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

FORM 10-Q

[X] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended May 31, 1999 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., P.O Box 10047 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 5,294,726 shares of Class A Common Stock, par value of $1.00 per share and 4,430,328 shares of Class B Common Stock, par value of $1.00 per share outstanding at July 1, 1999.

SCHNITZER STEEL INDUSTRIES, INC.

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

	May 31, 1999 (Unaudited)	August 31, 1998 (Audited)
ASSETS		
CURRENT ASSETS:		
Cash	$ 2,468	$ 3,800
Accounts receivable, less allowance for doubtful accounts of $638 and $645	22,323	26,161
Accounts receivable from related parties	2,030	3,428
Inventories (Note 2)	94,267	103,136
Deferred income taxes	5,723	5,723
Prepaid expenses and other	6,260	8,020
TOTAL CURRENT ASSETS	133,071	150,268
NET PROPERTY, PLANT AND EQUIPMENT	138,059	142,582
OTHER ASSETS:		
Investment in joint venture partnerships	99,283	103,494
Advances to joint venture partnerships	22,142	23,957
Goodwill	40,291	41,017
Intangibles and other	11,407	10,022
	$ 444,253	$ 471,340
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 174	$ 168
Accounts payable	15,922	19,056
Accrued payroll liabilities	5,523	5,603
Current portion of environmental liabilities (Note 4)	5,103	5,552
Other accrued liabilities	7,675	8,781
TOTAL CURRENT LIABILITIES	34,397	39,160
DEFERRED INCOME TAXES	24,668	24,619
LONG-TERM DEBT LESS CURRENT PORTION	129,393	140,236
ENVIRONMENTAL LIABILITIES, NET OF CURRENT PORTION (Note 4)	19,749	22,749
OTHER LONG-TERM LIABILITIES	2,953	3,140
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock--20,000 shares authorized, none issued		
Class A common stock--75,000 shares $1 par value authorized, 5,295 and 5,555 shares issued and outstanding	5,295	5,555
Class B common stock--25,000 shares $1 par value authorized, 4,431 and 4,431 shares issued and outstanding	4,431	4,431
Additional paid-in capital	102,179	105,124
Retained earnings	121,188	126,326
	233,093	241,436
	$ 444,253	$ 471,340

The accompanying notes are an integral part of this statement.

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

(unaudited)

	For The Three Months Ended May 31, 1999	For The Three Months Ended May 31, 1998	For The Nine Months Ended May 31, 1999	For The Nine Months Ended May 31, 1998
REVENUES	$ 66,639	$ 80,918	$ 185,526	$ 268,216
COSTS AND EXPENSES:				
Cost of goods sold and other operating expenses (Note 4)	58,945	70,913	170,203	236,402
Selling and administrative	6,093	5,903	17,620	17,315
	65,038	76,816	187,823	253,717
INCOME (LOSS) FROM JOINT VENTURES	893	1,417	(1,401)	8,380
INCOME (LOSS) FROM OPERATIONS	2,494	5,519	(3,698)	22,879
OTHER INCOME (EXPENSE):				
Interest expense	(1,800)	(1,849)	(5,447)	(4,537)
Other income (Note 5)	2,297	283	3,785	1,096
	497	(1,566)	(1,662)	(3,441)
INCOME (LOSS) BEFORE INCOME TAXES	2,991	3,953	(5,360)	19,438
Income tax (provision) benefit	(1,136)	(1,384)	1,703	(6,803)
NET INCOME (LOSS)	$ 1,855	$ 2,569	$ (3,657)	$ 12,635
BASIC EARNINGS (LOSS) PER SHARE	$ 0.19	$ 0.26	$ (0.37)	$ 1.25
DILUTED EARNINGS (LOSS) PER SHARE	$ 0.19	$ 0.26	$ (0.37)	$ 1.25

The accompanying notes are an integral part of this statement.

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

(unaudited)

	Class A Common Stock		Class B Common Stock		Additional Paid-in	Retained	
	Shares	Amount	Shares	Amount	Capital	Earnings	Total
BALANCE AT 8/31/96	5,773	$ 5,773	4,575	$ 4,575	$ 113,747	$ 99,718	$ 223,813
Class B common stock converted to Class A common stock	130	130	(130)	(130)			
Class A common stock repurchased	(166)	(166)			(3,753)		(3,919)
Net income						21,225	21,225
Dividends paid						(2,058)	(2,058)
BALANCE AT 8/31/97	5,737	5,737	4,445	4,445	109,994	118,885	239,061
Net Income							
Class B common stock converted to Class A common stock	14	14	(14)	(14)			
Class A common stock repurchased	(196)	(196)			(4,870)		(5,066)
Net Income						9,448	9,448
Dividends paid						(2,007)	(2,007)
BALANCE AT 8/31/98	5,555	5,555	4,431	4,431	105,124	126,326	241,436
Class A common stock repurchased	(260)	(260)			(2,945)		(3,205)
Net loss						(3,657)	(3,657)
Dividends paid						(1,481)	(1,481)
BALANCE AT 5/31/99	5,295	$ 5,295	4,431	$ 4,431	$ 102,179	$ 121,188	$ 233,093

The accompanying notes are an integral part of this statement.

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

(unaudited)

	For The Nine Months Ended May 31, 1999	1998
OPERATIONS:		
Net income	$ (3,657)	$ 12,635
Noncash items included in income:		
Depreciation and amortization	13,473	14,123
Deferred income taxes		(292)
Equity in earnings of joint ventures and other investments	1,401	(8,380)
Gain on disposal of assets	(1,300)	(113)
Environmental reserve reversal	(1,904)	
Cash provided (used) by assets and liabilities:		
Accounts receivable	5,291	1,683
Inventories	8,895	(9,352)
Prepaid expenses and other	1,510	(2,608)
Accounts payable	(3,196)	(3,783)
Accrued expenses	(1,202)	(427)
Environmental liabilities	(875)	(2,135)
Other assets and liabilities	(1,117)	(1,491)
NET CASH PROVIDED (USED) BY OPERATIONS	17,319	(140)
INVESTMENTS:		
Capital expenditures	(8,400)	(7,512)
Advances from (to) joint ventures	1,815	(10,809)
Investments in joint ventures	(20)	(17,103)
Distributions from joint ventures	2,132	3,004
Proceeds from sale of assets	2,994	2,986
Other		(1,205)
NET CASH USED BY INVESTMENTS	(1,479)	(30,639)
FINANCING:		
Repurchase of Class A common stock	(3,205)	(5,066)
Dividends declared and paid	(1,481)	(1,507)
(Decrease) increase in long-term debt	(12,700)	36,200
Reduction in long-term debt	214	(288)
NET CASH (USED) PROVIDED BY FINANCING	(17,172)	29,339
NET DECREASE IN CASH	(1,332)	(1,440)
CASH AT BEGINNING OF PERIOD	3,800	3,106
CASH AT END OF PERIOD	$ 2,468	$ 1,666

The accompanying notes are an integral part of this statement.

SCHNITZER STEEL INDUSTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MAY 31, 1999 and 1998
(in thousands, except per share amounts)
(Unaudited)

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, it is suggested 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, 1998. The results for the nine months ended May 31, 1999 are not necessarily indicative of the results of operations for the entire year.

Earnings Per Share

The Company has adopted Statement of Financial Accounting Standards (SFAS) No. 128 "Earnings Per share", which specifies the computation, presentation and disclosure requirements for earnings per share ("EPS"). SFAS 128 replaces the presentation of primary and fully diluted EPS with basic and diluted EPS. Basic EPS is computed based upon the weighted average number of common shares outstanding during the period. Diluted EPS reflects 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 a reconciliation from basic EPS to diluted EPS:

	Three Months Ended May 31, 1999		
	Income (Numerator)	Shares (Denominator)	Per-share Amount
Basic EPS	$ 1,855	9,783	$ 0.19
Options	--	14	
Diluted EPS	$ 1,855	9,797	$ 0.19

	Three Months Ended May 31, 1998		
	Income (Numerator)	Shares (Denominator)	Per-share Amount
Basic EPS	$ 2,569	9,985	$ 0.26
Options	--	62	
Diluted EPS	$ 2,569	10,047	$ 0.26

	Three Months Ended May 31, 1999		
	Loss (Numerator)	Shares (Denominator)	Per-share Amount
Basic EPS	$ (3,657)	9,910	$ (0.37)
Options	--	7	
Diluted EPS	$ (3,657)	9,917	$ (0.37)

	Three Months Ended May 31, 1998		
	Income (Numerator)	Shares (Denominator)	Per-share Amount
Basic EPS	$ 12,635	10,070	$ 1.25
Options	--	71	
Diluted EPS	$ 12,635	10,141	$ 1.25

Note 2 - Inventories:

Inventories consist of the following (in thousands):

	May 31, 1999 (Unaudited)	August 31, 1998 (Audited)
Scrap metals	$ 24,004	$ 28,952
Work in process	23,863	13,192
Finished goods	31,069	44,276
Supplies	15,331	16,716
	$ 94,267	$ 103,136

Scrap metal inventories are valued at LIFO; the remainder are at FIFO. Interim LIFO calculations are based on the Company's estimates of expected year-end inventory levels and costs. The cost of scrap metal inventories exceeded the stated LIFO value by $5,811 at May 31, 1999 and August 31, 1998.

Note 3 - Related Party Transactions:

Certain shareholders of the Company own significant interests in, or are related to owners of, the entities discussed below. As such, these entities are considered related parties for financial reporting purposes.

Transactions Affecting Cost of Goods Sold and Other Operating Expenses

The Company charters several vessels from related shipping companies to transport scrap metal to foreign markets. In 1993, the Company signed a five-year time-charter agreement for one vessel. The agreement guaranteed the ship owner a residual market value of $2,500 at the end of the time-charter. Upon expiration of the time charter, the Company paid the guaranteed residual and entered into an additional five-year time charter. The Company has accounted for the transaction as a capital lease, as ownership of the vessel is transferred at expiration of the time-charter. The Company entered into two additional seven-year time-charters in May 1995 for other vessels. No charges were incurred for these charters for the three months ended May 31, 1999. Charges incurred for these charters were $1,522 for the three months ended May 31, 1998, and $1,754 and $5,836 for the nine months ended May 31, 1999 and 1998, respectively.

The Company purchased scrap metals from certain of its joint venture operations totaling $2,888 and $4,452 for the three months ended May 31, 1999 and 1998, respectively, and $7,692 and $12,307 for the nine months ended May 31, 1999 and 1998, respectively.

The Company leases certain land and buildings from a real estate company which is a related entity. The rent expense was $398 and $338 for the three months ended May 31, 1999 and 1998, respectively, and $1,209 and $998 for the nine months ended May 31, 1999 and 1998, respectively.

Transactions Affecting Selling and Administrative Expenses

The Company performs some administrative services and provides operation and maintenance of management information systems for certain related parties. These services are charged to the related parties based upon costs plus a 15% margin for overhead and profit. The administrative charges totaled $361 and $233 for the three months ended May 31, 1999 and 1998, respectively, and $830 and $969 for the nine months ended May 31, 1999 and 1998, respectively.

Transactions Affecting Other Income (Expense)

The vessels discussed above are periodically sub-chartered to third parties. In this case, a related shipping agency company acts as the Company's agent in the collection of income and payment of expenses related to sub-charter activities. Charges incurred for these sub-charters for the three months ended May 31, 1999 and 1998 were $1,588 and $123, respectively, offset by income of $1,550 for the three months ended May 31, 1999. There was no subcharter income for the three months ended May 31, 1998. For the nine months ended May 31, 1999 and 1998 charges incurred for sub-charter activity were $3,317 and $743, respectively, offset by income of $3,200 and $408, respectively.

Note 4 - Environmental Liabilities:

In conjunction with the due diligence proceedings for the Company's acquisition of Manufacturing Management, Inc. (MMI) in March 1995, the Company hired an independent third-party consultant to estimate the costs to cure both current and future potential environmental liabilities. The cumulative provision for the total costs specified in the consultant's report was included in MMI's statement of operations prior to its acquisition by the Company. This reserve was carried over to the Company's balance sheet and at May 31, 1999 aggregated $18,200.

General Metals of Tacoma (GMT), a subsidiary of MMI, owns and operates a scrap facility located in the State of Washington on the Hylebos Waterway, a part of Commencement Bay, which is the subject of an ongoing environmental investigation and remediation project by the U.S. Environmental Protection Agency (EPA) under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA). GMT and well over 60 other parties were named potentially responsible parties (PRP) for the investigation and clean up of contaminated sediment along the Hylebos Waterway. GMT and five other PRPs voluntarily have entered into an Administrative Order on Consent with the EPA to fund a pre-remedial study of sediment contamination and remediation alternatives. GMT's share of the study, which is now expected to be completed in late 1999, is approximately $2,000 and is included in the reserve above. Any further potential liabilities, if any, cannot be estimated at this time.

In 1996, prior to the Company's acquisition of Proler International Corp. (Proler), the Company engaged an independent third-party consultant to estimate the costs to cure present and future environmental liabilities related to Proler's wholly owned and joint venture properties. Proler recorded a liability of $8,600 for the probable costs to remediate its wholly owned properties based upon the consultant's estimates, increasing its environmental reserve to $9,800. The Company carried over the aggregate reserve to its financial statements upon acquiring Proler and $6,600 remained outstanding on May 31, 1999. Also, Proler's joint ventures recorded additional liabilities of $4,100 for the probable costs to remediate their properties, based upon the consultant's estimates, in 1996 prior to the Company's acquisition of Proler.

Between 1982 and 1987, MRI Corporation (MRI), a wholly owned subsidiary of Proler, operated a tin can shredding and detinning facility in Tampa, Florida. In 1989 and 1992, the EPA conducted preliminary site investigations of this property and, in December 1996, added the site to the "National Priorities List". MRI and Proler, along with several other parties have been named as PRPs for the site by the EPA. Additionally, Proler and this subsidiary have been named or identified as PRPs at several other sites. Proler included the probable costs associated with this site in the aforementioned reserve.

As part of the Proler acquisition, the Company became a fifty-percent owner of Hugo Neu-Proler Company (HNP). HNP has agreed, as part of its 1996 lease renewal with the Port of Los Angeles, to be responsible for a multi-year, phased remedial clean-up project involving certain environmental conditions on its scrap processing facility at its Terminal Island site in Los Angeles, California, to be completed by the year 2001. Remediation will include limited excavation and treatment of contaminated soils, paving, installation of a stormwater management system, construction of a noise barrier and perimeter wall around the facility, and groundwater monitoring. The probable costs to remediate this property are included in the aforementioned reserve.

During the third quarter of fiscal 1999, the Company engaged an independent consultant to review the Company's environmental issues and to perform a periodic assessment of its remaining potential liabilities. Based upon additional remediation investigation, certain previously established reserves were eliminated. As a result, cost of goods sold for the quarter ended May 31, 1999 was lowered by the $1,900 reversal of these reserves.

Note 5 - Other Income:

The Company sold its Union City, California mill depot in March 1999, recognizing a gain of $1,200. Additionally, the Company received a $1,000 settlement as a result of antitrust litigation related to graphite electrodes pricing which was recognized in May 1999. Both of these items are included in other income in the accompanying consolidated statement of operations.

Note 6 - Disposal of Lathrop, California Facility:

In May 1998, the Company disposed of a tin scrap processing facility in Lathrop, California. The facility was acquired as part of the acquisition of Proler International Corp. The sale resulted in a gain of $1,100, of which $800 was recorded as a reduction in cost of goods sold and $300 as a gain on sale of assets for the three months ended May 31, 1998.

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

General

The Company operates in two business segments. Scrap Operations collects, processes and recycles steel scrap through facilities in Oregon, Washington, Alaska, California, and Nevada. Additionally, the Company participates, through joint ventures, in the management of 29 scrap collection and processing facilities, including export terminals in Los Angeles, California; Everett, Massachusetts; Portland, Maine; Providence, Rhode Island and Jersey City, New Jersey. Steel Operations operates a mini-mill in Oregon which produces steel reinforcing bar, merchant bar, and coiled rebar and wire rod. A mill depot is maintained in California.

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 Nine Months Ended	
	May 31, 1999	May 31, 1998	May 31, 1999	May 31, 1998
	(unaudited)			
REVENUES:				
Scrap Operations:				
Ferrous sales	$ 22,496	$ 40,497	$ 69,402	$ 143,361
Nonferrous sales	7,259	7,998	18,496	20,005
Other sales	2,133	3,672	7,137	12,267
Total sales	31,888	52,167	95,035	175,633
Ferrous sales to Steel Operations	(11,830)	(16,430)	(33,532)	(44,546)
Steel Operations	46,581	45,181	124,023	137,129
Total	$ 66,639	$ 80,918	$ 185,526	$ 268,216
INCOME (LOSS) FROM OPERATIONS:				
Scrap Operations	$ 2,118	$ 2,746	$ (590)	$ 13,646
Steel Operations	1,163	3,137	3,607	5,775
Joint ventures	893	1,417	(1,401)	8,380
Corporate expense & eliminations	(1,680)	(1,781)	(5,314)	(4,922)
Total	$ 2,494	$ 5,519	$ (3,698)	$ 22,879
NET INCOME (LOSS)	$ 1,855	$ 2,569	$ (3,657)	$ 12,635

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued):

	For the Three Months Ended		For the Nine Months Ended	
	May 31, 1999	May 31, 1998	May 31, 1999	May 31, 1998
	(unaudited)			
SHIPMENTS:				
SCRAP OPERATIONS				
Ferrous scrap (long tons):				
To Steel Operations	148	148	408	379
To unaffiliated customers	132	200	437	746
Total	280	348	845	1,125
Export tons	84	117	292	547
STEEL OPERATIONS				
Finished steel products (short tons)	159	131	400	392

Revenues. Consolidated revenues for the three months ended May 31, 1999 decreased $14.3 million (18%) in comparison with the same quarter last year. For the nine months ended May 31, 1999, consolidated revenues decreased $82.7 million (31%) compared with the same period last year.

Revenues from Scrap Operations, before intercompany eliminations, declined by $20.3 million to $31.9 million for the quarter ended May 31, 1999 compared with the same period last year, reflecting both lower average selling prices and lower volumes. Ferrous scrap revenue decreased $18.0 million (44%) to $22.5 million. The average selling price of ferrous scrap dropped by $36 per ton to $80. Ferrous scrap shipments were 68,000 tons (20%) lower. For the nine months ended May 31, 1999, ferrous scrap revenue decline $74.0 million (52%) to $69.4 million compared with the same period last year. For this period, the average selling price of ferrous scrap declined by $45 per ton to $82 and shipments of ferrous scrap were 280,000 tons (25%) lower compared with the same period last year. The impact of the Asian financial crisis on worldwide scrap markets is predominantly responsible for these declines. Additionally, the reconstruction of the Company's Tacoma dock facilities also contributed to lower shipments, primarily during the second quarter of fiscal 1999. During the construction project, which began in November 1998, this facility was only able to ship to the domestic market, thereby further reducing the Company's aggregate export shipments. The dock reconstruction program was completed and the facility resumed its normal export shipment activity in March 1999.

Steel Operations' revenues for the three months ended May 31, 1999 of $46.6 million represented an improvement of $1.4 million (3%) over the same quarter last year. Although the average selling price for finished steel products declined by $52 per ton to $293, volume increased by 21% to 159,000 tons. For the nine months ended May 31, 1999, revenues declined $13.1 million (10%) to $124.0 million compared with the same period last year while volume remained relatively unchanged. For this period, the lower revenue level was driven by lower average selling prices. The average selling price, excluding billets, declined by $30 per ton to $310. Lower finished steel selling prices are primarily a result of competing finished steel being dumped on the West Coast by Asian and other countries. A change in product mix to lower priced products for both the three and nine months ended May 31, 1999 also contributed to the decrease in average selling prices for these periods.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued):

Cost of Goods Sold. Consolidated cost of goods sold declined $12.0 million (17%) during the third quarter of fiscal 1999 compared with the same quarter in fiscal 1998. Netted against cost of goods sold and operating expenses for the quarter ended May 31, 1999 is a $1.9 million reversal of a previously established environmental reserve. Cost of goods sold as a percentage of revenues remained unchanged at 88%. Gross profit for the quarter of $7.7 million was $2.3 million lower than for the same quarter last year resulting from lower margins for both Scrap and Steel Operations. For the nine months ended May 31, 1999, consolidated cost of goods sold declined by $66.2 million (28%). Cost of goods sold as a percentage of revenue rose to 92% from 88% during the same period last year. Gross profit year-to-date of $15.3 million represented a decline of $16.5 million from the same period last year and is predominantly attributable to lower margins generated by Scrap Operations.

For the three months ended May 31, 1999, Scrap Operations' cost of goods sold decreased $20.0 million and as a percentage of revenue improved from 88% to 82%. Scrap Operations' gross profit declined $.3 million to $5.8 million. For the nine months ended May 31, 1999, cost of goods sold for Scrap Operations decreased by $66.2 million and as a percentage of revenue increased from 87% to 90%. Gross profit for this period declined by $14.4 million to $9.4 million. The lower gross profit for both the three and nine months ended May 31, 1999 is attributable to lower selling prices and reduced volumes.

As mentioned above, cost of goods sold for the third quarter of fiscal 1999 was lowered by a $1.9 million reversal of environmental reserves. An independent consultant was engaged to review the Company's environmental issues and to perform a periodic assesment of its remaining potential liabilities. Based upon additional remediation investigation, certain previously established reserves were eliminated. As part of its acquisition of Proler International Corp in November 1996, the Company acquired a tin scrap processing facility in Lathrop, California that was sold in May 1998. The Company had recorded an environmental reserve for the property when it was acquired. The remaining reserve was reversed upon sale of the facility. The sale resulted in a gain of $1.1 million, of which $.8 million is recorded as a reduction of cost of goods sold and $.3 million as gain on sale of assets for the three months ended May 31, 1998.

Steel Operations' cost of goods sold for the third quarter of fiscal 1999 was $3.5 million higher than for the same quarter last year. As a percentage of revenue, cost of goods sold increased from 91% to 96%. Cost of goods sold per ton, excluding billets, declined from $308 to $277, primarily due to lower scrap prices. Gross profit declined by $2.1 million to $2.0 million, predominantly due to lower average selling prices, partially offset by lower operating costs. For the nine months ended May 31, 1999, cost of goods sold declined $11.0 million and, as a percentage of revenue, increased from 94% to 95%. Cost of goods sold per ton, excluding billets, decreased from $314 to $290, again, predominantly due to lower scrap prices. Although operating costs per ton declined, the reduction in average selling prices more than offset them, resulting in gross profit of $6.1 million which was $2.1 million lower than for the same period last year.

Income (Loss) from Joint Ventures. The Company's joint ventures generated revenues of $97.4 million and the Company's share of their income was $.9 million for the quarter ended May 31, 1999. This compares with revenues of $79.0 million and income contributed of $1.4 million for the same period last year. The Joint Ventures in the Scrap Processing Business shipped 730,000 tons this

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued):

quarter compared with 601,000 tons for the same quarter last year. For the nine months ended May 31, 1999, the joint ventures generated revenues of $278.1 million, with the Company's share of losses being $1.4 million. For the same period last year, the joint ventures' revenues aggregated $281.5 million and the Company's share of income was $8.4 million. The Joint Ventures in the Scrap Processing Business shipped 2.1 million tons and 1.8 million tons for the nine months ended May 31, 1999 and 1998, respectively. The increase in shipments was partially due to expanded joint venture interests. A reduction in margins caused by the Asian financial crisis contributed to lower earnings for the Joint Ventures in the Scrap Processing Business. The Joint Venture Suppliers of Scrap contributed $.7 million for the quarter ended May 31, 1999, compared with $1.0 million for the same quarter last year. For the nine months ended May 31, 1999, the Company's share of income from its Joint Venture Suppliers of Scrap was $1.5 million compared with $2.6 million last year during the same period. Severe weather conditions in California, primarily during the second quarter of fiscal 1999, contributed to lower earnings for the Joint Venture Suppliers of Scrap during the nine months ended May 31, 1999.

During the three months ended May 31, 1999, the Joint Ventures in the Scrap Processing Business received refunds of harbor maintenance fees paid in prior years, which were subsequently determined to be illegally charged by the U.S. government. The Company's share of such refunds aggregated $.7 million and is included in income from joint ventures for that period.

Interest Expense. Interest expense for the three months ended May 31, 1999 decreased $.1 million to $1.8 million due to lower average borrowings and lower interest rates. For the nine months ended May 31, 1999, interest expense increased by $.9 million to $5.4 million. The increase was due to increased average borrowings for the year to date, partially offset by lower average interest rates.

Year 2000. The following discussion is provided in response to the Securities and Exchange Commission's Interpretation of Disclosure of Year 2000 Issues and Consequences by Public Companies, Investment Advisors, Investment Companies, and Municipal Securities Issuers.

In response to Year 2000 compliance issues, the Company has developed a systematic approach that consists of the following three phases: (1) identification and assessment of potential Year 2000 issues, (2) modification or replacement of equipment and software, (3) final testing to ensure that all systems are Year 2000 compliant after modifications are installed.

The Company has divided its Year 2000 issues into the following categories: (a) physical hardware and related operating systems at the Corporate Data Processing Facility, (b) business and financial reporting systems at all locations, (c) personal computers and peripheral equipment at all locations, (d) facility and support systems (including communication devices and safety systems) at all locations, (e) manufacturing systems at Cascade Steel Rolling Mills, (f) business systems for Pick-N-Pull, the Company's self-service auto dismantling joint venture.

The Company has completed the identification and assessment phase.

The Company has completed the modification of equipment at the Corporate Data Processing Facility, the business and financial reporting systems at all locations, personal computers at all locations, and the remainder of Phase 2 activities, except for Steel Operations and Pick-N-Pull, which are expected to

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued):

be complete no later than November 30, 1999.

The Company expects to complete Phase 3 activities by no later than August 31, 1999, except for Steel Operations and Pick-N-Pull, which are expected to be complete no later than November 30, 1999.

Management estimates that the costs for correction of the Year 2000 issues, including any software and hardware upgrades (but excluding replacements that would have occurred even without the Year 2000 issue), and the cost of personnel allocated to this project should not exceed $1,300,000, of which $1,000,000 is expected to be capital expenditures. Approximately $445,000 has been spent to date. The Year 2000 upgrades are being funded through normal operating funds and are expected to account for less than 5% of the Company's Information Technology (IT), maintenance and manufacturing capital budgets. There can be no assurance that the costs and timeframes above will not change as the Company continues its assessments.

The Year 2000 project is a priority project for the Company's IT and Engineering departments. No significant IT or engineering projects are being deferred as a result of the Company's Year 2000 efforts.

The Company is also in the process of assessing the Year 2000 readiness of its "key" vendors using questionnaires and letters. In the event a critical vendor is found to be non-compliant, the Company will develop contingency plans to address the issue.

As the Company is not dependent on any significant customer, and given the nature of the scrap business, no Year 2000 assessment of customers is anticipated.

At the present time, the Company has not expended the resources to develop a contingency plan with respect to year 2000 compliance as the Company believes it will be Year 2000 ready.

Liquidity and Capital Resources. Cash provided by operations for the nine months ended May 31, 1999 was $17.3 million, compared with cash used by operations of $.1 million for the same period last year. The increase in cash flow is primarily attributable to the reduction of inventories and accounts receivable compared to the same period last year.

Capital expenditures for the three months ended May 31, 1999 totaled $2.8 million which was the same as for the same period last year. For the nine months ended May 31, 1999 and 1998, capital expenditures totaled $8.4 million and $7.5 million, respectively. The Company anticipates spending approximately $5.2 million on capital expenditures during the remainder of fiscal 1999.

As a result of certain acquisitions, the Company carries environmental reserves totaling $24.9 million. The Company expects to require significant future cash outlays as it incurs the actual costs related to the remediation of such environmental liabilities.

As of May 31, 1999, the Company had an unsecured revolving line of credit totaling $200 million maturing in 2003. The Company had additional unsecured lines of credit available of $85 million, of which $65 million was committed. In the aggregate, the Company had borrowings outstanding under these lines totaling $117.4 million at May 31, 1999.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued):

Pursuant to a stock repurchase program announced by the Company in May 1994 and amended in April 1998, the Company is authorized to repurchase up to 1.6 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. As of May 31, 1999, a total of 708,600 shares had been purchased under this program. During the nine months ended May 31, 1999, the Company repurchased 260,300 shares of its stock for a total of $3.2 million.

The Company believes that the current cash balance, internally generated funds, and existing 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.

Forward Looking Statements. Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, all of which are subject to risks and uncertainties. One can generally identify these forward-looking statements through the use of words such as "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. They are likely to address the Company's business strategy, financial projections and results and other global factors affecting the Company's financial prospects. An example of this is the current financial crisis facing certain Asian and other countries. Other factors that could cause actual results to differ materially are the following: supply and demand conditions; the Company's ability to mitigate the effects of the Asian situation and foreign fiscal policies on its profitability; competitive factors and pricing pressures from national steel companies; imports of foreign steel; availability of scrap supply; fluctuations in scrap prices and seasonality of results. 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 6 - EXHIBITS AND REPORTS ON FORM 8-K:

(a) Exhibits

None

(b) Reports on Form 8-K

None

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: July 15, 1999

By: /s/ BARRY A. ROSEN

Barry A. Rosen
Vice President, Finance

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEET AND THE CONSOLIDATED STATEMENT OF OPERATIONS FILED AS PART OF THE QUARTERLY REPORT ON FORM 10-Q AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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9-MOS
AUG-31-1999
SEP-01-1998
MAY-31-1999
2,468
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22,323
638
94,267
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(3,657)
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(0.37)