SCHNITZER STEEL INDUSTRIES INC
Form 10-K
October 28, 2008
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended August 31, 2008

[ ] 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 N.W. 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 par value	The NASDAQ Stock Market, LLC
(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 [ ] No [x]

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition 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 voting common stock outstanding held by non-affiliates on February 29, 2008 was $1,407,135,907.

The Registrant had 21,592,444 shares of Class A Common Stock, par value of $1.00 per share, and 6,344,569 shares of Class B Common Stock, par value of $1.00 per share, outstanding at October 15, 2008.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive Proxy Statement for the January 2009 Annual Meeting of Shareholders are incorporated herein by reference in Part III.

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FORWARD-LOOKING STATEMENTS

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

Forward-looking statements in this Annual Report on Form 10-K include statements regarding the Company s expectations, intentions, beliefs and strategies regarding the future, including statements regarding trends, cyclicality, and growth in the markets the Company sells into, strategic direction, changes to manufacturing processes, the cost of compliance with environmental and other laws, liquidity positions, ability to generate cash from continuing operations, expected growth, the potential impact of adopting new accounting pronouncements, expected results including pricing, sales volume, profitability, obligations under the Company s retirement plans, savings or additional costs from business realignment programs and the adequacy of accruals.

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

The Company may make other forward-looking statements from time to time, including in press releases and public conference calls. All forward-looking statements made by the Company are based on information available to the Company at the time the statements are made and the Company assumes no obligation to update any forward-looking statements, except as may be required by law. Actual results are subject to a number of risks and uncertainties that could cause actual results to differ materially from those included in, or implied by, such forward-looking statements. Some of these risks and uncertainties are discussed in Item 1A. Risk Factors of Part I of this Form 10-K. Other examples include volatile supply and demand conditions affecting prices and volumes in the markets for both the Company s products and raw materials it purchases; world economic conditions; world political conditions; changes in federal and state income tax laws; impact of pending or new laws and regulations regarding imports and exports into the United States and other foreign countries; foreign currency fluctuations; competition; seasonality, including weather; energy supplies; freight rates and availability of transportation; loss of key personnel; expectations regarding the Company s compliance program; the inability to obtain sufficient quantities of scrap metal to support current orders; purchase price estimates made during acquisitions; business integration issues relating to acquisitions of businesses; credit-worthiness of and availability of credit to suppliers and customers; new accounting pronouncements; availability of capital resources; and the adverse impact of climate changes.

PART I

ITEM 1. BUSINESS

General

Founded in 1906, Schnitzer Steel Industries, Inc. (the Company), an Oregon corporation, is currently one of the nation s largest recyclers of ferrous and nonferrous metal, a leading recycler of used and salvaged vehicles and a manufacturer of finished steel products.

The Company operates in three reportable segments: the Metals Recycling Business (MRB), the Auto Parts Business (APB) and the Steel Manufacturing Business (SMB). Corporate expense consists primarily of unallocated corporate expense for management and administrative services that benefit all three business segments. As a result of this unallocated expense, the operating income of each segment does not reflect the operating income the segment would have as a stand-alone business. For further information regarding the Company s segments, including financial information about geographic areas, refer to Note 17 Segment Information, in the notes to the consolidated financial statements, in Part II, Item 8 of this report.

Metals Recycling Business

Business

MRB buys, collects, processes, recycles, sells, trades and brokers ferrous scrap metal (containing iron) to foreign and domestic steel producers, including SMB and nonferrous metal (not containing iron) to both domestic and export markets. MRB processes large pieces of scrap metal into smaller pieces by sorting, shearing, shredding and torching, resulting in metal processed into pieces of a size, density and purity required by customers to meet their production needs. Smaller, more homogenous pieces of processed metal are more valuable because they melt more readily and allow for more consistent processing time than larger pieces and, in the case of ferrous metal, enable steel mills to load their electric arc furnaces (EAF) more effectively, which reduces energy usage and shortens cycle times, thus reducing unit costs.

One of the most efficient ways to process and sort recycled metal is to use shredding systems. Currently, each of the Company s Everett, Massachusetts; Portland, Oregon; Oakland, California; and Tacoma, Washington facilities has a mega-shredder capable of processing over 2,500 tons of metal per day. The Company s Johnston, Rhode Island facility operates a large shredder capable of processing up to 1,500 tons of metal per day and the Kapolei, Hawaii; Anchorage, Alaska; and Concord, New Hampshire facilities operate smaller shredders. Mega-shredders, in addition to the extra production capacity, provide the ability to shred more efficiently and process a greater range of materials, including larger and thicker pieces of scrap metal. Mega-shredders are designed to provide a denser product and, in conjunction with new separation equipment, a more refined and preferable form of ferrous metal which can be more efficiently used by steel mills. The larger shredders are also able to accept more types of material, resulting in more efficient processing. Shredders can reduce autobodies, home appliances and other metal into fist-size pieces of shredded recycled metal in seconds. The shredded material is then carried by conveyor under magnetized drums that attract the recycled ferrous metal and separate it from the nonferrous metal and other residue found in the shredded material, resulting in a consistent and high quality shredded ferrous product. The remaining nonferrous metal and residue then pass through a series of mechanical and manual sorting systems designed to separate the nonferrous metal from the residue. The remaining nonferrous metal is either hand-sorted and graded before being sold or is sold as a mixed product. MRB continues to invest in nonferrous metal recovery methods in order to maximize the recoverability of valuable nonferrous metal. MRB also purchases nonferrous metal directly from industrial vendors and other suppliers and bundles this metal to sell to customers.

MRB has a global trade component of its business that purchases processed ferrous metal from metal processors operating in Russia and certain Baltic countries and sells this metal to steel mills located primarily in Europe and the Mediterranean. This component of the business was significantly reduced in fiscal 2008 due to the Company s focus on higher margin processed ferrous and nonferrous operations and the lower quantities of scrap available for export in the Baltic region.

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Products

MRB sells both ferrous and nonferrous scrap metal. The ferrous products include shredded, sheared, torched, bundled scrap metal and other purchased scrap metal. MRB also purchases, processes and sells nonferrous scrap metal, including aluminum, copper, stainless steel, nickel, brass, titanium and high temperature alloys.

Customers

MRB sells recycled metal to many long-standing foreign and domestic customers and provides substantially all of the ferrous scrap metal required by SMB.

Presented below are MRB revenues by continent for the year ended August 31 (in thousands):

	2008	% of Revenue	2007	% of Revenue	2006	% of Revenue
Asia	$ 1,437,850	53%	$ 754,996	40%	$ 562,492	44%
North America	917,485	34%	638,900	34%	423,967	34%
Europe	446,012	16%	608,088	32%	372,639	29%
Africa	261,503	9%	87,285	4%	47,686	4%
Sales to SMB	(328,412)	(12%)	(185,699)	(10%)	(142,296)	(11%)
Revenue from external customers	$ 2,734,438	100%	$ 1,903,570	100%	$ 1,264,488	100%

In 2008, MRB made sales to customers in South Korea, Taiwan, Turkey, Malaysia, Spain, India, Egypt, Mexico, Greece, Japan and other countries located in Asia and Europe. The Company made sales to customers in 15 countries in fiscal 2008, 18 countries in fiscal 2007 and 17 countries in fiscal 2006.

MRB s five largest ferrous metal customers accounted for 37%, 25% and 23% of recycled ferrous metal revenues to unaffiliated customers in fiscal 2008, 2007 and 2006, respectively. There were no external customers that accounted for 10% or more of consolidated revenues in fiscal 2008, 2007 or 2006. Customer purchase volumes of ferrous scrap metal vary from year to year due to demand, competition, economic growth, infrastructure spending, relative currency values and other factors. Ferrous metal sales are generally denominated in United States (U.S.) dollars and most shipments to foreign customers are supported by letters of credit. Ferrous metal is shipped to customers by ship, railroad, barge or truck.

The following table sets forth the amount of recycled ferrous metal sold by MRB to certain groups of customers during the last three fiscal years ended August 31:

	2008		2007		2006	
	Revenues(1)	Volume(2)	Revenues(1)	Volume(2)	Revenues(1)	Volume(2)
Foreign - processed	$ 1,749,369	3,211	$ 925,410	2,865	$ 533,453	2,098
Foreign - trading	185,715	444	381,066	1,212	330,296	1,272
SMB	328,412	737	185,699	705	142,296	668
Domestic - processed	327,300	805	189,678	722	125,475	523
Total recycled ferrous metal	$ 2,590,796	5,197	$ 1,681,853	5,504	$ 1,131,520	4,561

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

MRB also sells purchased and recycled nonferrous metal to foreign and domestic customers. By continuing to improve the extraction processes used to recover nonferrous metal from the shredding process, MRB has been able to increase the supply of nonferrous product available to sell to foreign and domestic customers. Many of MRB s industrial suppliers utilize nonferrous metal in manufacturing automobiles and auto parts.

The following table sets forth the amount of recycled nonferrous metal sold by MRB to foreign and domestic customers during the last three fiscal years ended August 31:

	2008		2007		2006	
	Revenues(1)	Volume(2)	Revenues(1)	Volume(2)	Revenues(1)	Volume(2)
Foreign	$ 239,765	260,798	$ 193,752	209,725	$ 150,670	194,496
Domestic	220,874	178,672	201,985	173,361	116,103	107,114
Total recycled nonferrous metal	$ 460,639	439,470	$ 395,737	383,086	$ 266,773	301,610

(1) Revenues stated in thousands of dollars.
(2) Volume in thousands of pounds.

Markets

Domestic and foreign prices for ferrous scrap metal are generally based on prevailing market rates, which can differ by region and which 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, among other factors. In recent years, worldwide demand for finished steel products has been growing at a faster rate than the available supply of recycled ferrous metal, which is one of the primary raw materials used in manufacturing steel. During this time, the demand for finished steel has been growing most rapidly in developing countries, which currently do not possess an adequate supply of raw materials to produce steel. MRB s average net selling price per ton for recycled ferrous metal increased from $263 per ton in fiscal 2007 to $442 per ton in fiscal 2008, setting a historical fiscal year record. Export recycled ferrous metal sales contracts generally provide for shipment within 30 to 90 days after the price is agreed to which, in most cases, includes freight. MRB responds to changing price levels by adjusting scrap metal purchase prices at its recycling facilities in order to help maintain its operating income. The spread between selling prices and the cost of purchased material is subject to a number of factors, including differences in the market conditions in the domestic regions where recycled metal is acquired and the areas in the world where the processed materials are sold, market volatility from the time the selling price is agreed with the customer until the time the material is delivered and changes in the assumed costs of transportation to the buyer s facility. MRB believes it generally benefits from rising recycled metal selling prices, which allow it to better maintain or expand both operating income and unprocessed metal flow into its facilities. However, financial results may be adversely impacted when selling prices fall more quickly than purchase price adjustments can be made or where levels of inventory on hand have an anticipated net realizable value that is below average cost.

Consolidation in the Scrap Metal Industry

The metals recycling industry has been consolidating over the last several years, primarily due to the growth in global demand for scrap metal, a high degree of fragmentation in the industry and the ability of large, well-capitalized processors to achieve competitive advantages by investing in capital improvements to improve efficiencies and lower processing costs. The Company believes that it is in a position to make reasonably priced acquisitions as a result of the Company s balance sheet condition, cash from operations and available borrowing capacity.

Distribution

MRB delivers recycled ferrous and nonferrous metal to foreign steel customers by ship and domestically by barge, rail 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 MRB s terminal facilities except for the Providence, Rhode Island facility, which is operated under a long-term lease, are owned. The Kapolei, Hawaii and Anchorage, Alaska operations ship from public docks. Additionally, because MRB owns most of the terminal facilities it operates, it is not normally subject to the same berthing delays often experienced by users of unaffiliated terminals. MRB believes that its loading costs are lower than they would be if it utilized third-party terminal facilities. From time to time MRB will enter into contracts of affreightment, which guarantee the availability of ocean going vessels at either a fixed or variable market rate in order to manage the risks associated with ship availability and freight costs.

Sources of Unprocessed Metal

The most common forms of purchased raw metal are obsolete machinery and equipment, such as automobiles, railroad cars, railroad tracks, home appliances, waste metal from manufacturing operations, and demolition metal from buildings and other obsolete structures. This metal is acquired from suppliers who unload at MRB s facilities, from drop boxes at a diverse base of suppliers industrial sites and through negotiated purchases from other large suppliers, including railroads, industrial manufacturers, automobile salvage facilities, metal dealers and individuals. The majority of MRB s scrap metal collection and processing facilities receive raw metal via major railroad routes, waterways or major highways. Metal recycling facilities situated near unprocessed metal sellers and major transportation routes have the competitive advantage of reduced freight costs because of the significant cost of freight relative to the cost of metal. The locations of MRB s West Coast facilities allow it to competitively purchase raw metal from the San Francisco Bay area, northwards up the West Coast to Western Canada and Alaska and to the east, including Idaho, Montana, Utah, Colorado and Nevada. The locations of the East Coast facilities provide access to sources of unprocessed metal in Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont. In the Southeastern U.S., approximately half of MRB s ferrous and nonferrous unprocessed metal volume is purchased from industrial companies, 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 Southeastern U.S. has recently become an attractive location for domestic and international auto manufacturers, specifically Alabama and Georgia where MRB s Southeastern facilities are located. With the rise of automobile manufacturing in the Southeast, automobile parts manufacturers have also established facilities in this area. The supply of scrap metal from these manufacturers can fluctuate with the levels of automotive production.

Seasonality

MRB makes a number of large recycled ferrous metal shipments to foreign steel producers each year. Control over the timing of shipments is limited by customer requirements, shipping schedules, availability of suitable vessels, metal supply and other factors. Variations in the number of shipments from quarter to quarter, often as a result of the timing of obtaining vessels, can result in significant fluctuations in quarterly revenues, earnings and inventory levels. Inclement winter weather conditions can also affect the level of raw material purchases in the Northeast region as a result of reduced levels of industrial production or interruptions in transportation services from railroads or barges, which may reduce the volume of scrap metal processed at MRB s facilities. In addition, unusual weather conditions encountered in overseas markets may impact short-term demand for steel to support construction activities.

Backlog

On October 13, 2008, MRB had backlog orders to sell $144 million of export ferrous metal compared to $175 million on September 30, 2007.

Competition

The market for the purchase of raw scrap metal is highly competitive. MRB competes in the domestic market for the purchase of scrap metal with large, well-financed recyclers of scrap metal as well as smaller metal facilities and dealers. In general, the competitive factors impacting the purchase of scrap metal are the price offered by the purchaser and the proximity of the purchaser to the scrap metal source. MRB also competes with brokers who buy scrap metal on behalf of domestic and foreign steel mills and coordinate shipments of certain grades of processed scrap from smaller scrap dealers to foreign mills using shipping containers.

MRB competes in a global market for the sale of processed recycled metal to finished steel producers. The predominant competitive factors that impact recycled metal sales and the ability to obtain unprocessed metal are price (including shipping cost) and reliability of service, product quality and availability of scrap metal and scrap metal substitutes. The Company believes that its ability to process substantial volumes of scrap metal products, its state of the art equipment, number of locations, access to a variety of different modes of transportation, geographic dispersion and vertically integrated operations provide it with competitive advantages.

Auto Parts Business

Business and Products

APB procures used and salvaged vehicles, primarily from tow companies, private parties, auto auctions, city contracts, and charities, and sells the used parts from these vehicles through its self-service and full-service auto parts stores, which are located across the U.S. and Western Canada. The remaining portions of the vehicles, primarily autobodies, cores (which include engines, transmissions, alternators and catalytic converters), and nonferrous materials, are sold to metal recyclers, including MRB where geographically feasible.

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. Full-service stores generally serve business or wholesale customers, typically collision and repair shops that are looking to obtain serviceable used parts at prices that are less than prices for new parts. Full-service stores retain professional staff to dismantle and inventory individual parts. Once sold, parts are pulled from inventory, cleaned, tested and delivered to the customer using APB delivery trucks and third parties. In addition, APB sells the scrap metal from end of life vehicles to MRB and third party recycling yards throughout the U.S.

APB believes that it has enhanced the Company s competitive advantage through its proprietary technology, which is used to centrally manage and operate the geographically diverse network of stores; by applying a consistent approach to offering customers a large selection of vehicles from which to obtain parts; and by its efficient processing of autobodies. There were no external customers that accounted for 10% or more of consolidated revenues in fiscal 2008, 2007 or 2006.

APB is dedicated to supplying low-cost used auto parts to its customers. In general, management believes that the prices of parts at its self-service stores are significantly lower than those offered at full-service auto dismantlers, retail car part 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.

APB total revenues for the year ended August 31 were (in thousands):

	2008	**2007**	**2006**
North America	$ 352,682	$ 266,354	$ 218,130
Sales to MRB	(48,759)	(22,209)	(14,513)
Revenues from external customers	$ 303,923	$ 244,145	$ 203,617

Fragmentation of the Auto Parts Industry

The auto parts industry is characterized by diverse and fragmented competition and is comprised of a large number of aftermarket and used auto part 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. The auto parts industry is also characterized by a wide range of consumers as some consumers tend to demand original replacement parts, while others are price sensitive and exhibit minimal brand loyalty.

Distribution

APB sells used auto parts from each of its self-service and full-service retail stores. Upon arriving at a self-service store, a customer typically pays an admission charge and signs a liability waiver before entering the facility. When a customer finds a desired part on a vehicle, the customer removes it and pays a pre-established price for the part. The full-service business sells its parts primarily to collision and mechanical repair shops through its sales force, which includes internal and external sales people. Once sold, parts are pulled from inventory, cleaned, tested and delivered to the customer using APB delivery trucks and third parties. In addition, the full-service business offers its customers visibility to all parts in inventory within a given region through a proprietary order management system and fulfills orders with next day delivery by running nightly transfer trucks between locations and by delivering directly to customers.

The wholesale component of APB s business consists of core and scrap sales. Once the vehicle is removed from the customer area, certain remaining parts that can be sold wholesale are removed from the vehicle and consolidated at central facilities in California, Florida and Texas. From these facilities, the cores and scrap are sold through an auction system to a variety of wholesale buyers. Due to the larger volumes generated by this consolidation process and higher prices for nonferrous metal in fiscal 2008, APB was able to obtain increasingly higher prices for these cores.

After the core removal process is complete, the remaining autobody is crushed and sold as scrap metal in the wholesale market. During fiscal 2008, APB benefited from selling prices for ferrous and nonferrous metal which increased more rapidly than purchase costs for scrapped vehicles. In periods of declining prices, APB s operating income could be adversely impacted if selling prices decline more rapidly than purchase price adjustments can be made or when levels of inventory on hand have an anticipated net realizable value that is below average cost. The autobodies are sold on a price per ton basis, which is subject to fluctuations in the recycled ferrous metal markets. During fiscal 2008, 2007 and 2006, APB generated revenues of $49 million, $22 million and $15 million from sales to MRB respectively, thereby making MRB the single largest customer of APB.

Marketing

APB has customized marketing initiatives that are unique to its self-service and full-service brands. The full-service brand marketing plan recognizes the role that institutional entities, such as insurance companies and consolidators, as well as local repair facilities, play in the purchasing cycle and utilizes a marketing infrastructure that addresses all levels of customers. Through market education forums, market mailer programs, participation in industry forums and local marketing initiatives, the full-service platform highlights the advantages of using recycled auto parts to the consumer.

The self-service brand marketing plan focuses on the local markets surrounding the stores and incorporates various components, including a points-based system for buying media, the use of radio to support promotional events, regularly scheduled in-store promotions and product promotion. Each store has a customized marketing calendar designed for its market and the community it serves.

APB typically seeks to locate its facilities with convenient access to major streets and in major population centers. By operating at locations that are convenient and visible to the target customer, the stores seek to become the customer s first stop in acquiring used auto parts. Convenient locations also make it easier and less expensive for suppliers to deliver vehicles. APB has also developed a side-by-side full-service and self-service concept in one store to enhance the scope of parts available to its customers.

Sources of Vehicles

APB obtains vehicles from five primary sources: tow companies, private parties, auto auctions, city contracts and charities. APB employs car buyers who travel to vendors and bid on vehicles. APB also 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 is also attempting to secure more vehicles at the source by contracting with additional suppliers. The full-service business also purchases damaged vehicles, reacquired vehicles and salvageable production parts from inactive test vehicles from Ford Motor Company and resells these parts through its sales network.

Competition

APB competes for the purchase of vehicles with other dismantlers, used car dealers, auto auctions and metal recyclers. APB competes in selling auto parts with other self-service and full-service auto dismantlers as well as larger well- financed retail auto parts businesses. APB s primary domestic competitor is LKQ Corporation, which has locations throughout the U.S.

Steel Manufacturing Business

Business

SMB is a steel mini-mill that produces a wide range of finished steel products using recycled metal and other raw materials. SMB purchases substantially all of its recycled metal from MRB at rates that approximate West Coast export market prices.

Manufacturing

SMB s melt shop includes a 108-ton capacity EAF, a ladle refining furnace and a five-strand continuous billet caster. The melt shop 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 802,000, 762,000 and 719,000 tons of steel in the form of billets during fiscal 2008, 2007 and 2006, respectively. SMB continues to reinvest in its mini-mill to improve efficiencies in the melting process.

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

During fiscal 2008, SMB installed a new electrode control system in the EAF and new bend zone in the caster and upgraded the rod block contact water cooling in one of its rolling mills. These capital projects enabled SMB to increase melt shop production capabilities, improve billet quality from the caster and increase production and product quality. As a result of these projects, SMB believes that its annual finished goods production capacity is now nearly 800,000 tons, compared to 724,000 tons in fiscal 2007 and 698,000 tons in fiscal 2006.

Products

SMB produces rebar, coiled rebar, wire rod, merchant bar and other specialty products. 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. 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. 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.

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

	2008		2007		2006	
	Revenues(1)	Volume(2)	Revenues(1)	Volume(2)	Revenues(1)	Volume(2)
Rebar	$ 352,087	470,111	$ 272,602	451,624	$ 214,955	389,603
Wire rod	133,815	178,508	66,321	129,105	77,310	155,241
Coiled rebar	51,020	67,598	40,742	63,742	46,603	78,133
Merchant bar	49,324	59,565	43,584	65,578	46,243	76,145
Other products(3)	16,943	32,048	1,301	2,909	1,499	3,607
Total	$ 603,189	807,830	$ 424,550	712,958	$ 386,610	702,729

(1) Revenues stated in thousands of dollars.
(2) Volume in short tons (2,000 pounds).
(3) Includes $17 million and $1 million in billet (unfinished steel products) revenues, which represented 32 thousand and three thousand tons sold in fiscal 2008 and 2007, respectively. There were no billet sales in fiscal 2006.

Customers

SMB s customers are principally steel service centers, construction industry subcontractors, steel fabricators, wire drawers and major farm and wood product suppliers. During fiscal 2008, SMB sold its finished steel products to customers located primarily in the ten Western states and Canada and billets to customers in Asia. Customers in California accounted for 40% of these sales. SMB s ten largest customers accounted for 36%, 34% and 38% of its revenues during fiscal 2008, 2007 and 2006, respectively. There were no external customers that accounted for 10% or more of consolidated revenues in fiscal 2008, 2007 or 2006.

Presented below are SMB revenues by continent for the year ended August 31, (in thousands):

	2008	2007	2006
North America	$ 589,287	$ 424,550	$ 386,610
Asia	13,902		
Revenue from external customers	$ 603,189	$ 424,550	$ 386,610

Consolidation in the Steel Industry

There has been significant consolidation in the global steel industry. Within the past few years, there has been significant consolidation within the U.S. steel industry, primarily led by Arcelor Mittal, United States Steel Corporation, Nucor Corporation and Steel Dynamics, Inc. Consolidation is also taking place in Central and Eastern Europe as well as in China and other parts of Asia. Cross-border consolidation has also occurred with the aim of 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, from its owned distribution center in El Monte, California (Los Angeles area) and from a third-party distribution center in Lathrop, California (Central California). Products are shipped from the mini-mill to the distribution centers primarily by rail. The distribution centers facilitate 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.

Recycled Metal Supply

SMB believes it operates the only mini-mill in the Western U.S. that obtains substantially all of its recycled metal requirements from its own affiliated metal recycling operations. This is beneficial because there have been times when regional shortages of recycled metal have caused some mills to pay higher prices for recycled metal shipped from other regions or to temporarily curtail operations. MRB is able to deliver a mix of recycled metal grades to achieve optimum efficiency in SMB s melting operations. Because both the steel mill and major MRB facilities are located on railway routes, SMB benefits from the reduced cost of shipping recycled metal by rail.

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 (MWL) that expires in September 2011, which in turn relies on the Bonneville Power Administration (the BPA). Historically, these contracts have had favorable prices. On October 1, 2001, the BPA increased its electricity rates due to increased demand on the West Coast and lower supplies. This rate increase was in the form of a Cost Recovery Adjustment Clause (CRAC) added to the BPA s contract with MWL. The CRAC is an additional monthly surcharge on selected power charges to recover costs associated with buying higher priced power during West Coast power shortages. Starting October 1, 2006, the BPA can adjust the CRAC on an annual basis instead of every six months. The CRAC for October 1, 2008 to September 30, 2009 is expected to be zero. Electricity represented 3%, 4% and 5% of SMB s cost of goods sold in fiscal 2008, 2007 and 2006, respectively.

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 take-or-pay natural gas contract that expires on May 31, 2011 and obligates it to purchase minimum quantities of natural gas per day through October 2010, whether or not the amount is utilized. Natural gas represented 2%, 3% and 3% of cost of goods sold in fiscal 2008, 2007 and 2006, respectively. (Refer to Item 7A. Quantitative and Qualitative Disclosures about Market Risk Commodity Price Risk, for further detail.)

Backlog

SMB generally ships products within days after the receipt of purchase orders. As of September 30, 2008 SMB had backlog orders of $18 million, compared to $17 million as of August 31, 2007.

Competition

The mill s primary domestic competitors for sale of finished steel products include Nucor Corporation s manufacturing facilities in Utah and Washington and TAMCO Steel s facility in California. In addition to domestic competition, SMB has historically competed 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. 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 is impacted by the value of the U.S. dollar and general economic conditions.

In the spring of 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 July of 2007, the International Trade Commission extended existing rebar anti-dumping duties of up to 233% on imports from seven nations through 2012.

Strategic Focus

Company Growth

In fiscal 2008, the Company continued its growth strategy by completing the following acquisitions:

In September 2007, the Company acquired a mobile metals recycling business that provides additional sources of scrap metal to the Everett, Massachusetts facility.

The Company acquired two metals recycling businesses in November 2007 and one metals recycling business in February 2008 that expanded the Company s presence in the Southeastern U.S.

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In February 2008, the Company acquired the remaining 50% equity interest in an auto parts business located in Nevada in exchange for its 50% interest in the land and buildings owned by the business. The acquired business was previously consolidated into the Company s financial statements because the Company maintained operating control over the entity.

In August 2008, the Company acquired a self-service used auto parts business with three locations in the Southern U.S.

These acquisitions were not material, individually or in the aggregate, to the Company s financial position or results of operations.

The Company intends to continue to focus on growth through value-creating acquisitions and will pursue acquisition opportunities it believes will create shareholder value and earn after-tax income in excess of its cost of capital. With the Company s historically strong balance sheet, cash flows from operations and available borrowing capacity, the Company believes it is in an attractive position to complete reasonably priced acquisitions fitting the Company s long-term strategic plans.

Processing and Manufacturing Technology Improvements

The Company aims 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, the Company has historically focused on, and will continue to emphasize, the cost effective purchasing of and efficient processing of scrap metal. During fiscal 2008, 2007 and 2006, the Company spent $84 million, $81 million and $87 million, respectively, on capital improvements. These capital expenditures primarily reflect the Company s significant investments in modern equipment to improve the efficiency and the capabilities of its businesses and to further maximize economies of scale. The capital expenditures in fiscal 2008 included significant enhancements to the Company s information technology infrastructure, further investments in technology to improve the recovery of nonferrous materials from the shredding process, establishment of additional nonferrous collection facilities, improvements to the Company s marine shipping infrastructure and further investments to improve efficiency, increase worker safety and enhance environmental systems. In addition, the Company completed improvements to its EAF and rolling mills that enhanced production capabilities and product quality. The Company believes these investments will provide future returns in excess of its cost of capital and will create value for its shareholders.

Capital projects in fiscal 2009 are expected to include material handling and processing equipment, enhancements to the Company s information technology infrastructure, improvements to the facilities environmental and safety infrastructure, continued investments in technology to improve the recovery of nonferrous materials from the shredding process and dock replacement. The Company believes these investments will provide future returns in excess of its cost of capital and will create value for its shareholders.

Environmental Compliance

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

The 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 remediation of soil and groundwater contamination;
The management and treatment of wastewater and storm water;
The treatment, handling and disposal of solid hazardous and Toxic Substances Control Act (TSCA) waste; and
The protection of the Company s employee 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, treatment and disposal of hazardous materials. Environmental legislation and regulations have changed rapidly in recent years, and it is likely that the Company will be subject to even more stringent environmental standards in the future and will be required to make additional expenditures, which could be significant, relating to environmental matters on an ongoing basis. In fiscal 2008 and 2007, the expenditures incurred to comply with environmental regulations were immaterial.

It is not possible to predict the total cost to remediate environmental matters or the amount of capital expenditures or the increases in operating costs or other expenses that may be incurred by the Company or its subsidiaries in complying with environmental requirements applicable to the Company, its subsidiaries and their operations, or whether all such cost increases can be passed on to customers through product price increases. Moreover, environmental legislation has been enacted, and may in the future be enacted, to create liability for past actions that were lawful at the time taken but have been found to affect the environment and to increase public rights of action for environmental conditions and activities. As is the case with steel producers and recycled metal processors in general, if damage to persons or the environment has been caused, or could be caused in the future, by the Company s activities or by hazardous substances now or hereafter located at the Company s facilities, the Company may be fined and/or held liable for such damage and, in addition, may be required to remedy the condition. There can be no assurance that potential liabilities, expenditures, fines and penalties associated with environmental laws and regulations will not be imposed on the Company in the future or that such liabilities, expenditures, fines or penalties will not have a material adverse effect on the Company.

The Company has, in the past, been found not to be in compliance with certain environmental laws and regulations and has incurred liabilities, expenditures, fines and penalties associated with such violations. The Company s objective is to maintain compliance with applicable environmental regulations. The Company believes that it is materially in compliance with currently applicable environmental regulations. See Note 11 Commitments and Contingencies, in the notes to the consolidated financial statements, in Part II, Item 8, of this report.

Employees

As of October 15, 2008, the Company had approximately 3,669 full-time employees, consisting of 1,524 employees at MRB, 548 employees at SMB, 1,455 employees at APB and 142 corporate administrative employees. Of these employees, 1,013 were covered by collective bargaining agreements with the Company s twenty unions. The SMB contract with the United Steelworkers of America (USA) covers 400 of these employees. This contract was successfully agreed to in June 2008 and will expire in April, 2011. The Company believes that in general its labor relations are good.

Available Information

The Company s internet address is *www.schnitzersteel.com.* The Company makes all filings with the Securities and Exchange Commission (SEC) available on its website, free of charge, under the caption Investor Relations SEC Filings. Included in these filings are annual reports on form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports, which are available as soon as reasonably practicable after electronically filing with or furnishing such materials to the SEC pursuant to Sections 13(a) or 15(d) of the Securities Exchange Act of 1934.

The public may read and copy any materials that are filed with the SEC at the SEC s Public Reference Room located at 100 F Street NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains electronic versions of reports on its website, *www.sec.gov.*

ITEM 1A. RISK FACTORS

Described below are risks that could have a material adverse effect on the Company s results of operations and financial condition 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 Annual Report on Form 10-K. Additional risks and uncertainties that the Company is unaware of or that the Company currently deems immaterial may in the future have a material adverse effect on the Company s results of operations and financial condition.

Risks Relating to the Company s Businesses

The Company operates in industries that are cyclical and where demand can be volatile, which could have a material adverse effect on the Company s results of operations and financial condition.

MRB operates in industries that are cyclical in nature. The timing and magnitude of these industry cycles are difficult to predict. Purchase prices for autobodies and scrap metal and selling prices for scrap and recycled metal are volatile and beyond the Company s control. While the Company attempts to respond to changing recycled metal selling prices through adjustments to its metal purchase prices, the Company s ability to do so is limited by competitive and other market factors. A significant reduction in selling prices for recycled metal may adversely impact both the Company s operating income and its ability to recover purchase costs from end customers. A decline in market prices for recycled metal between the date of the sales order and shipment of the product may impact the customer s ability to obtain letters of credit to cover the full sales amount. A decline in selling prices for scrap metal or a customer s failure to meet their contractual obligations may also result in a net realizable value adjustment to the average cost of inventory to reflect the lower of cost or market. Additionally, changing prices could potentially impact the volume of scrap metal available to the Company, the volume of processed metal sold by the Company and inventory levels. The cyclical nature of the Company s businesses tends to reflect and be amplified by changes in general economic conditions, both domestically and internationally. For example, during recessions, the automobile and construction industries typically experience cutbacks in production, resulting in decreased demand for steel, copper and aluminum. This can lead to significant decreases in demand and pricing for the Company s recycled metal and finished steel products.

During uncertain economic conditions customers may be unable to fulfill their contractual obligations.

The Company enters into export ferrous processing sales contracts preceded by negotiations that include fixing a price, quantities, other contractual elements and shipping terms. Upon finalization of these terms and satisfactory completion of other contractual contingencies by the Company, the customer typically opens a letter of credit to satisfy its obligation under the contract prior to shipment of the cargo by the Company. Although not considered normal course of business, during uncertain economic conditions, the Company is at risk on consummating the transaction until successful completion of the letter of credit. As a result, the customer may not be able to fulfill its obligation under the contract in times of illiquid market conditions.

MRB is affected by seasonal fluctuations.

MRB generally experiences seasonal fluctuations in business in the winter months when inclement weather conditions can impact the level of raw material purchases as a result of reduced levels of industrial production or interruptions in transportation from railroads or barges, which may reduce the volume of material processed at MRB s facilities. Protracted periods of inclement weather could have a material adverse affect on the Company s results of operations and financial condition.

The principal markets served by the Company are highly competitive.

Many factors influence the Company s competitive position, including product differentiation, geographic location, contract terms, business practices, customer service and cost reductions through improved efficiencies. Consolidation within the different industries in which the Company operates has increased the size of some of the Company s competitors, some of which have used their financial resources to achieve competitive advantages by investing in capital improvements to improve efficiencies, achieve economies of scale and lower operating costs. An increase in competition or the Company s inability to remain competitive could have a material adverse effect on the Company s results of operations and financial condition.

Fluctuations in the value of the U.S. dollar relative to other currencies could adversely affect the Company s ability to price its products competitively.

A significant portion of MRB s revenues and operating income earned is generated from sales to foreign customers, including customers located in Asian and Mediterranean countries. A strong U.S. dollar would make the Company s products more expensive for non-U.S. customers, which could negatively impact export sales. A strong U.S. dollar also would make imported metal products less expensive, resulting in an increase in imports of scrap metal, scrap substitutes and steel products into the U.S. As a result, the Company s products, which are made in the U.S., may become more expensive relative to imported raw metal and steel products, which could have a material adverse effect on the Company s results of operations and financial condition.

The Company s ability to deliver products to customers and the cost of shipping and handling may be affected by circumstances over which the Company has no control.

MRB and SMB often rely on third parties to handle and transport their raw materials to their production facilities and finished products to end users. Due to factors beyond the Company s control, including changes in fuel prices, political events, governmental regulation of transportation, changes in market rates, carrier availability and disruptions in transportation infrastructure, the Company may not be able to transport its products in a timely and cost-effective manner, which could have a material adverse effect on the Company s results of operations and financial condition. For example, increases in freight costs could negatively impact profitability. In addition, the Company s failure to deliver products in a timely manner could have a material adverse effect on the Company s results of operations and financial condition and harm its reputation.

The Company s businesses depend on adequate supplies of raw materials.

The Company s businesses require certain materials that are sourced from third-party suppliers. Although the Company s vertical integration allows it to be its own source for some raw materials, particularly with respect to SMB, the Company does rely on other suppliers, as well as industry supply conditions generally, which involves risks, including the possibility of increases in raw material costs and reduced control over delivery schedules. For example, purchase prices for autobodies and scrap metal are highly cyclical in nature and subject to U.S. and global economic conditions. As a result, the Company might not be able to obtain an adequate supply of quality raw materials in a timely or cost-effective manner.

Equipment upgrades and equipment failures may lead to production curtailments or shutdowns.

The Company s recycling and manufacturing processes depend upon critical pieces of equipment, including shredders and furnaces, which may be out of service occasionally for scheduled upgrades or maintenance or as a result of unanticipated failures. The Company s facilities are subject to equipment failures and the risk of catastrophic loss due to unanticipated events such as fires, accidents or violent weather conditions. As a result, the Company may experience interruptions in its processing and production capabilities, which could have a material adverse effect on the Company s results of operations and financial condition.

The Company may not be able to negotiate future labor contracts on acceptable terms, which could result in strikes or other labor actions.

Approximately 28% of the Company s full-time employees are represented by unions under collective bargaining agreements. As these agreements expire, the Company may not be able to negotiate extensions or replacements of such agreements on terms acceptable to the Company. Any failure to reach an agreement with one of the Company s unions may result in strikes, lockouts or other labor actions. Any such labor actions, including work slowdowns or stoppages, could have a material adverse effect on the Company s operations.

The cost and availability of electricity and natural gas are subject to volatile market conditions.

The Company s facilities are significant consumers of electricity and natural gas. The Company relies on third parties for its supply of energy resources consumed in the manufacture of its products. The prices for and availability of

electricity, natural gas, oil and other energy resources are subject to volatile market conditions. These market conditions can be affected by weather conditions, as well as political and economic factors that are beyond the Company s control. Disruptions in the supply of the Company s energy resources could impair its ability to manufacture its products for its customers and could result in increases in the Company s energy costs, which could have a material adverse effect on its results of operations and financial condition.

The Company may not be able to successfully integrate future acquisitions.

The Company has completed a number of recent acquisitions and expects to continue making acquisitions of, and strategic alliances with, complementary businesses and investments in technologies to enable the Company to add products and services that enhance the Company s customer base and related markets. Execution of this strategy involves a number of risks, including:

- Inaccurate assessment of undisclosed liabilities;
- Difficulty integrating the acquired businesses personnel and operations;
- Potential loss of key employees or customers of the acquired business; and
- Difficulties in realizing anticipated cost savings, efficiencies and synergies.

Failure to successfully integrate acquisitions could have a material adverse effect on the Company s results of operations and financial condition.

If the Company loses its key management personnel, it may not be able to successfully manage its business or achieve its objectives.

The Company s future success depends in large part on the leadership and performance of its executive management team and key employees at the operating level. If the Company were to lose the services of several of its executive officers or key employees at the operating level, it might not be able to replace them with similarly qualified personnel. As a result, the Company may not be able to successfully manage its business or achieve its business objectives, which could have a material adverse effect on its results of operations and financial condition.

Some of the Company s operations present significant risk of injury or death.

The industrial activities conducted at the Company s facilities present significant risk of serious injury or death to the Company s employees, customers or other visitors to the Company s operations, notwithstanding the Company s safety precautions, including its material compliance with federal, state and local employee health and safety regulations. While the Company has in place policies and procedures to minimize such risks, it may nevertheless be unable to avoid material liabilities for an injury or death, which could have a material adverse effect on the Company s results of operations and financial condition.

The Company relies on information technology in critical areas of the Company s operations, and a disruption relating to such technology could harm the Company.

The Company uses information technology systems in various aspects of the Company s operations, including, but not limited to, the management of inventories, processing costs and customer sales, some of which is provided by third parties. If the providers of these systems terminate their relationships with the Company, or if the Company decides to switch providers or to implement its own systems, it may suffer disruptions, which could have a material adverse effect on its results of operations and financial condition. In addition, the Company may underestimate the costs and expenses of switching providers or developing and implementing its own systems.

The Company could be subject to product liability claims.

The Company has some exposure from radioactive scrap that could inadvertently end up in mixed scrap shipped to consumers worldwide. The Company has invested in radiation detection equipment. However, the possibility still exists of potential failure in detection. The successful assertion of any such claim related to radiation contamination in the Company s products could have a material adverse effect on the Company s results of operations and financial condition.

If Chinese steel production substantially exceeds local demand, it may result in the export of significant excess quantities of steel products.

Chinese economic expansion has affected the availability and increased the price volatility of recycled metal and steel products. Expansions and contractions in the Chinese economy can significantly affect the price of commodities used and sold by the Company, as well as the price of finished steel products. If expanding Chinese steel production significantly exceeds local consumption, exports of steel products from China could increase, resulting in lower volumes and selling prices for SMB s steel products. Any resulting disruptions in foreign markets 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 the Company s results of operations and financial condition.

Increases in fuel cost may decrease demand for the Company s auto parts.

In times of rapid increases in crude oil and gasoline prices, motorists may reduce the amount of travel and mileage driven. As the economy slows, consumer confidence weakens and fuel costs become a more significant factor in buying decisions. Over time, reduced driving leads to fewer accidents and consequently lower demand for replacement parts, which may impact APB s parts sales.

The Company is subject to environmental regulations and environmental risks which could result in significant environmental compliance costs and environmental liability.

Compliance with environmental laws and regulations is a significant factor in the Company s business. The Company is 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;
- The discharge, storage, handling and disposal of hazardous materials; and
- Employee health and safety.

The Company is also required to obtain environmental permits from governmental authorities for certain operations. Violation or failure to obtain permits or comply with these laws or regulations, could result in the Company being fined or otherwise sanctioned by regulators. The Company s operations use and generate hazardous substances. In addition, previous operations by others at facilities that are currently or were formerly owned or operated by the Company or otherwise used by the Company may have caused contamination from hazardous substances. As a result, the Company is 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 clean-up of hazardous substances, even if the owner or operator was neither aware of nor responsible for the release of the hazardous substances. Although the Company believes that it is in material compliance with all applicable environmental laws and regulations, future environmental compliance costs may increase because of new laws and regulations and changing interpretations by regulatory authorities, uncertainty regarding adequate pollution control levels, the future costs of pollution control technology and issues related to global climate change. Environmental compliance costs and potential environmental liabilities could have a material adverse effect on the Company s results of operations and financial condition.

Governmental agencies may refuse to grant or renew the Company s licenses and permits.

The Company must receive licenses, permits and approvals from state and local governments to conduct certain of its operations or to develop or acquire new facilities. 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 the Company operates. In some countries, governments can require the Company 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 the Company will be able to maintain and renew the approvals, licenses and permits it currently holds, and failure to do so could have a material adverse effect on the Company s results of operations and financial condition.

The Company s properties are located in areas that may be subject to potential natural or other disasters.

Some of our operating facilities are located in areas that may be subject to natural disasters. In addition, many of our properties, including our deep water export facilities, are located in coastal regions and therefore could be affected by any future increases in sea levels, earthquakes, or the frequency or severity of hurricanes and tropical storms, whether such increases are caused by global climate changes or other factors. The inability to operate certain of the Company s facilities and the inability to ship from the Company s ports could have a material adverse effect on the Company s results of operations and financial condition.

Risks associated with climate change and greenhouse gas emission limitations.

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 the past few years the U.S. Congress has considered various bills that would regulate GHG emissions. While these bills have not yet received adequate Congressional support, some form of federal climate change legislation is possible in the relatively near future. Increased regulation regarding GHG emissions could impose significant costs on the Company, including increased energy, environmental and other costs in order to comply with the limitations imposed on GHG emissions. In addition, depending upon whether similar limitations are imposed globally, the legislation could negatively impact the Company s ability to compete with companies situated in areas not subject to such limitations. Until the timing, scope and extent of any future regulation becomes known, the Company cannot predict the effect on its financial condition, operating performance and 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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

There are currently no unresolved issues with respect to any SEC staff written comments that were received 180 days or more before the end of fiscal 2008 that relate to the Company s periodic or current reports under the Securities and Exchange Act of 1934.

ITEM 2. PROPERTIES

Corporate Headquarters

The Company s executive offices are located at 3200 NW Yeon Avenue in Portland, Oregon 97210, in approximately 31,000 sq. ft. of space, which were leased under a long-term lease. The Company leased these executive offices from Schnitzer Investment Corp. (SIC), a related party, until October 2007. SIC sold the building to an unrelated third party in the first quarter of fiscal 2008, and the building is currently under a long-term lease that expires June 30, 2015, with the unrelated third party. Refer to Note 16 Related Party Transactions, in the notes to the consolidated financial statements, in Part II, Item 8 of this report.

The Company also leases an additional 26,000 sq. ft. of office space that is located one mile from its principal executive offices under a long-term lease from a non-affiliated third-party that expires August 31, 2011.

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Metals Recycling Business

At August 31, 2008, MRB s operations were conducted on 42 properties. Of these, seven served as collection facilities, 32 as collection and processing facilities, two are currently inactive and in the process of relocation and the remaining one is an export facility. Listed in the table below are the facility locations by type, including their total acreage:

Location	Acreage	Location	Acreage
Collection		**Collection and Processing**	
Grants Pass, OR	1	Anchorage, AK	18
Manchester, NH (2)	3	Attalla, AL	30
Portland, ME	1	Birmingham, AL	23
Pasco, WA	6	Dothan, AL	18
Anchorage, AK	1	Selma, AL	22
Worcester, MA	12	Fresno, CA	17
		Oakland, CA	33
Other		Sacramento, CA	13
Atlanta, GA (inactive)	7	Albany, GA	10
Bainbridge, GA (inactive)	2	Atlanta, GA (2)	30
Providence, RI (export facility)	9	Bainbridge, GA	5
		Cartersville, GA	19
		Columbus, GA (3)	19
		Gainesville, GA	8
		Rossville, GA	11
		Kapolei, HI	6
		Everett, MA	37
		Chattanooga, TN	6
		Concord, NH (2)	13
		Auburn, ME	18
		Claremont, NH	14
		Madbury, NH	95
		Bend, OR	3
		Eugene, OR	12
		Portland, OR	97
		White City, OR	4
		Johnston, RI	22
		Tacoma, WA	26
Acreage sub-total	42		629
Total acreage	671		

The locations listed above are all owned by the Company, with the exception of one of the Bainbridge, Georgia facilities; one of the Columbus, Georgia facilities; Providence, Rhode Island; and a portion of the Eugene, Oregon location, which are all leased from third parties.

The Portland, Oregon; Oakland, California; Tacoma, Washington; and Everett, Massachusetts collection and processing facilities are located at major deep-water ports, which facilitate the collection of unprocessed metal from suppliers and accommodate bulk shipments and efficient distribution of processed recycled metal to the U.S., Asia, the Mediterranean and other foreign markets. The Company also leases an export marine shipping facility in Providence, Rhode Island, near the Johnston, Rhode Island collection and processing facility and has access to public docks in Kapolei, Hawaii and Anchorage, Alaska.

Auto Parts Business

APB has auto parts operations in the following locations:

Location	Number of Stores	Total Acreage
Northern California	17	211
Texas	8	116
Florida	5	93
Massachusetts	2	73
Virginia	3	63
Canada	3	46
Nevada	3	45
Arkansas	2	41
Missouri	2	38
Indiana	1	32
Illinois	2	31
Ohio	2	25
Arizona	1	14
Michigan	1	14
Georgia	1	13
Utah	1	12
North Carolina	1	9
New Jersey[(1)]	1	
Total	56	876

(1) APB leases a warehouse dock that serves as a transfer point for products to and from outbound transportation.

The Company owns the properties located in Arizona, Indiana, North Carolina and Nevada, and approximately 25 acres in California, 12 acres in Florida, 10 acres in Texas, six acres in Illinois and three acres in Utah. The remaining auto parts stores are located on sites leased by the Company.

Steel Manufacturing Business

SMB s steel mill and administrative offices are located on an 83-acre site in McMinnville, Oregon owned by the Company. The Company also owns an 87,000 sq. ft. distribution center in El Monte, California and an additional 51 acres near the mill site in McMinnville, Oregon; however, this latter site is not currently utilized in SMB operations.

The Company considers all properties, both owned and leased, to be well-maintained, in good operating condition and suitable and adequate to carry on the Company s business.

ITEM 3. LEGAL PROCEEDINGS

From time to time, the Company is involved in various litigation matters that arise in the normal course of business involving normal and routine claims. Environmental compliance issues represent a significant portion of those claims. Management currently believes that the ultimate outcome of these proceedings, individually or in the aggregate, will not have a material adverse effect on the Company s consolidated financial position, results of operations, cash flows or business. For additional information regarding litigation to which the Company is a party, which is incorporated into this item, see Note 11 Commitment and Contingencies, in the notes to the consolidated financial statements in Part II, Item 8 of this report.

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders, during the fourth quarter of fiscal 2008 through the solicitation of proxies or otherwise.

SUPPLEMENTARY ITEM. EXECUTIVE OFFICERS OF THE REGISTRANT

(PURSUANT TO INSTRUCTION 3 TO ITEM 401 (b) OF REGULATION S-K)

Executive Officers

Name	Age	Office
John D. Carter	62	President and Chief Executive Officer
Richard D. Peach	45	Senior Vice President and Chief Financial Officer
Tamara L. Lundgren	51	Executive Vice President and Chief Operating Officer
Gary A. Schnitzer	66	Executive Vice President
Donald W. Hamaker	56	Senior Vice President and President Metals Recycling Business
Thomas D. Klauer, Jr.	54	Senior Vice President and President Auto Parts Business
Jeffrey Dyck	45	Senior Vice President and President Steel Manufacturing Business
Richard C. Josephson	60	Senior Vice President, General Counsel and Secretary
Jay Robinovitz	50	Vice President, Business Development, Asset Integration and Major Capital Investment
Jeff P. Poeschl	43	Vice President, Corporate Controller and Principal Accounting Officer

John D. Carter joined the Company as President and Chief Executive Officer in May 2005. From 2002 to May 2005, Mr. Carter was engaged in a consulting practice focused primarily on strategic planning in transportation and energy for national and international businesses, as well as other small business ventures. From 1982 to 2002, Mr. Carter served in a variety of senior management capacities at Bechtel Group, Inc. including Executive Vice President and Director, as well as President of Bechtel Enterprises, Inc., a wholly owned subsidiary, and other operating groups. His duties during his tenure included providing senior executive oversight to almost all of Bechtel s business lines, operating groups and service groups. Prior to his Bechtel tenure, Mr. Carter was a partner in a San Francisco law firm. He is a director of Northwest Natural Gas Company and FLIR Systems, Inc. and Chairman of the Board of private company Kuni Automotive.

Richard D. Peach joined the Company in March 2007 as Deputy Chief Financial Officer and Chief Accounting Officer. He was appointed Chief Financial Officer in December 2007. Mr. Peach was the Chief Financial Officer and Senior Vice President with the multi-state energy utility, PacifiCorp, based in Portland, Oregon from 2003 to 2006. Previously, he served in a variety of executive positions with ScottishPower, the international energy company headquartered in Glasgow, Scotland, including Group Controller from 2000 through 2002, Head of United Kingdom Customer Services from 1999 to 2000 and Head of Energy Supply Finance from 1997 to 1999. Prior to joining ScottishPower, Mr. Peach was a senior manager with Coopers & Lybrand, Glasgow and is a member of the Institute of Chartered Accountants of Scotland.

Tamara L. Lundgren joined the Company in September 2005 as Vice President and Chief Strategy Officer. She became Executive Vice President, Strategy and Investments in April 2006 and was elected Executive Vice President and Chief Operating Officer in November 2006. Prior to joining the Company, Ms. Lundgren was a Managing Director in the Investment Banking Division of JPMorgan Chase, which she joined in 2001. From 1996 until 2001, Ms. Lundgren was a Managing Director at Deutsche Bank AG in New York and London. Prior to joining Deutsche Bank, Ms. Lundgren was a partner at the law firm of Hogan & Hartson, LLP in Washington, D.C.

Gary A. Schnitzer is an Executive Vice President and was in charge of the Company s California Metals Recycling operations from 1980 until 2007. He serves on the Company s Executive Committee and assists in developing the strategic direction of the Company s Metals Recycling Business.

Donald W. Hamaker joined the Company as President of the Metals Recycling Business in September 2005. Mr. Hamaker was employed in management positions by Hugo Neu Corporation for nearly 20 years, serving as President since 1999.

Thomas D. Klauer, Jr. has been the President of the Auto Parts Business since the Company s acquisition of Pick-N-Pull Auto Dismantling, Inc. in 2003. Prior thereto, Mr. Klauer was employed by Pick-N-Pull, having joined that Company in 1989.

Jeffrey Dyck joined the Steel Manufacturing Business in February 1994 and served in a variety of positions, including Manager of the Rolling Mills and Director of Operations of the Steel Manufacturing Business, prior to his promotion to President in June 2005.

Richard C. Josephson joined the Company in January 2006 as Vice President, General Counsel and Secretary. Prior to joining the Company, Mr. Josephson was a Member of the law firm Stoel Rives LLP, where he had practiced law since 1973.

Jay Robinovitz joined Schnitzer Steel in January 1993 and has held various senior management positions, including four years serving as General Manager of the Company s Tacoma operations, Vice President of the Company s Northwest metal recycling operations and since 2006 the position of Vice President of Business Development, Asset Integration and Major Capital Investment. Prior to joining Schnitzer Steel, Mr. Robinovitz was employed by Aerospace Industries, Inc., Hartford, Connecticut.

Jeff P. Poeschl joined the Company in February 2007 as Vice President and Corporate Controller. He became the Company s Principal Accounting Officer in December 2007. Mr. Poeschl was the Vice President Finance at Mesa Air Group, Inc., based in Phoenix, Arizona from 2000 to 2007. Prior to joining Mesa Air Group, Mr. Poeschl was a senior manager with Deloitte & Touche in Milwaukee, Wisconsin. Mr. Poeschl is a member of the American Institute of Certified Public Accountants and the Wisconsin Institute of Certified Public Accountants.

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PART II

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

The Company s Class A Common Stock is a NASDAQ-listed security traded on The NASDAQ Stock Market, LLC under the symbol SCHN. There were 232 holders of record of Class A Common Stock on October 15, 2008. The stock has been trading since November 16, 1993. The following table sets forth the high and low prices reported at the close of trading on the NASDAQ Stock Market LLC and the dividends paid per share for the periods indicated.

	Fiscal 2008		
	High Price	Low Price	Dividends Per Share
First Quarter	$ 77.88	$ 56.47	$ 0.017
Second Quarter	$ 70.47	$ 45.10	$ 0.017
Third Quarter	$ 101.66	$ 57.52	$ 0.017
Fourth Quarter	$ 118.55	$ 65.51	$ 0.017

	Fiscal 2007		
	High Price	Low Price	Dividends Per Share
First Quarter	$ 42.19	$ 30.05	$ 0.017
Second Quarter	$ 41.93	$ 33.26	$ 0.017
Third Quarter	$ 56.18	$ 35.39	$ 0.017
Fourth Quarter	$ 64.38	$ 46.17	$ 0.017

The Company s Class B Common Stock is not publicly traded. There were 13 holders of record of Class B Common Stock as of October 15, 2008.

Issuer Purchases of Equity Securities

Pursuant to a share repurchase program as amended in 2001 and in October 2006, the Company is authorized to repurchase up to 6.0 million shares of its Class A Common stock when management deems such repurchases to be appropriate. Prior to fiscal 2008, the Company had repurchased 3.8 million shares under the program. In fiscal 2008, the Company repurchased a total of 695,500 shares under this program, leaving approximately 1.5 million shares available for repurchase.

The share repurchase program does not require the Company to acquire any specific number of shares, may be suspended, extended or terminated by the Company at any time without prior notice and may be executed through open-market purchases, privately negotiated transactions or utilizing Rule 10b5-1 programs. Management evaluates 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.

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During the fourth quarter of fiscal 2008, the Company repurchased 250,000 shares in open-market transactions at a cost of $19 million. The table below presents a summary of share repurchases made by the Company during the quarter ended August 31, 2008:

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, 2008 June 30, 2008		$		1,714,290
July 1, 2008 July 31, 2008		$		1,714,290
August 1, 2008 August 31, 2008	250,000	$ 76.64	250,000	1,464,290

Performance Graph

The following graph compares cumulative total shareholder return on the Company s Class A Common Stock for the five-year period from September 1, 2003 through August 31, 2008 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 the Company s future performance, and the Company does not endorse any predictions as to future stock performance.