond to increases and decreases in forward selling prices by adjusting purchase prices on a timely basis. We actively manage our exposure to commodity price risk and monitor the actual and expected spread between forward selling prices and purchase costs and processing and shipping expense. Sales contracts are based on prices negotiated with our customers, and generally orders are placed 30 to 60 days ahead of shipment date. However, financial results may be negatively impacted when forward selling prices fall more quickly than we can adjust purchase prices or when customers fail to meet their contractual obligations. We assess the net realizable value of inventory ("NRV") each quarter based upon contracted sales orders and estimated future selling prices. Based on contracted sales and estimates of future selling prices, a 10% decrease in the selling price of inventory would not have caused an NRV impact at any of our operating segments as of August 31, 2012.

Interest Rate Risk

We are exposed to market risk associated with changes in interest rates related to our debt obligations. Our credit line and revolving credit facility are subject to variable interest rates and therefore have exposure to changes in interest rates. If market interest rates had changed 10% from actual interest rate levels in fiscal 2012 or 2011, the effect on our interest expense and net income would not have been material.

Credit Risk

Credit risk relates to the risk of loss that might occur as a result of non-performance by counterparties of their contractual obligations to take delivery of scrap metal and finished steel products and to make financial settlements of these obligations. We manage our exposure to credit risk through a variety of methods, including shipping ferrous scrap metal exports under letters of credit, collection of deposits prior to shipment for certain nonferrous export customers and establishment of credit limits for sales on open terms.

MRB generally ships ferrous bulk sales to foreign customers under contracts supported by letters of credit issued or confirmed by banks it deems creditworthy. The letters of credit ensure payment by the customer. As MRB generally sells its export recycled ferrous metal under contracts or orders that generally provide for shipment within 30 to 60 days after the price is agreed, MRB's customers typically do not have difficulty obtaining letters of credit from their banks in periods of rising ferrous prices, as the value of the letters of credit are collateralized by the value of the inventory on the ship. However, in periods of significantly declining prices, MRB's customers may not be able to obtain letters of credit for the full sales value of the inventory to be shipped. As such, we may need to extend credit on open terms for the difference between the sales value under the contract and the value supported by the letter of credit. In addition, we could be exposed to loss if a customer fails to pay or the bank providing the letter of credit fails.

As of August 31, 2012 and 2011, 28% and 44%, respectively, of our trade accounts receivable balance was covered by letters of credit. Of the remaining balance as of August 31, 2012, 89% was less than 60 days past due, compared to 93% as of August 31, 2011.

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management's Annual Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

The Company's internal control over financial reporting includes policies and procedures that relate to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the Company; provide reasonable assurance that transactions are recorded as necessary to permit the preparation of the Company's consolidated financial statements in accordance with generally accepted accounting principles and that the receipts and expenditures of the Company are being made only in accordance with authorization of the Company's management and directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projection of any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies and procedures may deteriorate.

Management of the Company assessed the effectiveness of the Company's internal control over financial reporting using the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on its assessment, management determined that the Company's internal control over financial reporting was effective as of August 31, 2012.

PricewaterhouseCoopers LLP, the independent registered public accounting firm that audited the Company's consolidated financial statements included in this Annual Report, also audited the effectiveness of the Company's internal control over financial reporting as of August 31, 2012, as stated in their report included herein.

Tamara L. Lundgren	Richard D. Peach
President and Chief Executive Officer	Senior Vice President and Chief Financial Officer
October 25, 2012	October 25, 2012

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Schnitzer Steel Industries, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' equity and cash flows present fairly, in all material respects, the financial position of Schnitzer Steel Industries, Inc. and its subsidiaries at August 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended August 31, 2012 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of August 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Portland, Oregon

October 25, 2012

Table of Contents

SCHNITZER STEEL INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands)

	August 31, 2012	2011
Assets		
Current assets:		
Cash and cash equivalents	$89,863	$49,462
Accounts receivable, net	137,313	229,975
Inventories, net	246,992	335,120
Deferred income taxes	6,362	11,784
Refundable income taxes	7,671	3,541
Prepaid expenses and other current assets	28,618	24,117
Total current assets	516,819	653,999
Property, plant and equipment, net	564,185	555,284
Investments in joint venture partnerships	17,126	17,208
Goodwill	635,491	627,805
Intangibles, net	15,778	20,906
Other assets	14,174	14,967
Total assets	$1,763,573	$1,890,169
Liabilities and Equity		
Current liabilities:		
Short-term borrowings	$683	$643
Accounts payable	115,007	141,011
Accrued payroll and related liabilities	22,130	36,475
Environmental liabilities	2,185	2,983
Accrued income taxes	38	13,833
Other accrued liabilities	38,799	38,368
Total current liabilities	178,842	233,313
Deferred income taxes	85,447	85,378
Long-term debt, net of current maturities	334,629	403,287
Environmental liabilities, net of current portion	44,874	37,872
Other long-term liabilities	11,837	10,030
Total liabilities	655,629	769,880
Commitments and contingencies (Note 11)		
Redeemable noncontrolling interest	22,248	19,053
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, 25,219 and 24,241 shares issued and outstanding	25,219	24,241
Class B common stock – 25,000 shares $1.00 par value authorized, 1,113 and 3,060 shares issued and outstanding	1,113	3,060
Additional paid-in capital	816	762
Retained earnings	1,056,024	1,065,109
Accumulated other comprehensive income (loss)	(2,589)	1,540
Total SSI shareholders’ equity	1,080,583	1,094,712
Noncontrolling interests	5,113	6,524
Total equity	1,085,696	1,101,236

Total liabilities and equity	$1,763,573	$1,890,169

See Notes to the Consolidated Financial Statements

Table of Contents

SCHNITZER STEEL INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share amounts)

	Year Ended August 31,		
	2012	2011	2010
Revenues	$3,340,938	$3,459,194	$2,301,240
Operating expense:			
Cost of goods sold	3,079,716	3,072,165	2,019,764
Selling, general and administrative	205,178	205,687	158,714
Income from joint ventures	(2,636)	(4,622)	(3,135)
Restructuring charges	5,012	—	—
Operating income	53,668	185,964	125,897
Interest expense	(11,880)	(8,436)	(2,343)
Other income, net	1,168	3,277	1,779
Income from continuing operations before income taxes	42,956	180,805	125,333
Income tax expense	(14,039)	(57,168)	(40,825)
Income from continuing operations	28,917	123,637	84,508
Loss from discontinued operations, net of tax	—	(101)	(13,832)
Net income	28,917	123,536	70,676
Net income attributable to noncontrolling interests	(1,513)	(5,181)	(3,926)
Net income attributable to SSI	$27,404	$118,355	$66,750
Basic:			
Income per share from continuing operations attributable to SSI	$1.00	$4.28	$2.90
Loss per share from discontinued operations	—	—	(0.50)
Net income per share attributable to SSI	$1.00	$4.28	$2.40
Diluted:			
Income per share from continuing operations attributable to SSI	$0.99	$4.24	$2.86
Loss per share from discontinued operations	—	(0.01)	(0.49)
Net income per share attributable to SSI	$0.99	$4.23	$2.37
Weighted average number of common shares:			
Basic	27,317	27,649	27,832
Diluted	27,553	27,959	28,147
Dividends declared per common share	$0.410	$0.068	$0.068

See Notes to the Consolidated Financial Statements

Table of Contents

SCHNITZER STEEL INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF EQUITY
(in thousands)

	Common Stock Class A		Class B				Accumulated			
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Other Comprehensive Income (Loss)	Total SSI Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance as of August 31, 2009	21,402	$21,402	6,268	$6,268	$ —	$894,243	$ (2,546)	$ 919,367	$ 3,383	$922,750
Net income	—	—	—	—	—	66,750	—	66,750	3,926	70,676
Foreign currency translation adjustment (net of tax of $210)	—	—	—	—	—	—	523	523	—	523
Pension obligations, net (net of tax benefit of $550)	—									