UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

[X] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended February 28, 2003

or

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____________ to _____________.

Commission file number 0-22496

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

| | |
|---|---|
| OREGON | 93-0341923 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 3200 N.W. Yeon Ave.<br>P.O Box 10047<br>Portland, OR | 97296-0047 |
| (Address of principal executive offices) | (Zip Code) |

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

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

The Registrant had 5,071,311 shares of Class A Common Stock, par value of $1.00 per share, and 4,144,858 shares of Class B Common Stock, par value of $1.00 per share, outstanding at April 1, 2003.

SCHNITZER STEEL INDUSTRIES, INC.

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SCHNITZER STEEL INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEET
(In thousands, except per share amounts)

| | Feb. 28, 2003 (Unaudited) | Aug. 31, 2002 (Audited) |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash | $ 3,595 | $ 32,974 |
| Accounts receivable, less allowance for doubtful accounts of $780 and $905 | 35,513 | 33,516 |
| Accounts receivable from related parties | 686 | 813 |
| Inventories (Note 2) | 67,045 | 57,917 |
| Deferred income taxes | 4,115 | 3,966 |
| Prepaid expenses and other | 2,766 | 2,521 |
| Total current assets | 113,720 | 131,707 |
| Net property, plant and equipment | 141,811 | 111,759 |
| Other assets: | | |
| Investment in and advances to joint venture partnerships | 101,898 | 96,440 |
| Notes receivables less current portion | 2,027 | 27,067 |
| Goodwill | 106,970 | 35,754 |
| Other | 2,291 | 2,279 |
| TOTAL ASSETS | $468,717 | $405,006 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Current portion of long-term debt | $102,620 | $ 60,220 |
| Accounts payable | 21,556 | 18,205 |
| Accrued payroll liabilities | 5,317 | 5,887 |
| Current portion of environmental liabilities | 3,028 | 3,030 |
| Other accrued liabilities | 8,200 | 5,014 |
| Total current liabilities | 140,721 | 92,356 |
| Deferred income taxes | 30,859 | 30,860 |
| Long-term debt less current portion | 8,153 | 8,305 |
| Environmental liabilities, net of current portion | 19,561 | 18,045 |
| Other long-term liabilities | 3,173 | 2,492 |
| Minority interests | 2,874 | -- |
| Commitments and contingencies | -- | -- |
| Shareholders' equity: | | |
| Preferred stock--20,000 shares authorized, none issued | -- | -- |
| Class A common stock--75,000 shares $1 par value authorized, 5,028 and 5,025 shares issued and outstanding | 5,028 | 5,025 |
| Class B common stock--25,000 shares $1 par value authorized, 4,180 shares issued and outstanding | 4,180 | 4,180 |
| Additional paid-in capital | 96,117 | 96,074 |
| Retained earnings | 158,051 | 147,669 |
| Total shareholders' equity | 263,376 | 252,948 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $468,717 | $405,006 |

The accompanying notes are an integral part of this statement.

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

| | For The Three Months Ended Feb. 28, 2003 | For The Three Months Ended Feb. 28, 2002 | For The Six Months Ended Feb. 28, 2003 | For The Six Months Ended Feb. 28, 2002 |
|---|---|---|---|---|
| Revenues | $ 124,659 | $ 78,362 | $ 215,326 | $ 155,196 |
| Costs and expenses: | | | | |
| Cost of goods sold and other operating expenses | 103,636 | 74,570 | 177,794 | 146,081 |
| Impairment and other non-recurring charges | 2,100 | 2,260 | 2,100 | 2,260 |
| Selling and commission expenses | 873 | 709 | 1,636 | 1,373 |
| General and administrative expenses | 11,132 | 6,289 | 21,341 | 12,308 |
| Income (loss) from consolidated operations | 6,918 | (5,466) | 12,455 | (6,826) |
| Income from joint ventures | 6,194 | 4,323 | 9,369 | 9,194 |
| Income (loss) from operations | 13,112 | (1,143) | 21,824 | 2,368 |
| Other income (expense): | | | | |
| Interest expense | (310) | (558) | (690) | (1,335) |
| Other income | 158 | 18 | 17 | 204 |
| | (152) | (540) | (673) | (1,131) |
| Income (loss) before cumulative effect of change in accounting principle, income taxes, minority interests and pre-acquisition interests | 12,960 | (1,683) | 21,151 | 1,237 |
| Income tax (provision) benefit | (3,502) | 629 | (5,517) | (247) |
| Income (loss) before cumulative effect of change in accounting principle, minority interests and pre-acquisition interests | 9,458 | (1,054) | 15,634 | 990 |
| Minority interests, net of tax | (354) | -- | (801) | -- |
| Pre-acquisition interests, net of tax | (695) | -- | (2,547) | -- |
| Income (loss) before cumulative effect of change in accounting principle | 8,409 | (1,054) | 12,286 | 990 |
| Cumulative effect of change in accounting principle | -- | -- | (983) | -- |
| Net income (loss) | $ 8,409 | $ (1,054) | $ 11,303 | $ 990 |
| Net income (loss) per share - basic: | | | | |
| Income (loss) before cumulative effect of change in accounting principle | $ 0.91 | $ (0.12) | $ 1.33 | $ 0.11 |
| Cumulative effect of change in accounting principle | -- | -- | (0.10) | -- |
| Net income (loss) | $ 0.91 | $ (0.12) | $ 1.23 | $ 0.11 |
| Net income (loss) per share - diluted: | | | | |
| Income (loss) before cumulative effect of change in accounting principle | $ 0.89 | $ (0.12) | $ 1.31 | $ 0.11 |
| Cumulative effect of change in accounting principle | -- | -- | (0.11) | -- |
| Net income (loss) | $ 0.89 | $ (0.12) | $ 1.20 | $ 0.11 |

The accompanying notes are an integral part of this statement.

SCHNITZER STEEL INDUSTRIES, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(Unaudited, in thousands)

| | Class A Common Stock | | Class B Common Stock | | | | |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Additional Paid-in Capital | Retained Earnings | Total |
| Balance at August 31, 2001 | 4,896 | $ 4,896 | 4,304 | $ 4,304 | $ 95,923 | $142,946 | $248,069 |
| Class B common stock converted to Class A common stock | 124 | 124 | (124) | (124) | | | -- |
| Class A common stock repurchased | (99) | (99) | | | (1,157) | | (1,256) |
| Class A common stock issued | 104 | 104 | | | 1,308 | | 1,412 |
| Net income | | | | | | 6,553 | 6,553 |
| Dividends paid | | | | | | (1,830) | (1,830) |
| Balance at August 31, 2002 | 5,025 | 5,025 | 4,180 | 4,180 | 96,074 | 147,669 | 252,948 |
| Class A common stock issued | 3 | 3 | | | 43 | | 46 |
| Net income | | | | | | 11,303 | 11,303 |
| Dividends paid | | | | | | (921) | (921) |
| Balance at February 28, 2003 | 5,028 | $ 5,028 | 4,180 | $ 4,180 | $ 96,117 | $158,051 | $263,376 |

The accompanying notes are an integral part of this statement.

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

| | For The Six Months Ended Feb. 28, 2003 | Feb. 28, 2002 |
|---|---|---|
| Operations: | | |
| Net income | $ 11,303 | $ 990 |
| Noncash items included in income: | | |
| Cumulative effect in accounting principle change | 983 | -- |
| Depreciation and amortization | 9,918 | 9,423 |
| Minority and pre-acquisition interests | 4,524 | -- |
| Equity in income of joint ventures | (9,369) | (9,194) |
| Deferred income taxes | (34) | (1,392) |
| Loss on disposal of assets | 18 | 854 |
| Cash provided (used) by changes in working capital: | | |
| Accounts receivable | (1,496) | (323) |
| Inventories | (7,142) | 11,378 |
| Prepaid expenses | (1,666) | (1,329) |
| Accounts payable | 2,821 | 2,604 |
| Accrued liabilities | (67) | (2,562) |
| Environmental liabilities | 1,414 | 1,994 |
| Other assets and liabilities | 1,240 | (690) |
| Net cash provided by operations | 12,447 | 11,753 |
| Investing: | | |
| Capital expenditures | (10,121) | (4,418) |
| Investments in subsidiaries | (64,923) | -- |
| Cash received from joint ventures | 233 | 96,128 |
| Cash used by joint ventures | (945) | (83,063) |
| Proceeds from sale of assets | 577 | 22 |
| Net cash provided (used) by investments | (75,179) | 8,669 |
| Financing: | | |
| Repurchase of Class A common stock | -- | (1,256) |
| Issuance of Class A common stock | 46 | 282 |
| Distributions to minority and pre-acquisition interests | (3,620) | -- |
| Dividends declared and paid | (921) | (914) |
| Increase (decrease) in long-term debt | 37,848 | (5,816) |
| Net cash provided (used) by financing | 33,353 | (7,704) |
| Net increase (decrease) in cash | (29,379) | 12,718 |
| Cash at beginning of period | 32,974 | 1,877 |
| Cash at end of period | $ 3,595 | $ 14,595 |

The accompanying notes are an integral part of this statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF PRESENTATION

The accompanying unaudited interim financial statements of Schnitzer Steel Industries, Inc. (the Company) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and note disclosures normally included in annual financial statements have been condensed or omitted pursuant to those rules and regulations. In the opinion of management, all adjustments, consisting only of normal, recurring adjustments considered necessary for a fair presentation, have been included. Although management believes that the disclosures made are adequate to ensure that the information presented is not misleading, management suggests that these financial statements be read in conjunction with the financial statements and notes thereto included in the Company's annual report for the fiscal year ended August 31, 2002. The results for the three and six months ended February 28, 2003 and 2002 are not necessarily indicative of the results of operations for the entire year.

Note 3 of the Notes to the Consolidated Financial Statements describes an acquisition that occurred on February 14, 2003. Under Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations," the acquisition is considered a "step" acquisition due to the fact that the Company had a significant joint venture interest in the acquired business for a number of years. Additionally, since the acquisition occurred during the year, the Company elected to include it in the consolidated results as though it had occurred at the beginning of fiscal 2003. Thus, the 2003 statement of operations, balance sheet, and statement of cash flows have been adjusted to consolidate the acquisition as of September 1, 2002. Also, the acquired businesses were consolidated with the Company's previous interest in the business to form a separate reporting segment called the Auto Parts Business. As such, the financial statement information that was reported in the Company's Form 10-Q for the quarter ended November 30, 2002 has been restated. Additionally, consolidation accounting requires the Company to adjust its earnings for the ownership interests it did not own during the reporting period. During the three and six month periods ended February 28, 2003, net income was reduced by $0.4 million and $0.8 million of minority interests, respectively, net of income taxes, representing the share of income attributable to various continuing minority partners of the business. Also, during the most recent quarter and six month period, net income was reduced by $0.7 million and $2.5 million of pre-acquisition interests, respectively, net of income taxes, representing the share of income attributable to the former joint venture partner prior to the acquisition. The financial results of the acquired business for periods prior to fiscal 2003 continue to be accounted for using the equity method and are included in the joint venture businesses reporting segment.

RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to fiscal 2003 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

EARNINGS AND DIVIDENDS PER SHARE

Basic earnings per share (EPS) are computed based upon the weighted average number of common shares outstanding during the period. Diluted EPS reflect the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock.

The following represents reconciliation from basic EPS to diluted EPS (in thousands, except per share amounts):

| | For the Three Months Ended Feb. 28, 2003 | For the Three Months Ended Feb. 28, 2002 | For the Six Months Ended Feb. 28, 2003 | For the Six Months Ended Feb. 28, 2002 |
|---|---|---|---|---|
| | (Unaudited) | | | |
| Income (loss) before cumulative effect of change in accounting principle | $ 8,409 | $ (1,054) | $ 12,286 | $ 990 |
| Cumulative effect of change in accounting principle | -- | -- | (983) | -- |
| Net income (loss) | $ 8,409 | $ (1,054) | $ 11,303 | $ 990 |
| Computation of shares: | | | | |
| Average common shares outstanding | 9,206 | 9,112 | 9,205 | 9,137 |
| Stock options | 247 | -- | 198 | 39 |
| Diluted average common shares outstanding | 9,453 | 9,112 | 9,403 | 9,176 |
| Basic EPS: | | | | |
| Income (loss) before cumulative effect of change in accounting principle | $ 0.91 | $ (0.12) | $ 1.33 | $ 0.11 |
| Cumulative effect of change in accounting principle | -- | -- | (0.10) | -- |
| Net income (loss) | $ 0.91 | $ (0.12) | $ 1.23 | $ 0.11 |
| Diluted EPS: | | | | |
| Income (loss) before cumulative effect of change in accounting principle | $ 0.89 | $ (0.12) | $ 1.31 | $ 0.11 |
| Cumulative effect of change in accounting principle | -- | -- | (0.11) | -- |
| Net income (loss) | $ 0.89 | $ (0.12) | $ 1.20 | $ 0.11 |
| Dividend per share | $ 0.05 | $ 0.05 | $ 0.10 | $ 0.10 |

Options to purchase 435,000 and 1,181,000 shares were outstanding at February 28, 2003 and 2002 respectively, but not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares and, therefore, the effect would be anti-dilutive.

## GOODWILL & INTANGIBLE ASSETS:

In July 2001, the Financial Accounting Standards Board (FASB) issued Statements of Financial Accounting Standards Nos. 141 and 142 (SFAS 141 and SFAS 142), "Business Combinations" and "Goodwill and Other Intangible Assets." SFAS 141 replaces APB 16 and eliminates pooling-of-interests accounting prospectively. It also provides guidance on purchase accounting related to the recognition of intangible assets and accounting for negative goodwill. Effective September 1, 2002, the Company adopted SFAS 142. This statement changed the accounting for goodwill and indefinite-lived intangible assets from an amortization approach to an impairment-only approach. As required under the transitional accounting provisions of SFAS 142, the Company completed steps during the second quarter of fiscal 2003 to identify and measure goodwill impairment at its two reporting units, which existed at the time of adoption, the Metals Recycling Business and the Steel Manufacturing Business. The reporting units were measured for impairment by comparing implied fair value of the reporting units' goodwill with the carrying amount of the goodwill. Historical earnings were used as a basis to project future earnings to determine whether any impairment of goodwill existed at the reporting units. As a result of this evaluation, the Company determined that goodwill associated with its Steel Manufacturing Business was impaired. The Company recorded a non-cash impairment charge for the entire $983,000 of remaining goodwill, effective September 1, 2002, and reported it as a "Cumulative effect of change in accounting principle" on the Consolidated Statement of Operations. The goodwill was not deductible for tax purposes, thus the amount was not tax affected. The implementation of SFAS 142 required the use of judgments, estimates and assumptions in the determination of fair value and impairment amounts related to the required testing. Prior to adoption of SFAS 142, the Company had historically evaluated goodwill for impairment by comparing the entity level unamortized balance of goodwill to projected undiscounted cash flows, which did not result in an indicated impairment. In the future, the Company will perform impairments tests annually and whenever events and circumstances indicate that the value of goodwill and other indefinite-lived intangible assets might be impaired.

The following table presents a reconciliation of reported net income and income per share, as if SFAS 142 had been in effect (in thousands, except per share amounts):

| | For the Three Months Ended Feb. 28, 2003 | For the Three Months Ended Feb. 28, 2002 | For the Six Months Ended Feb. 28, 2003 | For the Six Months Ended Feb. 28, 2002 |
|---|---|---|---|---|
| | | | (Unaudited) | |
| Reported net income | $ 8,409 | $ (1,054) | $ 11,303 | $ 990 |
| Goodwill amortization, net of tax: | -- | 319 | -- | 660 |
| Adjusted net income | $ 8,409 | $ (735) | $ 11,303 | $ 1,650 |
| Reported basic income per share | $ 0.91 | $ (0.12) | $ 1.23 | $ 0.11 |
| Goodwill amortization, net of tax: | -- | 0.04 | -- | 0.07 |
| Adjusted basic income per share | $ 0.91 | $ (0.08) | $ 1.23 | $ 0.18 |
| Reported diluted income per share | $ 0.89 | $ (0.12) | $ 1.20 | $ 0.11 |
| Goodwill amortization, net of tax: | -- | 0.04 | -- | 0.07 |
| Adjusted diluted income per share | $ 0.89 | $ (0.08) | $ 1.20 | $ 0.18 |

The changes in the carrying amount of goodwill for the six months ending February 28, 2003 are as follows (in thousands):

| | Metals Recycling Business | Steel Manufacturing Business | Auto Parts Business | Total |
|---|---|---|---|---|
| Balance as of year ending August 31, 2002, audited | $ 34,771 | $ 983 | $ -- | $ 35,754 |
| Acquisition (Note 3) | -- | -- | 72,199 | 72,199 |
| Impairment charge | -- | (983) | -- | (983) |
| Balance as of February 28, 2003 unaudited | $ 34,771 | -- | $ 72,199 | $ 106,970 |

NEW ACCOUNTING PRONOUNCEMENTS

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 143 (SFAS 143), "Accounting for Asset Retirement Obligations." SFAS 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity is required to capitalize the cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. SFAS 143 is effective for fiscal years beginning after June 15, 2002 and was adopted by the Company effective September 1, 2002. The adoption of this standard did not have a material impact on the consolidated financial statements.

On October 3, 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). SFAS 144 superceded SFAS 121. SFAS 144 applies to all long-lived assets (including discontinued operations) and consequently amends Accounting Principles Board Opinion No. 30 "Reporting Results of Operations - Reporting the Effects of Disposal of a Segment of a Business." SFAS 144 develops one accounting model for long-lived assets that are to be disposed of by sale. SFAS 144 requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell. Additionally, SFAS 144 expands the scope of discontinued operations to include all components of an entity with operations that (1) can be distinguished from the rest of the entity and (2) will be eliminated from the ongoing operations of the entity in a disposal transaction. SFAS 144 was effective for the Company for all financial statements issued beginning September 1, 2002. The adoption of this standard did not have a material effect on the consolidated financial statements.

In May 2002, the FASB issued SFAS No. 145, (SFAS 145) "Rescission of FAS Nos. 4, 44, and 64, Amendment of FAS 13, and Technical Corrections." Among other things, SFAS 145 rescinds various pronouncements regarding early extinguishment of debt and allows extraordinary accounting treatment for early extinguishment only when the provisions of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" are met. SFAS 145 provisions regarding early extinguishment of debt are generally effective for fiscal years beginning after May 15, 2002. The adoption of this statement did not have a material impact on the consolidated financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. This statement is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The adoption of this statement did not have a material impact on the consolidated financial statements.

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock-Based Compensation - Transition and Disclosure," an amendment of FASB Statement No. 123" (SFAS 148). This statement amends SFAS No. 123 "Accounting for Stock Based Compensation" (SFAS 123) to provide alternative methods of voluntarily transitioning to the fair value based method of accounting for stock-based employee compensation. SFAS 148 also amends the disclosure requirements of SFAS 123 to require disclosure of the method used to account for stock-based employee compensation and the effect of the method on reported results in both annual and interim financial statements. The disclosure provisions will be effective for the Company beginning with the Company's quarter ended May 31, 2003. The Company has not yet completed the evaluation of the options presented by SFAS 148. However, within the next quarter, the Company expects to reach a determination of whether and, if so, when to change the Company's existing accounting for stock-based compensation to the fair value method in accordance with the transition alternatives of SFAS 148.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). FIN 45 requires that upon issuance of a guarantee, a guarantor must recognize a liability for the fair value of an obligation assumed under a guarantee. FIN 45 also requires additional disclosures by a guarantor in its interim and annual financial statements about the obligations associated with guarantees issued. The recognition provisions of FIN 45 are effective for any guarantees that are issued or modified after December 31, 2002. The adoption of this interpretation did not have a material impact on the consolidated financial statements.

In January 2003, FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46). FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. FIN 46 also requires disclosures about variable interest entities that a company is not required to consolidate but in which it has a significant variable interest. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003 and to existing entities in the first fiscal year or interim period beginning after June 15, 2003. The Company is in the process of assessing what impact this pronouncement will have on its consolidated financial statements.

NOTE 2 - INVENTORIES:

Inventories consisted of the following (in thousands):

| | February 28, 2003 (Unaudited) | August 31, 2002 (Audited) |
|---|---|---|
| Recycled metals | $16,060 | $13,432 |
| Work in process | 10,426 | 6,495 |
| Finished goods | 28,145 | 25,245 |
| Supplies | 12,414 | 12,745 |
| | $67,045 | $57,917 |

NOTE 3 - BUSINESS COMBINATIONS:

On February 14, 2003, the Company closed its acquisition (the "Acquisition" ) of all of the stock of Pick and Pull Auto Dismantling, Inc., which was the Company's 50% partner in Pick-N-Pull Auto Dismantlers, a California general partnership (the "Joint Venture") and all of the membership interests in Pick-N-Pull Auto Dismantlers, Stockton, LLC ("Stockton"). The cost of the Acquisition consisted of $71.4 million cash paid to the seller at closing, $3.3 million of debt assumed and immediately paid off, the cancellation of the seller's $12.5 million share of debt owed by the Joint Venture to the Company, and $0.7 million of acquisition costs, for a total of $87.9 million (or $84.3 million net of the seller's $3.6 million share of the Joint Venture's cash on hand at closing). The Joint Venture stores together with the Stockton store are one of the country's leading self-service used auto parts networks with 23 store locations, 17 in northern California, two in Nevada, and one in each of Texas, Utah, Illinois and Indiana.

The purchase price of the Acquisition was allocated to tangible and intangible identifiable assets and liabilities assumed based on an estimate of their fair values. Certain tangible net assets, such as real estate, are being valued by independent third parties and the equipment was valued by Company management. The excess of the aggregate purchase price over the fair value of the identifiable net assets acquired of approximately $70.5 million was recognized as goodwill. Approximately $1.7 million of goodwill existed on the Joint Venture's balance sheet prior to the Acquisition but was not shown separately in accordance with the equity method of accounting. Therefore, the total increase to goodwill related to the Acquisition was $72.2 million.

Additionally, in connection with the Acquisition, the Company conducted an environmental due diligence investigation. Based upon new information obtained in this investigation, the Joint Venture accrued $2.1 million in environmental liabilities in the second quarter of 2003 for probable and reasonably estimable future remediation costs at the Auto Parts Business' store locations. No environmental proceedings are pending at any of these sites.

The initial purchase price is subject to the terms of the Purchase Agreement, which provides for a purchase price adjustment one year after closing based upon calendar year 2002 and 2003 earnings before interest, taxes, depreciation and amortization (EBITDA) of the acquired Auto Parts Business. As defined by the Purchase

Agreement, the contingent future adjustment may increase or decrease the initial purchase price by up to $12 million.

The purchase price allocation has been prepared on a preliminary basis, and reasonable changes are expected as additional information becomes available. The following is a summary of the estimated fair values of the assets acquired and liabilities assumed as of the date of the acquisition (in millions):

| | |
|---|---|
| Property, plant and equipment | $ 16.3 |
| Other tangible assets | 5.6 |
| Liabilities | (4.5) |
| Goodwill | 70.5 |
| Total | $ 87.9 |

Goodwill of $70.5 million represents the excess of purchase price over the fair value of the net tangible assets acquired, and the majority of it is not deductible for tax purposes. In accordance with SFAS 142, goodwill is not amortized and will be tested for impairment at least annually.

The following table is prepared on a pro forma basis for the three and six month periods ended February 28, 2003 and February 28, 2002 as though the Auto Parts Business had been acquired as of the beginning of the period presented, after including the estimated impact of certain adjustments such as interest expense (in thousands, except per share amounts).

| | Three Months Ended February 28, | | Six Months Ended February 28, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Net revenues | $ 124,659 | $ 88,862 | $ 215,326 | $ 177,600 |
| Net income | $ 9,104 | $ (712) | $ 13,850 | $ 2,065 |
| Net income per share: | | | | |
| Basic | $ 0.99 | $ (0.08) | $ 1.50 | $ 0.23 |
| Diluted | $ 0.96 | $ (0.08) | $ 1.47 | $ 0.23 |

The pro forma results are not necessarily indicative of what would have occurred if the acquisitions had been in effect for the periods presented. In addition, they are not intended to be a projection of future results and do not reflect any synergies that might be achieved from combining operations.

NOTE 4 - INCOME TAXES:

The Company's effective tax rate increased to 26% for the six months ending February 28, 2003, from 14% for the prior fiscal year. The tax rate last year benefited from the recognition of California Enterprise Zone income tax credits. The Company does not anticipate receiving credits of comparable size in the current fiscal year.

NOTE 5 - RELATED PARTIES & IMPAIRMENTS:

During the second quarter of fiscal 2003, the Company accrued $2.1 million in environmental liabilities relating to the acquisition of the Auto Parts Business (refer to Note 3). In the second quarter of fiscal 2002, the Company recorded a loss of $1.5 million related to the early termination of two vessel charter agreements with a related company. Also in that quarter, the Company sold a non-strategic steel forging business that was part of a

1995 Metals Recycling Business acquisition to an unrelated party and recorded a loss of $0.8 million on the sale.

NOTE 6 - SEGMENT INFORMATION:

The Company's consolidated businesses operate in three industry segments: metal processing and recycling (Metals Recycling Business), mini-mill steel manufacturing (Steel Manufacturing Business) and self-service used auto parts (Auto Parts Business). Additionally, the Company is a non-controlling partner in joint ventures, which are in the metals recycling business or suppliers of unprocessed metals. The Joint Ventures in the Metals Recycling Business sell recycled metals that have been processed at their facilities (Processing) and also buy and sell third parties' processed metals (Trading). The Company considers all joint ventures to be separate business segments because they are managed separately. These joint ventures are accounted for using the equity method. As such, the Joint Venture operating information provided below is shown separately from consolidated information, except for the Company's equity in the income from the joint ventures. The information was obtained from internal data that was provided to the Company's chief operating decision-makers for the purpose of corporate management. The Company does not allocate corporate interest income and expense, income taxes or other income and expenses related to corporate activity to its operating segments. Assets and capital expenditures are not shown for the joint ventures as management does not use that information to allocate resources or assess performance.

Note 3 of the Notes to the Consolidated Financial Statements describes an acquisition that occurred on February 14, 2003. Under Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations", the acquisition is considered a "step" acquisition due to the fact that the Company had a significant joint venture interest in the acquired business for a number of years. Additionally, since the acquisition occurred during the year, the Company elected to include it in the consolidated results as though it had occurred at the beginning of fiscal 2003. Thus, the 2003 statement of operations, balance sheet, and statement of cash flows have been adjusted to consolidate the acquisition as of September 1, 2002. Also, the acquired businesses were consolidated with the Company's previous interest in the business to form a separate reporting segment called the Auto Parts Business. As such, the financial statement information that was reported in the Company's Form 10-Q for the quarter ended November 30, 2002 has been restated. The financial results of the acquired business for periods prior to fiscal 2003 continue to be accounted for using the equity method and are included in the joint venture businesses reporting segment.

Revenues from external customers for the Company's consolidated operations are as follows (in thousands):

| | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| | Feb. 28, 2003 | Feb. 28, 2002 | Feb. 28, 2003 | Feb. 28, 2002 |
| Metals Recycling Business | $ 85,716 | $ 52,682 | $ 131,290 | $ 101,123 |
| Steel Manufacturing Business | 41,271 | 33,902 | 84,101 | 70,304 |
| Auto Parts Business | 14,755 | -- | 30,894 | -- |
| Intersegment revenues | (17,083) | (8,222) | (30,959) | (16,231) |
| Consolidated revenues | $ 124,659 | $ 78,362 | $ 215,326 | $ 155,196 |

The joint ventures' revenues from external customers are as follows (in thousands):

| | For the Three Months Ended Feb. 28, 2003 | For the Three Months Ended Feb. 28, 2002 | For the Six Months Ended Feb. 28, 2003 | For the Six Months Ended Feb. 28, 2002 |
|---|---|---|---|---|
| Joint Ventures in the Metals Recycling Business: | | | | |
| Processing | $ 150,947 | $ 110,477 | $ 255,517 | $ 231,304 |
| Trading | 14,830 | 27,342 | 65,362 | 58,254 |
| Joint Venture Suppliers of Metals | 2,414 | 14,665 | 4,509 | 28,804 |
| Total revenues | $ 168,191 | $ 152,484 | $ 325,388 | $ 318,362 |

The Company's income (loss) from operations is as follows (in thousands):

| | For the Three Months Ended Feb. 28, 2003 | For the Three Months Ended Feb. 28, 2002 | For the Six Months Ended Feb. 28, 2003 | For the Six Months Ended Feb. 28, 2002 |
|---|---|---|---|---|
| Metals Recycling Business | $ 8,358 | $ 640 | $ 11,454 | $ 1,618 |
| Auto Parts Business | 4,960 | -- | 10,109 | -- |
| Steel Manufacturing Business | (1,358) | (2,074) | (2,615) | (2,322) |
| Joint Ventures in the Metals Recycling Business | 6,471 | 3,707 | 9,542 | 7,406 |
| Joint Venture Suppliers of Metals | (277) | 616 | (173) | 1,788 |
| Corporate expense | (2,529) | (1,819) | (4,553) | (3,785) |
| Eliminations | (413) | 47 | 160 | (77) |
| Impairment and other non-recurring charges | (2,100) | (2,260) | (2,100) | (2,260) |
| Consolidated income (loss) from operations | $ 13,112 | $ (1,143) | $ 21,824 | $ 2,368 |

Income from operations generated by the joint ventures represents the Company's equity in the income or loss of these entities.

The Company's share of depreciation and amortization expense included in the determination of joint ventures' income from operations is as follows (in thousands):

| | For the Three Months Ended Feb. 28, 2003 | For the Three Months Ended Feb. 28, 2002 | For the Six Months Ended Feb. 28, 2003 | For the Six Months Ended Feb. 28, 2002 |
|---|---|---|---|---|
| Joint Ventures in the Metals Recycling Business | $ 1,624 | $ 1,530 | $ 3,260 | $ 3,077 |
| Joint Venture Suppliers of Metals | 70 | 539 | 144 | 1,066 |
| Total | $ 1,694 | $ 2,069 | $ 3,404 | $ 4,143 |

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

### GENERAL

The Company operates in three industry segments. The Company's Metals Recycling Business collects, processes and recycles steel and other metals through its facilities. The Company's Steel Manufacturing Business operates a mini-mill near Portland, Oregon, which melts recycled metal, produces finished steel products and maintains two mill depots in Southern California and one in Central California. The Company's Auto Parts Business purchases used and wrecked automobiles and allows retail customers the opportunity of extracting parts for purchase in its self-service auto parts stores, with 17 located in California, two in Nevada and one store in each of Texas, Utah, Illinois and Indiana. Additionally, the Company is a non-controlling partner in joint ventures that are either in the metals recycling business or are suppliers of unprocessed metals. The Joint Ventures in the Metals Recycling Business sell recycled metals that have been processed at their facilities (Processing) and also buy and sell third parties' processed metals (Trading).

Note 3 of the Notes to the Consolidated Financial Statements describes an acquisition that occurred on February 14, 2003. Under Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations," the acquisition is considered a "step" acquisition due to the fact that the Company had a significant joint venture interest in the acquired business for a number of years. Additionally, since the acquisition occurred during the year, the Company elected to include it in the consolidated results as though it had occurred at the beginning of fiscal 2003. Thus, the 2003 statement of operations, balance sheet, and statement of cash flows have been adjusted to consolidate the acquisition as of September 1, 2002. Also, the acquired businesses were consolidated with the Company's previous interest in the business to form a separate reporting segment called the Auto Parts Business. As such, the financial statement information that was reported in the Company's Form 10-Q for the quarter ended November 30, 2002 has been restated. Additionally, consolidation accounting requires the Company to adjust its earnings for the ownership interests it did not own during the reporting period. During the three and six month periods ended February 28, 2003, net income was reduced by $0.4 million and $0.8 million of minority interests, respectively, net of income taxes, representing the share of income attributable to various continuing minority partners of the business. Also, during the most recent quarter and six month period, net income was reduced by $0.7 million and $2.5 million of pre-acquisition interests, respectively, net of income taxes, representing the share of income attributable to the former joint venture partner prior to the acquisition. The financial results of the acquired business for periods prior to fiscal 2003 continue to be accounted for using the equity method and are included in the joint venture businesses reporting segment.

RESULTS OF OPERATIONS

The Company's revenues and operating results by business segment are summarized below (in thousands):

| | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| | Feb. 28, 2003 | Feb. 28, 2002 | Feb. 28, 2003 | Feb. 28, 2002 |
| | (Unaudited) | | | |
| REVENUES: | | | | |
| Metals Recycling Business: | | | | |
| Ferrous sales | $ 72,630 | $ 41,780 | $ 106,561 | $ 78,773 |
| Nonferrous sales | 11,669 | 8,726 | 21,784 | 18,616 |
| Other sales | 1,417 | 2,176 | 2,945 | 3,734 |
| Total sales | 85,716 | 52,682 | 131,290 | 101,123 |
| Auto Parts Business | 14,755 | -- | 30,894 | -- |
| Steel Manufacturing Business | 41,271 | 33,902 | 84,101 | 70,304 |
| Intercompany sales eliminations | (17,083) | (8,222) | (30,959) | (16,231) |
| Total | $ 124,659 | $ 78,362 | $ 215,326 | $ 155,196 |
| INCOME (LOSS) FROM OPERATIONS: | | | | |
| Metals Recycling Business | $ 8,358 | $ 640 | $ 11,454 | $ 1,618 |
| Auto Parts Business | 4,960 | -- | 10,109 | -- |
| Steel Manufacturing Business | (1,358) | (2,074) | (2,615) | (2,322) |
| Joint Ventures in the Metals Recycling Business | 6,471 | 3,707 | 9,542 | 7,406 |
| Joint Venture Suppliers of Metals | (277) | 616 | (173) | 1,788 |
| Corporate expense | (2,529) | (1,819) | (4,553) | (3,785) |
| Intercompany eliminations | (413) | 47 | 160 | (77) |
| Impairment and other non-recurring charges | (2,100) | (2,260) | (2,100) | (2,260) |
| Total | $ 13,112 | $ (1,143) | $ 21,824 | $ 2,368 |
| NET INCOME (LOSS) | $ 8,409 | $ (1,054) | $ 11,303 | $ 990 |

The Joint Ventures' revenues and results of operations were as follows (in thousands):

| | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| | Feb. 28, 2003 | Feb. 28, 2002 | Feb. 28, 2003 | Feb. 28, 2002 |
| | (Unaudited) | | | |
| Total revenues from external customers recognized by: | | | | |
| Joint Ventures in the Metals Recycling Business | | | | |
| Processing | $ 150,947 | $ 110,477 | $ 255,517 | $ 231,304 |
| Trading | 14,830 | 27,342 | 65,362 | 58,254 |
| Joint Venture Suppliers of Metals | 2,414 | 14,665 | 4,509 | 28,804 |
| | $ 168,191 | $ 152,484 | $ 325,388 | $ 318,362 |
| Income from joint ventures recognized by the Company from: | | | | |
| Joint Ventures in the Metals Recycling Business | $ 6,471 | $ 3,707 | $ 9,542 | $ 7,406 |
| Joint Venture Suppliers of Metals | (277) | 616 | (173) | 1,788 |
| | $ 6,194 | $ 4,323 | $ 9,369 | $ 9,194 |

The following table summarizes certain selected operating data for the Company and its joint venture businesses:

| | For the Three Months Ended Feb. 28, 2003 | For the Three Months Ended Feb. 28, 2002 | For the Six Months Ended Feb. 28, 2003 | For the Six Months Ended Feb. 28, 2002 |
|---|---|---|---|---|
| | (Unaudited) | | | |
| SHIPMENTS (in thousands): | | | | |
| METALS RECYCLING BUSINESS: | | | | |
| Ferrous recycled metal (long tons): | | | | |
| To Steel Manufacturing Business | 141 | 98 | 256 | 191 |
| To other unaffiliated domestic customers | 12 | 17 | 49 | 23 |
| To export customers | 402 | 286 | 545 | 535 |
| Total ferrous recycled metal | 555 | 401 | 850 | 749 |
| Nonferrous metal (pounds) | 28,200 | 24,100 | 53,700 | 53,300 |
| STEEL MANUFACTURING BUSINESS: | | | | |
| Finished steel products (net tons) | 137 | 117 | 279 | 241 |
| JOINT VENTURES IN THE METALS RECYCLING BUSINESS: | | | | |
| Ferrous recycled metal (long tons): | | | | |
| Processing | 940 | 891 | 1,577 | 1,785 |
| Trading | 266 | 258 | 654 | 498 |

SECOND QUARTER FISCAL 2003 COMPARED TO SECOND QUARTER FISCAL 2002

GENERAL. During the second quarter of fiscal 2003, the Metals Recycling Business continued to experience improved market conditions, which have not been seen since before the 1997 Asian financial crisis. Prices began to rise in early calendar 2002 as supplies of ferrous recycled metals from the countries of the former Soviet Union decreased as a result of export tariffs and bans in certain countries. By the end of the Company's 2002 fiscal year, foreign steel producers delayed placing new orders due to the rapid rise in prices. By the end of the Company's fiscal 2003 first quarter, foreign buyers needed to replenish their inventories and began to place orders at price levels that were at or above prices recognized in the first two months of the quarter. As a result, the Metals Recycling Business' ferrous sales volumes were unusually low in the first quarter of fiscal 2003. Throughout most of the second quarter, selling prices continued to rise and demand remained firm, much of which was fueled by China and Korea. During the same period, the cost of unprocessed metal rose as well, which combined with rising ocean freight rates partially offset the increase in selling prices. The Joint Ventures in the Metals Recycling Business were affected by the same supply and demand factors as the Company's wholly-owned Metals Recycling Business. However, the Joint Ventures that operate in the Northeastern U.S. were adversely affected by unusually cold winter weather slowing production volumes. Continued strong demand for nonferrous recycled metals, particularly from China, boosted nonferrous metals selling prices.

The Steel Manufacturing Business saw higher sales volumes and selling prices in the second quarter of fiscal 2003 compared with the second quarter of fiscal 2002. The sales volume increases were primarily driven by wire rod sales and to a lesser extent rebar sales. During the spring of 2002, the U.S. Government imposed anti-dumping and countervailing duties on certain wire rod imports, which combined with higher worldwide ferrous recycled metals prices (the primary raw material used to produce wire rod) improved the competitive position of domestic wire rod producers. The Steel Manufacturing Business turned this price parity with imported wire products into increased sales and market share. Also, towards the end of the fiscal 2003 second quarter, the Company and other steel producers increased their selling prices for rebar, which is believed to have spurred wholesale customer demand to buy inventory ahead of the effective date for the price increases. The Company believes that merchant bar and rebar prices have not seen a significant positive impact from the temporary tariffs imposed in March 2002 by the Federal Government under section 201 of the Trade Act of 1974. However, merchant bar selling prices have increased modestly industry-wide in order to adjust up to the cash costs of production. In the second quarter of fiscal 2003, the Steel Manufacturing Business completed two capital projects to one of the rolling mills, which allow it to now produce higher margin specialty wire products, to improve the packaging of coiled products and increase the productivity on all wire production. Production costs per ton for the Steel Manufacturing Business improved as output in the melt shop and the rolling mills increased by 50% and 35%, respectively, compared with the second quarter of fiscal 2002. However, this efficiency improvement was partially offset by higher raw material prices, primarily recycled ferrous metal.

The Auto Parts Business is focused on the self-service auto parts business. Its retail customers pay an admission to enter the store. When a customer finds a desired part on an automobile, the customer removes it and pays a retail price for the part. Retail sales and admissions are somewhat seasonal and principally affected by weather and promotional events. Since the stores are open to the natural elements, during periods of prolonged wet, cold or extreme heat, the retail business tends to slow down due to the difficult customer working conditions. Further, the Company generally runs promotional events during seasonably moderate times of the year when it is most likely to affect the buying patterns of its retail customers. As a result, the Company's fiscal first and third quarters tend to generate the most retail sales and the fiscal second and fourth quarters are the slowest in terms of retail sales. The winter of fiscal 2003 has been considered extreme in the Midwest and Eastern U.S., which is in sharp contrast to the weather experienced in the second quarter of fiscal 2002. The more harsh weather conditions adversely affected retail sales in the Company stores in those parts of the country. The Northern California stores experienced normal seasonal weather patterns during both years.

The Auto Parts Business' other primary source of revenue is the sale of scrap metal and other parts wholesale. Revenues for the wholesale product lines are principally affected by commodity prices and shipping schedules. As mentioned earlier in the discussions regarding the Metal Recycling Business, recycled metal prices have increased dramatically since the second quarter of fiscal 2002, which has positively affected the revenues and profits of the Auto Parts Business.

Net income for the second quarter of fiscal 2003 compared with the same quarter in the previous fiscal year benefited from higher average selling prices for ferrous recycled metals as well as higher sales volumes for both the Metals Recycling Business and the Steel Manufacturing Business. Also, the most recent quarter benefited from the inclusion of the Auto Parts Business as a wholly owned company and higher income for the joint ventures in the metals recycling business primarily due to the same factors as the Company's wholly owned Metals Recycling Business.

REVENUES. Consolidated revenues for the three months ended February 28, 2003 increased 59% from $78.4 million to $124.7 million compared with the second quarter of fiscal 2002. The increase was primarily a result of increases in the Metals Recycling Business' sales volume and average net selling price per ton as well as the acquisition of the Auto Parts Business and its inclusion as a consolidated business. The Steel Manufacturing Business also showed gains in sales volume and average selling prices.

For the second quarter of fiscal 2003, revenues for the Metals Recycling Business, before intercompany eliminations, increased $33.0 million (63%) compared with the second quarter of fiscal 2002 primarily due to higher average net selling prices per ton and higher ferrous sales volumes. Total ferrous sales volumes increased 153,500 tons (38%) due primarily to the market conditions previously mentioned in the "General" paragraph. Ferrous export sales volumes increased 116,200 tons (41%) to 402,400 tons due to good international demand combined with increased demand from the Steel Manufacturing Business. Sales to the Steel Manufacturing Business increased 42,800 tons (44%) to 140,800 tons as the melt shop ramped up billet production which is in contrast to the production curtailment that occurred during last year's second quarter, which reduced recycled metal revenues. The average sales price, net of shipping costs (average net sales price), for ferrous metals increased $24 per ton (28%) to $111 per ton from the second quarter of fiscal 2002 due to the lower supplies of competing metal in global markets and strong demand in Asia. Nonferrous sales volume increased 17% and the average selling price per pound increased 15%, which was primarily attributable to continued strong demand from China.

The Steel Manufacturing Business' revenues for the three months ended February 28, 2003 increased $7.4 million (22%), to $41.3 million compared with the prior year quarter, reflecting higher sales volumes and higher average sales prices. Finished steel shipments increased 20,200 tons (17%) to 137,000 tons with the average finished steel net selling price up $8 per ton (3%) to $283 per ton compared with the same quarter last year. The increase in sales volumes is primarily due to higher sales of wire rod (refer to the "General" paragraph above). These price increases had a minor effect on the 2003 second quarter. However, it did cause customers to place orders to buy ahead of the effective day of the price increase, which resulted in increased second quarter sales volumes. The wire rod average net sales price was up 11% compared with the second quarter of fiscal 2002. However, the Company believes that the tariffs imposed under Section 201 of the Trade Act of 1974 in March and April 2002 on lower priced imported steel products have not resulted in any significant increases in price for other finished steel products, especially rebar and merchant bar. Merchant bar selling prices have increased 13% from extremely low levels as cash production costs for most suppliers were higher than selling prices and selling prices needed to be adjusted upward. Also, as the second quarter of fiscal 2003 ended, both the Steel Manufacturing Business and other competing domestic steel mills announced modest price increases for both rebar and merchant bar to offset the higher raw material and energy costs.

As previously mentioned, the Auto Parts Business was acquired on February 14, 2003 and was considered a "step" acquisition requiring the consolidation of its financial results as of the beginning of fiscal 2003. As such, revenues for the second quarter of 2003 included $14.8 million related to the Auto Parts Business with no comparable revenues being recognized for financial statement purposes in the 2002 second quarter. In order to aid the reader's understanding of the financial performance of this segment, the pro forma fiscal 2002 second quarter revenues for the Auto Parts Business were $12.4 million. The $2.4 million (19%) increase was primarily caused by an increase in wholesale revenues driven by higher ferrous recycled metal prices and the timing of wholesale shipments. Wholesale sales volumes were lower during the 2002 quarter due to the timing of shipments between quarters.

COST OF GOODS SOLD. Consolidated cost of goods sold increased $29.1 million (39%) for the three months ended February 28, 2003, compared with the same period last year. Cost of goods sold decreased as a percentage of revenues from 95% to 83%. Gross profit increased $17.2 million to $21.0 million during the latest quarter as compared to the prior year quarter as profit margins increased for the Metals Recycling Business and gross profits of the Auto Parts Business were included.

For the Metal Recycling Business, the cost of goods sold as a percentage of revenues decreased compared with the second quarter of fiscal 2002 from 91% to 85%. Gross profit increased by $7.9 million to $12.9 million. The increase in gross profit was attributable to higher average net selling prices per ton and higher sales volumes. Compared with the second quarter of last year, the average ferrous metals cost of sales per ton increased 14% due to higher purchase costs for unprocessed ferrous metals. Generally, a change in the cost of unprocessed metal has a strong correlation to changes in the average selling price. Thus, as selling prices rose compared with last year's quarter, so did the cost of unprocessed metal.

For the second quarter of fiscal 2003, cost of goods sold for the Steel Manufacturing Business increased $6.6 million (19%) compared to the same period last year and as a percentage of revenues decreased from 104% to 101%. Cost of goods sold per ton was consistent with last year's second quarter. In the second quarter of fiscal 2003, the negative gross margin was ($0.5) million compared with a negative gross margin of $(1.3) million in the second quarter of last year. Anticipated margin improvements did not materialize in the second quarter of 2003 as compared to the first quarter of fiscal 2003 due to the increase in cost of goods sold. This increase was primarily caused by a 21% increase in the cost of ferrous recycled metals, the main raw material component of mini-mill steel manufacturing, and a product mix shift to wire rod, which has higher production costs than rebar.

This increase in raw material cost was partially offset by lower fixed costs per ton due to higher overall production volumes.

The Auto Parts Business' cost of sales was $1.0 million (15%) lower during the second quarter of fiscal 2003 as compared to the pro forma cost of sales for the fiscal 2002 quarter due primarily to lower automobile purchases, offset in part by higher average purchase costs and slightly higher wage costs. During the second quarter of fiscal 2003, the Auto Parts Business reported operating income of $5.0 million. On a comparable pro forma basis, this business segment had $1.4 million of operating income during the fiscal 2002 quarter. The higher operating profits were mainly caused by higher fiscal 2003 wholesale revenues driven by improved pricing for dismantled autobodies sold for scrap metal coupled with increased sales volumes.

JOINT VENTURES. The Joint Ventures in the Metals Recycling Business predominantly sell recycled ferrous metal. Revenues for this segment in the second quarter of fiscal 2003 increased $28.0 million (20%) compared with the prior year quarter primarily due to increased sales volumes and higher average net selling prices per ton. Due to the same supply and demand circumstances described earlier for the Company's wholly-owned businesses, the joint ventures that process recycled metals had a 5% increase in sales volume and a 28% increase in the average net selling price per ton for ferrous recycled metals.

The Company's equity in income from its Joint Ventures in the Metals Recycling Business for the second quarter of fiscal 2003 increased to $6.5 million from $3.7 million in the second quarter of fiscal 2002. The increase in income from these Joint Ventures was primarily caused by the earlier mentioned strong sales volumes and higher selling prices of the processing Joint Ventures. Additionally, the Joint Ventures have worked to reduce the cost of unprocessed inventory as a percentage of the selling price and to improve operational efficiencies, thereby increasing their operating margins per ton.

Revenues of the Joint Venture Suppliers of Metals decreased by $12.3 million from the second quarter for fiscal 2002 as compared to the 2003 second quarter. Most of this decrease was caused by the reclassification in fiscal 2003 of the Pick-n-Pull Joint Venture, which is now consolidated and included as a new business segment, the Auto Parts Business. Excluding the change caused by this reclassification, revenues decreased $2.5 million during the second quarter of fiscal 2003 compared to the second quarter of last year. During the second quarter of fiscal 2002, the Company's plant demolition and reclamation joint venture was engaged in a large remediation and demolition job, which resulted in the higher than usual revenue. For the three months ended February 28, 2003, the Company's equity in income from these joint ventures decreased $0.4 million primarily due to the slowdown in the U.S. economy.

IMPAIRMENT AND OTHER NON-RECURRING CHARGES. In connection with the acquisition of the Auto Parts Business, the Company conducted an environmental due diligence investigation. Based upon new information obtained in this investigation, the Joint Venture accrued $2.1 million in environmental liabilities in the second quarter of 2003 for remediation costs at the Auto Parts Business' store locations. No environmental proceedings are pending at any of these sites.

In the second quarter of fiscal 2002, the Company recorded a loss of $1.5 million related to the early termination of two vessel charter agreements with a related company. Also in that quarter, the Company sold a non-strategic steel forging business that was part of a 1995 Metals Recycling Business acquisition to an unrelated party and recorded a loss of $0.8 million on the sale.

GENERAL AND ADMINISTRATIVE EXPENSE. Compared with the second quarter of fiscal 2002, general and administrative expense for the same quarter this fiscal year increased $4.8 million, which was almost solely due to the consolidation of the Auto Parts Business.

INTEREST EXPENSE. Interest expense for the second quarter of fiscal 2003 decreased 44% to $0.3 million compared with the second quarter of fiscal 2002. The decrease was primarily a result of lower average principal balances outstanding in the second quarter of fiscal 2003 as compared with last year's second quarter, as well as lower average interest rates.

INCOME TAX PROVISION. The tax rate for the second quarter of fiscal 2003 was approximately 27%, compared with a tax benefit of 37% for the prior year quarter. The current quarter rate of 27% is lower than the 35% federal statutory tax rate for three primary reasons: (1) The implementation of SFAS 142 has eliminated the amortization of goodwill, some of which have been nondeductible; (2) export sales, which under Federal law are taxed at a lower rate than domestic sales, have increased; and (3) net operating loss carryforwards that accompanied an earlier acquisition continue to provide benefit.

FIRST HALF OF FISCAL 2003 VS. FIRST HALF OF FISCAL 2002
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REVENUES. Consolidated revenues for the six months ended February 28, 2003 increased $60.1 million (39%) from the same period last year. The higher revenues were primarily attributed to increased sales volumes and higher average selling prices for the Metals Recycling Business, higher sales volumes for the Steel Manufacturing Business and the inclusion of the Auto Parts Business as a consolidated business.

During the six months ended February 28, 2003, revenues for the Metals Recycling Business, before intercompany eliminations, increased $30.2 million (30%), which is attributed to higher sales volumes and higher average ferrous recycled metals selling prices. Ferrous sales volumes increased by 13% over the 2002 period. Average sales prices for ferrous metals were up 24% and nonferrous metals were up 17% compared with the first half of fiscal 2002. The higher ferrous sales volumes were caused by continued good demand from Asian countries and a decrease in supply coming from the countries of the former Soviet Union.

The Steel Manufacturing Business' revenues for the six months ended February 28, 2003 increased $13.8 million (20%), to $84.1 million, from the first half of the prior year. The increase in revenues was a result of a 43,300 ton increase (97%) in wire rod shipments during the first six months of fiscal 2003 compared to the prior year. The increased demand for wire rod was a result of price parity with imported products as described above in the "General" paragraph. Sales volumes of other products approximated last year's levels. Average selling prices increased modestly led by increases in merchant bar and to a smaller extent by rebar prices. Merchant bar selling prices increased 11% from extremely low levels as cash production costs for most suppliers were higher than selling prices. Thus, selling prices were adjusted upward.

Revenues for the Auto Parts Business increased by $4.7 million (18%) for the first half of fiscal 2003 compared to the pro forma revenue for the same period in 2002. The higher revenues were primarily caused by an increase in wholesale revenues driven by higher ferrous recycled metal prices and the timing of sales between periods.

COST OF GOODS SOLD. Consolidated cost of goods sold increased by $31.7 million (22%) for the six months ended February 28, 2003, compared with the same period last year. Cost of goods sold decreased as a percentage of revenues from 94% to 83%, which contributed to a $28.4 million increase in gross profit for the first six months of fiscal 2003 as compared to the prior year. The higher gross profit reflected the increased volumes and selling prices for the Metals Recycling Business and the inclusion of the Auto Parts Business as a consolidated business.

During the first six months of fiscal 2003, the Metals Recycling Business' cost of goods sold increased $20.0 million over the prior year. The cost of goods sold as a percentage of revenues decreased from 90% for the first half of fiscal 2002 to 85% during the first half of fiscal 2003. As a result, gross profit increased by $9.8 million to $19.8 million. The increase in gross margin in the first six months of fiscal 2003 is attributable to higher average selling prices per ton and higher sales volumes partially offset by higher average purchase prices paid for unprocessed metal compared with the first six months of fiscal 2002.

During the first six months of fiscal 2003, cost of goods sold for the Steel Manufacturing Business increased $14.0 million compared to the same period last year and was consistent as a percentage of revenues at 101%. Gross margin declined further from a loss of $0.8 million to a loss of $1.1 million compared with the first half of last year. Although the average sales price per ton was slightly higher compared with the first six months of fiscal 2002 and production increases lowered fixed cost per ton, the average cost of goods sold per ton increased. This increase was attributed to higher raw material costs (primarily recycled metal) and a product mix shift to wire rod, which has higher production costs than rebar.

The Auto Parts Business' cost of sales was 5% lower during the first half of fiscal 2003 as compared to pro forma cost of sales for the fiscal 2002 period due primarily to lower purchase costs, offset in part by slightly higher wage costs.

JOINT VENTURES. For the six months ended February 28, 2003, revenues for Joint Ventures in the Metals Recycling Business increased by $31.3 million from the first six months of last year. The increase was primarily due to higher average net sales prices for ferrous metals, which were partially offset by lower ferrous sales volumes. These higher average sales prices were caused by the same market conditions as described for the Metals Recycling Business. Fiscal 2002 sales volumes were unusually high due to the significant volume of metal coming from the World Trade Center tragedy. For the first six months of fiscal 2003, income recognized from these joint ventures increased by $2.1 million over the first six months of fiscal 2002 to $9.5 million. The improved operating results were primarily caused by higher average net selling prices per ton partially offset by lower sales volumes.

Revenues of Joint Venture Suppliers of Metal decreased from $8.1 million to $4.5 million (excluding the change caused by the reclassification of the Auto Parts Business) due to lower selling prices and lower demolition revenue coming from the joint ventures in this business. Year-to-date, the Company's equity in income from these joint ventures decreased to a loss of $0.2 million from a profit of $0.2 million for the previous year.

GENERAL AND ADMINISTRATIVE EXPENSE. For the six months ended February 28, 2003, general and administrative expense increased $9.0 million over with the same period last year. This increase was primarily due to the consolidation of the Auto Parts Business.

INTEREST EXPENSE. For the six months ended February 28, 2003, interest expense decreased $0.6 million to $0.7 million compared with the same period last year. The decrease was primarily a result of lower average borrowings caused by cash flow generated from operations, distributions from joint ventures and lower interest rates.

INCOME TAX PROVISION. The Company's effective rate of 26% for the first six months of fiscal 2003 is lower than the 35% federal statutory tax rate for three primary reasons: (1) The implementation of SFAS 142 has eliminated the amortization of goodwill, some of which have been nondeductible; (2) export sales, which under Federal law are taxed at a lower rate than domestic sales, have increased; and (3) net operating loss carryforwards that accompanied an earlier acquisition continue to provide benefit. The prior year's tax rate of 20% benefited from the two latter items, as well as from the one-time recognition of California tax credits that had been generated over the previous ten years.

LIQUIDITY AND CAPITAL RESOURCES. Cash provided by operations for the six months ended February 28, 2003 was $12.4 million compared with $11.8 million for the same period in the prior fiscal year. The $0.6 million increase in cash flow was due primarily to higher net income in the current year offset by increases in inventory.

Capital expenditures for the six months ended February 28, 2003 were $10.1 million compared with $4.4 million during the first six months of fiscal 2002. The increase was due to the costs associated with dock renovation and improvement projects at the Company's Portland, Oregon and Oakland, California recycling facilities. The Company expects to spend approximately $6.9 million on capital projects during the remainder of fiscal 2003.

As a result of acquisitions completed in both the current and prior years the Company had $22.6 million of accrued environmental liabilities as of February 28, 2003. The Company expects to require significant future cash outlays as it incurs the actual costs relating to the remediation of such environmental liabilities.

As of February 28, 2003, the Company had a committed unsecured bank credit facility totaling $175 million that matures in June 2003. The Company also had additional unsecured lines of credit of $40 million, which were uncommitted. In the aggregate, the Company had bank borrowings outstanding totaling $102.4 million at February 28, 2003. These borrowings are classified as a current liability due to the June 2003 expiration of the bank credit facility. Management intends to replace the bank credit facility with a new agreement and believes it has the ability to refinance the facility based upon the Company's financial position. In addition, the Company has signed an agreement with a bank to use its best efforts to syndicate a new bank credit facility. Management believes the new bank credit facility will be completed before June 1, 2003. The Company's debt agreements have certain restrictive covenants. As of February 28, 2003, the Company was in compliance with such covenants.

In July 2002, the Company's metals recycling joint ventures with Hugo Neu Corporation entered into a $70 million revolving credit facility ("JV Credit Facility") with a group of banks for working capital and general corporate purposes. Prior to that time, the joint ventures' working capital and other cash needs had been met by advances provided equally by the Company and its partner, Hugo Neu Corporation. The JV Credit Facility expires in July 2004, is secured by the inventory and receivables of the joint venture businesses and has certain restrictions on future borrowings. The Company is not a guarantor of the JV Credit Facility. The JV Credit Facility has a number of covenants and restrictions, including restrictions on the level of distributions to the joint venture partners. As of February 28, 2003, the joint ventures were in compliance with such covenants. Borrowings under the JV Credit Facility totaled $25.0 million at February 28, 2003.

The Company has certain contractual obligations and commercial commitments to make future payments. The following table summarizes these future obligations and commitments as of February 28, 2003 (in thousands):

| | Total | Less than 1 Year | 1-3 Years | 4-5 Years | After 5 Years |
|---|---|---|---|---|---|
| Long-term debt(1) | $110,772 | $102,637 | $ 371 | $ 64 | $ 7,700 |
| Operating leases(2) | 110,869 | 6,238 | 9,596 | 5,348 | 89,687 |
| Letters of credit | 3,930 | 3,930 | -- | -- | -- |
| JV credit facility (50%)(3) | 12,500 | -- | 12,500 | -- | -- |
| Total | $238,071 | $112,805 | $ 22,467 | $ 5,412 | $ 97,387 |

(1) The Company has a $175 million credit facility with a group of banks for working capital and other general purposes. The facility expires in June 2003 and has therefore been classified by the Company as a current liability at February 28, 2003. Management believes it has the ability to refinance the facility and expects to complete the refinancing in 2003.

(2) The Company's operating leases increased by $12.4 million as a result of the acquisition of the Auto Parts Business.

(3) This disclosure assumes that if the JV Credit Facility is not renewed or refinanced upon expiration, the Company and Hugo Neu Corporation would restore their previous arrangement under which each funded one-half of the joint ventures' cash needs.

Pursuant to a stock repurchase program, the Company is authorized to repurchase up to 3.0 million shares of its stock when the market price of the Company's stock is not reflective of management's opinion of an appropriate valuation of the stock. Management believes that repurchasing shares under these conditions enhances shareholder value. During the first six months of fiscal 2003, the Company made no share repurchases. As of February 28, 2003, the Company had repurchased a total of 1.3 million shares under this program.

The Company believes that its current cash balance, internally generated funds, existing credit facilities and its anticipation of being able to refinance its credit facilities will provide adequate financing for capital expenditures, working capital, stock repurchases and debt service requirements for the next twelve months. In the longer term, the Company may seek to finance business expansion, including potential acquisitions, with additional borrowing arrangements or additional equity financing.

OUTLOOK. Since the spring of 2002, the Company's metal recycling businesses have experienced improved market conditions brought about by the combination of increased Asian demand coupled with reduced world-wide supplies of ferrous recycled metal. Markets have also benefited from temporary production shut-downs of metal substitutes mainly due to political unrest in Venezuela and harsh winter weather conditions in Eastern Europe and Northern Asia. Fiscal third quarter prices are expected to show further improvement, which should benefit both the Company's wholly-owned operations and joint ventures in the metals recycling business. However, the benefits from the increasing selling prices are expected to be partially tempered by the rising cost of unprocessed metal as well as higher ocean freight rates.

The Auto Parts Business traditionally experiences modest improvements in retail revenues during the third fiscal quarter of each year, which is primarily due to seasonal weather improvements and promotional events. As such, the Company anticipates a modest improvement in retail sales during the third quarter.

The Steel Manufacturing Business normally experiences seasonal improvements in demand in the third quarter of each year. Further, the Company anticipates average selling prices will show modest improvement over the second quarter, caused by recently announced price increases. Much of the price improvement is expected to offset the rising cost of recycled ferrous metal and seasonal increases in energy costs. The Company anticipates that this business segment will be near break-even from an operating income perspective in the third quarter.

Overall, the Company estimates third quarter operating income will be in the $17 to $19 million range. The Company anticipates that its effective tax rate will continue to benefit from net operating loss carryforwards that were acquired as part of an earlier acquisition. This, as well as existing state tax credits, should result in an effective tax rate in the mid to high twenty percent range.

FACTORS THAT COULD AFFECT FUTURE RESLTS. Management's Discussion and Analysis of Financial Condition and Results of Operations, particularly "Outlook" above, contains forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Act of 1934, that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. One can generally identify these forward-looking statements because they contain "expect", "believe" and other words which convey a similar meaning. One can also identify these statements as they do not relate strictly to historical or current facts. Examples of factors affecting Schnitzer Steel Industries, Inc.'s consolidated operations and its joint ventures (the Company) that could cause actual results to differ materially are the following:

Cyclicality and General Market Considerations:

Selling prices for recycled metals are highly cyclical in nature and subject to worldwide economic conditions. In addition, the cost and availability of recycled metals are subject to volatile supply and demand conditions beyond the Company's control, resulting in periodic fluctuations in recycled metals prices. While the Company attempts to maintain margins by responding to changing recycled metals selling prices through adjustments to its metals purchase prices, the Company's ability to do so is limited by competitive factors as well as the impact of lower prices on the volume of scrap available to the Company. Moreover, increases in recycled metals prices can adversely affect the operating results of the Company's Steel Manufacturing Business because increases in steel prices generally lag increases in ferrous recycled metals prices.

The steel industry is also highly cyclical in nature and sensitive to general economic conditions. Future economic downturns or a stagnant economy may adversely affect the performance of the Company.

The Company expects to continue to experience seasonal fluctuations in its revenues and net income. Revenues can fluctuate significantly quarter to quarter due to factors such as the seasonal slowdown in the construction industry, which is an important buyer of the Company's finished steel products. The timing and extent of the slowdown is also dependent on the weather.

The Company makes a number of large ferrous recycled metals shipments to foreign steel producers each year. Customer requirements, shipping schedules and other factors limit the Company's control over the timing of these shipments. Variations in the number of foreign shipments from quarter to quarter will result in fluctuations in quarterly revenues and earnings. The Company's expectations regarding ferrous metal sales prices and volumes, as well as earnings, are based in part on the assumption that orders from customers for larger shipments are not cancelled or delayed.

The Auto Parts Business experiences modest seasonal fluctuations in demand. The retail stores are open to the elements. During periods of extreme temperatures and precipitation, customers tend to delay their purchases and wait for milder conditions. As a result, retail sales are generally higher during the spring and fall of each fiscal year and lower in the winter and summer months.

Competition:

The recycled metals industry is highly competitive, with the volume of purchases and sales subject to a number of competitive factors, principally price. The Company has competition from both large and numerous smaller companies in its markets for the purchase of recyclable metals. The Company competes with a number of domestic and foreign recycled metals processors for sales to foreign customers. In the recent past lower cost ferrous recycled metals supplies from the countries of the former Soviet Union have adversely affected the Company's ferrous recycled metals selling prices and volumes. Currently, those countries have export tariffs and some outright export bans which have significantly reduced their export volumes and lowered the worldwide supply of ferrous recycled metals. These tariffs and bans have had a positive effect on the Company's selling prices and volumes. However, the Company cannot predict when or if the countries of the former Soviet Union will change their export policies and what effect, if any, such changes might have on the Company's operating results.

The domestic steel industry also is highly competitive. Steel prices can be highly volatile and price is a significant competitive factor. The Company competes with several steel producers in the Western United States for sales of its products. In addition, in recent years, the Company has experienced significant foreign competition, which is sometimes subsidized by large government agencies. There can be no assurance that such competition will not increase in the future. In March and April 2002, the ITC imposed tariffs on imported steel, under Section 201 of the 1974 Trade Act, to temporarily aid the domestic steel industry. Recently, these tariffs were found to be in violation of global trade rules by a World Trade Organization ("WTO") dispute panel. However, a final report has not been issued and it is expected that the ITC would appeal the decision. To date, those tariffs have not significantly benefited selling prices for finished steel products, however, the Company cannot predict the outcome of the WTO decision. In October 2002, the ITC announced duty margins of up to 360% and subsidy rates of up to 18% against wire rod products from eight foreign countries. The Company cannot, however, predict the impact of these duty margins and subsidy rates on prices and operating results. In December 2002, Nucor Corporation assumed ownership of the assets of Birmingham Steel Corp., a steel manufacturing business in Seattle, Washington. Nucor Corporation has a significant share of the West Coast finished steel market and is considered an aggressive competitor. The impact, if any, that Nucor's ownership and operation of Birmingham Steel's Seattle facility will have on the Steel Manufacturing Business' and the Metals Recycling Business' operating results cannot be determined at this time.

The Auto Parts Business competes with both full-service and self-service auto dismantlers as well as larger well financed retail auto parts businesses for retail customers. Also, the business competes for its automobile inventory with other dismantlers, used car dealers, auto auctions and metal recyclers. Inventory costs can fluctuate significantly depending on market conditions and prices for recycled metal.

Joint Ventures:

The Company has significant investments in joint venture companies. The Company does not manage the day-to-day activities of these businesses. As a result, it does not have the same ability to control the operations and related financial results as it does with its consolidated businesses. These businesses are, however, affected by many of the same risk factors mentioned above. Therefore, it is difficult to predict the financial results of these businesses.

Energy Supply:

The Company and its joint ventures utilize various energy sources to operate their facilities. In particular, electricity and natural gas currently represent approximately 13% of the cost of steel manufactured for the Company's Steel Manufacturing Business. The Steel Manufacturing Business purchases electric power under a long-term contract from McMinnville Water & Light (McMinnville) which in turn relies on the Bonneville Power Administration (BPA). Historically, these contracts have had favorable prices and are long-term in nature. The Company has a five-year contract that expires in September 2006. On October 1, 2001, the BPA increased its electricity rates due to increased demand on the West Coast and lower supplies. This increase was in the form of a Cost Recovery Adjustment Clause (CRAC) added to BPA's contract with McMinnville. The CRAC is an additional monthly surcharge on selected power charges to recover costs associated with buying higher priced power during the West Coast power shortage. Because the BPA can adjust the CRAC every six months, it is not possible to predict future rate changes.

The Steel Manufacturing Business also has long-term contracts for natural gas. In October 2000, the Company entered into a new contract set to expire on October 31, 2003. The latest contract negotiations resulted in rates that were 30% higher then the previous agreement. As this contract comes to an end, the Company will attempt to negotiate a new long-term contract; however, it is not possible to predict the terms of the contract.

The inability of the Company to negotiate favorable terms of electricity, natural gas and other energy sources could adversely affect the performance of the Company.

Tax Laws:

The Company has been able to reduce its effective tax rate below the federal statutory tax rate for each of the last three years by using a combination of Net Operating Loss Carryforwards (NOLs), State of California Enterprise Zone tax credits and Foreign Sales Corporations or Extraterritorial Income Exclusions. The Company cannot predict how future tax law changes might affect the Company's effective tax rate.

Shipping and Handling:

Both the Metals Recycling Business and the Steel Manufacturing Business often rely on third parties to handle and transport their products to end users in a timely manner. The cost to transport the products, in particular by ocean freight, can be affected by circumstances over which the Company has no control such as fuel prices, political events, governmental regulations on transportation and changes in market rates due to carrier availability.

Insurance:

The cost of the Company's insurance is affected not only by its own loss experience but also by cycles in the insurance market. Though the Company's loss record and relationship with its underwriters is good, it cannot predict future events and circumstances which could cause rates to materially change such as war, terrorist activities or natural disasters.

Pick-n-Pull Acquisition:

The Company has previously issued forward looking statements predicting that the Pick-n-Pull acquisition will be accretive to the Company's earnings. However, this business is subject to a number of risks that could prevent it from maintaining or exceeding its current levels of profitability, such as volatile supply and demand conditions affecting prices and volumes in the markets for its products, services and raw materials; environmental issues; local and worldwide economic conditions; increased competition; purchase accounting assumptions surrounding intangibles and goodwill; and business integration and management transition issues.

One should understand that it is not possible to predict or identify all factors that could cause actual results to differ from the Company's forward-looking statements. Consequently, the reader should not consider any such list to be a complete statement of all potential risks or uncertainties. Further, the Company does not assume any obligation to update any forward-looking statement.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company periodically uses derivative financial instruments to limit exposure to changes in interest rates. Because such derivative instruments are used solely as hedges and not for speculative trading purposes, they do not represent incremental risk to the Company. For further discussion of derivative financial instruments, refer to "FAIR VALUE OF FINANCIAL INSTRUMENTS" in the consolidated Financial Statements included in Item 8 of Form 10-K for the fiscal year ended August 31, 2002.

## ITEM 4. CONTROLS AND PROCEDURES

Schnitzer Steel Industries, Inc. management, including the Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the effectiveness of disclosure controls and procedures pursuant to Exchange Act Rule 13a-15 within 90 days of the filing of this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective in ensuring that all material information required to be filed in this quarterly report has been made known to them in a timely fashion. There have been no significant changes in internal controls, or in factors that could significantly affect internal controls, subsequent to the date the Chief Executive Officer and Chief Financial Officer completed their evaluation.

PART II

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

(a) The 2003 annual meeting of the shareholders was held on January 27, 2003. Holders of 4,175,537 shares of the Company's Class A common stock, entitled to one vote per share, and 3,499,638 shares of the Company's Class B common stock, entitled to ten votes per share, were present in person or by proxy at the meeting.

(b) Leonard Schnitzer, Robert W. Philip, Kenneth M. Novack, Gary Schnitzer, Dori Schnitzer, Carol S. Lewis, Scott Lewis, Jean S. Reynolds, Robert S. Ball, William A. Furman, and Ralph R. Shaw were elected directors of the Company.

(c) The meeting was called for the following purposes:

1. To elect Leonard Schnitzer, Robert W. Philip, Kenneth M. Novack, Gary Schnitzer, Dori Schnitzer, Carol S. Lewis, Scott Lewis, Jean S. Reynolds, Robert S. Ball, William A. Furman, and Ralph R. Shaw as directors of the Company.

This proposal was approved as follows:

| | Votes For | Votes Withheld |
|---|---|---|
| Leonard Schnitzer | 37,846,199 | 1,325,718 |
| Robert W. Philip | 37,847,685 | 1,324,232 |
| Kenneth M. Novack | 37,845,933 | 1,325,984 |
| Gary Schnitzer | 37,847,588 | 1,324,329 |
| Dori Schnitzer | 39,084,341 | 87,576 |
| Carol S. Lewis | 39,086,786 | 85,131 |
| Scott Lewis | 39,085,696 | 86,221 |
| Jean S. Reynolds | 39,086,886 | 85,031 |
| Robert S. Ball | 39,086,993 | 84,924 |
| William A. Furman | 39,088,693 | 83,224 |
| Ralph R. Shaw | 39,087,493 | 84,424 |

2. To consider a shareholder proposal regarding the composition of the Board of Directors

This proposal was rejected by the stockholders with 3,177,726 votes cast for and 35,604,161 votes cast against. There were 357,150 abstentions and 635,080 broker non-votes.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) EXHIBITS

99.1 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.

99.2 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.

(B) REPORTS ON FORM 8-K

The following report was filed on Form 8-K during the fiscal quarter ended February 28, 2003:

On February 18, 2003, the Company filed a Current Report on Form 8-K to report under Item 2 the closing on February 14, 2003 of the Company's acquisition of the Auto Parts Business.

SCHNITZER STEEL INDUSTRIES, INC.

## SIGNATURE

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: April 11, 2003

By: /s/ Barry A. Rosen

Barry A. Rosen
Vice President, Finance and Chief Financial Officer

SCHNITZER STEEL INDUSTRIES, INC.

CERTIFICATION

I, Robert W. Philip, certify that:

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

2. Based on my knowledge, this quarterly 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures 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 annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

April 11, 2003

/s/ Robert W. Philip
- ---------------------------------------
Robert W. Philip
President and Chief Executive Officer

SCHNITZER STEEL INDUSTRIES, INC.

CERTIFICATION

I, Barry A. Rosen, certify that:

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

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

April 11, 2003

/s/ Barry A. Rosen
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Barry A. Rosen
Vice President, Finance and Chief Financial Officer

EXHIBIT 99.1

# 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 and six months ended February 28, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert W. Philip, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) 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.

/s/ ROBERT W. PHILIP
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Robert W. Philip
President and Chief Executive Officer

April 11, 2003

EXHIBIT 99.2

# 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 and six months ended February 28, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Barry A. Rosen, Vice President, Finance and Treasurer, and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) 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.

/s/ BARRY A. ROSEN

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Barry A. Rosen
Vice President, Finance and
Treasurer, and Chief Financial Officer

April 11, 2003