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

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

Or

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Transition Period from _______ to_______

Commission File Number 0-22496

SCHNITZER STEEL INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

OREGON (State or other jurisdiction of incorporation or organization)	93-0341923 (I.R.S. Employer Identification No.)
299 SW Clay St., Suite 350 Portland, OR (Address of principal executive offices)	97201 (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No o

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 o

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 o Non-accelerated filer o Smaller Reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

The Registrant had 26,524,472 shares of Class A common stock, par value of $1.00 per share, and 305,900 shares of Class B common stock, par value of $1.00 per share, outstanding as of June 25, 2015.

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ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)
SCHNITZER STEEL INDUSTRIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited, in thousands, except per share amounts)

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

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

The accompanying Notes to the Unaudited Condensed Consolidated Financial Statements are an integral part of these statements.

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

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

The accompanying Notes to the Unaudited Condensed Consolidated Financial Statements are an integral part of these statements.

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SCHNITZER STEEL INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited, in thousands)

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

The accompanying Notes to the Unaudited Condensed Consolidated Financial Statements are an integral part of these statements.

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SCHNITZER STEEL INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Nine Months Ended May 31,	
	2015	2014
Cash flows from operating activities:		
Net income (loss)	$(206,422)	$1,398
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Goodwill impairment charge	141,021	—
Other asset impairment charges	45,119	1,460
Other exit-related asset impairments and accelerated depreciation	6,502	566
Depreciation and amortization	52,420	60,114
Inventory write-down	3,031	—
Deferred income taxes	(764)	1,447
Undistributed equity in earnings of joint ventures	(1,148)	(924)
Share-based compensation expense	7,596	10,257
Excess tax benefit from share-based payment arrangements	(94)	(54)
Gain on disposal of assets	(1,752)	(916)
Unrealized foreign exchange gain (loss), net	(1,623)	409
Bad debt (recoveries) expense, net	(112)	399
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	60,639	(16,849)
Inventories	25,833	18,107
Income taxes	(14,095)	(6,678)
Prepaid expenses and other current assets	2,844	(2,418)
Intangibles and other long-term assets	560	590
Accounts payable	(29,405)	2,245
Accrued payroll and related liabilities	(11,834)	(47)
Other accrued liabilities	(558)	2,609
Environmental liabilities	(348)	(332)
Other long-term liabilities	1,481	(22)
Distributed equity in earnings of joint ventures	525	1,240
Net cash provided by operating activities	79,416	72,601
Cash flows from investing activities:		
Capital expenditures	(23,433)	(29,100)
Joint venture payments, net	1	(3,711)
Proceeds from sale of assets	2,403	1,822
Acquisitions, net of cash acquired	(150)	(2,160)
Net cash used in investing activities	(21,179)	(33,149)
Cash flows from financing activities:		
Proceeds from line of credit	189,000	327,000
Repayment of line of credit	(189,000)	(335,500)
Borrowings from long-term debt	114,099	259,323
Repayment of long-term debt	(169,511)	(257,535)
Taxes paid related to net share settlement of share-based payment arrangements	(1,360)	(676)
Excess tax benefit from share-based payment arrangements	94	54
Stock options exercised	—	240
Distributions to noncontrolling interest	(2,263)	(1,794)

Contingent consideration paid relating to business acquisitions	(759)	—
Dividends paid	(15,110)	(14,976)
Net cash used in financing activities	(74,810)	(23,864)
Effect of exchange rate changes on cash	(170)	293
Net increase (decrease) in cash and cash equivalents	(16,743)	15,881
Cash and cash equivalents as of beginning of period	25,672	13,481
Cash and cash equivalents as of end of period	$8,929	$29,362

The accompanying Notes to the Unaudited Condensed Consolidated Financial Statements are an integral part of these statements.

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SCHNITZER STEEL INDUSTRIES, INC.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

Basis of Presentation
The accompanying Unaudited Condensed Consolidated Financial Statements of Schnitzer Steel Industries, Inc. (the "Company") have been prepared pursuant to generally accepted accounting principles in the United States of America ("U.S. GAAP") for interim financial information and the rules and regulations of the United States Securities and Exchange Commission (the "SEC") for Form 10-Q, including Article 10 of Regulation S-X. The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. Certain information and note disclosures normally included in annual financial statements have been condensed or omitted pursuant to the rules and regulations of the SEC. In the opinion of management, all normal, recurring adjustments considered necessary for a fair statement have been included. Management suggests that these Unaudited Condensed Consolidated Financial Statements be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended August 31, 2014. The results for the three and nine months ended May 31, 2015 and 2014 are not necessarily indicative of the results of operations for the entire fiscal year.
Accounting Changes
In July 2013, an accounting standards update was issued that clarifies the financial statement presentation of certain unrecognized tax benefits. The amendments require that an unrecognized tax benefit be presented as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent that such carryforwards and losses are not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, in which case the unrecognized tax benefit should be presented in the financial statements as a liability. The Company adopted the new requirement in the first quarter of fiscal 2015 with no significant impact to the Unaudited Condensed Consolidated Financial Statements.
Discontinued Operations
The results of discontinued operations are presented separately, net of tax, from the results of ongoing operations for all periods presented. The expenses included in the results of discontinued operations are the direct operating expenses incurred by the disposed components that may be reasonably segregated from the costs of the ongoing operations of the Company. See Note 10 - Discontinued Operations for further detail.
Cash and Cash Equivalents
Cash and cash equivalents include short-term securities that are not restricted by third parties and have an original maturity date of 90 days or less. Included in accounts payable are book overdrafts representing outstanding checks in excess of funds on deposit of $19 million and $35 million as of May 31, 2015 and August 31, 2014, respectively.
Other Assets
The Company's other assets, exclusive of prepaid expenses, consist primarily of receivables from insurers, notes and other contractual receivables, and assets held for sale. Other assets are reported within either prepaid expenses and other current assets or other assets in the Unaudited Condensed Consolidated Balance Sheets based on their expected use either during or beyond the current operating cycle of one year from the reporting date. As of August 31, 2014, other assets were reported net of an allowance for credit losses on notes and other contractual receivables of $8 million. During the first quarter of fiscal 2015, the contractual receivables against which the $8 million allowance for credit losses was recorded were written off.
As of May 31, 2015 and August 31, 2014, the Company reported $2 million and $3 million of assets held for sale within prepaid expenses and other current assets in the Unaudited Condensed Consolidated Balance Sheets. See the Other Asset Impairment Charges section of this Note below for tabular presentation of impairment charges recorded

by the Company during the three and nine months ended May 31, 2015 and 2014 for the initial and subsequent write-down of certain equipment held for sale to its fair value less cost to sell. The Company determined fair value using Level 3 inputs under the fair value hierarchy consisting of information provided by brokers and other external sources along with management's own assumptions.

Long-Lived Assets

The Company tests long-lived tangible and intangible assets for impairment at the asset group level, which is determined based on the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. The Company tests its asset groups for impairment when certain triggering events or changes in circumstances indicate that the carrying value of the asset group may be impaired. If the carrying value of the asset group is not recoverable because it exceeds the Company's estimate of future undiscounted cash flows from the use and eventual disposition of the asset group, an impairment loss is recognized by the amount the carrying value exceeds its fair value, if any. The impairment loss is allocated to the long-lived assets of the group on a pro rata basis using the relative carrying amounts of those assets, except that the loss allocated to an individual long-lived asset of the group shall not reduce the carrying amount of that asset below its fair value. Fair value is determined primarily using the cost and market approaches.

During fiscal 2015, the Company recorded impairment charges on long-lived tangible and intangible assets associated with certain regional metals recycling operations and used auto parts store locations. These charges are reported in the Unaudited Condensed Consolidated Statements of Operations within other asset impairment charges or discontinued operations, if related to a component of the Company qualifying for discontinued operations reporting. Impairment charges on long-lived assets were as follows for the three and nine months ended May 31, 2015 (in thousands):

	Three Months Ended May 31, 2015	Nine Months Ended May 31, 2015
Other asset impairment charges:		
MRB	$132	$41,676
Discontinued operations	—	2,666
Total long-lived asset impairment charges	$132	$44,342

The Company did not record impairment charges on long-lived tangible and intangible assets during the three and nine months ended May 31, 2014.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the net amount of identifiable assets acquired and liabilities assumed in a business combination measured at fair value. The Company evaluates goodwill for impairment annually during the fourth 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 operating segment meet the criteria for aggregation.

When testing goodwill for impairment, the Company has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the estimated fair value of a reporting unit is less than its carrying amount. If the Company elects to perform a qualitative assessment and determines that an impairment is more likely than not, the Company is then required to perform the two-step quantitative impairment test, otherwise no further analysis is required. The Company also may elect not to perform the qualitative assessment and, instead, proceed directly to the two-step quantitative impairment test.

In the first step of the two-step quantitative impairment test, 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. 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.

The Company estimates the fair value of its reporting units using an income approach based on the present value of expected future cash flows, including terminal value, utilizing a market-based weighted average cost of capital

(“WACC”) determined separately for each reporting unit. The determination of fair value involves the use of significant estimates and assumptions, including revenue growth rates driven by future commodity prices and volume expectations, operating margins, capital expenditures, working capital requirements, tax rates, terminal growth rates, discount rates, benefits associated with a taxable transaction and synergistic benefits available to market participants. In addition, to corroborate the reporting units’ valuation, the Company uses a market approach based on earnings multiple data and a reconciliation of the Company’s estimate of the aggregate fair value of the reporting units to the Company’s market capitalization, including consideration of a control premium. See Note 4 - Goodwill for further detail including the recognition of a goodwill impairment charge of $141 million during the second quarter of fiscal 2015.

The Company tests indefinite-lived intangible assets for impairment by first assessing qualitative factors to determine whether it is necessary to perform a quantitative impairment test. If the Company believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of the indefinite-lived intangible asset is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. The Company did not record any impairment charges on indefinite-lived intangible assets in any of the periods presented.

Other Asset Impairment Charges

The following impairment charges were recorded within other asset impairment charges in the Unaudited Condensed Consolidated Statements of Operations for the three and nine months ended May 31, 2015 and 2014 (in thousands):

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2015	2014	2015	2014
Long-lived assets	$132	$—	$41,676	$—
Assets held for sale	1,009	—	2,558	928
Other	140	532	885	532
Total	$1,281	$532	$45,119	$1,460

Derivative Financial Instruments

The Company records derivative instruments in prepaid expenses and other current assets or other accrued liabilities in the Unaudited Condensed Consolidated Balance Sheets at fair value, and changes in the fair value are either recognized in other comprehensive income (loss) in the Unaudited Condensed Consolidated Statements of Comprehensive Loss or net income (loss) in the Unaudited Condensed Consolidated Statements of Operations, as applicable, depending on the nature of the underlying exposure, whether the derivative has been designated as a hedge and, if designated as a hedge, the extent to which the hedge is effective. Amounts included in accumulated other comprehensive loss are reclassified to earnings in the period in which earnings are impacted by the hedged items, in the period that the hedged transaction is deemed no longer likely to occur, or in the period that the derivative is terminated. For cash flow hedges, a formal assessment is made, both at the hedge’s inception and on an ongoing basis, to determine whether the derivatives that are designated as hedging instruments have been highly effective in offsetting changes in the cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. To the extent the hedge is determined to be ineffective, the ineffective portion is immediately recognized in earnings. When available, quoted market prices or prices obtained through external sources are used to measure a derivative instrument’s fair value. The fair value of these instruments is a function of underlying forward commodity prices or foreign currency exchange rates, related volatility, counterparty creditworthiness and duration of the contracts. Cash flows from derivatives are recognized in the Unaudited Condensed Consolidated Statements of Cash Flows in a manner consistent with the underlying transactions. See Note 12 - Derivative Financial Instruments for further detail.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentration of credit risk consist primarily of cash and cash equivalents, accounts receivable, notes and other contractual receivables and derivative financial instruments. The majority of cash and cash equivalents are maintained with two major financial institutions (Bank of America and Wells Fargo Bank, N.A.). Balances with these institutions exceeded the Federal Deposit Insurance Corporation insured amount of $250,000 as of May 31, 2015. Concentration of credit risk with respect to accounts receivable is limited because a large number of geographically diverse customers make up the Company’s customer base. The Company controls credit risk through credit approvals, credit limits, credit insurance, letters of credit or other collateral, cash deposits and monitoring procedures. The Company is exposed to a residual credit risk with respect to open letters of credit by virtue of the possibility of the failure of a bank providing a letter of credit. The Company had $48 million and $74 million of open letters of credit relating to accounts receivable as of May 31, 2015 and August 31, 2014, respectively. The counterparties to the Company's derivative financial instruments are major financial institutions.

Financial Instruments

The Company’s financial instruments include cash and cash equivalents, accounts receivable, accounts payable, debt and derivative contracts. The Company uses the market approach to value its financial assets and liabilities, determined using available market information. The net carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to the short-term nature of these instruments. For long-term debt, which is primarily at variable interest rates, fair value is estimated using observable inputs (Level 2) and approximates its carrying value. Derivative contracts are reported at fair value. See Note 11 - Fair Value Measurements and Note 12 - Derivative Financial Instruments for further detail.

Fair Value Measurements

Fair value is measured using inputs from the three levels of the fair value hierarchy. Classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The three levels are described as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the determination of the fair value of the asset or liability, either directly or indirectly.
- Level 3 – Unobservable inputs that are significant to the determination of the fair value of the asset or liability.

When developing the fair value measurements, the Company uses quoted market prices whenever available or seeks to maximize the use of observable inputs and minimize the use of unobservable inputs when quoted market prices are not available.

Restructuring Charges

Restructuring charges consist of severance, contract termination and other restructuring-related costs. A liability for severance costs is typically recognized when the plan of termination has been communicated to the affected employees and is measured at its fair value at the communication date. Contract termination costs consist primarily of costs that will continue to be incurred under operating leases for their remaining terms without economic benefit to the Company. A liability for contract termination costs is recognized at the date the Company ceases using the rights conveyed by the lease contract and is measured at its fair value, which is determined based on the remaining contractual lease rentals reduced by estimated sublease rentals. A liability for other restructuring-related costs is measured at its fair value in the period in which the liability is incurred. Restructuring charges that directly involve a discontinued operation are included in the results of discontinued operations in all periods presented. See Note 7 - Restructuring Charges and Other Exit-Related Costs for further detail.

Note 2 - Recent Accounting Pronouncements

In April 2014, an accounting standard update was issued that amends the requirements for reporting discontinued operations, which may include a component of an entity or a group of components of an entity. The amendments limit discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have, or will have, a major effect on an entity's operations and financial results. The amendments require expanded disclosure about the assets, liabilities, revenues and expenses of discontinued operations. Further, the amendments require an entity to disclose the pretax profit or loss of an individually significant component that is being disposed of that does not qualify for discontinued operations reporting. The standard is applicable to the Company and is to be applied prospectively to all disposals or classifications as held for sale of components that occur beginning in the first quarter of fiscal 2016, and interim periods within that fiscal year, and all businesses that, on acquisition, are classified as held for sale that occur beginning in the first quarter of fiscal 2016, and interim periods within that fiscal year. Upon adoption, the standard will impact how the Company assesses and reports discontinued operations.

In May 2014, an accounting standard update was issued that clarifies the principles for recognizing revenue. The guidance is applicable to all contracts with customers regardless of industry-specific or transaction-specific fact patterns. Further, the guidance requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. The standard is effective for the Company beginning in the first quarter of fiscal 2018, including interim periods within that fiscal year. Early application is not permitted. Upon becoming effective, the Company will apply the amendments in the updated standard either retrospectively to each prior reporting period presented, or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application. The Company is evaluating the impact of adopting this standard on its consolidated financial position, results of operations and cash flows.

In April 2015, an accounting standard update was issued that amends the requirements for presenting debt issuance costs. The guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the debt liability, consistent with the presentation of a debt discount. The standard is effective for the Company beginning in the first quarter of fiscal 2017, including interim periods within that fiscal year, and is to be applied retrospectively to each prior reporting period presented. The Company is evaluating the impact of adopting this standard on its consolidated financial position, results of operations and cash flows.

In April 2015, an accounting standard update was issued that clarifies the accounting for cloud computing arrangements that include software licenses. The guidance requires that a cloud computing arrangement that includes a software license be accounted for in the same manner as the acquisition of other software licenses. If the cloud computing arrangement does not include a software license, then it should be accounted for as a service contract. The standard is effective for the Company beginning in the first quarter of fiscal 2017, including interim periods within that fiscal year. The Company is evaluating the impact of adopting this standard on its consolidated financial position, results of operations and cash flows.

Note 3 - Inventories

Inventories consisted of the following (in thousands):

	May 31, 2015	August 31, 2014
Processed and unprocessed scrap metal	$90,852	$106,877
Semi-finished goods (billets)	8,884	12,920
Finished goods	57,417	59,039
Supplies	39,855	37,336
Total inventories	$197,008	$216,172

Note 4 - Goodwill

The Company tests the goodwill of each of its reporting units annually on July 1 and upon the occurrence of certain triggering events or substantive changes in circumstances that indicate that the fair value of goodwill may be impaired. In the second quarter of fiscal 2015, management identified the combination of a significant further weakening in market conditions, continued constrained supply of raw materials due to the lower price environment which negatively impacted volumes, the planned idling or closure of certain production facilities and retail stores, the Company’s recent financial performance and a decline in the Company’s market capitalization during the first half of fiscal 2015 as a triggering event requiring an interim impairment test of goodwill allocated to its reporting units. In connection with the interim impairment test performed in the second quarter of fiscal 2015, the Company used a measurement date of February 1, 2015. There were no triggering events identified during the third quarter of fiscal 2015 requiring an interim goodwill impairment test.

For the MRB reporting unit with goodwill of $141 million as of February 1, 2015, the first step of the impairment test showed that the fair value of the MRB reporting unit was less than its carrying amount, indicating a potential impairment. Based on the second step of the impairment test, the Company concluded that no implied fair value of goodwill remained for the MRB reporting unit, resulting in an impairment of the entire carrying amount of MRB’s goodwill totaling $141 million.

For the APB reporting unit with goodwill of $176 million as of February 1, 2015, the estimated fair value of the reporting unit exceeded its carrying value by approximately 20%. The projections used in the income approach for APB took into consideration the impact of current market conditions for ferrous and nonferrous commodities, the cost of obtaining adequate supply flows of end-of-life vehicles and recent trends of self-serve parts sales. The projections assumed a recovery of operating margins from current depressed levels over a multi-year period, including the benefits from recently initiated productivity improvements and cost-saving measures, but remaining significantly below the level of operating margins experienced in fiscal years 2010 and 2011. The market-based WACC used in the income approach for APB was 10.37%. The terminal growth rate used in the discounted cash flow model was 1%. Assuming all other components of the fair value estimate were held constant, an increase in the WACC of 1.5% or more or weaker than anticipated improvements in operating margins could result in a failure of the step one quantitative impairment test for the APB reporting unit.

The Company also used a market approach based on earnings multiple data and the Company’s market capitalization to corroborate the reporting units’ valuations. The Company reconciled its market capitalization to the aggregated estimated fair value of its reporting units, including consideration of a control premium representing the estimated amount a market participant would pay to obtain a controlling interest. The implied control premium resulting from the difference between the Company's market capitalization (based on the average trading price of our Class A common stock for the two-week period ended February 1, 2015) and the higher aggregated estimated fair value of its reporting units was within the historical range of average and mean premiums observed on historical transactions within the steel-making, scrap processing and metals industries. The Company identified specific reconciling items, including market participant synergies, which supported the implied control premium as of February 1, 2015.

The determination of fair value of the reporting units used to perform the first step of the impairment test requires judgment and involves significant estimates and assumptions about the expected future cash flows and the impact of market conditions on those assumptions. Due to the inherent uncertainty associated with forming these estimates, actual results could differ from those estimates. Future events and changing market conditions may impact the Company’s assumptions as to future revenue growth rates, pace and extent of operating margin and volume recovery, market-based WACC and other factors that may result in changes in the estimates of the Company's reporting units' fair value. Although management believes the assumptions used in testing the Company's reporting units' goodwill for impairment are reasonable, it is possible that market and economic conditions could deteriorate further or not improve as expected. Additional declines in or a lack of recovery of market conditions from current levels, a trend of weaker than anticipated financial performance including the pace and extent of operating margin recovery for the APB reporting unit, a further deterioration in the Company's share price from current levels for a sustained period of time, or an increase in the market-based WACC, among other factors, could significantly impact the impairment analysis and may result in future goodwill impairment charges that, if incurred, could have a material adverse effect on the Company's financial condition and results of operations.

The gross changes in the carrying amount of goodwill by reporting segment for the nine months ended May 31, 2015 were as follows (in thousands):

	Metals Recycling Business	Auto Parts Business	Total
Balance as of August 31, 2014	$146,108	$179,795	$325,903
Acquisitions	—	201	201
Foreign currency translation adjustment	(5,087)	(3,192)	(8,279)
Goodwill impairment charge	(141,021)	—	(141,021)
Balance as of May 31, 2015	$—	$176,804	$176,804

Accumulated goodwill impairment charges were $462 million and $321 million as of May 31, 2015 and August 31, 2014, respectively.

Note 5 - Short-Term Borrowings

The Company has an unsecured, uncommitted $25 million credit line with Wells Fargo Bank, N.A. that expires April 1, 2016. Interest rates are set by the bank at the time of borrowing. The Company had no borrowings outstanding under this credit line as of May 31, 2015 and August 31, 2014. The credit agreement contains various representations and warranties, events of default and financial and other covenants, including covenants regarding maintenance of a minimum fixed charge ratio and a maximum leverage ratio.

Note 6 - Commitments and Contingencies

The Company evaluates the adequacy of its environmental liabilities on a quarterly basis. Adjustments to the liabilities are made when additional information becomes available that affects the estimated costs to study or remediate any environmental issues or expenditures are made for which liabilities were established.

Changes in the Company's environmental liabilities for the nine months ended May 31, 2015 were as follows (in thousands):

Reporting Segment	Balance as of August 31, 2014	Liabilities Established (Released), Net	Payments and Other	Balance as of May 31, 2015	Short-Term	Long-Term
Metals Recycling Business	$30,139	$278	$(1,097)	$29,320	$163	$29,157
Auto Parts Business	17,822	233	(349)	17,706	242	17,464
Corporate	388	—	(88)	300	50	250
Total	$48,349	$511	$(1,534)	$47,326	$455	$46,871

Metals Recycling Business ("MRB")

As of May 31, 2015, MRB had environmental liabilities of $29 million for the potential remediation of locations where it has conducted business and has environmental liabilities from historical or recent activities.

Portland Harbor

In December 2000, the Company was notified by the United States Environmental Protection Agency ("EPA") under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") that it is 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"). 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. It is unclear to what extent the Company will be liable for environmental costs or natural resource damage claims or third party contribution or damage claims with respect to the Site. While the Company participated in certain preliminary Site study efforts, it is not party to the consent order entered into by the EPA with certain other PRPs, referred to as the “Lower Willamette Group” (“LWG”), for a remedial investigation/feasibility study (“RI/FS”).

During fiscal 2007, the Company and certain other parties agreed to an interim settlement with the LWG under which the Company made a cash contribution to the LWG RI/FS. The Company has also joined with more than 80 other PRPs, including the LWG, in a voluntary process to establish an allocation of costs at the Site. These parties have selected an allocation team and have entered into an allocation process design agreement. The LWG has also commenced federal court litigation, which has been stayed, seeking to bring additional parties into the allocation process.

In January 2008, the Natural Resource Damages Trustee Council (“Trustees”) for Portland Harbor invited the Company and other PRPs to participate in funding and implementing the Natural Resource Injury Assessment for the Site. Following meetings among the Trustees and the PRPs, a funding and participation agreement was negotiated under which the participating PRPs agreed to fund the first phase of the natural resource damage assessment. The Company joined in that Phase I agreement and paid a portion of those costs. The Company did not participate in funding the second phase of the natural resource damage assessment.

On March 30, 2012, the LWG submitted to the EPA and made available on its website a draft feasibility study (“draft FS”) for the Site based on approximately ten years of work and $100 million in costs classified by the LWG 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 revised by the EPA and the revisions may be significant and could materially impact the scope or cost of remediation. While the draft FS is an important step in the EPA’s development of a proposed plan for addressing the Site, 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 2017 or commence remediation activities until 2024. Responsibility for implementing and funding the EPA’s selected remedy will be determined in a separate allocation process, which is currently underway.

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, the Company believes it is not possible to reasonably estimate the amount or range of costs which it is likely or reasonably possible that the Company may incur in connection with the Site, although such costs could be material to the Company’s financial position, results of operations, cash flows and liquidity. Among the facts currently not known or available are detailed information on the history of ownership of and the nature of the uses of and activities and operations performed on each property within the Site, which are factors that will play a substantial role in determining the allocation of investigation and remedy costs among the PRPs. The Company has insurance policies that it believes will provide reimbursement for costs it incurs for defense and remediation in connection with the Site, although there is no assurance that those policies will cover all of the costs which the Company may incur. Further, the Company has a cost sharing arrangement under which a third party is paying 50% of costs, net of insurance recoveries. The Company previously recorded a liability for its estimated share of the costs of the investigation of $1 million.

The Oregon Department of Environmental Quality is separately providing oversight of voluntary investigations by the Company involving the Company’s sites adjacent to the Portland Harbor which are focused on controlling any current “uplands” releases of contaminants into the Willamette River. No liabilities have been established in connection with these investigations because the extent of contamination (if any) and the Company’s responsibility for the contamination (if any) has not yet been determined.

Other MRB Sites
As of May 31, 2015, the Company had environmental liabilities related to various MRB sites other than Portland Harbor of $28 million. The liabilities relate to the potential future remediation of soil contamination, groundwater contamination and storm water runoff issues and were not individually material at any site.

Auto Parts Business ("APB")
As of May 31, 2015, the Company had environmental liabilities related to various APB sites of $18 million. The liabilities relate to the potential future remediation of soil contamination, groundwater contamination and storm water runoff issues and were not individually material at any site.

Steel Manufacturing Business ("SMB")
SMB's electric arc furnace generates dust ("EAF dust") that is classified as hazardous waste by the EPA because of its zinc and lead content. As a result, the Company captures the EAF dust and ships it in specialized rail cars to a firm that applies a treatment that allows the EAF dust to be delisted as hazardous waste so it can be disposed of as a non-hazardous solid waste.

SMB has an operating permit issued under Title V of the Clean Air Act Amendments of 1990, which governs certain air quality standards. The permit is based on an annual production capacity of 950 thousand tons. The permit was first issued in 1998 and has since been renewed through February 1, 2018.

SMB had no environmental liabilities as of May 31, 2015.

Other than the Portland Harbor Superfund site, which is discussed above, management currently believes that adequate provision has been made for the potential impact of these issues and that the ultimate outcomes will not have a material adverse effect on the Unaudited Condensed Consolidated Financial Statements of the Company as a whole. Historically, the amounts the Company has ultimately paid for such remediation activities have not been material in any given period.

In addition, the Company is party to various legal proceedings arising in the normal course of business. Management believes that adequate provisions have been made for these contingencies. The Company does not anticipate that the resolution of legal proceedings arising in the normal course of business will have a material adverse effect on its results of operations, financial condition, or cash flows.

Note 7 - Restructuring Charges and Other Exit-Related Costs

In the fourth quarter of fiscal 2012, the Company undertook a number of restructuring initiatives designed to extract greater synergies from the significant acquisitions and technology investments made in recent years, achieve further integration between MRB and APB, and realign the Company's organization to support its future growth and decrease operating expenses by streamlining functions and reducing organizational layers (the "Q4'12 Plan").

In the first quarter of fiscal 2014, the Company announced and began implementing additional restructuring initiatives to further reduce its annual operating expenses through headcount reductions, productivity improvements, procurement savings and other operational efficiencies (the "Q1'14 Plan").

In the first quarter of fiscal 2015, the Company announced and began implementing additional productivity initiatives at APB to improve profitability through a combination of revenue drivers and cost reduction initiatives (the "Q1'15 Plan").

At the end of the second quarter of fiscal 2015, the Company initiated additional restructuring and exit-related initiatives by undertaking strategic actions consisting of idling underutilized assets at MRB and initiating the closure of seven APB stores to more closely align the Company's business to the prevalent market conditions. The Company expanded these initiatives in April 2015 by announcing measures aimed at further reducing the Company's annual operating expenses, primarily selling, general and administrative expenses, at Corporate, MRB and APB through headcount reductions, reducing organizational layers, consolidating shared service functions and other non-headcount measures. Collectively, these initiatives are referred to as the "Q2'15 Plan."

The vast majority of the restructuring charges require the Company to make cash payments.

In addition to the restructuring charges recorded related to these initiatives, the Company incurred other exit-related costs consisting of asset impairments and accelerated depreciation due to shortened useful lives in connection with site closures.

Restructuring charges and other exit-related costs were comprised of the following (in thousands):

	Three Months Ended May 31, 2015				Three Months Ended May 31, 2014		
	Q1'14 Plan	Q1'15 Plan	Q2'15 Plan	Total Charges	Q4'12 Plan	Q1'14 Plan	Total Charges
Restructuring charges:							
Severance costs	$(5)	$—	$4,040	$4,035	$(31)	$2,192	$2,161
Contract termination costs	26	—	1,610	1,636	107	494	601
Other restructuring costs	—	—	1,609	1,609	—	—	—
Total restructuring charges	21	—	7,259	7,280	76	2,686	2,762
Other exit-related costs:							
Asset impairments and accelerated depreciation	—	—	150	150	—	—	—
Total other exit-related costs	—	—	150	150	—	—	—
Total restructuring charges and other exit-related costs	$21	$—	$7,409	$7,430	$76	$2,686	$2,762
Restructuring charges and other exit-related costs included in continuing operations				$5,978			$2,762
Restructuring charges and other exit-related costs included in discontinued operations				$1,452			$—

	Nine Months Ended May 31, 2015				Nine Months Ended May 31, 2014		
	Q1'14 Plan	Q1'15 Plan	Q2'15 Plan	Total Charges	Q4'12 Plan	Q1'14 Plan	Total Charges
Restructuring charges:							
Severance costs	$(35)	$428	$4,580	$4,973	$(44)	$4,450	$4,406
Contract termination costs	335	—	1,689	2,024	675	523	1,198
Other restructuring costs	—	1,223	1,702	2,925	—	410	410
Total restructuring charges	300	1,651	7,971	9,922	631	5,383	6,014
Other exit-related costs:							
Asset impairments and accelerated depreciation	—	—	6,502	6,502	—	566	566
Total other exit-related costs	—	—	6,502	6,502	—	566	566
Total restructuring charges and other exit-related costs	$300	$1,651	$14,473	$16,424	$631	$5,949	$6,580
Restructuring charges and other exit-related costs included in continuing operations				$11,964			$6,444
Restructuring charges and other exit-related costs included in discontinued operations				$4,460			$136

	Total Charges				
	Q4'12 Plan	Q1'14 Plan	Q1'15 Plan	Q2'15 Plan	Total
Total restructuring charges to date	$13,549	$6,070	$1,651	$7,971	$29,241
Total expected restructuring charges	$13,549	$6,100	$1,651	$10,400	$31,700

The following illustrates the reconciliation of the restructuring liability by major type of costs for the nine months ended May 31, 2015 (in thousands):

	All Other Plans				Q2'15 Plan				All Plans	
	Balance 8/31/2014	Charges	Payments and Other	Balance 5/31/2015	Balance 8/31/2014	Charges	Payments and Other	Balance 5/31/2015	Total Charges to Date	Total Expected Charges
Severance costs	$669	$393	$(1,060)	$2	$—	$4,580	$(2,202)	$2,378	$14,764	$16,400
Contract termination costs	1,489	335	(1,216)	608	—	1,689	—	1,689	7,077	7,200
Other restructuring costs	—	1,223	(1,223)	—	—	1,702	(1,248)	454	7,400	8,100
Total	$2,158	$1,951	$(3,499)	$610	$—	$7,971	$(3,450)	$4,521	$29,241	$31,700

Due to the immateriality of the activity and liability balances for each of the Q4'12 Plan, Q1'14 Plan and Q1'15 Plan, the reconciliation of the restructuring liability is provided in aggregate.

The amounts of restructuring charges and other exit-related costs relating to each segment and discontinued operations were as follows (in thousands):

	Three Months Ended May 31,		Nine Months Ended May 31,		Total Charges to Date	Total Expected Charges
	2015	2014	2015	2014		
Restructuring charges:						
Metals Recycling Business	$2,907	$1,818	$3,484	$3,969	$12,163	$12,550
Auto Parts Business	1,110	466	2,776	826	4,305	5,250
Unallocated (Corporate)	1,811	478	1,868	1,083	10,979	12,000
Discontinued operations	1,452	—	1,794	136	1,794	1,900
Total restructuring charges	7,280	2,762	9,922	6,014	29,241	31,700
Other exit-related costs:						
Metals Recycling Business	150	—	3,385	566	3,951	
Auto Parts Business	—	—	451	—	451	
Discontinued operations	—	—	2,666	—	2,666	
Total other exit-related costs	150	—	6,502	566	7,068	
Total restructuring charges and other exit-related costs	$7,430	$2,762	$16,424	$6,580	$36,309	

The Company does not allocate restructuring charges and other exit-related costs to the segments' operating results because management does not include this information in its measurement of the performance of the operating segments.

Note 8 - Changes in Equity

The following is a summary of the changes in equity for the nine months ended May 31, 2015 and 2014 (in thousands):

	Fiscal 2015			Fiscal 2014		
	SSI Shareholders' Equity	Noncontrolling Interests	Total Equity	SSI Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance - September 1 (Beginning of period)	$770,784	$ 5,193	$775,977	$776,558	$ 4,641	$781,199
Net income (loss)	(207,740)	1,318	(206,422)	(1,328)	2,726	1,398
Other comprehensive loss, net of tax	(21,096)	—	(21,096)	(3,521)	—	(3,521)
Distributions to noncontrolling interests	—	(2,263)	(2,263)	—	(1,794)	(1,794)
Restricted stock withheld for taxes	(1,360)	—	(1,360)	(676)	—	(676)
Stock options exercised	—	—	—	240	—	240
Share-based compensation	7,596	—	7,596	10,257	—	10,257
Excess tax deficiency from stock options exercised and restricted stock units vested	(703)	—	(703)	(692)	—	(692)
Dividends	(15,415)	—	(15,415)	(15,185)	—	(15,185)
Balance - May 31 (End of period)	$532,066	$ 4,248	$536,314	$765,653	$ 5,573	$771,226

Note 9 - Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive loss, net of tax, were comprised of the following (in thousands):

	Three Months Ended May 31, 2015				Three Months Ended May 31, 2014			
	Foreign Currency Translation Adjustments	Pension Obligations, net	Net Unrealized Gain (Loss) on Cash Flow Hedges	Total	Foreign Currency Translation Adjustments	Pension Obligations, net	Net Unrealized Gain (Loss) on Cash Flow Hedges	Total
Balances - February 28 (Beginning of period)	$(30,536)	$ (1,977)	$(3,635)	$(36,148)	$(13,002)	$ (2,728)	$(229)	$(15,959)
Other comprehensive income before reclassifications	250	—	215	465	2,620	—	511	3,131
Income tax expense	—	—	—	—	—	—	(128)	(128)
Other comprehensive income before reclassifications, net of tax	250	—	215	465	2,620	—	383	3,003
Amounts reclassified from accumulated	—	473	1,645	2,118	—	71	37	108

other comprehensive loss								
Income tax benefit	—	(172)	—	(172)	—	(26)	(8)	(34)
Amounts reclassified from accumulated other comprehensive loss, net of tax	—	301	1,645	1,946	—	45	29	74
Net periodic other comprehensive income	250	301	1,860	2,411	2,620	45	412	3,077
Balances - May 31 (End of period)	$(30,286)	$ (1,676)	$(1,775)	$(33,737)	$(10,382)	$ (2,683)	$183	$(12,882)

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	Nine Months Ended May 31, 2015				Nine Months Ended May 31, 2014			
	Foreign Currency Translation Adjustments	Pension Obligations, net	Net Unrealized Gain (Loss) on Cash Flow Hedges	Total	Foreign Currency Translation Adjustments	Pension Obligations, net	Net Unrealized Gain (Loss) on Cash Flow Hedges	Total
Balances - September 1 (Beginning of period)	$(10,663)	$ (2,036)	$58	$(12,641)	$(6,423)	$ (2,817)	$(121)	$(9,361)
Other comprehensive loss before reclassifications	(19,623)	—	(4,921)	(24,544)	(3,959)	—	205	(3,754)
Income tax benefit (expense)	—	—	428	428	—	—	(51)	(51)
Other comprehensive income (loss) before reclassifications, net of tax	(19,623)	—	(4,493)	(24,116)	(3,959)	—	154	(3,805)
Amounts reclassified from accumulated other comprehensive loss	—	560	2,999	3,559	—	211	135	346
Income tax (benefit) expense	—	(200)	(339)	(539)	—	(77)	15	(62)
Amounts reclassified from accumulated other comprehensive loss, net of tax	—	360	2,660	3,020	—	134	150	284
Net periodic other comprehensive income (loss)	(19,623)	360	(1,833)	(21,096)	(3,959)	134	304	(3,521)
Balances - May 31 (End of period)	$(30,286)	$ (1,676)	$(1,775)	$(33,737)	$(10,382)	$ (2,683)	$183	$(12,882)

Reclassifications from accumulated other comprehensive loss, both individually and in the aggregate, were immaterial to the impacted captions in the Unaudited Condensed Consolidated Statements of Operations.

Note 10 - Discontinued Operations

In the third quarter of fiscal 2015, the Company ceased operations at seven auto parts stores, six of which qualified for discontinued operations reporting. The operations of the six qualifying stores had previously been reported within the APB reporting segment. Operating results of discontinued operations were comprised of the following (in thousands):

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2015	2014	2015	2014
Revenues	$1,440	$3,994	$8,210	$11,896
	(1,812)	(940)	(7,070)	(3,353)

Loss from discontinued operations before income taxes				
Income tax benefit	578	610	756	1,038
Loss from discontinued operations, net of tax	$(1,234)	$(330)	$(6,314)	$(2,315)

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Note 11 - Fair Value Measurements

The following table presents information about the Company's assets and liabilities measured at fair value as of May 31, 2015 and August 31, 2014, and indicates the fair value hierarchy of the valuation techniques utilized by the Company and the type of measurement.

(in thousands)	Assets (Liabilities) at Fair Value		Fair Value Measurement Level	Type of Measurement	Balance Sheet Classification
	May 31, 2015	August 31, 2014			
Assets:					
Foreign currency exchange forward contracts	$52	$202	Level 2	Recurring	Prepaid expenses and other current assets
Total assets	$52	$202			
Liabilities:					
Contract termination costs	$(1,582)	$—	Level 3	Non-recurring	Other accrued liabilities Other long-term liabilities
Foreign currency exchange forward contracts	(2,001)	(46)	Level 2	Recurring	Other accrued liabilities
Total liabilities	$(3,583)	$(46)			

Note 12 - Derivative Financial Instruments

The Company entered into a series of foreign currency exchange forward contracts to sell U.S. dollars in order to hedge a portion of its exposure to fluctuating rates of exchange on anticipated U.S. dollar-denominated sales by its Canadian subsidiary with a functional currency of the Canadian dollar. The Company utilized intercompany foreign currency derivatives and offsetting derivatives with external counterparties in order to designate the intercompany derivatives as hedging instruments. Once the U.S. dollar-denominated sales have been recognized and the corresponding receivables collected, the Company utilized foreign currency exchange forward contracts to sell Canadian dollars, achieving a result similar to net settling the contracts to sell U.S. dollars. The foreign currency exchange forward contracts to sell Canadian dollars are not designated as hedging instruments.
As of May 31, 2015, the Company had foreign currency exchange forward contracts with external counterparties to buy Canadian Dollars for a total notional amount of $20 million, which have various settlement dates through September 30, 2015, and foreign currency exchange forward contracts with external counterparties to sell Canadian Dollars for a total notional amount of $3 million, all of which have a settlement date of June 30, 2015. The contracts with external counterparties are reported at fair value in the Unaudited Condensed Consolidated Balance Sheets measured using quoted foreign currency exchange rates.

The fair value of derivative instruments in the Unaudited Condensed Consolidated Balance Sheets is as follows (in thousands):