UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended November 30, 2019
or
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from _______ to _______

Commission File Number 000-22496

SCHNITZER STEEL INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

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

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, $1.00 par value	SCHN	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐
Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The registrant had 26,943,066 shares of Class A common stock, par value of $1.00 per share, and 200,000 shares of Class B common stock, par value of $1.00 per share, outstanding as of January 6, 2020.

SCHNITZER STEEL INDUSTRIES, INC.
FORM 10-Q

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FORWARD-LOOKING STATEMENTS

Statements and information included in this Quarterly Report on Form 10-Q by Schnitzer Steel Industries, Inc. that are not purely historical are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and are made pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Except as noted herein or as the context may otherwise require, all references to "we," "our," "us," "the Company" and "SSI" refer to Schnitzer Steel Industries, Inc. and its consolidated subsidiaries.

Forward-looking statements in this Quarterly Report on Form 10-Q include statements regarding future events or our expectations, intentions, beliefs and strategies regarding the future, which may include statements regarding trends, cyclicality and changes in the markets we sell into; the Company's outlook, growth initiatives or expected results or objectives, including pricing, margins, sales volumes and profitability; strategic direction or goals; targets; changes to manufacturing and production processes; the cost of and the status of any agreements or actions related to our compliance with environmental and other laws; expected tax rates, deductions and credits; the impact of sanctions and tariffs, quotas and other trade actions and import restrictions; the realization of deferred tax assets; planned capital expenditures; liquidity positions; our ability to generate cash from continuing operations; the potential impact of adopting new accounting pronouncements; obligations under our retirement plans; benefits, savings or additional costs from business realignment, cost containment and productivity improvement programs; and the adequacy of accruals.

Forward-looking statements by their nature address matters that are, to different degrees, uncertain, and often contain words such as "outlook," "target," "aim," "believes," "expects," "anticipates," "intends," "assumes," "estimates," "evaluates," "may," "will," "should," "could," "opinions," "forecasts," "projects," "plans," "future," "forward," "potential," "probable," and similar expressions. However, the absence of these words or similar expressions does not mean that a statement is not forward-looking.

We may make other forward-looking statements from time to time, including in reports filed with the Securities and Exchange Commission, press releases, presentations and on public conference calls. All forward-looking statements we make are based on information available to us at the time the statements are made, and we assume no obligation to update any forward-looking statements, except as may be required by law. Our business is subject to the effects of changes in domestic and global economic conditions and a number of other risks and uncertainties that could cause actual results to differ materially from those included in, or implied by, such forward-looking statements. Some of these risks and uncertainties are discussed in "Item 1A. Risk Factors" of Part I of our most recent Annual Report on Form 10-K, as supplemented by our subsequently filed Quarterly Reports on Form 10-Q. Examples of these risks include: potential environmental cleanup costs related to the Portland Harbor Superfund site or other locations; the cyclicality and impact of general economic conditions; changing conditions in global markets including the impact of sanctions and tariffs, quotas and other trade actions and import restrictions; volatile supply and demand conditions affecting prices and volumes in the markets for both our products and raw materials we purchase; imbalances in supply and demand conditions in the global steel industry; the impact of goodwill impairment charges; the impact of long-lived asset and equity investment impairment charges; inability to achieve or sustain the benefits from productivity, cost savings and restructuring initiatives; inability to realize or delays in realizing expected benefits from investments in technology; inability to renew facility leases; difficulties associated with acquisitions and integration of acquired businesses; customer fulfillment of their contractual obligations; increases in the relative value of the U.S. dollar; the impact of foreign currency fluctuations; potential limitations on our ability to access capital resources and existing credit facilities; restrictions on our business and financial covenants under our bank credit agreement; the impact of consolidation in the steel industry; freight rates and the availability of transportation; the impact of equipment upgrades, equipment failures and facility damage on production; product liability claims; the impact of legal proceedings and legal compliance; the adverse impact of climate change; the impact of not realizing deferred tax assets; the impact of tax increases and changes in tax rules; the impact of one or more cybersecurity incidents; environmental compliance costs and potential environmental liabilities; inability to obtain or renew business licenses and permits; compliance with climate change and greenhouse gas emission laws and regulations; reliance on employees subject to collective bargaining agreements; and the impact of the underfunded status of multiemployer plans in which we participate.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

SCHNITZER STEEL INDUSTRIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited, in thousands, except per share amounts)
(Currency - U.S. Dollar)

	November 30, 2019	August 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 9,624	$ 12,377
Accounts receivable, net of allowance for doubtful accounts of $1,601 and $1,569	115,012	145,617
Inventories	177,934	187,320
Refundable income taxes	5,777	5,867
Prepaid expenses and other current assets	31,533	115,107
Total current assets	339,880	466,288
Property, plant and equipment, net of accumulated depreciation of $776,514 and $766,033	456,714	456,400
Operating lease right-of-use assets	124,458	—
Investments in joint ventures	10,434	10,276
Goodwill	169,292	169,237
Intangibles, net of accumulated amortization of $2,995 and $3,116	3,811	4,482
Deferred income taxes	28,297	28,850
Other assets	25,706	25,213
Total assets	$ 1,158,592	$ 1,160,746
Liabilities and Equity		
Current liabilities:		
Short-term borrowings	$ 1,431	$ 1,321
Accounts payable	72,172	110,297
Accrued payroll and related liabilities	16,392	27,547
Environmental liabilities	5,576	6,030
Operating lease liabilities	18,824	—
Other accrued liabilities	43,036	123,035
Total current liabilities	157,431	268,230
Deferred income taxes	22,232	25,466
Long-term debt, net of current maturities	126,875	103,775
Environmental liabilities, net of current portion	45,778	45,769
Operating lease liabilities, net of current maturities	107,801	—
Other long-term liabilities	13,439	16,210
Total liabilities	473,556	459,450
Commitments and contingencies (Note 5)		
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, 26,943 and 26,464 shares issued and outstanding	26,943	26,464
Class B common stock – 25,000 shares $1.00 par value authorized, 200 and 200 shares issued and outstanding	200	200
Additional paid-in capital	29,528	33,700
Retained earnings	662,707	675,363
Accumulated other comprehensive loss	(38,525)	(38,763)
Total SSI shareholders’ equity	680,853	696,964
Noncontrolling interests	4,183	4,332
Total equity	685,036	701,296
Total liabilities and equity	$ 1,158,592	$ 1,160,746

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

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

	Three Months Ended November 30,	
	2019	**2018**
Revenues	$ 405,584	$ 564,020
Operating expense:		
Cost of goods sold	364,760	490,132
Selling, general and administrative	46,774	51,419
(Income) from joint ventures	(199)	(485)
Asset impairment charges	1,692	63
Restructuring charges and other exit-related activities	467	202
Operating (loss) income	(7,910)	22,689
Interest expense	(1,423)	(1,906)
Other income, net	206	23
(Loss) income from continuing operations before income taxes	(9,127)	20,806
Income tax benefit (expense)	2,534	(4,116)
(Loss) income from continuing operations	(6,593)	16,690
Income (loss) from discontinued operations, net of tax	28	(72)
Net (loss) income	(6,565)	16,618
Net income attributable to noncontrolling interests	(430)	(430)
Net (loss) income attributable to SSI shareholders	$ (6,995)	$ 16,188
Net (loss) income per share attributable to SSI shareholders:		
Basic:		
(Loss) income per share from continuing operations	$ (0.26)	$ 0.59
Income (loss) per share from discontinued operations	—	—
Net (loss) income per share[(1)]	$ (0.25)	$ 0.59
Diluted:		
(Loss) income per share from continuing operations	$ (0.26)	$ 0.57
Income (loss) per share from discontinued operations	—	—
Net (loss) income per share[(1)]	$ (0.25)	$ 0.57
Weighted average number of common shares:		
Basic	27,515	27,505
Diluted	27,515	28,364

(1) May not foot due to rounding.

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

SCHNITZER STEEL INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(Unaudited, in thousands)
(Currency - U.S. Dollar)

	Three Months Ended November 30,	
	2019	**2018**
Net (loss) income	$ (6,565)	$ 16,618
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	211	(1,364)
Pension obligations, net	27	202
Total other comprehensive income (loss), net of tax	238	(1,162)
Comprehensive (loss) income	(6,327)	15,456
Less comprehensive income attributable to noncontrolling interests	(430)	(430)
Comprehensive (loss) income attributable to SSI shareholders	$ (6,757)	$ 15,026

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 EQUITY
(Unaudited, in thousands, except per share amounts)
(Currency - U.S. Dollar)

	Common Stock									
	Class A		Class B		Additional		Accumulated Other	Total SSI		
Three Months Ended November 30, 2018	**Shares**	**Amount**	**Shares**	**Amount**	**Paid-in Capital**	**Retained Earnings**	**Comprehensive Loss**	**Shareholders' Equity**	**Noncontrolling Interests**	**Total Equity**
Balance as of September 1, 2018	26,502	$ 26,502	200	$ 200	$ 36,929	$ 639,684	$ (37,237)	$ 666,078	$ 4,032	$ 670,110
Net income	—	—	—	—	—	16,188	—	16,188	430	16,618
Other comprehensive loss, net of tax	—	—	—	—	—	—	(1,162)	(1,162)	—	(1,162)
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(393)	(393)
Share repurchases	(150)	(150)	—	—	(3,945)	—	—	(4,095)	—	(4,095)
Restricted stock withheld for taxes	(276)	(276)	—	—	(7,046)	—	—	(7,322)	—	(7,322)
Issuance of restricted stock	750	750	—	—	(750)	—	—	—	—	—
Share-based compensation expense	—	—	—	—	7,404	—	—	7,404	—	7,404
Dividends ($0.1875 per common share)	—	—	—	—	—	(5,177)	—	(5,177)	—	(5,177)
Balance as of November 30, 2018	26,826	$ 26,826	200	$ 200	$ 32,592	$ 650,695	$ (38,399)	$ 671,914	$ 4,069	$ 675,983

	Common Stock									
	Class A		Class B		Additional		Accumulated Other	Total SSI		
Three Months Ended November 30, 2019	**Shares**	**Amount**	**Shares**	**Amount**	**Paid-in Capital**	**Retained Earnings**	**Comprehensive Loss**	**Shareholders' Equity**	**Noncontrolling Interests**	**Total Equity**
Balance as of August 31, 2019	26,464	$ 26,464	200	$ 200	$ 33,700	$ 675,363	$ (38,763)	$ 696,964	$ 4,332	$ 701,296
Cumulative effect on adoption of new accounting guidance for leases, net of tax	—	—	—	—	—	(463)	—	(463)	—	(463)
Balance as of September 1, 2019	26,464	26,464	200	200	33,700	674,900	(38,763)	696,501	4,332	700,833
Net (loss) income	—	—	—	—	—	(6,995)	—	(6,995)	430	(6,565)
Other comprehensive income, net of tax	—	—	—	—	—	—	238	238	—	238
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(579)	(579)
Restricted stock withheld for taxes	(274)	(274)	—	—	(5,571)	—	—	(5,845)	—	(5,845)
Issuance of restricted stock	753	753	—	—	(753)	—	—	—	—	—
Share-based compensation expense	—	—	—	—	2,152	—	—	2,152	—	2,152
Dividends ($0.1875 per common share)	—	—	—	—	—	(5,198)	—	(5,198)	—	(5,198)
Balance as of November 30, 2019	26,943	$ 26,943	200	$ 200	$ 29,528	$ 662,707	$ (38,525)	$ 680,853	$ 4,183	$ 685,036

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

SCHNITZER STEEL INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)
(Currency - U.S. Dollar)

	Three Months Ended November 30, 2019	2018
Cash flows from operating activities:		
Net (loss) income	$ (6,565)	$ 16,618
Adjustments to reconcile net (loss) income to cash provided by (used in) operating activities:		
Asset impairment charges	1,692	63
Exit-related asset impairments	117	23
Depreciation and amortization	14,087	13,297
Deferred income taxes	(2,456)	(697)
Undistributed equity in earnings of joint ventures	(199)	(485)
Share-based compensation expense	2,152	7,404
(Gain) loss on the disposal of assets, net	(386)	255
Unrealized foreign exchange gain, net	(16)	—
Bad debt expense (recoveries), net	32	(1)
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	28,202	(28,046)
Inventories	11,870	9,626
Income taxes	(227)	4,722
Prepaid expenses and other current assets	(356)	(732)
Other long-term assets	(57)	456
Operating lease assets and liabilities	105	—
Accounts payable	(28,953)	(6,881)
Accrued payroll and related liabilities	(11,159)	(27,046)
Other accrued liabilities	3,771	(224)
Environmental liabilities	(553)	(168)
Other long-term liabilities	32	43
Distributed equity in earnings of joint ventures	—	167
Net cash provided by (used in) operating activities	11,133	(11,606)
Cash flows from investing activities:		
Capital expenditures	(23,973)	(27,209)
Joint venture receipts, net	—	641
Proceeds from sale of assets	2	1,279
Net cash used in investing activities	(23,971)	(25,289)
Cash flows from financing activities:		
Borrowings from long-term debt	114,339	158,859
Repayment of long-term debt	(92,190)	(97,699)
Payment of debt issuance costs	—	(95)
Repurchase of Class A common stock	—	(4,095)
Taxes paid related to net share settlement of share-based payment awards	(5,845)	(7,322)
Distributions to noncontrolling interests	(579)	(393)
Dividends paid	(5,653)	(5,554)
Net cash provided by financing activities	10,072	43,701
Effect of exchange rate changes on cash	13	(313)
Net (decrease) increase in cash and cash equivalents	(2,753)	6,493
Cash and cash equivalents as of beginning of period	12,377	4,723
Cash and cash equivalents as of end of period	$ 9,624	$ 11,216

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

SCHNITZER STEEL INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)
(Currency - U.S. Dollar)

	Three Months Ended November 30,	
	2019	**2018**
SUPPLEMENTAL DISCLOSURES:		
Cash paid (refunded) during the period for:		
Interest	$ 885	$ 1,441
Income taxes paid (refunded), net	$ 104	$ (8)
Schedule of noncash investing and financing transactions:		
Purchases of property, plant and equipment included in current liabilities	$ 8,106	$ 7,418

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

Note 1 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Unaudited Condensed Consolidated Financial Statements of Schnitzer Steel Industries, Inc. and its majority-owned and wholly-owned subsidiaries (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 fiscal year ended August 31, 2019. The results for the three months ended November 30, 2019 and 2018 are not necessarily indicative of the results of operations for the entire fiscal year.

Segments

The Company’s internal organizational and reporting structure includes two operating and reportable segments: the Auto and Metals Recycling (“AMR”) business and the Cascade Steel and Scrap (“CSS”) business.

Accounting Changes

As of the beginning of the first quarter of fiscal 2020, the Company adopted an accounting standards update, initially issued in February 2016, that requires a lessee to recognize a lease liability and a lease right-of-use asset on its balance sheet for all leases greater than 12 months, including those classified as operating leases. The update supersedes the previous lease accounting standard. The Company adopted the new lease accounting standard using the modified retrospective transition method, whereby it applied the new requirements by recognizing a cumulative-effect adjustment to the opening balance of retained earnings as of September 1, 2019. Such cumulative-effect adjustment for the Company was not material. Adoption using the modified retrospective transition method did not have an impact on any prior period earnings of the Company, and no comparative prior periods were adjusted for the new guidance. The Company elected a package of practical expedients permitted under the transition guidance within the new lease accounting standard, which among other things, permit carrying forward the historical lease classification. The Company also elected the practical expedient exempting short-term leases from balance sheet recognition, whereby payments for such leases are recognized in the income statement on a straight-line basis over the lease term. In addition, the Company elected the practical expedient to not separate lease and non-lease components, which the Company elected to apply to all classes of underlying assets. Adoption of the new standard resulted in recognition of $126 million and $128 million of operating lease right-of-use assets and liabilities, respectively, as of September 1, 2019, which are presented as separate line items on the balance sheet. Operating lease right-of-use assets are considered long-lived assets subject to existing long-lived asset impairment guidance. Adoption also resulted in the reclassification of the Company’s capital lease assets and obligations as finance lease right-of-use assets and liabilities as of September 1, 2019, with such reclassification having no impact on the carrying amounts or financial statement line items within which the leases are reported. See Note 3 - Leases for the disclosures required under the new standard.

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 $14 million and $27 million as of November 30, 2019 and August 31, 2019, respectively.

Accounts Receivable, net

Accounts receivable represent amounts primarily due from customers on product and other sales. These accounts receivable, which are reduced by an allowance for doubtful accounts, are recorded at the invoiced amount and do not bear interest. The Company extends credit to customers under contracts containing customary and explicit payment terms, and payment is generally required within 30 to 60 days of shipment. Nonferrous export sales typically require a deposit prior to shipment. Historically, almost all of the Company’s ferrous export sales have been made with letters of credit. Domestic ferrous metal sales, nonferrous metal sales and finished steel sales are generally made on open account, and the majority of these sales are covered by credit insurance.

The Company evaluates the collectibility of its accounts receivable based on a combination of factors, including whether sales were made pursuant to letters of credit or credit insurance is in place. In cases where management is aware of circumstances that may impair a customer's ability to meet its financial obligations, management records a specific allowance against amounts due and reduces the receivable to the amount the Company believes will be collected. For all other customers, the Company maintains an allowance that considers the total receivables outstanding, historical collection rates and economic trends. Accounts are written off when all efforts to collect have been exhausted.

Also included in accounts receivable are short-term advances to scrap metal suppliers used as a mechanism to acquire unprocessed scrap metal. The advances are generally repaid with scrap metal, as opposed to cash. Repayments of advances with scrap metal are treated as noncash operating activities in the Unaudited Condensed Consolidated Statements of Cash Flows and totaled $2 million and $4 million for the three months ended November 30, 2019 and 2018, respectively.

Prepaid Expenses

The Company's prepaid expenses, reported within prepaid expenses and other current assets in the Unaudited Condensed Consolidated Balance Sheets, totaled $22 million and $23 million as of November 30, 2019 and August 31, 2019, respectively, and consisted primarily of deposits on capital projects, prepaid services, prepaid property taxes and prepaid insurance.

Other Assets

The Company's other assets, exclusive of prepaid expenses, consist primarily of receivables from insurers, spare parts, an equity investment, debt issuance costs, and notes and other contractual receivables. 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. Receivables from insurers totaled $7 million and $89 million as of November 30, 2019 and August 31, 2019, respectively, with the decrease in the first quarter of fiscal 2020 resulting primarily from full payment by the Company's insurers of settlements for lawsuits arising from a 2016 motor vehicle collision. See "Contingencies – Other" in Note 5 – Commitments and Contingencies for further discussion of this matter.

The Company invested $6 million in the equity of a privately-held waste and recycling entity in fiscal 2017. The equity investment does not have a readily determinable fair value and, therefore, is carried at cost and adjusted for impairments and observable price changes. The investment is presented as part of the AMR reportable segment and reported within other assets in the Unaudited Condensed Consolidated Balance Sheets. The carrying value of the investment was $6 million as of November 30, 2019 and August 31, 2019. The Company has not recorded any impairments or upward or downward adjustments to the carrying value of the investment since acquisition.

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, and notes and other contractual receivables. The majority of cash and cash equivalents is maintained with major financial institutions. Balances with these and certain other institutions exceeded the Federal Deposit Insurance Corporation insured amount of $250,000 as of November 30, 2019. 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, 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 $46 million and $49 million of open letters of credit as of November 30, 2019 and August 31, 2019, respectively.

Note 2 - Inventories

Inventories consisted of the following (in thousands):

	November 30, 2019	August 31, 2019
Processed and unprocessed scrap metal	$ 70,070	$ 81,313
Semi-finished goods	9,770	8,712
Finished goods	55,386	53,796
Supplies	42,708	43,499
Inventories	$ 177,934	$ 187,320

Note 3 - Leases

The Company enters into leases to obtain access to real property, machinery and equipment assets. Most of the Company's lease obligations relate to real property leases for AMR operating sites, including the substantial majority of its auto parts stores, and for the Company's administrative offices. The Company determines whether an arrangement contains a lease at inception by assessing whether it receives the right to direct the use of and obtain substantially all of the economic benefit from use of the underlying asset. Lease classification, measurement, and recognition are determined at lease commencement, which is the date the underlying asset is available for use by the Company. The accounting classification of a lease is based on whether the arrangement is effectively a financed purchase of the underlying asset (finance lease) or not (operating lease). Leases that, at lease commencement, have a non-cancellable lease term of 12 months or less and do not include an option to either purchase the underlying asset or renew the lease beyond 12 months that the Company is reasonably certain to exercise are classified as short-term leases and are not recognized on the balance sheet.

For leases other than short-term leases, the Company recognizes right-of-use assets and lease liabilities based primarily on the present value of future minimum lease payments over the lease term at lease commencement. Right-of-use assets represent the Company's right to use the underlying asset during the lease term, while lease liabilities represent the Company's obligation to make future lease payments. The lease term is the non-cancellable period of the lease, together with periods covered by renewal (or termination) options which the Company is reasonably certain to exercise (or not to exercise). Lease payments are discounted to present value using the Company's incremental borrowing rate, unless the discount rate implicit in the lease is readily determinable. The Company's incremental borrowing rate for each lease is the estimated rate of interest that the Company would have to pay to borrow the aggregate lease payments on a collateralized basis over the lease term. Estimation of the incremental borrowing rate requires judgment by management and reflects an assessment of the Company's credit standing to derive an implied secured credit rating and corresponding yield curve. The Company used the incremental borrowing rate to recognize all operating lease right-of-use assets and liabilities as of the new lease accounting standard application date. Right-of-use assets and lease liabilities are subject to remeasurement after lease commencement when certain events or changes in circumstances arise, such as a change in the lease term due to reassessment of whether the Company is reasonably certain to exercise a renewal or termination option.

For operating leases, lease expense is recognized on a straight-line basis over the lease term. For finance leases, the lease right-of-use asset is amortized on a straight-line basis and interest expense is recognized on the lease liability using the effective interest rate method. Many of the Company's real property leases contain variable lease payments that depend on an index or a rate, which are included in the measurement of the right-of-use asset and lease liability using the index or rate at lease commencement, or with respect to the Company's transition to the new lease accounting standard the index or rate at the application date. Subsequent changes in variable lease payments are recorded as variable lease expenses during the period in which they are incurred. The Company elected a practical expedient to not separate lease and related non-lease components for accounting purposes and, thus, costs related to such non-lease components are disclosed as lease expense. Payments for short-term leases are recognized in the income statement on a straight-line basis over the lease term.

The Company's operating leases for real property underlying its auto parts stores, metals recycling facilities, and administrative offices generally have non-cancellable lease terms of 5 to 10 years and the significant majority, but not all, contain multiple renewal options for a further 5 to 20 years. Renewal options which the Company is reasonably certain to exercise are included in the measurement of lease term. The Company's finance leases and other operating leases involve primarily transportation equipment assets, have non-cancellable lease terms of less than 10 years and usually do not include renewal options.

For the three months ended November 30, 2019, the Company's total lease cost was $7 million, consisting primarily of operating lease expense of $6 million and short-term lease expense of $1 million. The other components of the Company's total lease cost for the period, including finance lease amortization and interest expense, variable lease expense and sublease income, were not material both individually and in aggregate. The substantial majority of the Company's total lease cost for the three months ended November 30, 2019 is presented within cost of goods sold in the Unaudited Condensed Consolidated Statements of Operations.

Finance lease-related assets and liabilities consisted of the following (in thousands):

	Balance Sheet Classification	November 30, 2019
Assets:		
Finance lease right-of-use assets(1)	Property, plant and equipment, net	$ 7,132
Liabilities:		
Finance lease liabilities - current	Short-term borrowings	$ 1,357
Finance lease liabilities - non-current	Long-term debt, net of current maturities	7,159
Total finance lease liabilities		$ 8,516

(1) Presented net of accumulated amortization of less than $1 million as of November 30, 2019.

The weighted average remaining lease terms and weighted average discount rates for the Company's leases as of November 30, 2019 were as follows:

	November 30, 2019	
	Weighted Average Remaining Lease Term (Years)	Weighted Average Discount Rate
Operating leases	9.7	3.41%
Finance leases	6.6	8.83%

Maturities of lease liabilities by fiscal year as of November 30, 2019 were as follows (in thousands):

Year Ending August 31,	Finance Leases	Operating Leases
2020 (for the remainder of fiscal 2020)	$ 1,487	$ 17,372
2021	1,855	20,226
2022	1,818	19,646
2023	1,681	19,084
2024	1,409	14,928
Thereafter	2,445	60,615
Total lease payments	$ 10,695	$ 151,871
Less amounts representing interest	(2,179)	(25,246)
Total lease liabilities	$ 8,516	$ 126,625
Less current maturities	(1,357)	(18,824)
Lease liabilities, net of current maturities	$ 7,159	$ 107,801

Supplemental cash flow information and non-cash activity related to leases are as follows (in thousands):

	Three Months Ended November 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows for operating leases	$ 5,648
Operating cash flows for finance leases	$ 176
Financing cash flows for finance leases	$ 329
Lease liabilities arising from obtaining right-of-use assets:	
Operating leases	$ 3,458
Finance leases	$ 1,078

As a result of adopting the new lease accounting guidance on September 1, 2019 using the modified retrospective transition method, the Company is required to present future minimum lease commitments for capital leases and operating leases that were previously disclosed in the Company's 2019 Annual Report on Form 10-K and accounted for under previous lease guidance.

Principal payments on capital lease obligations during the next five fiscal years and thereafter as of August 31, 2019 are as follows (in thousands):

Year Ending August 31,	Capital Lease Obligations
2020	$ 1,917
2021	1,799
2022	1,751
2023	1,622
2024	1,346
Thereafter	1,694
Total	10,129
Amounts representing interest	(2,355)
Total less interest	$ 7,774

The table below sets forth the Company's future minimum obligations under non-cancelable operating leases as of August 31, 2019 (in thousands):

Year Ending August 31,	Operating Leases
2020	$ 21,286
2021	15,301
2022	12,488
2023	10,419
2024	5,035
Thereafter	16,095
Total	$ 80,624

Note 4 - Goodwill

The Company evaluates goodwill for impairment 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. There were no triggering events identified during the first three months of fiscal 2020 requiring an interim goodwill impairment test. As of November 30, 2019 and August 31, 2019, all but $1 million of the Company's goodwill was carried by a single reporting unit within AMR.

The gross change in the carrying amount of goodwill for the three months ended November 30, 2019 was as follows (in thousands):

	Goodwill
August 31, 2019	$ 169,237
Foreign currency translation adjustment	55
November 30, 2019	$ 169,292

Accumulated goodwill impairment charges were $471 million as of November 30, 2019 and August 31, 2019.

Note 5 - Commitments and Contingencies

Contingencies - Environmental

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 three months ended November 30, 2019 were as follows (in thousands):

Balance as of September 1, 2019	Liabilities Established (Released), Net	Payments and Other	Balance as of November 30, 2019	Short-Term	Long-Term
$ 51,799	$ 1,475	$ (1,920)	$ 51,354	$ 5,576	$ 45,778

Recycling Operations

As of November 30, 2019 and August 31, 2019, the Company's recycling operations had environmental liabilities of $51 million and $52 million, respectively, for the potential remediation of locations where it has conducted business or has environmental liabilities from historical or recent activities. The liabilities relate to the investigation and potential future remediation of contaminated sediments and riverbanks, soil contamination, groundwater contamination, storm water runoff issues and other natural resource damages. Except for Portland Harbor and certain liabilities discussed under Other Legacy Environmental Loss Contingencies immediately below, such liabilities were not individually material at any site.

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 cleanup of any specific areas within the Site, the parties to be involved, the timing of any specific remedial action and the allocation of the costs for any cleanup among responsible parties have not yet been determined. The process of site investigation, remedy selection, identification of additional PRPs and allocation of costs has been underway for a number of years, but significant uncertainties remain. 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 was 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 LWG has indicated that it had incurred over $155 million in investigation-related costs over an approximately 18 year period working on the RI/FS. Following submittal of draft RI and FS documents which the EPA largely rejected, the EPA took over the RI/FS process.

The Company has joined with approximately 100 other PRPs, including the LWG members, in a voluntary process to establish an allocation of costs at the Site, including the costs incurred by the LWG in the RI/FS process. The LWG members have also commenced federal court litigation, which has been stayed, seeking to bring additional parties into the allocation process.

In January 2008, the Portland Harbor Natural Resource Trustee Council ("Trustee Council") invited the Company and other PRPs to participate in funding and implementing the Natural Resource Injury Assessment for the Site. Following meetings among the Trustee Council and the PRPs, funding and participation agreements were negotiated under which the participating PRPs, including the Company, agreed to fund the first phase of the three-phase natural resource damage assessment. Phase 1, which included the development of the Natural Resource Damage Assessment Plan ("AP") and implementation of several early studies, was substantially completed in 2010. In December 2017, the Company joined with other participating PRPs in agreeing to fund Phase 2 of the natural resource damage assessment, which includes the implementation of the AP to develop information sufficient to facilitate early settlements between the Trustee Council and Phase 2 participants and the identification of restoration projects to be funded by the settlements. In late May 2018, the Trustee Council published notice of its intent to proceed with Phase 3, which will involve the full implementation of the AP and the final injury and damage determination. The Company is proceeding with the process established by the Trustee Council regarding early settlements under Phase 2. It is uncertain whether the Company will enter into an early settlement for natural resource damages or what costs it may incur in any such early settlement.

On January 30, 2017, one of the Trustees, the Confederated Tribes and Bands of the Yakama Nation, which withdrew from the council in 2009, filed a suit against approximately 30 parties, including the Company, seeking reimbursement of certain past and future response costs in connection with remedial action at the Site and recovery of assessment costs related to natural resources damages from releases at and from the Site to the Multnomah Channel and the Lower Columbia River. The parties have filed various motions to dismiss or stay this suit, and in August 2019, the court issued an order denying the motions to dismiss and staying the action. A number of parties have filed to appeal the court's denial of the motions to dismiss, which filing the Company joined in part. The Company intends to defend against the claims in this suit and does not have sufficient information to determine the likelihood of a loss in this matter or to estimate the amount of damages being sought or the amount of such damages that could be allocated to the Company.

Estimates of the cost of remedial action for the cleanup of the in-river portion of the Site have varied widely in various drafts of the FS and in the EPA's final FS issued in June 2016 ranging from approximately $170 million to over $2.5 billion (net present value), depending on the remedial alternative and a number of other factors. In comments submitted to the EPA, the Company and certain other stakeholders identified a number of serious concerns regarding the EPA's risk and remedial alternatives assessments, cost estimates, scheduling assumptions and conclusions regarding the feasibility and effectiveness of remediation technologies.

In January 2017, the EPA issued a Record of Decision ("ROD") that identified the selected remedy for the Site. The selected remedy is a modified version of one of the alternative remedies evaluated in the EPA's FS that was expanded to include additional work at a greater cost. The EPA has estimated the total cost of the selected remedy at $1.7 billion with a net present value cost of $1.05 billion (at a 7% discount rate) and an estimated construction period of 13 years following completion of the remedial designs. In the ROD, the EPA stated that the cost estimate is an order-of-magnitude engineering estimate that is expected to be within +50% to -30% of the actual project cost and that changes in the cost elements are likely to occur as a result of new information and data collected during the engineering design. The Company has identified a number of concerns regarding the remedy described in the ROD, which is based on data that is more than a decade old, and the EPA's estimates for the costs and time required to implement the selected remedy. Because of ongoing questions regarding cost effectiveness, technical feasibility, and the use of stale data, it is uncertain whether the ROD will be implemented as issued. In addition, the ROD did not determine or allocate the responsibility for remediation costs among the PRPs.

In the ROD, the EPA acknowledged that much of the data used in preparing the ROD was more than a decade old and would need to be updated with a new round of "baseline" sampling to be conducted prior to the remedial design phase. Accordingly, the ROD provided for additional pre-remedial design investigative work and baseline sampling to be conducted in order to provide a baseline of current conditions and delineate particular remedial actions for specific areas within the Site. This additional sampling was required prior to proceeding with the next phase in the process which is the remedial design. The remedial design phase is an engineering phase during which additional technical information and data will be collected, identified and incorporated into technical drawings and specifications developed for the subsequent remedial action. Moreover, the ROD provided only Site-wide cost estimates and did not provide sufficient detail to estimate costs for specific sediment management areas within the Site. Following issuance of the ROD, EPA proposed that the PRPs, or a subgroup of PRPs, perform the additional investigative work identified in the ROD under a new consent order.

In December 2017, the Company and three other PRPs entered into a new Administrative Settlement Agreement and Order on Consent with EPA to perform such pre-remedial design investigation and baseline sampling over a two year period. The Company estimated that its share of the costs of performing such work would be approximately $2 million, which it recorded to environmental liabilities and selling, general and administrative expense in the consolidated financial statements in fiscal 2018. The Company believes that such costs will be fully covered by existing insurance coverage and, thus, also recorded an insurance receivable for $2 million in fiscal 2018, resulting in no net impact to the Company's consolidated results of operations. The Company's loss contingencies as of November 30, 2019 and August 31, 2019 included $1 million for its estimated share of the costs of the investigation, including pre-remedial design investigative activities.

The pre-remedial design investigation and baseline sampling work has been completed, and the report evaluating the data was submitted to EPA on June 17, 2019. The evaluation report concludes that Site conditions have improved substantially since the data forming the basis of the ROD was collected over a decade ago. The analysis contained in the report has significant implications for remedial design and remedial action at the Site. EPA has reviewed the report, finding with a few limited corrections that the data is of suitable quality and generally acceptable and stating that such data will be used, in addition to existing and forthcoming design-level data, to inform implementation of the ROD. However, EPA did not agree that the data or the analysis support the conclusions presented in the report. The Company and other PRPs disagree with EPA's position on use of the more recent data and are reviewing EPA's comments and the Company's options.

EPA has stated that it wants PRPs to step forward (individually or in groups) to enter into consent agreements to perform remedial design covering the entire Site and has proposed dividing the Site into eight to ten subareas for remedial design. Certain PRPs have since executed consent agreements for remedial design work in a few portions of the Site. EPA recently indicated that it will not issue Special Notice Letters for full remedial design/remedial action work at this time, but stated that, in early 2020, it plans to complete pending negotiations with other PRPs for additional remedial design consent agreements and will utilize its enforcement tools, which include issuance of orders, to advance progress on remedial design. However, the Company does not currently expect EPA to take immediate enforcement actions pending ongoing discussions with EPA on the results of the pre-remedial design investigation work. The Company has engaged in good-faith negotiations with EPA with respect to potentially performing remedial design; but it is unclear whether the Company will reach agreement with EPA, and the timing for completion of remedial design is uncertain but could take three to four years.

Except for certain early action projects in which the Company is not involved, remediation activities are not expected to commence for a number of years. In addition, as discussed above, responsibility for implementing and funding the remedy will be determined in a separate allocation process, which is on-going. The Company would expect the next major stage of the allocation process to proceed in parallel with the remedial design process.

Because there has not been a determination of the specific remediation actions that will be required, the amount of natural resource damages or the allocation of costs of the investigations and any remedy and natural resource damages among the PRPs, the Company believes it is not possible to reasonably estimate the amount or range of costs which it is likely to or which it is reasonably possible that it will 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 being developed 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 (including the pre-remedial design investigative activities), remedial design, remedial action and mitigation for natural resource damages claims in connection with the Site, although there is no assurance that those policies will cover all of the costs which the Company may incur.

The Oregon Department of Environmental Quality is separately providing oversight of voluntary investigations and source control activities 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) have not yet been determined.

Other Legacy Environmental Loss Contingencies

The Company's environmental loss contingencies as of November 30, 2019 and August 31, 2019, other than Portland Harbor, include actual or possible investigation and cleanup costs from historical contamination at sites currently or formerly owned or formerly operated by the Company or at other sites where the Company may have responsibility for such costs due to past disposal or other activities ("legacy environmental loss contingencies"). These legacy environmental loss contingencies relate to the potential remediation of waterways and soil and groundwater contamination and may also involve natural resource damages, governmental fines and penalties and claims by third parties for personal injury and property damage. The Company has been notified that it is or may be a potentially responsible party at certain of these sites, and investigation and cleanup activities are ongoing or may be required in the future. The Company recognizes a liability for such matters when the loss is probable and can be reasonably estimated. When investigation and cleanup activities are ongoing or where the Company has not yet been identified as having responsibility or the contamination has not yet been identified, it is reasonably possible that the Company may need to recognize additional liabilities in connection with such sites but the Company cannot currently reasonably estimate the possible loss or range of loss absent additional information or developments. Such additional liabilities, individually or in the aggregate, may have a material adverse effect on the Company's results of operations, financial condition or cash flows.

During fiscal 2018, the Company accrued $4 million in expense at its Corporate division for the estimated costs related to remediation of shredder residue disposed of in or around the 1970s at third-party sites located near each other. Investigation activities have been conducted under oversight of the applicable state regulatory agency. As of November 30, 2019 and August 31, 2019, the Company had $4 million accrued for this matter. It is reasonably possible that the Company may recognize additional liabilities in connection with this matter at the time such losses are probable and can be reasonably estimated. The Company currently estimates a range of reasonably possible losses related to this matter in excess of current accruals at between zero and $28 million based on a range of remedial alternatives and subject to development and approval by regulators of a specific remedy implementation plan. The Company is investigating whether a portion or all of the current and future losses related to this matter, if incurred, are covered by existing insurance coverage or may be offset by contributions from other responsible parties.

In addition, the Company's loss contingencies as of November 30, 2019 and August 31, 2019 include $7 million and $8 million, respectively, for the estimated costs related to remediation of soil and groundwater conditions, including penalties, in connection with a closed facility owned and previously operated by an indirect, wholly-owned subsidiary. Investigation activities have been conducted under the oversight of the applicable state regulatory agency, and the Company has also been working with local officials with respect to the protection of public water supplies. It is reasonably possible that the Company may recognize additional liabilities, including penalties, in connection with this matter at the time such additional losses are probable and can be reasonably estimated. However, the Company cannot reasonably estimate at this time the possible additional loss or range of possible additional losses associated with this matter pending completion of on-going studies and determination of remediation plans and pending further negotiations to settle the related enforcement matter. As part of its activities relating to the protection of public water supplies, the Company has agreed to reimburse the municipality for certain studies and plans, and it is reasonably possible that it may incur additional liabilities and costs in the future, including for wellhead treatment, which may be material.

Steel Manufacturing Operations

The Company's steel manufacturing operations had no known environmental liabilities as of November 30, 2019 and August 31, 2019.

The steel mill'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 firms that apply treatments that allow for the ultimate disposal of the EAF dust.

The Company's steel mill 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 approximately 950 thousand tons. The Company's permit was first issued in 1998 and has since been renewed through February 1, 2018. The permit renewal process occurs every five years, and the renewal process is underway; however, the existing permit is extended by administrative rule until the current renewal process is finalized.

Summary - Environmental Contingencies

With respect to environmental contingencies other than the Portland Harbor Superfund site and the other legacy environmental loss contingencies, which are discussed separately above, management currently believes that adequate provision has been made for the potential impact of its environmental loss contingencies. Historically, the amounts the Company has ultimately paid for such remediation activities have not been material in any given period, but there can be no assurance that such amounts paid will not be material in the future.

Contingencies - Other

Schnitzer Southeast, LLC (a wholly-owned subsidiary of the Company, "SSE"), an SSE employee, the Company and one of the Company's insurance carriers had been named as defendants in five separate wrongful death lawsuits filed in the State of Georgia arising from an accident in 2016 in Alabama involving a tractor trailer driven by the SSE employee and owned by SSE. In fiscal 2019, the Company settled three of the five lawsuits for a total of $35 million. In the first quarter of fiscal 2020, the Company settled the two remaining lawsuits for a total of $68 million. The aggregate settlement amount of $103 million was substantially covered by insurance, resulting in no net impact to the Company's consolidated results of operations. As of August 31, 2019, the Company had accrued loss contingencies and offsetting insurance receivables related to the lawsuits totaling $83 million. The full amount accrued as of August 31, 2019 was paid by the Company's insurers in the first quarter of fiscal 2020. There are no further contingencies in relation to this matter as of November 30, 2019.

In addition to legal proceedings relating to the contingencies described above, the Company is a party to various legal proceedings arising in the normal course of business. The Company recognizes a liability for such matters when the loss is probable and can be reasonably estimated. The Company does not anticipate that the resolution of such legal proceedings arising in the normal course of business, after taking into consideration expected insurance recoveries, will have a material adverse effect on its results of operations, financial condition, or cash flows.

Note 6 - Accumulated Other Comprehensive Loss

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

	Three Months Ended November 30, 2019			Three Months Ended November 30, 2018		
	Foreign Currency Translation Adjustments	Pension Obligations, Net	Total	Foreign Currency Translation Adjustments	Pension Obligations, Net	Total
Balances - September 1 (Beginning of period)	$ (35,689)	$ (3,074)	$ (38,763)	$ (34,129)	$ (3,108)	$ (37,237)
Other comprehensive income (loss) before reclassifications	211	(17)	194	(1,364)	208	(1,156)
Income tax benefit (expense)	—	4	4	—	(46)	(46)
Other comprehensive income (loss) before reclassifications, net of tax	211	(13)	198	(1,364)	162	(1,202)
Amounts reclassified from accumulated other comprehensive loss	—	52	52	—	52	52
Income tax benefit	—	(12)	(12)	—	(12)	(12)
Amounts reclassified from accumulated other comprehensive loss, net of tax	—	40	40	—	40	40
Net periodic other comprehensive income (loss)	211	27	238	(1,364)	202	(1,162)
Balances - November 30 (End of period)	$ (35,478)	$ (3,047)	$ (38,525)	$ (35,493)	$ (2,906)	$ (38,399)

Reclassifications from accumulated other comprehensive loss to earnings, both individually and in the aggregate, were not material to the impacted captions in the Unaudited Condensed Consolidated Statements of Operations for all periods presented.

Note 7 - Revenue

Disaggregation of Revenues

The table below illustrates the Company's revenues disaggregated by major product and sales destination for each reportable segment (in thousands):

	Three Months Ended November 30, 2019			
	AMR	CSS	Intercompany Revenue Eliminations	Total
Major product information:				
Ferrous revenues	$ 192,472	$ 8,650	$ (1,224)	$ 199,898
Nonferrous revenues	89,812	8,244	(215)	97,841
Steel revenues(1)	—	77,325	—	77,325
Retail and other revenues	30,473	47	—	30,520
Total revenues	$ 312,757	$ 94,266	$ (1,439)	$ 405,584
Revenues based on sales destination:				
Foreign	$ 198,577	$ 19,905	$ —	$ 218,482
Domestic	114,180	74,361	(1,439)	187,102
Total revenues	$ 312,757	$ 94,266	$ (1,439)	$ 405,584

	Three Months Ended November 30, 2018			
	AMR	CSS	Intercompany Revenue Eliminations	Total
Major product information:				
Ferrous revenues	$ 298,812	$ 19,743	$ (2,508)	$ 316,047
Nonferrous revenues	104,181	9,031	(270)	112,942
Steel revenues(1)	—	101,337	—	101,337
Retail and other revenues	33,419	275	—	33,694
Total revenues	$ 436,412	$ 130,386	$ (2,778)	$ 564,020
Revenues based on sales destination:				
Foreign	$ 263,511	$ 28,131	$ —	$ 291,642
Domestic	172,901	102,255	(2,778)	272,378
Total revenues	$ 436,412	$ 130,386	$ (2,778)	$ 564,020

(1) Steel revenues include primarily sales of finished steel products, semi-finished goods (billets) and manufacturing scrap.

Receivables from Contracts with Customers

The revenue accounting standard defines a receivable as an entity's right to consideration that is unconditional, meaning that only the passage of time is required before payment is due. As of November 30, 2019 and August 31, 2019, receivables from contracts with customers, net of an allowance for doubtful accounts, totaled $112 million and $142 million representing 97% of total accounts receivable reported on the Unaudited Condensed Consolidated Balance Sheets.

Contract Liabilities

Contract consideration received from a customer prior to revenue recognition is recorded as a contract liability and is recognized as revenue when the Company satisfies the related performance obligation under the terms of the contract. The Company's contract liabilities consist almost entirely of customer deposits for recycled scrap metal sales contracts, which are reported within accounts payable on the Unaudited Condensed Consolidated Balance Sheets and totaled $3 million as of November 30, 2019 and August 31, 2019. Unsatisfied performance obligations reflected in these contract liabilities relate to contracts with original expected durations of one year or less and, therefore, are not disclosed. During the three months ended November 30, 2019, the Company reclassified $2 million in customer deposits as of August 31, 2019 to revenues as a result of satisfying performance obligations during the period. During the three months ended November 30, 2018, the Company reclassified $7 million in customer deposits as of August 31, 2018 to revenues as a result of satisfying performance obligations during the period.

Note 8 - Share-Based Compensation

In the first quarter of fiscal 2020, as part of the annual awards under the Company's Long-Term Incentive Plan, the Compensation Committee of the Company's Board of Directors granted 337,700 performance share awards to the Company's key employees and officers under the Company's 1993 Amended and Restated Stock Incentive Plan.

Awards vest if the threshold level under the specified metric is met at the end of the approximately three-year performance period. For awards granted in the first quarter of fiscal 2020, the performance metrics were the Company's total shareholder return ("TSR") relative to a designated peer group of 15 companies and the Company's return on capital employed ("ROCE"). Award share payouts depend on the extent to which the performance goals have been achieved. The number of shares that a participant receives is equal to the number of performance shares granted multiplied by a payout factor, which ranges from a threshold of 50% to a maximum of 200%.

The Company granted 165,834 performance share awards based on its relative TSR metric over a performance period spanning November 14, 2019 to August 31, 2022. The Company estimates the fair value of TSR awards using a Monte-Carlo simulation model utilizing several key assumptions, including the following for TSR awards granted on November 14, 2019:

	Percentage
Expected share price volatility (SSI)	38.9%
Expected share price volatility (Peer group)	44.5%
Expected correlation to peer group companies	34.3%
Risk-free rate of return	1.58%

The estimated fair value of the TSR awards at the date of grant was $4 million. The TSR award stipulates certain limitations to the payout in the event the payout reaches a defined ceiling level or the Company's TSR is negative. The compensation expense for the TSR awards based on the grant-date fair value, net of estimated forfeitures, is recognized over the requisite service period (or to the date a qualifying employment termination event entitles the recipient to a prorated award, if before the end of the service period), regardless of whether the market condition has been or will be satisfied.

The Company granted 171,936 performance share awards based on its ROCE for the three-year performance period consisting of the Company's 2020, 2021 and 2022 fiscal years. The fair value of the awards granted was based on the market closing price of the underlying Class A common stock on the grant date and totaled $4 million.

The Company accrues compensation cost for ROCE awards based on the probable outcome of achieving specified performance conditions, net of estimated forfeitures, over the requisite service period (or to the date a qualifying employment termination event entitles the recipient to a prorated award, if before the end of the service period). The Company reassesses whether achievement of the performance conditions is probable at each reporting date. If it is probable that the actual performance results will exceed the stated target performance conditions, the Company accrues additional compensation cost for the additional performance shares to be awarded. If, upon reassessment, it is no longer probable that the actual performance results will exceed the stated target performance conditions, or that it is no longer probable that the target performance conditions will be achieved, the Company reverses any recognized compensation cost for shares no longer probable of being issued. If the performance conditions are not achieved at the end of the service period, all related compensation cost previously recognized is reversed.

Performance share awards will be paid in Class A common stock as soon as practicable after the end of the requisite service period and vesting date of October 31, 2022.

Note 9 - Income Taxes

Effective Tax Rate

The Company's effective tax rate from continuing operations for the first quarter of fiscal 2020 was a benefit of 27.8%, compared to an expense of 19.8% for the prior year period. The Company's effective tax rate from continuing operations for the first quarter of fiscal 2020 was higher than the U.S. federal statutory rate of 21% primarily due to the impact of non-deductible officers' compensation and other expenses, as well as the aggregate impact of state taxes, on the projected annual effective tax rate applied to the quarterly results.

Valuation Allowances

The Company assesses the realizability of its deferred tax assets on a quarterly basis through an analysis of potential sources of future taxable income, including prior year taxable income available to absorb a carryback of tax losses, reversals of existing taxable temporary differences, tax planning strategies, and forecasts of taxable income. The Company considers all negative and positive evidence, including the weight of the evidence, to determine if valuation allowances against deferred tax assets are required. The Company maintains valuation allowances against certain U.S. federal, state, Canadian and all Puerto Rican deferred tax assets.

The Company files federal and state income tax returns in the U.S. and foreign tax returns in Puerto Rico and Canada. For U.S. federal income tax returns, fiscal years 2013 to 2019 remain subject to examination under the statute of limitations.

Note 10 - Restructuring Charges and Other Exit-Related Activities

On January 8, 2020, subsequent to the end of the first quarter of fiscal 2020, the Company committed to certain restructuring initiatives aimed at further reducing its annual operating expenses, primarily SG&A, at Corporate, AMR and CSS, primarily through reductions in non-trade procurement spend, including outside and professional services, lower employee-related expenses and other non-headcount measures. The Company expects to incur aggregate estimated restructuring charges, as defined in *ASC 420, Exit or Disposal Cost Obligations*, and other exit-related costs of approximately $4 million in connection with these initiatives. The Company expects the substantial majority of the restructuring charges to be recognized by the end of fiscal 2020 and to require the Company to make cash payments.

Note 11 - Net (Loss) Income Per Share

The following table sets forth the information used to compute basic and diluted net (loss) income per share attributable to SSI shareholders (in thousands):

	Three Months Ended November 30,	
	2019	**2018**
(Loss) income from continuing operations	$ (6,593)	$ 16,690
Net income attributable to noncontrolling interests	(430)	(430)
(Loss) income from continuing operations attributable to SSI shareholders	(7,023)	16,260
Income (loss) from discontinued operations, net of tax	28	(72)
Net (loss) income attributable to SSI shareholders	$ (6,995)	$ 16,188
Computation of shares:		
Weighted average common shares outstanding, basic	27,515	27,505
Incremental common shares attributable to dilutive performance share awards, restricted stock units and deferred stock units	—	859
Weighted average common shares outstanding, diluted	27,515	28,364

Common stock equivalent shares of 865,354 and 102,755 were considered antidilutive and were excluded from the calculation of diluted net (loss) income per share for the three months ended November 30, 2019 and 2018, respectively.

Note 12 - Related Party Transactions

The Company purchases recycled metal from its joint venture operations at prices that approximate fair market value. These purchases totaled $3 million and $4 million for the three months ended November 30, 2019 and 2018, respectively.

Note 13 - Segment Information

The accounting standards for reporting information about operating segments define an operating segment as a component of an enterprise that engages in business activities from which it may earn revenues and incur expenses for which discrete financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

The Company’s internal organizational and reporting structure includes two operating and reportable segments: the Auto and Metals Recycling (“AMR”) business and the Cascade Steel and Scrap (“CSS”) business.

AMR acquires and recycles ferrous and nonferrous scrap metal for sale to foreign and domestic metal producers, processors and brokers, and procures salvaged vehicles and sells serviceable used auto parts from these vehicles through a network of self-service auto parts stores. These auto parts stores also supply the Company’s shredding facilities with auto bodies that are processed into saleable recycled scrap metal.

CSS operates a steel mini-mill that produces a range of finished steel long products using recycled scrap metal and other raw materials. CSS’s steel mill obtains substantially all of its recycled scrap metal raw material requirements from its integrated metals recycling and joint venture operations. CSS’s metals recycling operations also sell recycled metal to external customers primarily in export markets.

The Company holds noncontrolling ownership interests in joint ventures, which are either in the metals recycling business or are suppliers of unprocessed metal. The Company’s allocable portion of the results of these joint ventures is reported within the segment results. As of November 30, 2019 and August 31, 2019, the Company had two 50%-owned joint venture interests, one presented as part of AMR operations, and one presented as part of CSS operations. The joint venture within CSS sells recycled scrap metal to other operations within CSS at prices that approximate local market rates, which produces intercompany profit. This intercompany profit is eliminated while the products remain in inventories and is not recognized until the finished products are sold to third parties.

Intersegment sales from AMR to CSS are made at prices that approximate local market rates. These intercompany sales tend to produce intercompany profit which is not recognized until the finished products are ultimately sold to third parties.

The information provided below is obtained from internal information that is provided to the Company’s chief operating decision maker for the purpose of corporate management. The Company uses segment operating income to measure segment performance. The Company does not allocate corporate interest income and expense, income taxes and other income and expense to its reportable segments. Certain expenses related to shared services that support operational activities and transactions are allocated from Corporate to the segments. Unallocated Corporate expense consists primarily of expense for management and certain administrative services that benefit both reportable segments. In addition, the Company does not allocate certain items to segment operating income because management does not include the information in its measurement of the performance of the operating segments. Such unallocated items include restructuring charges and other exit-related activities, charges (net of recoveries) related to legacy environmental matters, and provisions for certain legal matters. Because of the unallocated income and expense, the operating income of each reportable segment does not reflect the operating income the reportable segment would report as a stand-alone business. The results of discontinued operations are excluded from segment operating income and are presented separately, net of tax, from the results of ongoing operations for all periods presented.

See Note 7 - Revenue in the Notes to the Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this report for presentation of the Company’s revenues by reportable segment.

The table below illustrates the reconciliation of the Company's segment operating (loss) income to (loss) income from continuing operations before income taxes (in thousands):

	Three Months Ended November 30, 2019	Three Months Ended November 30, 2018
AMR	$ (2,432)	$ 23,017
CSS	4,237	11,918
Segment operating (loss) income	1,805	34,935
Restructuring charges and other exit-related activities	(467)	(202)
Corporate and eliminations	(9,248)	(12,044)
Operating (loss) income	(7,910)	22,689
Interest expense	(1,423)	(1,906)
Other income, net	206	23
(Loss) income from continuing operations before income taxes	$ (9,127)	$ 20,806

The following is a summary of the Company's total assets by reportable segment (in thousands):

	November 30, 2019	August 31, 2019
AMR(1)	$ 1,655,799	$ 1,561,267
CSS(1)	768,270	769,930
Total segment assets	2,424,069	2,331,197
Corporate and eliminations(2)	(1,265,477)	(1,170,451)
Total assets	$ 1,158,592	$ 1,160,746

(1) AMR total assets include $3 million for an investment in a joint venture as of November 30, 2019 and August 31, 2019. CSS total assets include $7 million for an investment in a joint venture as of November 30, 2019 and August 31, 2019.

(2) The substantial majority of Corporate and eliminations total assets consist of Corporate intercompany payables to the Company's operating segments and intercompany eliminations.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This section includes a discussion of our operations for the three months ended November 30, 2019 and 2018. The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of our financial condition and results of operations. The discussion should be read in conjunction with our Annual Report on Form 10-K for the year ended August 31, 2019, and the Unaudited Condensed Consolidated Financial Statements and the related Notes thereto included in Part I, Item 1 of this report.

General

Founded in 1906, Schnitzer Steel Industries, Inc. ("SSI"), an Oregon corporation, is one of North America's largest recyclers of ferrous and nonferrous scrap metal, including end-of-life vehicles, and a manufacturer of finished steel products.

Our internal organizational and reporting structure includes two operating and reportable segments: the Auto and Metals Recycling ("AMR") business and the Cascade Steel and Scrap ("CSS") business.

AMR sells ferrous and nonferrous recycled scrap metal in both foreign and domestic markets. AMR acquires, processes and recycles auto bodies, rail cars, home appliances, industrial machinery, manufacturing scrap and construction and demolition scrap through its 90 auto and metals recycling facilities. Our largest source of auto bodies is our own network of retail auto parts stores, which operate under the commercial brand-name Pick-n-Pull. AMR procures salvaged vehicles and sells serviceable used auto parts from these vehicles through its 51 self-service auto parts stores located across the United States and Western Canada. Upon acquiring a salvaged vehicle, we remove catalytic converters, aluminum wheels and batteries for separate processing and sale prior to placing the vehicle in our retail lot. After retail customers have removed desired parts from a vehicle, we may remove remaining major component parts containing ferrous and nonferrous metals, which are primarily sold to wholesalers. The remaining auto bodies are crushed and shipped to our metals recycling facilities to be shredded or sold to third parties where geographically more economical. AMR then processes mixed and large pieces of scrap metal into smaller pieces by crushing, torching, shearing, shredding and sorting, resulting in scrap metal pieces of a size, density and metal content required by customers to meet their production needs. The manufacturing process includes physical separation of ferrous and nonferrous materials through automated and manual processes into various sub-classifications, each of which has a value and metal content used by our customers for their end products. AMR uses a variety of shredding and separation systems to efficiently process and sort recycled scrap metal.

CSS operates a steel mini-mill in McMinnville, Oregon that produces a range of finished steel long products such as reinforcing bar (rebar) and wire rod. The primary feedstock for the manufacture of its products is ferrous recycled scrap metal. CSS's steel mill obtains substantially all of its scrap metal raw material requirements from its integrated metals recycling and joint venture operations. CSS's metals recycling operations comprise a collection, shredding and export operation in Portland, Oregon, four feeder yard operations located in Oregon and Southern Washington, and one metals recycling joint venture ownership interest. Additionally, CSS purchases small volumes of ferrous scrap metal from AMR and sells ferrous and nonferrous recycled scrap metal primarily into the export market.

We use segment operating income to measure our segment performance. We do not allocate corporate interest income and expense, income taxes and other income and expense to our reportable segments. Certain expenses related to shared services that support operational activities and transactions are allocated from Corporate to the segments. Unallocated Corporate expense consists primarily of expense for management and certain administrative services that benefit both reportable segments. In addition, we do not allocate certain items to segment operating income because management does not include the information in its measurement of the performance of the operating segments. Such unallocated items include restructuring charges and other exit-related activities, charges (net of recoveries) related to legacy environmental matters, and provisions for certain legal matters. Because of the unallocated income and expense, the operating income of each reportable segment does not reflect the operating income the reportable segment would report as a stand-alone business. The results of discontinued operations are excluded from segment operating income and are presented separately, net of tax, from the results of ongoing operations for all periods presented.

For further information regarding our reportable segments, see Note 13 - Segment Information in the Notes to the Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this report.

Our results of operations depend in large part on the demand and prices for recycled metal in foreign and domestic markets and on the supply of raw materials, including end-of-life vehicles, available to be processed at our facilities. We respond to changes in selling prices for processed metal by seeking to adjust purchase prices for unprocessed scrap metal in order to manage the impact on our operating income. We believe we generally benefit from sustained periods of stable or rising recycled scrap metal selling prices, which allow us to better maintain or increase both operating income and unprocessed scrap metal flow into our facilities. When recycled scrap metal selling prices decline, either sharply or for a sustained period, our operating margins typically compress.

Our deep water port facilities on both the East and West Coasts of the U.S. (in Everett, Massachusetts; Providence, Rhode Island; Oakland, California; Tacoma, Washington; and Portland, Oregon) and access to public deep water port facilities (in Kapolei, Hawaii and Salinas, Puerto Rico) allow us to efficiently meet the global demand for recycled ferrous metal by enabling us to ship bulk cargoes to steel manufacturers located in Europe, Africa, the Middle East, Asia, North America, Central America and South America. Our exports of nonferrous recycled metal are shipped in containers through various public docks to specialty steelmakers, foundries, aluminum sheet and ingot manufacturers, copper refineries and smelters, brass and bronze ingot manufacturers, wire and cable producers, wholesalers, and other recycled metal processors globally. We also transport both ferrous and nonferrous metals by truck, rail and barge in order to transfer scrap metal between our facilities for further processing, to load shipments at our export facilities, and to meet regional domestic demand.

Our results of operations also depend on the demand and prices for our finished steel products, the manufacture of which uses internally sourced ferrous recycled scrap metal as the primary feedstock, as well as other raw materials. Our steel mill in Oregon sells to industrial customers primarily in North America.

Our quarterly operating results fluctuate based on a variety of factors including, but not limited to, changes in market conditions for ferrous and nonferrous recycled metal and finished steel products, the supply of scrap metal in our domestic markets, and varying demand for used auto parts from our self-service retail stores. Certain of these factors are influenced, to a degree, by the impact of seasonal changes including severe weather conditions, which can impact the timing of shipments and inhibit construction activity utilizing our products, scrap metal collection at our facilities and production levels in our yards, and retail admissions and parts sales at our auto parts stores. Further, trade actions, including tariffs and any retaliation by affected countries, and licensing and inspection requirements can impact the level of profitability on sales of our products and, in certain cases, impede or restrict our ability to sell to certain export markets or require us to direct our sales to alternative market destinations, which can cause our quarterly operating results to fluctuate.

Executive Overview of Financial Results for the First Quarter of Fiscal 2020

We generated consolidated revenues of $406 million in the first quarter of fiscal 2020, a decrease of 28% from the $564 million of consolidated revenues in the first quarter of fiscal 2019, primarily due to significantly lower average net selling prices for our ferrous and nonferrous products, in both export and domestic markets, and reduced sales volumes compared to the prior year quarter. These decreases were driven by weaker market conditions for recycled metals globally primarily due to softer demand for finished steel and structural changes to the market for certain recycled nonferrous products resulting from Chinese import restrictions and tariffs. Market selling prices for ferrous recycled metal declined sharply by approximately $60 per ton, or approximately 20%, between the beginning of August and October 2019, before partially recovering in November. Compared to the prior year quarter, average net selling prices for our ferrous products at AMR decreased by 28% and ferrous sales volumes at AMR decreased by 10%, reflecting weaker demand globally and reduced supply of raw materials including end-of-life vehicles due to the lower price environment. Nonferrous revenues at AMR in the first quarter of fiscal 2020 decreased by 14% compared to the prior year quarter, as nonferrous average net selling prices and sales volumes at AMR decreased by 8% and 14%, respectively. Steel revenues in the first quarter of fiscal 2020 decreased by 24% compared to the prior year quarter primarily reflecting the impact of significantly lower average net selling prices for our finished steel products and decreased sales volumes.

Consolidated operating loss was $(8) million in the first quarter of fiscal 2020, compared to income of $23 million in the first quarter of fiscal 2019. Adjusted consolidated operating loss was $(4) million in the first quarter of fiscal 2020, compared to income of $23 million in the first quarter of fiscal 2019. Adjusted consolidated operating (loss) income for each period excludes the impact of charges for legacy environmental matters, net of recoveries, asset impairment charges, and restructuring charges and other exit-related activities. See the reconciliation of adjusted consolidated operating (loss) income in Non-GAAP Financial Measures at the end of this Item 2.

AMR reported an operating loss in the first quarter of fiscal 2020 of $(2) million, compared to income of $23 million in the prior year period. The sharply declining price environment during most of the first quarter of fiscal 2020 had a significant adverse impact on operating margins and overall operating results at AMR for the period. Ferrous metal spreads at AMR in the first quarter of fiscal 2020 declined by approximately 20% and average net selling prices for AMR’s nonferrous joint products that are recovered from the shredding process, comprising primarily zorba, decreased by 12%, compared to the prior year quarter. In the sharply declining commodity price environment, average inventory costs did not decrease as quickly as purchase costs for scrap metal, resulting in an adverse effect on cost of goods sold and overall operating results at AMR. In addition, the lower price environment adversely impacted the supply of scrap metal including end-of-life vehicles, which resulted in lower processed volumes compared to the prior year quarter. The adverse effects of the market conditions on AMR’s operating results in the first quarter of fiscal 2020 were partially offset by the benefits from productivity initiatives implemented subsequent to the prior year quarter.

CSS reported operating income of $4 million in the first quarter of fiscal 2020, compared to $12 million in the prior year quarter, with the decrease primarily reflecting the impact of the declining price environment for finished steel during the first quarter of fiscal 2020. Finished steel average net selling prices declined $104 per ton, or 14%, compared to the prior year quarter, which led to a compression of finished steel margins as decreases in selling prices outpaced the reduction in raw material purchase prices and other input costs. The effects of finished steel margin compression were partially offset by benefits from productivity initiatives. CSS operating results in the first quarter of fiscal 2019 reflected higher finished steel margins compared to the current quarter, supported by the higher and rising price environment at the time.

Consolidated selling, general and administrative (“SG&A”) expense in the first quarter of fiscal 2020 decreased by $5 million, or 9%, compared to the prior year quarter primarily due to a $6 million decrease in employee-related expenses, including from lower incentive compensation accruals, partially offset by a $1 million charge related to an environmental matter at AMR.

In the first quarter of fiscal 2020, we invested $24 million in capital expenditures, including towards the implementation of advanced metals recovery technology at several of our major export facilities consistent with our strategic plan, which we expect will deliver benefits to our profitability beginning in the second half of fiscal 2020. We currently plan to invest up to $125 million in capital expenditures in fiscal 2020, including $60 million for investments in growth, including advanced metals recovery technology and to support volume initiatives and other growth projects.

Net loss from continuing operations attributable to SSI shareholders in the first quarter of fiscal 2020 was $(7) million, or $(0.26) per diluted share, compared to net income of $16 million, or $0.57 per diluted share, in the prior year quarter. Adjusted net loss from continuing operations attributable to SSI shareholders in the first quarter of fiscal 2020 was $(5) million, or $(0.17) per diluted share, compared to net income of $17 million, or $0.59 per diluted share, in the prior year quarter. See the reconciliation of adjusted net (loss) income from continuing operations attributable to SSI shareholders and adjusted diluted (loss) earnings per share from continuing operations attributable to SSI shareholders in Non-GAAP Financial Measures at the end of this Item 2.

The following items further highlight selected liquidity and capital structure metrics:

- For the first three months of fiscal 2020, net cash provided by operating activities of $11 million, compared to net cash used in operating activities of $12 million in the prior year comparable period;
- Debt of $128 million as of November 30, 2019, compared to $105 million as of August 31, 2019; and
- Debt, net of cash, of $119 million as of November 30, 2019, compared to $93 million as of August 31, 2019 (see the reconciliation of debt, net of cash, in Non-GAAP Financial Measures at the end of this Item 2).

Results of Operations

($ in thousands)	Three Months Ended November 30, 2019	2018	% Change
Revenues:			
Auto and Metals Recycling	$ 312,757	$ 436,412	(28)%
Cascade Steel and Scrap	94,266	130,386	(28)%
Intercompany revenue eliminations(1)	(1,439)	(2,778)	(48)%
Total revenues	405,584	564,020	(28)%
Cost of goods sold:			
Auto and Metals Recycling	280,129	378,736	(26)%
Cascade Steel and Scrap	86,244	114,335	(25)%
Intercompany cost of goods sold eliminations(1)	(1,613)	(2,939)	(45)%
Total cost of goods sold	364,760	490,132	(26)%
Selling, general and administrative expense:			
Auto and Metals Recycling	33,519	34,766	(4)%
Cascade Steel and Scrap	3,945	4,448	(11)%
Corporate(2)	9,310	12,205	(24)%
Total selling, general and administrative expense	46,774	51,419	(9)%
Income from joint ventures:			
Auto and Metals Recycling	(39)	(170)	(77)%
Cascade Steel and Scrap	(160)	(315)	(49)%
Total income from joint ventures	(199)	(485)	(59)%
Asset impairment charges:			
Auto and Metals Recycling	1,580	63	NM
Corporate	112	—	NM
Total asset impairment charges	1,692	63	NM
Operating (loss) income:			
Auto and Metals Recycling	(2,432)	23,017	NM
Cascade Steel and Scrap	4,237	11,918	(64)%
Segment operating income	1,805	34,935	NM
Restructuring charges and other exit-related activities(3)	(467)	(202)	131%
Corporate expense(2)	(9,422)	(12,205)	(23)%
Change in intercompany profit elimination(4)	174	161	8%
Total operating (loss) income	$ (7,910)	$ 22,689	NM

NM = Not Meaningful

(1) AMR sells a small portion of its recycled ferrous metal to CSS at prices that approximate local market rates. These intercompany revenues and cost of goods sold are eliminated in consolidation.

(2) Corporate expense consists primarily of unallocated expenses for management and certain administrative services that benefit both reportable segments.

(3) Restructuring charges consist of expense for severance, contract termination and other restructuring costs that management does not include in its measurement of the performance of the reportable segments. Other exit-related activities consist primarily of asset impairments and accelerated depreciation, net of gains on exit-related disposals, related to site closures.

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

We operate our business across two reportable segments: AMR and CSS. Additional financial information relating to these reportable segments is contained in Note 13 - Segment Information in the Notes to the Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this report.

Auto and Metals Recycling (AMR)

	Three Months Ended November 30,		
($ in thousands, except for prices)	**2019**	**2018**	**% Change**
Ferrous revenues	$ 192,472	$ 298,812	(36)%
Nonferrous revenues	89,812	104,181	(14)%
Retail and other revenues	30,473	33,419	(9)%
Total segment revenues	312,757	436,412	(28)%
Segment operating (loss) income	$ (2,432)	$ 23,017	NM
Average ferrous recycled metal sales prices ($/LT)(1):			
Domestic	$ 195	$ 290	(33)%
Foreign	$ 229	$ 314	(27)%
Average	$ 221	$ 306	(28)%
Ferrous sales volume (LT, in thousands):			
Domestic	247	340	(27)%
Foreign	583	579	1%
Total ferrous sales volume (LT, in thousands)	830	919	(10)%
Average nonferrous sales price ($/pound)(1)(2)	$ 0.54	$ 0.59	(8)%
Nonferrous sales volume (pounds, in thousands)(2)	131,501	152,869	(14)%
Cars purchased (in thousands)(3)	83	94	(12)%
Number of auto parts stores at period end	51	51	(—)%

LT = Long Ton, which is equivalent to 2,240 pounds

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

(2) Average sales price and volume information excludes platinum group metals ("PGMs") in catalytic converters.

(3) Cars purchased by auto parts stores only.

AMR Segment Revenues

Revenues in the first quarter of fiscal 2020 decreased by 28% compared to the prior year quarter primarily due to significantly lower average net selling prices for our ferrous and nonferrous products, in both export and domestic markets, and reduced sales volumes compared to the prior year quarter. These decreases were driven by weaker market conditions for recycled metals globally primarily due to softer demand for finished steel and structural changes to the market for certain recycled nonferrous products. Market selling prices for ferrous recycled metal declined sharply by approximately $60 per ton, or approximately 20%, between the beginning of August and early October 2019, before partially recovering in November. Compared to the prior year quarter, average net selling prices for shipments of ferrous products at AMR decreased by 28% and ferrous sales volumes decreased by 10%, reflecting weaker demand globally and reduced supply of raw materials including end-of-life vehicles due to the lower price environment. Nonferrous revenues in the first quarter of fiscal 2020 decreased by 14% compared to the prior year quarter, as nonferrous average net selling prices and sales volumes decreased by 8% and 14%, respectively.

AMR Segment Operating (Loss) Income

Operating (loss) income in the first quarter of fiscal 2020 was $(2) million compared to $23 million in the prior year quarter. The sharply declining price environment during most of the first quarter of fiscal 2020 had a significant adverse impact on operating margins and overall operating results at AMR for the period. Ferrous metal spreads at AMR in the first quarter of fiscal 2020 declined by approximately 20% and average net selling prices for AMR's nonferrous joint products that are recovered from the shredding process, comprising primarily zorba, decreased by 12%, compared to the prior year quarter. In the sharply declining commodity price environment, average inventory costs did not decrease as quickly as purchase costs for scrap metal, resulting in an adverse effect on cost of goods sold and overall operating results at AMR. In addition, the lower price environment adversely impacted the supply of scrap metal including end-of-life vehicles, which resulted in lower processed volumes compared to the prior year quarter. The adverse effects of the market conditions on AMR's operating results in the first quarter of fiscal 2020 were partially offset by the benefits from productivity initiatives implemented subsequent to the prior year quarter. Operating results at AMR in the first quarter of fiscal 2019 included $8 million in positive contributions from a limited-duration contract, which was substantially complete at the end of fiscal 2019, and which had provided a high margin source of supply.

Cascade Steel and Scrap (CSS)

	Three Months Ended November 30,		
($ in thousands, except for price)	**2019**	**2018**	**% Change**
Steel revenues[1]	$ 77,325	$ 101,337	(24)%
Recycling revenues[2]	16,941	29,049	(42)%
Total segment revenues	94,266	130,386	(28)%
Segment operating income	$ 4,237	$ 11,918	(64)%
Finished steel average sales price ($/ST)[3]	$ 643	$ 747	(14)%
Finished steel sales volume (ST, in thousands)	114	119	(5)%
Rolling mill utilization[4]	85%	87%	(2)%

ST = Short Ton, which is equivalent to 2,000 pounds

(1) Steel revenues include primarily sales of finished steel products, semi-finished goods (billets) and steel manufacturing scrap.

(2) Recycling revenues include primarily sales of ferrous and nonferrous recycled scrap metal to export markets.

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

(4) Rolling mill utilization is based on effective annual production capacity under current conditions of 580 thousand tons of finished steel products.

CSS Segment Revenues

Revenues in the first quarter of fiscal 2020 decreased by $36 million, or 28% compared to the prior year quarter reflecting significantly lower average net selling prices for our finished steel products, lower finished steel sales volumes and decreased sales of ferrous recycled scrap metal.

CSS Segment Operating Income

Operating income in the first quarter of fiscal 2020 was $4 million compared to $12 million in the prior year quarter, with the decrease primarily reflecting the impact of the declining price environment for finished steel during the first quarter of fiscal 2020. Finished steel average net selling prices declined $104 per ton, or 14%, compared to the prior year quarter, which led to a compression of finished steel margins as decreases in selling prices outpaced the reduction in raw material purchase prices and other input costs. The effects of finished steel margin compression were partially offset by benefits from productivity initiatives. CSS operating results in the first quarter of fiscal 2019 reflected higher finished steel margins compared to the current quarter, supported by the higher and rising price environment at the time.

Corporate Expense

Corporate SG&A expense for the first quarter of fiscal 2020 decreased by $3 million, or 24%, compared to the prior year quarter primarily due to decreased employee-related expenses, including from lower incentive compensation accruals. The lower incentive compensation accruals primarily reflect the reduced expense attributable to share-based awards granted in the first quarter of fiscal 2020 compared to the prior year period.

Productivity Initiatives and Restructuring Charges

In order to mitigate the weaker price environment in the ferrous and nonferrous markets, in fiscal 2019 we implemented productivity initiatives aimed at delivering $35 million in annual benefits primarily through a combination of production cost efficiencies and reductions in SG&A expense. Of the total, approximately 75% of the targeted benefits are in AMR with the remainder split between CSS and Corporate. For fiscal 2019, we achieved approximately $30 million in benefits as a result of these initiatives, with the full amount expected to be achieved in fiscal 2020. Our first quarter fiscal 2020 performance reflects achievement of the full quarterly run rate of these initiatives. In addition, in fiscal 2020 we also initiated and are in the process of implementing additional productivity initiatives aimed at further reducing our annual operating expenses at Corporate, AMR and CSS, mainly through reductions in non-trade procurement spend, including outside and professional services, lower employee-related expenses and other non-headcount measures. We are targeting $15 million in realized benefits in fiscal 2020 from these additional initiatives.

We expect to incur aggregate estimated restructuring charges and other exit-related costs of approximately $4 million in connection with these initiatives, the substantial majority of which are expected to be recognized in fiscal 2020 and to require the Company to make cash payments. The estimated charges consist primarily of employee termination benefits of $2 million, professional services costs of $1 million, and a loss associated with a lease contract termination of $1 million.

Income Tax

The effective tax rate from continuing operations for the first quarter of fiscal 2020 was a benefit of 27.8% compared to an expense of 19.8% for the comparable prior year period. The effective tax rate from continuing operations for the first quarter of fiscal 2020 was higher than the U.S. federal statutory rate of 21% primarily due to the impact of non-deductible officers' compensation and other expenses, as well as the aggregate impact of state taxes, on the projected annual effective tax rate applied to the quarterly results.

Liquidity and Capital Resources

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

Sources and Uses of Cash

We had cash balances of $10 million and $12 million as of November 30, 2019 and August 31, 2019, respectively. Cash balances are intended to be used primarily for working capital, capital expenditures, dividends, share repurchases, investments and acquisitions. We use excess cash on hand to reduce amounts outstanding under our credit facilities. As of November 30, 2019, debt was $128 million compared to $105 million as of August 31, 2019, and debt, net of cash, was $119 million as of November 30, 2019 compared to $93 million as of August 31, 2019 (refer to Non-GAAP Financial Measures at the end of this Item 2).

Operating Activities

Net cash provided by operating activities in the first three months of fiscal 2020 was $11 million, compared to net cash used in operating activities of $12 million in the first three months of fiscal 2019.

Sources of cash in the first three months of fiscal 2020 included a $28 million decrease in accounts receivable primarily due to the timing of sales and collections and a $12 million decrease in inventories due to lower raw material purchase prices and the timing of purchases and sales. Uses of cash in the first three months of fiscal 2020 included a $29 million decrease in accounts payable primarily due to lower raw material purchase prices and the timing of payments and a $11 million decrease in accrued payroll and related liabilities primarily due to the payment of incentive compensation previously accrued under our fiscal 2019 plans.

Uses of cash in the first three months of fiscal 2019 included a $28 million increase in accounts receivable primarily due to the timing of sales and collections and a $27 million decrease in accrued payroll and related liabilities due to the payment of incentive compensation previously accrued under our fiscal 2018 plans. Sources of cash other than from earnings in the first three months of fiscal 2019 included a $10 million decrease in inventories primarily due to lower raw material purchase prices and the impact of timing of purchases and sales.

Investing Activities

Net cash used in investing activities was $24 million in the first three months of fiscal 2020, compared to $25 million in the first three months of fiscal 2019.

Cash used in investing activities in the first three months of fiscal 2020 included capital expenditures of $24 million to upgrade our equipment and infrastructure and for investments in advanced metals recovery technology and environmental and safety-related assets, compared to $27 million in the prior year period.

Financing Activities

Net cash provided by financing activities in the first three months of fiscal 2020 was $10 million, compared to $44 million in the first three months of fiscal 2019.

Cash flows from financing activities in the first three months of fiscal 2020 included $22 million in net borrowings of debt, compared to $61 million in the prior year period (refer to Non-GAAP Financial Measures at the end of this Item 2). Uses of cash in the first three months of fiscal 2020 and 2019 included $6 million for the payment of dividends. Cash used in financing activities in the first three months of fiscal 2019 also included $4 million for share repurchases.

Debt

Our senior secured revolving credit facilities, which provide for revolving loans of $700 million and C$15 million, mature in August 2023 pursuant to a credit agreement with Bank of America, N.A., as administrative agent, and other lenders party thereto. Interest rates on outstanding indebtedness under the credit agreement are based, at our option, on either the London Interbank Offered Rate ("LIBOR"), or the Canadian equivalent for C$ loans, plus a spread of between 1.25% and 2.75%, with the amount of the spread based on a pricing grid tied to our consolidated funded debt to EBITDA ratio, or the greater of (a) the prime rate, (b) the federal funds rate plus 0.50%, or (c) the daily rate equal to one-month LIBOR plus 1.75%, in each case plus a spread of between zero and 1.50% based on a pricing grid tied to our consolidated funded debt to EBITDA ratio. In addition, commitment fees are payable on the unused portion of the credit facilities at rates between 0.15% and 0.45% based on a pricing grid tied to our consolidated funded debt to EBITDA ratio.

We had borrowings outstanding under our credit facilities of $119 million as of November 30, 2019 and $97 million as of August 31, 2019. The weighted average interest rate on amounts outstanding under our credit facilities was 3.25% and 3.78% as of November 30, 2019 and August 31, 2019, respectively.

We use the credit facilities to fund working capital, capital expenditures, dividends, share repurchases, investments and acquisitions. The credit agreement contains various representations and warranties, events of default and financial and other customary covenants which limit (subject to certain exceptions) our ability to, among other things, incur or suffer to exist certain liens, make investments, incur or guaranty additional indebtedness, enter into consolidations, mergers, acquisitions, and sales of assets, make distributions and other restricted payments, change the nature of our business, engage in transactions with affiliates and enter into restrictive agreements, including agreements that restrict the ability of our subsidiaries to make distributions. The financial covenants under the credit agreement include (a) a consolidated fixed charge coverage ratio, defined as the four-quarter rolling sum of consolidated adjusted EBITDA less defined maintenance capital expenditures and certain environmental expenditures divided by consolidated fixed charges and (b) a consolidated leverage ratio, defined as consolidated funded indebtedness divided by the sum of consolidated net worth and consolidated funded indebtedness.

As of November 30, 2019, we were in compliance with the financial covenants under the credit agreement. The consolidated fixed charge coverage ratio was required to be no less than 1.50 to 1.00 and was 2.74 to 1.00 as of November 30, 2019. The consolidated leverage ratio was required to be no more than 0.55 to 1.00 and was 0.18 to 1.00 as of November 30, 2019.

Our obligations under the credit agreement are guaranteed by substantially all of our subsidiaries. The credit facilities and the related guarantees are secured by senior first priority liens on certain of our and our subsidiaries' assets, including equipment, inventory and accounts receivable.

While we expect to remain in compliance with the financial covenants under the credit agreement, there can be no assurances that we will be able to do so in the event market conditions or other negative factors which adversely impact our results of operations and financial position lead to a trend of consolidated net losses. If we do not maintain compliance with our financial covenants and are unable to obtain an amendment or waiver from our lenders, a breach of a financial covenant would constitute an event of default and allow the lenders to exercise remedies under the agreements, the most severe of which is the termination of the credit facility under our committed bank credit agreement and acceleration of the amounts owed under the agreement. In such case, we would be required to evaluate available alternatives and take appropriate steps to obtain alternative funds. There can be no assurances that any such alternative funds, if sought, could be obtained or, if obtained, would be adequate or on acceptable terms.

Capital Expenditures

Capital expenditures totaled $24 million for the first three months of fiscal 2020, compared to $27 million for the prior year period. We currently plan to invest up to $125 million in capital expenditures in fiscal 2020, including $60 million for investments in growth, including advanced metals recovery technology and to support volume initiatives and other growth projects, using cash generated from operations and available credit facilities.

Environmental Compliance

Building on our commitment to recycling and operating our business in an environmentally responsible manner, we continue to invest in facilities that improve our environmental presence in the communities in which we operate. As part of our capital expenditures discussed in the prior paragraph, we invested $3 million in capital expenditures for environmental projects in the first three months of fiscal 2020, and plan to invest up to $15 million for such projects in fiscal 2020. These projects include investments in storm water systems and equipment to ensure ongoing compliance with air quality and other environmental regulations.

We have been identified by the United States Environmental Protection Agency as one of the potentially responsible parties that own or operate or formerly owned or operated sites which are part of or adjacent to the Portland Harbor Superfund site (the “Site”). See Note 5 - Commitments and Contingencies in the Notes to the Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this report for a discussion of this matter, as well as other legacy environmental loss contingencies. We believe it is not possible to reasonably estimate the amount or range of costs which we are likely to or which it is reasonably possible that we will incur in connection with the Site, although such costs could be material to our financial position, results of operations, cash flows and liquidity. We have insurance policies that we believe will provide reimbursement for costs we incur for defense (including pre-remedial design investigative activities), remedial design, remedial action and mitigation for natural resource damages claims in connection with the Site, although there are no assurances that those policies will cover all of the costs which we may incur. Significant cash outflows in the future related to the Site and other environmental matters could reduce the amounts available for borrowing that could otherwise be used for working capital, capital expenditures, dividends, share repurchases, investments and acquisitions and could result in our failure to maintain compliance with certain covenants in our debt agreements, and could adversely impact our liquidity.

Dividends

On November 6, 2019, our Board of Directors declared a dividend for the first quarter of fiscal 2020 of $0.1875 per common share, which equates to an annual cash dividend of $0.75 per common share. The dividend was paid on November 29, 2019.

Share Repurchase Program

Pursuant to our amended share repurchase program, as of November 30, 2019, we have existing authorization remaining under the program to repurchase up to approximately 759 thousand shares of our Class A common stock when we deem such repurchases to be appropriate. We may repurchase our common stock for a variety of reasons, such as to optimize our capital structure and to offset dilution related to share-based compensation arrangements. We consider several factors in determining whether to make share repurchases including, among other things, our cash needs, the availability of funding, our future business plans and the market price of our stock.

Assessment of Liquidity and Capital Resources

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

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

Off-Balance Sheet Arrangements

None requiring disclosure pursuant to Item 303 of Regulation S-K under the Securities Exchange Act of 1934.

Contractual Obligations

There were no material changes related to contractual obligations and commitments from the information provided in our Annual Report on Form 10-K for the fiscal year ended August 31, 2019.

We maintain stand-by letters of credit to provide support for certain obligations, including workers’ compensation and performance bonds. As of November 30, 2019, we had $10 million outstanding under these arrangements.

Critical Accounting Policies and Estimates

There were no material changes to our critical accounting policies and estimates as described in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section of our Annual Report on Form 10-K for the year ended August 31, 2019, except for changes resulting from adoption of the new lease accounting standard in the first quarter of fiscal 2020. Refer to Note 3

- Leases in the Notes to the Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this report for the disclosures required under the new lease accounting standard.

Recently Issued Accounting Standards

We have not identified any recent accounting pronouncements that are expected to have a material impact on our financial condition, results of operations or cash flows upon adoption.

Non-GAAP Financial Measures

Debt, net of cash

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

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

	November 30, 2019	August 31, 2019
Short-term borrowings	$ 1,431	$ 1,321
Long-term debt, net of current maturities	126,875	103,775
Total debt	128,306	105,096
Less cash and cash equivalents	9,624	12,377
Total debt, net of cash	$ 118,682	$ 92,719

Net borrowings (repayments) of debt

Net borrowings (repayments) of debt is the sum of borrowings from long-term debt and repayments of long-term debt. We present this amount as the net change in borrowings (repayments) for the period because we believe it is useful to investors as a meaningful presentation of the change in debt.

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

	Three Months Ended November 30,	
	2019	2018
Borrowings from long-term debt	$ 114,339	$ 158,859
Repayments of long-term debt	(92,190)	(97,699)
Net borrowings (repayments) of debt	$ 22,149	$ 61,160

Adjusted consolidated operating (loss) income, adjusted AMR operating (loss) income, adjusted Corporate expense, adjusted net (loss) income from continuing operations attributable to SSI shareholders, and adjusted diluted (loss) earnings per share from continuing operations attributable to SSI shareholders.

Management believes that providing these non-GAAP financial measures adds a meaningful presentation of our results from business operations excluding adjustments for charges for legacy environmental matters, net of recoveries, asset impairment charges, restructuring charges and other exit-related activities, and the income tax expense (benefit) allocated to these adjustments, items which are not related to underlying business operational performance, and improves the period-to-period comparability of our results from business operations.

The following is a reconciliation of adjusted consolidated operating (loss) income, adjusted AMR operating (loss) income and adjusted Corporate expense (in thousands):

	Three Months Ended November 30,	
	2019	2018
Consolidated operating (loss) income:		
As reported	$ (7,910)	$ 22,689
Charges for legacy environmental matters, net[1]	1,293	471
Restructuring charges and other exit-related activities	467	202
Asset impairment charges	1,692	63
Adjusted	$ (4,458)	$ 23,425
AMR operating (loss) income:		
As reported	$ (2,432)	$ 23,017
Asset impairment charges	1,580	63
Adjusted	$ (852)	$ 23,080
Corporate expense:		
As reported	$ 9,422	$ 12,205
Charges for legacy environmental matters, net[1]	(1,293)	(471)
Asset impairment charges	(112)	—
Adjusted	$ 8,017	$ 11,734

(1) Legal and environmental charges for legacy environmental matters, net of recoveries. The prior year period has been recast for comparability. Legacy environmental matters include charges (net of recoveries) related to the Portland Harbor Superfund site and to other legacy environmental loss contingencies. See Note 5 - Commitments and Contingencies, ‘Portland Harbor’ and ‘Other Legacy Environmental Loss Contingencies’ in the Notes to the Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this report.

The following is a reconciliation of adjusted net (loss) income from continuing operations attributable to SSI shareholders and adjusted diluted (loss) earnings per share from continuing operations attributable to SSI shareholders (in thousands, except per share data):

	Three Months Ended November 30,	
	2019	2018
Net (loss) income from continuing operations attributable to SSI shareholders:		
As reported	$ (7,023)	$ 16,260
Charges for legacy environmental matters, net[1]	1,293	471
Restructuring charges and other exit-related activities	467	202
Asset impairment charges	1,692	63
Income tax benefit allocated to adjustments[2]	(1,151)	(184)
Adjusted	$ (4,722)	$ 16,812
Diluted (loss) earnings per share from continuing operations attributable to SSI shareholders:		
As reported	$ (0.26)	$ 0.57
Charges for legacy environmental matters, net, per share[1]	0.05	0.02
Restructuring charges and other exit-related activities, per share	0.02	0.01
Asset impairment charges, per share	0.06	—
Income tax benefit allocated to adjustments, per share[2]	(0.04)	(0.01)
Adjusted	$ (0.17)	$ 0.59

(1) Legal and environmental charges for legacy environmental matters, net of recoveries. The prior year period has been recast for comparability. Legacy environmental matters include charges (net of recoveries) related to the Portland Harbor Superfund site and to other legacy environmental loss contingencies. See Note 5 - Commitments and Contingencies, 'Portland Harbor' and 'Other Legacy Environmental Loss Contingencies' Notes to the Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this report.

(2) Income tax allocated to the aggregate adjustments reconciling reported and adjusted net (loss) income from continuing operations attributable to SSI shareholders and diluted (loss) earnings per share from continuing operations attributable to SSI shareholders is determined based on a tax provision calculated with and without the adjustments.

We believe that these non-GAAP financial measures allow for a better understanding of our operating and financial performance. These non-GAAP financial measures should be considered in addition to, but not as a substitute for, the most directly comparable U.S. GAAP measures. Although we find these non-GAAP financial measures useful in evaluating the performance of our business, our reliance on these measures is limited because the adjustments often have a material impact on our consolidated financial statements presented in accordance with GAAP. Therefore, we typically use these adjusted amounts in conjunction with our GAAP results to address these limitations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Commodity Price Risk

We are exposed to commodity price risk, mainly associated with variations in the market price for ferrous and nonferrous metals, including scrap metal, finished steel products, auto bodies and other commodities. The timing and magnitude of industry cycles are difficult to predict and are impacted by general economic conditions. We respond to increases and decreases in forward selling prices by adjusting purchase prices. We actively manage our exposure to commodity price risk and monitor the actual and expected spread between forward selling prices and purchase costs and processing and shipping expense. Sales contracts are based on prices negotiated with our customers, and generally orders are placed 30 to 60 days ahead of the shipment date. However, financial results may be negatively impacted when forward selling prices fall more quickly than we can adjust purchase prices or when customers fail to meet their contractual obligations. We assess the net realizable value of inventory ("NRV") each quarter based upon contracted sales orders and estimated future selling prices. Based on contracted sales and estimates of future selling prices, a 10% decrease in the selling price of inventory would not have had a material NRV impact on any of our reportable segments as of November 30, 2019.

Interest Rate Risk

There have been no material changes to our disclosure regarding interest rate risk set forth in Item 7A. Quantitative and Qualitative Disclosures About Market Risk included in our Annual Report on Form 10-K for the year ended August 31, 2019.

Credit Risk

As of November 30, 2019 and August 31, 2019, 38% and 32%, respectively, of our accounts receivable balance was covered by letters of credit. Of the remaining balance, 97% and 96% was less than 60 days past due as of November 30, 2019 and August 31, 2019, respectively.

Foreign Currency Exchange Rate Risk

We are exposed to foreign currency exchange rate risk, mainly associated with sales transactions and related accounts receivable denominated in the U.S. Dollar by our Canadian subsidiary with a functional currency of the Canadian Dollar. In certain instances, we may use derivatives to manage some portion of this risk. As of November 30, 2019 and August 31, 2019, we did not have any derivative contracts.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities and Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to ensure that information we are required to disclose in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving the desired control objectives. Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, has completed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of November 30, 2019, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

During the quarter ended November 30, 2019, we implemented changes to our processes, systems, and internal controls over financial reporting relating to our adoption of and ongoing compliance with the new lease accounting standard, ASC 842, which we adopted as of September 1, 2019. There were no other changes in our internal control over financial reporting (as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information regarding reportable legal proceedings is contained in Part I, “Item 3. Legal Proceedings” in our Annual Report on Form 10-K for the fiscal year ended August 31, 2019, and below in this Part II, “Item 1. Legal Proceedings” of this Quarterly Report on Form 10-Q. Also see Note 5 - Commitments and Contingencies in the Notes to the Unaudited Condensed Consolidated Financial Statements in Part I, Item I, incorporated by reference herein.

With respect to the previously reported matter in which the Company has been in settlement discussions with the Alameda County District Attorney and the California Office of the Attorney General (COAG), the latter on behalf of certain state agencies, regarding alleged violations of environmental requirements at one of our operations in California stemming from investigations initiated in 2013 and inspections conducted in 2015, the Company has completed various facility upgrades that we believe resolve the underlying environmental concerns identified by the agencies and has agreed to settle the matter for $4.556 million, inclusive of civil penalties, reimbursement of the agencies’ enforcement costs and Supplemental Environmental Projects (SEPs), which amount includes a credit of $925 thousand for performance of a SEP to install additional emission controls at the facility. The settlement is subject to finalization of the stipulation and settlement agreement and final approval by the agencies of the settlement including the SEP credit.

ITEM 1A. RISK FACTORS

There have been no material changes to our risk factors reported or new risk factors identified since the filing of our Annual Report on Form 10-K for the year ended August 31, 2019.

ITEM 5. OTHER INFORMATION

On January 8, 2020, subsequent to the end of our fiscal 2020 first quarter, we committed to certain restructuring initiatives aimed at further reducing our annual operating expenses, primarily SG&A, at Corporate, AMR and CSS, mainly through reductions in non-trade procurement spend, including outside and professional services, lower employee-related expenses and other non-headcount measures. We expect to incur aggregate estimated restructuring charges, as defined in *ASC 420, Exit or Disposal Cost Obligations*, and other exit-related costs of approximately $4 million in connection with these initiatives. The estimated charges consist primarily of employee termination benefits of $2 million, professional services costs of $1 million, and a loss associated with a lease contract termination of $1 million. We expect the substantial majority of the restructuring charges to be recognized by the end of fiscal 2020 and to require the Company to make cash payments.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description
10.1*	Form of Long-Term Incentive Award Agreement under the 1993 Stock Incentive Plan used for awards granted in fiscal 2020.
10.2*	Fiscal 2020 Annual Performance Bonus Program for the Chief Executive Officer.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

*Management contract or compensatory plan or arrangement.

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SCHNITZER STEEL INDUSTRIES, INC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SCHNITZER STEEL INDUSTRIES, INC.
(Registrant)

Date: January 8, 2020	By:	/s/ Tamara L. Lundgren
		Tamara L. Lundgren
		President and Chief Executive Officer
Date: January 8, 2020	By:	/s/ Richard D. Peach
		Richard D. Peach
		Senior Vice President, Chief Financial Officer and Chief of Corporate Operations

SCHNITZER STEEL INDUSTRIES, INC.
LONG-TERM INCENTIVE AWARD AGREEMENT
(FY2020-FY2022 Performance Period)

On November 14, 2019, the Compensation Committee (the "Committee") of the Board of Directors (the "Board") of Schnitzer Steel Industries, Inc. (the "Company") authorized and granted a performance-based award to _________________ ("Recipient") pursuant to Section 10 of the Company's 1993 Stock Incentive Plan (the "Plan"). By accepting this award, Recipient agrees to all of the terms and conditions of this Agreement.

1. Award. Subject to the terms and conditions of this Agreement, the Company shall issue to the Recipient the number of shares of Class A Common Stock of the Company ("Performance Shares") determined under this Agreement based on (a) the performance of the Company during the 3-year period from September 1, 2019 to August 31, 2022 (the "Performance Period") as described in Section 2, (b) Recipient's continued employment during the Performance Period as described in Section 3, and (c) Recipient's not engaging in actions prohibited by Section 4. Recipient's "TSR Target Share Amount" for purposes of this Agreement is _______ shares and Recipient's "ROCE Target Share Amount" for purposes of this Agreement is _______ shares. This award does not include a dividend equivalent cash payment.

2. Performance Conditions.

2.1 Payout Formula. Subject to adjustment under Sections 3, 4, 5, 6, 7 and 8, the number of Performance Shares to be issued to Recipient shall be equal to the sum of (a) the TSR Payout Shares (as defined below), plus (b) the ROCE Payout Factor as determined under Section 2.3 below multiplied by the ROCE Target Share Amount. The "TSR Payout Shares" shall be equal to the TSR Payout Factor as determined under Section 2.2 below multiplied by the TSR Target Share Amount; provided, however, that the number of TSR Payout Shares shall be reduced as necessary to ensure that the total value of the TSR Payout Shares at the time of payout (calculated by multiplying the Value (as defined in Section 7 below) by the number of TSR Payout Shares) shall not be more than 400% of the value of the TSR Target Share Amount on the date of this Agreement (calculated by multiplying the closing market price for Class A Common Stock on the date of this Agreement by the TSR Target Share Amount).

2.2 TSR Payout Factor.

2.2.1 The "TSR Payout Factor" shall be determined under the table below based on the Average TSR Percentile Rank of the Company; provided, however, that if the Three-Year TSR as determined under Section 2.2.5 below is less than 0%, the TSR Payout Factor shall not be greater than 100%.

Average TSR Percentile Rank	TSR Payout Factor
less than 25%	0%
25%	50%
50%	100%
90% or more	200%

If the Company's Average TSR Percentile Rank is between any two data points set forth in the first column of the above table, the TSR Payout Factor shall be determined by interpolation between the corresponding data points in the second column of the table as follows: the difference between the Company's Average TSR Percentile Rank and the lower data point shall be divided by the difference between the higher data point and the lower data point, the resulting fraction shall be multiplied by the difference between the two corresponding data points in the second column of the table, and the resulting product shall be added to the lower corresponding data point in the second column of the table, with the resulting sum being the TSR Payout Factor.

2.2.2 The Company's "Average TSR Percentile Rank" for the Performance Period shall be equal to the average of the TSR Percentile Ranks determined for each of the three fiscal years of the Performance Period. To determine the Company's "TSR Percentile Rank" for any fiscal year the TSR of the Company and each of the Peer Group Companies for that fiscal year shall be calculated, and the Peer Group Companies shall be ranked based on their respective TSR's from lowest to highest. If the Company's TSR is equal to the TSR of any other Peer Group Company, the Company's TSR Percentile Rank shall be equal to the number of Peer Group Companies with a lower TSR divided by the number that is one less than the total number of Peer Group Companies, with the resulting amount expressed as a percentage and rounded to the nearest tenth of a percentage point. If the Company's TSR is between the TSRs of any two Peer Group Companies, the TSR Percentile Ranks of those two Peer Group Companies shall be determined as set forth in the preceding sentence, and the Company's TSR Percentile Rank shall be interpolated as follows. The excess of the Company's TSR over the TSR of the lower Peer Group Company shall be divided by the excess of the TSR of the higher Peer Group Company over the TSR of the lower Peer Group Company. The resulting fraction shall be multiplied by the difference between the TSR Percentile Ranks of the two Peer Group Companies. The product of that calculation shall be added to the TSR Percentile Rank of the lower Peer Group Company, and the resulting sum (rounded to the nearest tenth of a percentage point) shall be the Company's TSR Percentile Rank. The intent of this definition of TSR Percentile Rank is to produce the same result as calculated using the PERCENTRANK.INC function in Microsoft Excel to determine the rank of the Company's TSR within the array consisting of the TSRs of the Peer Group Companies.

2.2.3 The "Peer Group Companies" are AK Steel Holding Corporation, Allegheny Technologies Incorporated, Century Aluminum Company, Cleveland-Cliffs Inc., Coeur Mining, Inc., Commercial Metals Company, Gerdau S.A., Harsco Corporation, Hecla Mining Company, Minerals Technologies Inc., Nucor Corporation, Sims Metal Management Limited, Steel Dynamics, Inc., Suncoke Energy, Inc. and United States Steel Corporation. If prior to the end of any fiscal year in the Performance Period, the common stock of any Peer Group Company ceases to be publicly traded for any reason, then such company shall no longer be considered a Peer Group Company for that fiscal year.

2.2.4 Except as provided below for the first fiscal year of the Performance Period, the "TSR" for the Company and each Peer Group Company for any fiscal year shall be calculated by (1) assuming that $100 is invested in the common stock of the company at a price equal to the average of the closing market prices of the stock for the twenty trading day period ending on the last trading day of the prior fiscal year, (2) assuming that for each dividend paid on the stock during the fiscal year, the amount equal to the dividend paid on the assumed number of shares held is reinvested in additional shares at a price equal to the closing market price of the stock on the ex-dividend date for the dividend, and (3) determining the final dollar value of the total assumed number of shares based on the average of the closing market prices of the stock for the twenty trading day period ending on the last trading day of the fiscal year. The "TSR" shall then equal the amount determined by subtracting $100 from the foregoing final dollar value, dividing the result by 100 and expressing the resulting fraction as a percentage. For the first fiscal year of the Performance Period, the fiscal year shall be deemed to be the period from the date of this Agreement to August 31, 2020, and the TSR calculation for each company shall be further modified by assuming that $100 is invested in the common stock of the company at a price equal to the closing market price of the stock on the date of this Agreement. For Sims Metal Management Limited, all calculations shall be in Australian dollars. For Gerdau S.A., all calculations shall be in Brazilian reals.

2.2.5 The "Three-Year TSR" for the Company shall be calculated by (1) assuming that $100 is invested in the common stock of the Company at a price equal to the closing market price of the stock on the date of this Agreement, (2) assuming that for each dividend paid on the stock during the period from the date of this Agreement to the end of the Performance Period, the amount equal to the dividend paid on the assumed number of shares held is reinvested in additional shares at a price equal to the closing market price of the stock on the ex-dividend date for the dividend, and (3) determining the final dollar value of the total assumed number of shares based on the average of the closing market prices of the stock for the twenty trading day period ending on the last trading day of the Performance Period. The "Three-Year TSR" shall then equal the amount determined by subtracting $100 from the foregoing final dollar value, dividing the result by 100 and expressing the resulting fraction as a percentage.

2.3 ROCE Payout Factor.

2.3.1 The "ROCE Payout Factor" shall be determined under the table below based on the Average ROCE of the Company for the Performance Period.

Average ROCE	**ROCE Payout Factor**
Less than___%	0%
___ %	50%
___ %	100%
___ % or more	200%

If the Average ROCE is between any two data points set forth in the first column of the above table, the ROCE Payout Factor shall be determined by interpolation between the corresponding data points in the second column of the table as follows: the difference between the Average ROCE and the lower data point shall be divided by the difference between the higher data point and the lower data point, the resulting fraction shall be multiplied by the difference between the two corresponding data points in the second column of the table, and the resulting product shall be added to the lower corresponding data point in the second column of the table, with the resulting sum being the ROCE Payout Factor.

2.3.2 The Company's "Average ROCE" for the Performance Period shall be equal to the average of the ROCEs determined for each of the three fiscal years of the Performance Period. The "ROCE" for any fiscal year shall be equal to Adjusted Net Income for that fiscal year divided by Average Adjusted Capital for that fiscal year, expressed as a percentage and rounded to the nearest hundredth of a percentage point. "Adjusted Net Income" for any fiscal year shall mean the net income attributable to SSI for that fiscal year as set forth in the audited consolidated statement of operations of the Company and its subsidiaries for the fiscal year, and as adjusted in accordance with Section 2.4 below, increased by interest expense for that fiscal year, as set forth in the audited consolidated statement of operations of the Company and its subsidiaries for the fiscal year, adjusted to exclude the impact of the associated income tax determined in accordance with Section 2.4.9. "Average Adjusted Capital" for any fiscal year shall mean the average of five (5) numbers consisting of the Adjusted Capital as of the last day of the fiscal year and as of the last day of the four preceding fiscal quarters. "Adjusted Capital" as of any date shall mean (i) the Company's total assets, as adjusted in accordance with Section 2.4 below, minus (ii) the Company's total liabilities other than debt for borrowed money and finance lease liabilities, in each case as set forth in the consolidated balance sheet of the Company and its subsidiaries as of the applicable date or otherwise determined from the Company's accounting records on a consistent basis.

2.4 Adjustments.

2.4.1 Change in Accounting Principle. If the Company implements a change in accounting principle during the Performance Period either as a result of issuance of new accounting standards or otherwise, and the effect of the accounting change was not reflected in the Company's business plan at the time of approval of this award, then the Adjusted Net Income and Adjusted Capital for each affected period shall be adjusted to eliminate the impact of the change in accounting principle.

2.4.2 Restructuring Charges. Adjusted Net Income for each fiscal year of the Performance Period and Adjusted Capital as of each quarter end used in calculating Average Adjusted Capital for any fiscal year of the Performance Period shall be adjusted to eliminate the impact of any restructuring charges and exit-related activities as set forth in the audited consolidated statement of operations of the Company and its subsidiaries for the applicable period.

2.4.3 Impairments. Adjusted Net Income for each fiscal year of the Performance Period and Adjusted Capital as of each quarter end used in calculating Average Adjusted Capital for any fiscal year of the Performance Period shall be adjusted to eliminate the impact of any charges, and reversal of charges, taken by the Company during the applicable period for impairment of goodwill or other assets as set forth in the audited consolidated statement of operations of the Company and its subsidiaries for the applicable period, as well as to add back to Adjusted Capital the amount of goodwill allocated to any business sold by the Company during the applicable period.

2.4.4 Acquisition Impacts. Adjusted Net Income for the last fiscal year of the Performance Period and Adjusted Capital as of each quarter end in the last fiscal year of the Performance Period shall be adjusted to eliminate any impact of business acquisitions or business combinations completed or reviewed (including incremental costs incurred solely as a result of the transaction, whether or not consummated) during that fiscal year.

2.4.5 Certain Environmental Accruals and Expenses. Adjusted Capital as of each quarter end used in calculating Average Adjusted Capital for any fiscal year of the Performance Period and Adjusted Net Income for each fiscal year during the Performance Period shall be adjusted to eliminate the impact of any changes in environmental liabilities recorded for investigation and remediation costs and natural resource or other damage claims and any fines, penalties, indemnities, fees, costs and other expenses incurred in connection with or resulting from the Portland Harbor Superfund Site and the other environmental matters listed as adjustments in the Company's Fiscal 2020 Operating Targets Environmental Adjustments document dated November 14, 2019, which document is available for review from the Company's Legal Division (net of any insurance or other reimbursements thereof).

2.4.6 Net Realizable Value Charges. Adjusted Net Income for each fiscal year during the Performance Period shall be adjusted to eliminate any charges to reduce the recorded value of any inventory to net realizable value in connection with significant macroeconomic events.

2.4.7 Accelerated Depreciation. Adjusted Net Income for each fiscal year of the Performance Period and Adjusted Capital as of each quarter end used in calculating Average Adjusted Capital for any fiscal year of the Performance Period shall be adjusted to eliminate the impact of any incremental accelerated depreciation related to joint product equipment assets existing on September 1, 2019 which are made obsolete due to the Three Dimensional Separator (3DS) ASR Processing System technology investment during the Performance Period.

2.4.8 Utility Charges. Adjusted Net Income for each fiscal year during the Performance Period shall be adjusted to eliminate any charges related to the settlement of any third-party claims in connection with a purported error on the part of a utility provider in the calculation and reporting of electricity consumption at one of the Company's facilities.

2.4.9 Tax Impacts. All adjustments to Adjusted Net Income for the items listed in Sections 2.4.1 to 2.4.8 in any fiscal year shall be net of the discrete income tax impacts associated with each of the adjustments as certified by the Audit Committee based on the recommendation of the Chief Financial Officer.

3. Employment Condition.

3.1 Full Payout. In order to receive the full number of Performance Shares determined under Section 2, Recipient must be employed by the Company on the October 31 immediately following the end of the Performance Period (the "Vesting Date"). For purposes of Sections 3 and 4, all references to the "Company" shall include the Company and its subsidiaries.

3.2 Retirement; Termination Without Cause After 12 Months. If Recipient's employment with the Company is terminated at any time prior to the Vesting Date because of retirement (as defined in paragraph 6(a)(iv)(D) of the Plan), or if Recipient's employment is terminated by the Company without Cause (as defined below) after the end of the 12th month of the Performance Period and prior to the Vesting Date, Recipient shall, subject to Section 4.1, be entitled to receive a pro-rated award to be paid following completion of the Performance Period. The number of Performance Shares to be issued as a pro-rated award under this Section 3.2 shall be determined by multiplying the number of Performance Shares determined under Section 2 by a fraction, the numerator of which is the number of days Recipient was employed by the Company since the beginning of the Performance Period and the denominator of which is the number of days in the period from the beginning of the Performance Period to the Vesting Date. Any obligation of the Company to issue a pro-rated award under this Section 3.2 shall be subject to and conditioned upon the execution and delivery by Recipient no later than the Vesting Date of a Release of Claims in such form as may be requested by the Company. For purposes of this Section 3.2, “Cause” shall mean (a) the conviction (including a plea of guilty or nolo contendere) of Recipient of a felony involving theft or moral turpitude or relating to the business of the Company, other than a felony predicated on Recipient's vicarious liability, (b) Recipient’s continued failure or refusal to perform with reasonable competence and in good faith any of the lawful duties assigned by (or any lawful directions of) the Company that are commensurate with Recipient’s position with the Company (not resulting from any illness, sickness or physical or mental incapacity), which continues after the Company has given notice thereof (and a reasonable opportunity to cure) to Recipient, (c) deception, fraud, misrepresentation or dishonesty by Recipient in connection with Recipient’s employment with the Company, (d) any incident materially compromising Recipient’s reputation or ability to represent the Company with the public, (e) any willful misconduct by Recipient that substantially impairs the Company’s business or reputation, or (f) any other willful misconduct by Recipient that is clearly inconsistent with Recipient’s position or responsibilities.

3.3 Death or Disability. If Recipient’s employment with the Company is terminated at any time prior to the Vesting Date because of death or disability, Recipient shall be entitled to receive a pro-rated award to be paid as soon as reasonably practicable following such event. The term “disability” means a medically determinable physical or mental condition of Recipient resulting from bodily injury, disease, or mental disorder which is likely to continue for the remainder of Recipient’s life and which renders Recipient incapable of performing the job assigned to Recipient by the Company or any substantially equivalent replacement job. For purposes of calculating the pro-rated award under this Section 3.3, the TSR Payout Factor and the ROCE Payout Factor shall both be calculated as if the Performance Period ended on the last day of the Company’s most recently completed fiscal quarter prior to the date of death or disability. For this purpose, the TSR for the Company and each Peer Group Company for any partial fiscal year shall be determined based on the closing market prices of its stock for the twenty trading day period ending on the last day of the most recently completed fiscal quarter prior to the date of death or disability, before determining the Company’s TSR Percentile Rank for that partial fiscal year, and the Average TSR Percentile Rank shall be determined by averaging however many full and partial fiscal years for which a TSR Percentile Rank shall have been determined. For this purpose, the Adjusted Net Income for any partial fiscal year shall be annualized (*e.g.*, multiplied by 4/3 if the partial period is three quarters) and the Average Adjusted Capital shall be determined based on the average of Adjusted Capital as of the last day of only those quarters that have been completed, before determining the ROCE for that partial fiscal year, and the Average ROCE shall be determined by averaging however many full and partial fiscal years for which a ROCE shall have been determined. The number of Performance Shares to be issued as a pro-rated award under this Section 3.3 shall be determined by multiplying the number of Performance Shares determined after applying the modifications described in the preceding sentences by a fraction, the numerator of which is the number of days Recipient was employed by the Company since the beginning of the Performance Period and the denominator of which is the number of days in the period from the beginning of the Performance Period to the Vesting Date.

3.4 Other Terminations. If Recipient's employment by the Company is terminated at any time prior to the Vesting Date and neither Section 3.2 nor Section 3.3 applies to such termination, Recipient shall not be entitled to receive any Performance Shares.

4. Non-Competition.

4.1 Consequences of Violation. If the Company determines that Recipient has engaged in an action prohibited by Section 4.2 below, then:

4.1.1 Recipient shall immediately forfeit all rights under this Agreement to receive any unissued Performance Shares; and

4.1.2 If Performance Shares were issued to Recipient following completion of the Performance Period, and the Company's determination of a violation occurs on or before the first anniversary of the Vesting Date, Recipient shall repay to the Company (a) the number of shares of Common Stock issued to Recipient under this Agreement (the "Forfeited Shares"), plus (b) the amount of cash equal to the withholding taxes paid by withholding shares of Common Stock from Recipient as provided in Section 7. If any Forfeited Shares are sold by Recipient prior to the Company's demand for repayment, Recipient shall repay to the Company 100% of the proceeds of such sale or sales. The Company may, in its sole discretion, reduce the amount to be repaid by Recipient to take into account the tax consequences of such repayment for Recipient.

4.2 Prohibited Actions. The consequences described in Section 4.1 shall apply if during Recipient's employment with the Company, or at any time during the period of one year following termination of such employment, Recipient, directly or indirectly, owns, manages, controls, or participates in the ownership, management or control of, or is employed by, consults for, or is connected in any manner with:

4.2.1 if Recipient is, or was at the time of termination of employment, employed by the Company's Cascade Steel and Scrap Business ("CSS"), any business that (a) is engaged in the steel manufacturing business, (b) produces any of the same steel products as CSS, and (c) competes with CSS for sales to customers in California, Oregon, Washington, Nevada, British Columbia or Alberta;

4.2.2 if Recipient is, or was at the time of termination of employment, employed by the Company's Auto and Metals Recycling Business ("AMR") or CSS, any business that (a) is engaged in the metals recycling business or the self-service used auto parts business, and (b) operates a metal recycling collection or processing facility or a self-service used auto parts store within 250 miles of any of AMR's or CSS' facilities or stores;

4.2.3 if Recipient is, or was at the time of termination of employment, employed in the Company's Corporate Shared Services Division, any business that is described in Section 4.2.1 or Section 4.2.2.

5. Company Sale.

5.1 If a Company Sale (as defined below) occurs before the Vesting Date, Recipient shall be entitled to receive an award payout no later than the earlier of fifteen (15) days following such event or the last day on which the Performance Shares could be issued so that Recipient may participate as a shareholder in receiving proceeds from the Company Sale. The amount of the award payout under this Section 5.1 shall be the greater of (a) the sum of the TSR Target Share Amount and the ROCE Target Share Amount, or (b) the amount determined using a TSR Payout Factor and a ROCE Payout Factor each calculated as if the Performance Period ended on the last day of the Company's most recently completed fiscal quarter prior to the date of the Company Sale. For this purpose, the TSR for the Company and each Peer Group Company for any partial fiscal year shall be determined based on the closing market prices of its stock for the twenty trading day period ending on the last day of the most recently completed fiscal quarter prior to the date of the Company Sale, before determining the Company's TSR Percentile Rank for that partial fiscal year, and the Average TSR Percentile Rank shall be determined by averaging however many full and partial fiscal years for which a TSR Percentile Rank shall have been determined. For this purpose, the Adjusted Net Income for any partial fiscal year shall be annualized (*e.g.*, multiplied by 4/3 if the partial period is three quarters) and the Average Adjusted Capital shall be determined based on the average of Adjusted Capital as of the last day of only those quarters that have been completed, before determining the ROCE for that partial fiscal year, and the Average ROCE shall be determined by averaging however many full and partial fiscal years for which a ROCE shall have been determined.

5.2 For purposes of this Agreement, a "Company Sale" shall mean the occurrence of any of the following events:

5.2.1 any consolidation, merger or plan of share exchange involving the Company (a "Merger") in which the Company is not the continuing or surviving corporation or pursuant to which outstanding shares of Class A Common Stock would be converted into cash, other securities or other property; or

5.2.2 any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, the assets of the Company.

6. Certification and Payment. As soon as practicable following the completion of the audit of the Company's consolidated financial statements for the final fiscal year of the Performance Period, the Company shall calculate the TSR Payout Factor, the ROCE Payout Factor and the corresponding numbers of Performance Shares issuable to Recipient. This calculation shall be submitted to the Committee. No later than the Vesting Date the Committee shall certify in writing (which may consist of approved minutes of a Committee meeting) the levels of TSR and TSR Percentile Rank attained by the Company for each fiscal year of the Performance Period, the levels of ROCE attained by the Company for each fiscal year of the Performance Period, the Tax Impacts applied in calculating ROCE in each fiscal year and the number of Performance Shares issuable to Recipient based on the Company's performance. Subject to applicable tax withholding, the number of Performance Shares so certified shall be issued to Recipient as soon as practicable following the Vesting Date, but no Performance Shares shall be issued prior to certification. No fractional shares shall be issued and the number of Performance Shares deliverable shall be rounded to the nearest whole share. In the event of the death or disability of Recipient as described in Section 3.3 or a Company Sale as described in Section 5, each of which requires an award payout earlier than the Vesting Date, a similar calculation and certification process shall be followed within the time frames required by those sections.

7. Tax Withholding. Recipient acknowledges that, on the date the Performance Shares are issued to Recipient (the "Payment Date"), the Value (as defined below) on that date of the Performance Shares will be treated as ordinary compensation income for federal and state income and FICA tax purposes, and that the Company will be required to withhold taxes on these income amounts. To satisfy the required minimum withholding amount, the Company shall withhold the number of Performance Shares having a Value equal to the minimum withholding amount. For purposes of this Section 7, the "Value" of a Performance Share shall be equal to the closing market price for Class A Common Stock on the last trading day preceding the Payment Date.

8. Changes in Capital Structure. If the outstanding Class A Common Stock of the Company is hereafter increased or decreased or changed into or exchanged for a different number or kind of shares or other securities of the Company by reason of any stock split, combination of shares or dividend payable in shares, recapitalization or reclassification, appropriate adjustment shall be made by the Committee in the number and kind of shares subject to this Agreement so that the Recipient's proportionate interest before and after the occurrence of the event is maintained.

9. Approvals. The obligations of the Company under this Agreement are subject to the approval of state, federal or foreign authorities or agencies with jurisdiction in the matter. The Company will use its reasonable best efforts to take steps required by state, federal or foreign law or applicable regulations, including rules and regulations of the Securities and Exchange Commission and any stock exchange on which the Company's shares may then be listed, in connection with the award evidenced by this Agreement. The foregoing notwithstanding, the Company shall not be obligated to deliver Class A Common Stock under this Agreement if such delivery would violate or result in a violation of applicable state or federal securities laws.

10. No Right to Employment. Nothing contained in this Agreement shall confer upon Recipient any right to be employed by the Company or to continue to provide services to the Company or to interfere in any way with the right of the Company to terminate Recipient's services at any time for any reason, with or without cause.

11. Recoupment Policy. The Recipient acknowledges and agrees that the Performance Shares shall be subject to the Company's Executive Officer Incentive Compensation Recovery Policy, as the same may be amended from time to time or any replacement policy thereto, or as may be required by any applicable law (including, without limitation, the Dodd-Frank Wall Street Reform and Consumer Protection Act and implementing rules and regulations thereunder).

12. Miscellaneous.

12.1 Entire Agreement. This Agreement constitutes the entire agreement of the parties with regard to the subjects hereof.

12.2 Notices. Any notice required or permitted under this Agreement shall be in writing and shall be deemed sufficient when delivered personally to the party to whom it is addressed or when deposited into the United States Mail as registered or certified mail, return receipt requested, postage prepaid, addressed to the Company, Attention: Corporate Secretary, at its principal executive offices or to Recipient at the address of Recipient in the Company's records, or at such other address as such party may designate by ten (10) days' advance written notice to the other party.

12.3 Assignment; Rights and Benefits. Recipient shall not assign this Agreement or any rights hereunder to any other party or parties without the prior written consent of the Company. The rights and benefits of this Agreement shall inure to the benefit of and be enforceable by the Company's successors and assigns and, subject to the foregoing restriction on assignment, be binding upon Recipient's heirs, executors, administrators, successors and assigns.

12.4 Further Action. The parties agree to execute such instruments and to take such action as may reasonably be necessary to carry out the intent of this Agreement.

12.5 Applicable Law; Attorneys' Fees. The terms and conditions of this Agreement shall be governed by the laws of the State of Oregon. In the event either party institutes litigation hereunder, the prevailing party shall be entitled to reasonable attorneys' fees to be set by the trial court and, upon any appeal, the appellate court.

12.6 Severability. Each provision of this Agreement will be treated as a separate and independent clause and unenforceability of any one clause will in no way impact the enforceability of any other clause. Should any of the provisions of this Agreement be found to be unreasonable or invalid by a court of competent jurisdiction, such provision will be enforceable to the maximum extent enforceable by the law of that jurisdiction.

SCHNITZER STEEL INDUSTRIES, INC.

By ______________________________

Title______________________________

Fiscal 2020 Annual Performance Bonus Program
for the President & Chief Executive Officer

The Amended and Restated Employment Agreement between the Company and Tamara L. Lundgren provides for an annual cash bonus under a bonus program to be developed by the Compensation Committee (the "Committee"), with bonuses payable based on Company financial performance and achievement of management objectives as determined by the Committee at the beginning of each fiscal year. The annual bonus program for Ms. Lundgren for fiscal 2020 has two components. The first component consists of an award with a cash payout based on achievement of Company financial performance targets established by the Committee. The second component consists of an award with a cash payout based on the achievement of management objectives established by the Committee. The two components of the annual performance bonus program shall operate independently, and the Committee shall make determinations with respect to the second component without regard to the outcomes under the first component.

Company Financial Performance Target

Calculation of Financial Performance Target. For fiscal 2020, the Company financial performance target shall be the Company's earnings per share ("EPS"). The cash payout to the participant under this component of the bonus program shall be determined based on the level of achievement of the performance target. The Committee has established performance targets for EPS and corresponding payouts as a percentage of the participant's target amount. Payouts begin at a positive level of EPS.

Participant's Target Amount. The target amount for the Company financial performance component shall be 75% of Ms. Lundgren's annual base salary as in effect on August 31, 2020, with the maximum bonus under this target not to exceed three times her target amount under this component.

EPS. The EPS goal for fiscal 2020 shall be based on the Adjusted EPS for that year. Adjusted EPS for fiscal 2020 shall mean the Company's diluted earnings per share attributable to SSI for that fiscal year before extraordinary items and the cumulative effects of changes in accounting principles, if any, as set forth in the audited consolidated financial statements of the Company and its subsidiaries for that fiscal year, adjusted to eliminate the impact of such other items as the Committee shall specify.

Change in Accounting Principle. If the Company implements a change in accounting principle during fiscal 2020 either as a result of issuance of new accounting standards or otherwise, and the effect of the accounting change was not reflected in the Company's business plan at the time of approval of this award, then EPS shall be adjusted to eliminate the impact of the change in accounting principle.

Management Objectives

The second component of the annual bonus program is based on the achievement of the management objectives determined by the Committee. The Committee shall establish the management objectives and specify the weight to be assigned to each objective. Following the end of the fiscal year, the Committee shall evaluate Ms. Lundgren's performance against the management objectives, determine the extent to which each objective has been met and determine the amount of the bonus to be paid. The target bonus amount for this component of the bonus program shall be 75% of Ms. Lundgren's annual base salary as in effect on August 31, 2020, and the maximum bonus under this component may not exceed three times her target amount under this component.

General Provisions

Certification. Following the end of fiscal 2020 and prior to the payment of any bonus, the Committee shall certify in writing the level of attainment of each performance target for the year and the calculation of the bonus amount. The bonus payout shall be made in cash as soon as practicable after October 31, 2020 following certification by the Committee.

Conditions to Payment. Subject to the terms of her employment agreement and change in control agreement, Ms. Lundgren must be employed by the Company on August 31, 2020 to receive the annual bonus.

Negative Discretion. The Committee reserves the right in its sole discretion to reduce the bonus payout for Ms. Lundgren from the amounts determined as set forth above prior to payment on such terms as the Committee may determine.

Recoupment Policy. All bonuses or incentive awards paid or payable under this plan or program are subject to the terms and conditions of the Company's Executive Officer Incentive Compensation Recovery Policy, as the same may be amended from time to time or any replacement policy thereto, or as may be required by any applicable law (including, without limitation, the Dodd-Frank Wall Street Reform and Consumer Protection Act and implementing rules and regulations thereunder).

Exhibit 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Tamara L. Lundgren, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Schnitzer Steel Industries, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

January 8, 2020

/s/ Tamara L. Lundgren

Tamara L. Lundgren
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Richard D. Peach, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Schnitzer Steel Industries, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

January 8, 2020

/s/ Richard D. Peach

Richard D. Peach
Senior Vice President, Chief Financial Officer and Chief of Corporate Operations

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Schnitzer Steel Industries, Inc. (the “Company”) on Form 10-Q for the quarter ended November 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

January 8, 2020

/s/ Tamara L. Lundgren

Tamara L. Lundgren
President and Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Schnitzer Steel Industries, Inc. (the “Company”) on Form 10-Q for the quarter ended November 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Senior Vice President, Chief Financial Officer and Chief of Corporate Operations of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

January 8, 2020

/s/ Richard D. Peach

Richard D. Peach
Senior Vice President, Chief Financial Officer and Chief of Corporate Operations