STEPAN CO
Form 10-K/A
March 22, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

Amendment No. 1

(MARK ONE)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

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 1-4462

STEPAN COMPANY

(Exact name of registrant as specified in its charter)

Delaware	36-1823834
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

Edens and Winnetka Road, Northfield, Illinois **60093**
(Address of principal executive offices) **(Zip Code)**
Registrant s telephone number including area code: 847-446-7500

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $1 par value	**New York Stock Exchange**
	Chicago Stock Exchange
5 1/2% Convertible Preferred Stock, no par value	**New York Stock Exchange**
	Chicago Stock Exchange

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act Yes ¨ No x

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes ¨ No x

Aggregate market value at June 30, 2006, of voting stock held by nonaffiliates of the registrant: $204,204,002*

Number of shares outstanding of each of the issuer s classes of common stock as of February 28, 2007:

Class	Outstanding at February 28, 2007
Common Stock, $1 par value	9,238,521

Documents Incorporated by Reference

Part of Form 10-K	**Document Incorporated**
Part III, Items 10-14	Proxy Statement dated March 22, 2007

* Based on reported ownership by all directors, officers and beneficial owners of more than 5% of registrant s voting stock. However, this determination does not constitute an admission of affiliate status for any of these holders.

EXPLANATORY NOTE

Stepan Company (the Company) is filing this Amendment No. 1 on Form 10-K/A to correct for a typographical error in the Per Diluted Share amount in the 2006 first quarter column of the Selected Quarterly Financial Data table included in Item 8 of the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2006, as filed with the U.S. Securities and Exchange Commission on March 8, 2007 (the Original Filing). The $0.37 Per Diluted Share amount on page 88 of the Original Filing has been replaced with $0.31 Per Diluted Share. This change is reflected on page 46 of this Form 10-K/A. No other information in the Original Filing is amended hereby. This Form 10/K-A continues to describe conditions as of the date of the Original Filing, and accordingly, the Company has not updated the disclosures contained herein to reflect events that occurred at a later date.

As required by Rule 12b-15 promulgated under the Securities Exchange Act of 1934, as amended, the Company s principal executive officer and principal financial officer are providing Rule 13a-14(a) certifications in connection with this Form 10-K/A (but otherwise identical to their prior certifications) and are also furnishing, but not filing, Rule 13a-14(b) certifications in connection with this Form 10-K/A (but otherwise identical to their prior certifications).

Item 8. Financial Statements and Supplementary Data
The following statements and data are included in this item:

Report of Independent Registered Public Accounting Firm

Consolidated Statements of Income (For years ended December 31, 2006, 2005 and 2004)

Consolidated Balance Sheets (December 31, 2006 and 2005)

Consolidated Statements of Cash Flow (For years ended December 31, 2006, 2005 and 2004)

Consolidated Statements of Stockholders Equity (For years ended December 31, 2006, 2005 and 2004)

Notes to Consolidated Financial Statements

Selected Quarterly Financial Data

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

Stepan Company

Northfield, Illinois

We have audited the accompanying consolidated balance sheets of Stepan Company and subsidiaries (the "Company") as of December 31, 2006 and 2005, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Stepan Company and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 2, 2007, expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP
DELOITTE & TOUCHE LLP

Chicago, Illinois
March 2, 2007

Stepan Company

Consolidated Statements of Income

For the years ended December 31, 2006, 2005 and 2004

(In thousands, except per share amounts)	***2006***	***2005***	***2004***
Net Sales (Note 1)	**$ 1,172,583**	$ 1,078,377	$ 935,816
Cost of Sales	**1,046,797**	955,515	824,849
Gross Profit	**125,786**	122,862	110,967
Operating Expenses:			
Marketing	**34,452**	32,467	29,615
Administrative	**45,844**	35,339	36,204
Research, development and technical services (Note 1)	**29,637**	29,588	25,969
	109,933	97,394	91,788
Operating Income	**15,853**	25,468	19,179
Other Income (Expense):			
Interest, net (Note 5)	**(8,885)**	(7,801)	(7,237)
Income (Loss) from equity in joint venture (Note 1)	**(812)**	(729)	2,320
Other, net	**1,233**	708	371
	(8,464)	(7,822)	(4,546)
Income Before Provision for Income Taxes and Minority Interest	**7,389**	17,646	14,633
Provision for income taxes (Note 7)	**900**	4,170	4,320
Minority interest (Note 1)	**(181)**	(53)	(11)
Income Before Cumulative Effect of Change in Accounting Principle	**6,670**	13,529	10,324
Cumulative effect of change in accounting principle, net of income taxes (Note 2)		(370)	
Net Income	**$ 6,670**	$ 13,159	$ 10,324
Basic earnings per share of common stock (Note 16)			
Income before cumulative effect of change in accounting principle	**$ 0.64**	$ 1.41	$ 1.06
Cumulative effect of change in accounting principle	**$**	$ (0.04)	$
Net Income Per Common Share	**$ 0.64**	$ 1.37	$ 1.06
Diluted earnings per share of common stock (Note 16)			
Income before cumulative effect of change in accounting principle	**$ 0.63**	$ 1.39	$ 1.05
Cumulative effect of change in accounting principle	$	$ (0.04)	$
Net Income Per Common Share	**$ 0.63**	$ 1.35	$ 1.05
Shares Used to Compute Net Income Per Common Share (Note 16):			
Basic	**9,133**	9,005	8,970
Diluted	**9,284**	9,725	9,038

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

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Stepan Company

Consolidated Balance Sheets

December 31, 2006 and 2005

(Dollars in thousands)	*2006*	*2005*
Assets		
Current Assets:		
Cash and cash equivalents	**$ 5,369**	$ 16,641
Receivables, less allowances of $3,540 in 2006 and $3,119 in 2005	**160,525**	149,922
Inventories (Note 4)	**82,837**	76,399
Deferred income taxes (Note 7)	**10,362**	8,239
Other current assets	**9,376**	8,047
Total current assets	**268,469**	259,248
Property, Plant and Equipment:		
Land	**10,792**	10,125
Buildings and improvements	**101,230**	94,188
Machinery and equipment	**722,616**	685,832
Construction in progress	**25,072**	16,214
	859,710	806,359
Less: accumulated depreciation	**634,106**	595,240
Property, plant and equipment, net	**225,604**	211,119
Goodwill, net (Note 3)	**7,841**	7,414
Other intangible assets, net (Note 3)	**7,360**	8,775
Other non-current assets	**36,781**	29,603
Total assets	**$ 546,055**	$ 516,159
Liabilities and Stockholders Equity		
Current Liabilities:		
Current maturities of long-term debt (Note 5)	**$ 23,761**	$ 16,777
Accounts payable	**108,084**	102,264
Accrued liabilities (Note 12)	**48,650**	43,863
Total current liabilities	**180,495**	162,904
Deferred income taxes (Note 7)	**2,046**	2,210
Long-term debt, less current maturities (Note 5)	**107,403**	108,945
Other non-current liabilities (Note 13)	**74,574**	74,361
Commitments and Contingencies (Notes 6 and 14)		
Minority Interest (Note 1)	**751**	905
Stockholders Equity (Note 8):		
5 $^{1}/2$ percent convertible preferred stock, cumulative, voting, without par value; authorized 2,000,000 shares; issued and outstanding 572,854 shares in 2006 and 575,254 shares in 2005	**14,321**	14,381
	10,343	10,143

Common stock, $1 par value; authorized 30,000,000 shares; issued 10,342,762 shares in 2006 and 10,142,853 shares in 2005		
Additional paid-in capital	**33,553**	26,812
Accumulated other comprehensive loss (Note 1)	**(14,292)**	(23,867)
Retained earnings (approximately $32,219 unrestricted in 2006 and $32,520 in 2005)	**161,184**	162,663
Less: Treasury stock, at cost, 1,134,958 shares in 2006 and 1,102,309 shares in 2005	**(24,323)**	(23,298)
Stockholders equity	**180,786**	166,834
Total liabilities and stockholders equity	**$ 546,055**	$ 516,159

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

Stepan Company

Consolidated Statements of Cash Flows

For the years ended December 31, 2006, 2005 and 2004

(Dollars in thousands)	*2006*	*2005*	*2004*
Cash Flows From Operating Activities			
Net income	**$ 6,670**	$ 13,159	$ 10,324
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effect of accounting change		370	
Depreciation and amortization	**38,384**	38,769	39,169
Deferred compensation	**3,672**	2,094	693
Deferred income taxes	**(10,143)**	(5,406)	(4,310)
Other non-cash items	**802**	(93)	(1,420)
Changes in assets and liabilities:			
Receivables, net	**(8,000)**	(19,145)	(15,949)
Inventories	**(4,613)**	(1,516)	(4,009)
Other current assets	**(1,091)**	1,438	(1,019)
Accounts payable and accrued liabilities	**7,759**	8,884	20,677
Pension liabilities	**(2,554)**	4,057	698
Environmental and legal liabilities	**3,610**	(607)	(1,398)
Deferred revenues	**5,017**	38	503
Excess tax benefit from stock options	**(685)**		
Net Cash Provided By Operating Activities	**38,828**	42,042	43,959
Cash Flows From Investing Activities			
Expenditures for property, plant and equipment	**(45,970)**	(41,519)	(33,766)
Dividend from Philippine joint venture, net of tax withholdings			1,700
Formation of China joint venture			945
Other, net	**(2,524)**	13	2,939
Net Cash Used In Investing Activities	**(48,494)**	(41,506)	(28,182)
Cash Flows From Financing Activities			
Revolving debt and notes payable to banks, net	**12,934**	(11,399)	(481)
Other debt borrowings	**2,271**	43,154	17,680
Other debt repayments	**(12,474)**	(14,230)	(23,908)
Purchases of treasury stock, net			(30)
Dividends paid	**(8,149)**	(7,869)	(7,731)
Stock option exercises	**3,297**	534	718
Excess tax benefit from stock options	**685**		
Other, net	**(315)**	(408)	(335)
Net Cash Provided By (Used In) Financing Activities	**(1,751)**	9,782	(14,087)
Effect of Exchange Rate Changes on Cash	**145**	62	336
Net Increase (Decrease) in Cash and Cash Equivalents	**(11,272)**	10,380	2,026
Cash and Cash Equivalents at Beginning of Year	**16,641**	6,261	4,235
Cash and Cash Equivalents at End of Year	**$ 5,369**	$ 16,641	$ 6,261

Supplemental Cash Flow Information			
Cash payments of income taxes, net of refunds	**$ 7,037**	$ 10,639	$ 8,359
Cash payments of interest	**$ 9,004**	$ 7,670	$ 7,673

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

Stepan Company

Consolidated Statements of Stockholders Equity

For the years ended December 31, 2006, 2005 and 2004

(Dollars in thousands)	*Convertible Preferred Stock*	*Common Stock*	*Additional Paid-in Capital*	*Treasury Stock*	*Accumulated Other Comprehensive Loss*	*Retained Earnings*	*Comprehensive Income*
Balance January 1, 2004	$ 14,552	$ 9,900	$ 22,277	$ (19,882)	$ (19,560)	$ 154,780	
Sale of 131,605 shares of common stock under stock option plan		131	1,949				
Purchase of 72,774 shares of common stock, net of sales				(1,729)			
Conversion of preferred stock to common stock	(15)	1	14				
Net income						10,324	$ 10,324
Other comprehensive income/(loss):							
Foreign currency translation adjustments					4,974		4,974
Unrealized gain on securities (net of income taxes of $161)					242		242
Minimum pension liability adjustment (net of income taxes of $1,515)					(2,195)		(2,195)
Comprehensive income							$ 13,345
Cash dividends paid:							
Preferred stock ($1.375 per share)						(800)	
Common stock (77.25¢ per share)						(6,931)	
Non-qualified stock option income tax benefit			209				
Balance, December 31, 2004	14,537	10,032	24,449	(21,611)	(16,539)	157,373	
Sale of 103,194 shares of common stock under stock option plan		103	1,937				
Purchase of 62,864 shares of common stock, net of sales				(1,687)			
Conversion of preferred stock to common stock	(156)	8	148				
Net income						13,159	$ 13,159
Other comprehensive income/(loss):							
Foreign currency translation adjustments					(4,024)		(4,024)
Unrealized gain on securities (net of income taxes of $38)					60		60
Minimum pension liability adjustment (net of income taxes of $1,920)					(3,364)		(3,364)
Comprehensive income							$ 5,831
Cash dividends paid:							
Preferred stock ($1.375 per share)						(796)	
Common stock (78.50¢ per share)						(7,073)	
Non-qualified stock option income tax benefit			278				
Balance, December 31, 2005	14,381	10,143	26,812	(23,298)	(23,867)	162,663	
Sale of 197,171 shares of common stock under stock option plan		197	3,973				
Purchase of 33,220 shares of common stock, net of sales				(1,037)			

Conversion of preferred stock to common stock	(60)	3	57				
Equity based compensation			420				
Deferred compensation			1,606	12			
Net income						6,670	$ 6,670
Other comprehensive income:							
Foreign currency translation adjustments					5,805		5,805
Unrealized gain on securities (net of income taxes of $78)					124		124
Minimum pension liability adjustment (net of income taxes of $3,035)					4,199		4,199
Comprehensive income							$ 16,798
Defined benefit pension liability transition adjustment (net of income taxes of $351)					(553)		
Cash dividends paid:							
Preferred stock ($1.375 per share)						(789)	
Common stock (80.50¢ per share)						(7,360)	
Non-qualified stock option income tax benefit			685				
Balance, December 31, 2006	$ 14,321	$ 10,343	$ 33,553	$ (24,323)	$ (14,292)	$ 161,184	

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements

Notes to Consolidated Financial Statements

For the years ended December 31, 2006, 2005 and 2004

1. Summary of Significant Accounting Policies

Nature of Operations

Stepan Company (the Company) operations consist predominantly of the production and sale of specialty and intermediate chemicals, which are sold to other manufacturers for use in a variety of end products. Principal markets for all products are manufacturers of cleaning and washing compounds (including detergents, shampoos, fabric softeners, toothpastes and household cleaners), paints, cosmetics, food and beverages, agricultural products, plastics, furniture, automotive equipment, insulation and refrigeration.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. The Company consolidates all wholly and majority-owned subsidiaries in which the Company exercises controlling influence. The equity method is used to account for investments in which the Company exercises significant but non-controlling influence. See Joint Ventures below. All significant intercompany balances and transactions have been eliminated in consolidation.

Joint Ventures

The Company is a partner in two joint ventures: Nanjing Stepan Jinling Chemical Limited Liability Company (Stepan China) in Nanjing, China, and Stepan Philippines Inc. in Bauan, Batangas, Philippines. Stepan China was formed to manufacture the Company s aromatic polyester polyols for China s domestic market. The Company and its partner own 55 percent and 45 percent, respectively, of the joint venture. The Company includes Stepan China s accounts in its consolidated financial statements, and the joint venture partner s interests in Stepan China s income and net assets are reported in the Minority Interest lines of the Consolidated Statements of Income and the Consolidated Balance Sheets, respectively. In 2004, Stepan China s financial statements were included in the Company s consolidated financial statements on a three-month lag basis. The reporting lag was reduced to one month in the third quarter of 2005 and was eliminated as of December 31, 2005. The impact of the additional months of activity on the Company s 2005 quarterly and annual consolidated financial statements was not significant.

Stepan Philippines Inc. owns and operates a manufacturing facility, which produces surfactants that are sold in the Philippines and Southeast Asia. The Company and its partner each hold a 50 percent interest in the joint venture. The Company s investment in Stepan Philippines Inc. is accounted for under the equity method and is included in the Other non-current assets caption on the Consolidated Balance Sheets. The Company s share of Stepan Philippines Inc. s net earnings is included in the Income from Equity in Joint Venture line of the Consolidated Statements of Income.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less from the date of purchase to be cash equivalents.

Concentration of Credit Risks

The Company grants credit to its customers who are widely distributed across the Americas, Europe and Asia. The Company does not have any one customer whose business represents more than 10 percent of the Company s consolidated revenue. There is no material concentration of credit risk.

Inventories

Inventories are valued at cost, which is not in excess of market value, and include material, labor and plant overhead costs. The last-in, first-out (LIFO) method is used to determine the cost of the Company s domestic inventories. The first-in, first-out (FIFO) method is used for all other inventories. Inventories priced at LIFO as of December 31, 2006 and 2005, amounted to 77 and 78 percent of total inventories, respectively.

Property, Plant and Equipment

Depreciation of physical properties is provided on a straight-line basis over the estimated useful lives of various assets. Lives used for calculating depreciation are generally 30 years for buildings and 15 years for building improvements. For assets classified as machinery and equipment, lives generally used for calculating depreciation expense are from ten to 15 years for manufacturing equipment, from five to ten years for furniture and fixtures, from three to five years for vehicles and from three to ten years for computer equipment and software. Manufacturing of chemicals is capital intensive with over 90 percent of the assets included in machinery and equipment representing manufacturing equipment. Major renewals and betterments are capitalized in the property accounts, while maintenance and repairs ($27,940,000, $28,114,000, and $24,444,000 in 2006, 2005 and 2004, respectively), which do not renew or extend the life of the respective assets, are charged to operations currently. The cost of property retired or sold and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income.

Included in the computer equipment and software component of machinery and equipment within property, plant and equipment are costs related to the acquisition and

development of internal-use software. Capitalized costs include external direct costs of materials and services consumed in obtaining and developing the software. For development projects where major internal resources are committed, payroll and payroll-related costs incurred during the application development phase of the project are also capitalized. The capitalized costs are amortized over the useful lives of the software, which are generally three to ten years. Costs incurred in the preliminary project phase are expensed.

Interest charges on borrowings applicable to major construction projects are capitalized.

Operating assets are written down to fair value whenever an impairment review indicates that the carrying value cannot be recovered on an undiscounted cash flow basis.

Revenue Recognition

Revenue is recognized upon shipment of goods to customers, at which time title and risk of loss pass to the customer. For arrangements where the Company consigns product to a customer location, revenue is recognized when the customer uses the inventory. The Company records shipping and handling billed to a customer in a sales transaction as revenue. Costs incurred for shipping and handling are recorded in cost of sales. Volume discounts due to customers are estimated and recorded in the same period as the sales to which the discounts relate and reported as reductions of revenue in the Consolidated Statements of Income.

Cost of sales comprises raw material costs, including inbound freight expense to deliver the raw materials, manufacturing plant labor expenses and various manufacturing overhead expenses, which include utility, maintenance, operating supply, amortization and manufacturing asset depreciation expenses. Cost of sales also includes outbound freight expenses, purchasing and receiving costs, quality assurance expenses, inter-plant transfer costs and warehouse expenses.

Marketing expense comprises salary and the related fringe benefit expenses for marketing and sales personnel and operating costs, such as outside agent commissions, automobile rental and travel-related expenses, which support the sales and marketing functions. Bad debt charges and any depreciation expenses related to marketing assets (e.g. computers) are also classified as marketing expense.

Administrative expense comprises salary and the related fringe benefit expenses and operating costs for the Company s various administrative functions, which include information services, finance, legal, and human resources. Compensation expense related to the Company s deferred compensation plans and legal and environmental remediation expenses are also classified as administrative expense.

Environmental Expenditures

Environmental expenditures that relate to current operations are expensed in cost of sales or capitalized as appropriate. Expenditures that mitigate or prevent environmental contamination and that benefit future operations are capitalized. Capitalized expenditures are depreciated generally utilizing a 10 year life. Expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are probable and the cost or range of possible costs can be reasonably estimated. When no amount within the

range is a better estimate than any other amount, the minimum is accrued. Some of the factors on which the Company bases its estimates include information provided by feasibility studies, potentially responsible party negotiations and the development of remedial action plans. Because reported liabilities are recorded based on estimates, actual amounts could differ from those estimates. Legal costs related to environmental matters are expensed as incurred. See Note 14.

Goodwill and Other Intangible Assets

Intangible assets include patents, agreements not to compete, trademarks, customer lists and goodwill, all of which were acquired as part of business acquisitions. The Company separately identifies intangible assets other than goodwill and amortizes them in accordance with their useful lives, generally ranging from five to 15 years. Goodwill is not amortized. Goodwill is subject to annual tests for impairment. Intangible assets are tested for impairment when events indicate that an impairment may have occurred. At December 31, 2006, there was no impairment of goodwill or other intangible assets. For more details see Note 3.

Research and Development Costs

The Company s research and development costs are expensed as incurred. These expenses are aimed at discovery and commercialization of new knowledge with the intent that such effort will be useful in developing a new product or in bringing about a significant improvement to an existing product or process. Total expenses were $18,850,000, $18,292,000 and $16,005,000 in 2006, 2005 and 2004, respectively. The balance of expenses reflected on the Consolidated Statements of Income relates to technical services, which include routine product testing, quality control and sales support service.

Income Taxes

The provision for income taxes includes federal, foreign, state and local income taxes currently payable and those deferred because of temporary differences between the financial statement and tax bases of assets and liabilities. Deferred tax assets or liabilities are computed based on the difference between the financial statement and income tax bases of assets and liabilities using enacted marginal tax rates. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. Deferred income tax expenses or credits are based on the changes in the asset or liability from period to period. See Note 7.

Translation of Foreign Currencies

Assets and liabilities of consolidated foreign subsidiaries are translated into U.S. dollars at exchange rates in effect at year end. The resulting translation adjustments are included in stockholders equity. Revenues and expenses for the consolidated foreign subsidiaries and equity income or losses for the Company s unconsolidated Philippines joint venture are translated at average exchange rates prevailing during the year. Gains or losses on foreign currency transactions are reflected in the Other, net caption of the Consolidated Statements of Income. The foreign exchange gains and losses recognized by year were $64,000 gain in 2006, $76,000 gain in 2005 and $103,000 loss in 2004.

Stock-Based Compensation

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment*, which replaced SFAS No. 123, *Accounting for Stock-Based Compensation*, and superseded Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*. The accounting standard applies to new awards and to awards modified, repurchased or cancelled after the adoption date and to the unvested portion of awards outstanding as of the adoption date. SFAS No. 123(R) requires the fair value of all share-based payment transactions to be recognized in the financial statements. Prior to January 1, 2006, the Company used the intrinsic value method of APB Opinion No. 25, which resulted in the recognition of no stock-based compensation expense. The Company elected to adopt the new accounting standard using the modified prospective application method. Because prior period financial statements are not restated, financial results are not comparable as reported. The following table reconciles the actual net income and earnings per share results for the years ended December 31, 2005 and 2004, to pro forma results for the same periods, as if the Company had applied the fair value recognition provisions of SFAS No. 123 for periods prior to January 1, 2006. In December 2004, the Company s Board of Directors approved the immediate acceleration of the vesting periods for most of the stock options that were unvested at that time. As a result, there were very few unvested stock options outstanding throughout 2005, which accounts for the large decline in pro forma compensation expense from 2004 to 2005.

(In thousands, except per share amounts)	**For the Years Ended December 31**	
	2005	**2004**
Net income, as reported	**$ 13,159**	$ 10,324
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	**30**	1,517
Net income, pro forma	**$ 13,129**	$ 8,807
Earnings per share:		
Basic as reported	**$ 1.37**	$ 1.06
Basic pro forma	**$ 1.37**	$ 0.89
Diluted as reported	**$ 1.35**	$ 1.05
Diluted pro forma	**$ 1.35**	$ 0.89

See Note 9 for detailed information about the Company's stock-based compensation.

Earnings Per Share

Basic earnings per share amounts are computed based on the weighted-average number of common shares outstanding. Net income used in computing basic earnings per share has been reduced by dividends paid to preferred stockholders. Diluted earnings per share amounts are based on the increased number of common shares that would be outstanding assuming the exercise of certain outstanding stock options (under the treasury stock method), the conversion of the convertible preferred stock, when such conversion would have the effect of reducing earnings per share, and directors stock awards. See Note 16.

Comprehensive Income

Comprehensive income includes net income and all other non-owner changes in equity that are not reported in net income. For the years ended December 31, 2006, 2005 and 2004, the Company s comprehensive income included net income, foreign currency translation gains and losses, unrealized gains and losses on investment securities and defined benefit pension liability adjustments. Comprehensive income is disclosed in the Consolidated Statements of Stockholders Equity.

Accumulated other comprehensive loss as reported in the Consolidated Balance Sheets at December 31, 2006 and 2005, comprised the following:

(Dollars in thousands)	**December 31**	
	2006	**2005**
Foreign currency translation gains/(losses)	**$ 966**	($ 4,839)
Unrealized gains on securities (net of income taxes of $360 in 2006 and $282 in 2005)	**550**	426
Defined benefit pension liability adjustments (net of income taxes of $9,751 in 2006 and $12,435 in 2005)	**(15,808)**	(19,454)
Total accumulated other comprehensive loss	**($ 14,292)**	($ 23,867)

Segment Reporting

The Company reports financial and descriptive information about its reportable operating segments. Operating segments are components of the Company that have separate financial information that is regularly evaluated by the chief operating decision maker to assess segment performance and allocate resources. The Company discloses segment revenue, operating income, assets, capital expenditures and depreciation and amortization expenses. Enterprise-wide financial information about the revenues derived from the Company s products, the geographic locations in which the Company earns revenues and holds assets is also disclosed. See Note 15.

Derivative Instruments

Derivative instruments are recognized on the balance sheet as either an asset or a liability measured at fair value. Changes in fair value are recognized currently in earnings or in other comprehensive income if specific hedge criteria are met. Special accounting for qualifying hedges allows a derivative instrument s gains and losses to offset related results on the hedged item in the statement of income, to the extent effective. If a transaction is designated to receive hedge accounting, the Company establishes at the inception of the hedge the method it will use for assessing the effectiveness of the hedge and the measurement approach for determining the ineffective aspect of the hedge.

The Company has limited derivative transactions. Company policy prohibits the use of financial instruments for trading or speculative purposes. The Company does, however, enter into forward contracts to minimize exposure related to rising natural gas prices. The Company may contract up to 100 percent of its forecasted natural gas requirements. Because the Company anticipates taking delivery of the gas for use in its manufacturing operations, the forward contracts qualify for the normal purchase exception of SFAS No. 133, as amended. As a result, the contracts are not accounted for as derivative instruments. The cost of the natural gas is charged to expense at the time the gas is delivered and used. To the extent forecasts are adjusted resulting in contracted volume exceeding forecasted volume, which is generally insignificant, the excess contracted volume is accounted for as a derivative instrument and, accordingly, marked to market through earnings at the applicable measurement date. At December 31, 2006, the Company had open forward contracts for the purchase of 0.7 million dekatherms of natural gas in 2007 at a cost of $5,988,000.

The Company s foreign subsidiaries periodically use short-term forward exchange contracts to limit the exposure of certain foreign currency transactions and balances to fluctuating exchange rates. At December 31, 2006, the Company s French subsidiary had one forward contract for the January 2007 purchase of $500,000.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement No. 109, *Accounting for Income Taxes.* The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken, in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties accounting in interim periods, disclosure and transition. The interpretation is effective for fiscal years beginning after December 15, 2006. The Company continues to evaluate the impact of adopting FIN 48. At this point, the Company does not believe that the adoption of FIN 48 will have a material effect on its financial position, cash flows and results of operations.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This statement defines fair value, provides a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The guidance in the new standard is applicable in circumstances where other accounting pronouncements mandate or permit fair value measurements. SFAS No. 157, which is effective for financial

statements issued for fiscal years beginning after November 15, 2007, does not require any new fair value measurements. The Company is in the process of determining the effect that adoption of SFAS No. 157 will have on its financial position, cash flows and results of operations.

In September 2006, the FASB issued SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans*. This statement amends certain requirements set forth in previous pension and postretirement accounting standards. SFAS No. 158 requires that the overfunded or underfunded status of a defined benefit postretirement plan be recognized as an asset or liability in the statement of financial position. Changes in the funded status are to be recognized in comprehensive income. This requirement is effective for fiscal years ending after December 15, 2006. Adoption of SFAS No. 158 did not have an effect on the Company s results of operations or cash flows. Furthermore, the adoption of the new standard did not have a significant effect on the Company s financial position. See Note 11. In addition to the foregoing requirement, SFAS No. 158 mandates, with limited exceptions, that the funded status of a defined benefit postretirement plan be measured as of the date of an entity s year-end statement of financial position. The Company already complies with this requirement.

In September 2006, the SEC released Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.* SAB No. 108 provides guidance regarding the methodology for quantifying and evaluating the materiality of financial statement misstatements. SAB No. 108 is effective for fiscal years ending after November 15, 2006. Application of the guidance in SAB No. 108 did not have a material effect on the Company s financial position, cash flows or results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities.* SFAS No. 159 expands the scope of what entities may carry at fair value by offering an irrevocable option to record many types of financial assets and liabilities at fair value. Changes in fair value would be recorded in an entity s income statement. This accounting standard also establishes presentation and disclosure requirements that are intended to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for the Company on January 1, 2008. Earlier application is permitted under certain circumstances. The Company will begin to assess the impact, if any, that the adoption of SFAS No. 159 will have on its financial position, cash flows and results of operations.

2. Asset Retirement Obligations

The Company adopted FIN 47, *Accounting for Conditional Asset Retirement Obligations*, effective December 31, 2005. As a result, the Company recorded a liability for the eventual, future disposal of asbestos at the Company s various locations. The asset retirement obligation reflects the special handling and disposal of asbestos as set forth by the regulations of the various countries in which the Company operates. The asbestos is primarily used to insulate storage and processing tanks, reactors, boilers and infrastructure assets, such as flooring, walls and ceilings. The impact of adopting FIN 47 was a non-cash after-tax charge of $370,000 against income for 2005. In accordance with the guidance of FIN 47, the charge for the cumulative effect of initially applying the interpretation was reported as a change in accounting principle in the Consolidated

Statements of Income. The effect on 2005 operating income was not material. The asset retirement obligation was $539,000 and $604,000 at December 31, 2006 and 2005, respectively.

Below is a reconciliation of the January 1, 2006, and December 31, 2006, carrying values of the Company s asset retirement obligations:

(In thousands)	
Asset retirement obligation, January 1	$ 604
Liabilities incurred in 2006	
Liabilities settled in 2006	(88)
Accretion expense	23
Asset retirement obligation, December 31	$ 539

3. Goodwill and Other Intangible Assets

The Company s net carrying values of goodwill were $7,841,000 and $7,414,000 as of December 31, 2006 and December 31, 2005, respectively. The entire amount of goodwill relates to the surfactants reportable segment. The change in net carrying value resulted from the effects of currency translation.

The following table reflects the components of all other intangible assets, which all have finite lives, as of December 31, 2006 and 2005. The changes in the intangible assets carrying amounts, except non-compete agreements, were due to the effects of currency translation.

	Gross Carrying Amount		**Accumulated Amortization**	
(In thousands)	**December 31**		**December 31**	
	2006	**2005**	**2006**	**2005**
Other Intangible Assets:				
Patents	**$ 2,000**	$ 2,000	**$ 1,133**	$ 1,000
Trademarks	**5,510**	5,512	**3,279**	2,916
Customer lists	**4,806**	4,660	**4,155**	3,655
Know-how [(a)]	**8,484**	8,457	**4,873**	4,283
Non-compete agreements		2,381		2,381
Total	**$ 20,800**	$ 23,010	**$ 13,440**	$ 14,235

(a) Know-how includes intellectual property rights covering proprietary information, written formulae, trade secrets or secret processes, inventions and developmental products (whether patentable or not), discoveries, improvements, compositions, manufacturing processes, manuals, specifications and technical data.

Aggregate amortization expense for the years ended December 31, 2006 and 2005, was $1,509,000 and $1,696,000, respectively. Estimated amortization expense for identifiable intangibles assets for each of the five succeeding fiscal years is as follows:

(In thousands)	
For year ended 12/31/07	$ 1,243
For year ended 12/31/08	$ 1,139
For year ended 12/31/09	$ 1,116
For year ended 12/31/10	$ 1,111
For year ended 12/31/11	$ 1,111

4. Inventories

The composition of inventories is as follows:

	December 31	
(Dollars in thousands)	**2006**	**2005**
Finished products	**$ 56,128**	$ 48,154
Raw materials	**26,709**	28,245
Total inventories	**$ 82,837**	$ 76,399

If the first-in, first-out (FIFO) inventory valuation method had been used for all inventories, inventory balances would have been approximately $24,555,000 and $21,259,000 higher than reported at December 31, 2006, and December 31, 2005, respectively.

5. Debt

Debt comprises the following:

		December 31	
(Dollars in thousands)	**Maturity Dates**	**2006**	**2005**
Unsecured private placement notes			
5.69%	2012-2018	**$ 40,000**	$ 40,000
6.86%	2009-2015	**30,000**	30,000
6.59%	2007-2012	**16,364**	19,091
7.77%	2007-2008	**5,455**	8,182
Unsecured U.S. bank debt	2011	**9,400**	
Debt of foreign subsidiaries			
Secured bank term loans, foreign Currency	2007-2010	**18,737**	22,315
Other, foreign currency	2007-2015	**11,208**	6,134
Total Debt		**131,164**	125,722
Less current maturities		**23,761**	16,777
Long-term debt		**$ 107,403**	$ 108,945

During 2006, the Company negotiated a new, committed $60,000,000 revolving credit agreement, with a term of five years, and simultaneously cancelled a similar agreement that would have expired in 2007. As of December 31, 2006, the Company had borrowings totaling $9,400,000 on this new loan agreement. During 2006, the Company borrowed under this agreement at varying rates, which averaged 5.91 percent. The revolving credit agreement requires a facility fee on the total commitment that is based on the Company s leverage ratio. Periodically, the company had other borrowings under notes payable to U.S. banks for which there were no outstanding balances at December 31, 2006 or 2005.

The debt of foreign subsidiaries consists mostly of bank term loans to Stepan Europe, Stepan Mexico and to the Company s China joint venture, all in local currencies. The European bank term loans have scheduled maturities through 2010 and bear interest at 90-day EURIBOR plus 1.8 percent. The Mexican bank term loan has scheduled maturities through 2009, and bears interest at 10.35 percent. The China joint venture has bank term loans totaling $2,562,000 that mature through 2008 and short-term loans totaling $1,793,000, both in local currency, with interest averaging 5.79 percent. The Company guarantees its pro rata share (55 percent) of the China joint venture s bank debt. Other foreign currency debt is composed primarily of borrowings under uncommitted lines of credit to the Company s European subsidiaries. Except for the debt of the Company s China joint venture, the foreign debt that is currently outstanding is secured by the assets of the respective entities but is not guaranteed by the U.S. parent.

The various loan agreements contain provisions, which, among others, require maintenance of certain financial ratios and place limitations on additional debt, investments and payment of dividends. The Company is in compliance with its U.S. loan agreements as of December 31, 2006. Unrestricted retained earnings were $32,219,000 and $32,520,000 at December 31, 2006 and 2005, respectively.

Due to European severance costs and changes to French pension accounting standards, the Company s French subsidiary was out of compliance with its loan agreements as of December 31, 2006. The Company obtained a compliance waiver from its French banks.

Debt at December 31, 2006, matures as follows: $23,761,000 in 2007; $12,615,000 in 2008; $10,744,000 in 2009; $7,733,000 in 2010; $16,420,000 in 2011 and $59,891,000 after 2011.

The fair value of the Company s fixed-rate debt at December 31, 2006, including current maturities, was estimated to be $94,162,000 compared to a carrying value of $92,801,000.

Net interest expense for the years ended December 31 was composed of the following:

(Dollars in Thousands)	**2006**	**2005**	**2004**
Interest Expense	**$ 9,063**	$ 8,065	$ 7,567
Interest Income	**(178)**	(115)	(157)
	8,885	7,950	7,410
Capitalized Interest		(149)	(173)
Interest, Net	**$ 8,885**	$ 7,801	$ 7,237

The Company maintains standby letters of credit under its workers compensation insurance agreements and for other purposes as needed from time to time. The insurance letters of credit are renewed annually and amended to the amounts required by the insurance agreements. As of December 31, 2006, the Company had a total of $1,411,000 in outstanding standby letters of credit.

6. Leased Properties

The Company leases certain property and equipment (primarily transportation equipment, buildings and land) under operating leases, which are denominated in local currencies. Total rental expense was $4,545,000, $3,987,000, and $3,936,000 in 2006, 2005 and 2004, respectively.

Consolidated Company minimum future rental payments under operating leases with terms in excess of one year as of December 31, 2006, are:

(Dollars in thousands)	***Year***	***Amount***
	2007	$ 3,117
	2008	2,863
	2009	2,165
	2010	1,950
	2011	1,456
	Subsequent to 2011	7,893
Total minimum future rental payments		$ 19,444

In January 2005, the Company s Brazilian subsidiary entered into an agreement to purchase a subsidiary of a multinational cleaning products company for a minimal purchase price. The purchase contract included a 10-year capital lease agreement under which $463,000 was paid for the first 24 months with gross remaining payments due of $2,136,000. At the end of the lease agreement, all of the relevant assets will be transferred and assigned to the Company. The assets and liabilities under the capital lease were recorded at the present value of the minimum lease payments. The leased assets are recorded under the property, plant and equipment caption of the Condensed Consolidated Balance Sheet. The capital lease liability is recorded under the other non-current liabilities caption of the Condensed Consolidated Balance Sheet. The amortization of the assets held under the capital lease is included in depreciation expense for 2006. Following is a summary of property held under the capital lease:

(Dollars in thousands)	**December 31, 2006**
Machinery and equipment	$ 961
Building	301
Land	99
	1,361
Less: Accumulated depreciation	(217)
Total property, net	$ 1,144

The minimum future lease payments under the capital lease as of December 31, 2006, for each of the next five years and in the aggregate are:

(Dollars in thousands)	*Year*	*Amount*
	2007	$ 267
	2008	267
	2009	267
	2010	267
	2011	267
	Subsequent to 2011	801
Total minimum lease payments		$ 2,136
Less: Amount representing interest		(976)
Capital lease liability at December 31, 2006		$ 1,160

7. Income Taxes

The provisions for taxes on income and the related income before taxes are as follows:

(Dollars in thousands)	*2006*	*2005*	*2004*
Taxes on Income			
Federal			
Current	**$ 4,765**	$ 6,153	$ 5,912
Deferred	**(4,931)**	(4,483)	(2,477)
State			
Current	**1,175**	821	707
Deferred	**(1,325)**	(543)	(558)
Foreign			
Current	**5,789**	2,602	2,011
Deferred	**(4,573)**	(380	1,707

Foreign[2]	16	123	7	130
Total[3]	129	817	1,020	1,837

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(1) We jointly own 36 acres in California at three of our sites with minority interest partners.

(2) All foreign facilities are located in Canada.

(3) For long-lived assets by geography, see Note 18 – Segment Information in the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report.

(4) Non-operating sites are comprised of owned and leased real properties, some of which are sublet to external parties.

We consider all properties, both owned and leased, to be well-maintained, in good operating condition and suitable and adequate to carry on our business.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are involved in various litigation matters that arise in the ordinary course of business involving normal and routine claims, including environmental compliance matters. Except in connection with our status as a potentially responsible party with respect to the Portland Harbor Superfund Site, which is described in Note 9 – Commitments and Contingencies in the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report, we currently believe that the ultimate outcome of these proceedings, individually or in the aggregate, will not have a material adverse effect on our consolidated financial position, results of operations, cash flows or business.

In fiscal 2013, the Commonwealth of Massachusetts advised us of alleged violations of environmental requirements, including but not limited to those related to air emissions and hazardous waste management, at our operations in the Commonwealth. We actively engaged in discussions with the Commonwealth's representatives, which resulted in a settlement agreement to resolve the alleged violations. A consent judgment was jointly filed with and entered by the Superior Court for the County of Suffolk, Commonwealth of Massachusetts on September 24, 2015. The settlement involves a $450,000 cash payment, an additional $450,000 in suspended payments to be waived upon completion of a shredder emission control system and certain other specified milestones, and $350,000 in supplemental environmental projects that we have agreed to undertake.

The Alameda County District Attorney and the California Office of the Attorney General, the latter on behalf of certain state agencies, are jointly investigating alleged violations of environmental requirements, including but not limited to those related to hazardous waste management and water quality, at one of our operations in the State. We are currently engaged in extensive discussions with the governmental representatives concerning the nature, extent and schedule for implementation of various facility upgrades and remedial activities that have been completed or that are underway and are included in our capital expenditure budget and that we believe will resolve the underlying environmental concerns identified by the agencies. We have also continued to dispute certain of the allegations that have been raised and maintain that the operational practices giving rise to those allegations were in compliance with applicable laws. To date, no complaint has been filed by the District Attorney or the State although we anticipate that the settlement of this matter will ultimately involve the simultaneous filing of a complaint and a stipulation (settlement) that involves a commitment to complete agreed-upon actions, payment of a civil penalty, and reimbursement of the agencies' enforcement costs. Completion of a Supplemental Environmental Project may offset some portion of the penalty. The government has not yet presented a penalty demand or disclosed its enforcement costs, but based on similar enforcement proceedings that have recently been concluded in the State and the government's positive response to the facility improvements that have been completed or are underway, we do not believe that the potential penalty or enforcement costs associated with resolution of this enforcement proceeding will be material to our financial position, results of operations, cash flows or liquidity.
The California Office of the Attorney General has also received a formal enforcement referral relating to another facility that we operate in the state. This matter grew out of an agency inspection of the facility and subsequent issuance of a Summary of Violations setting forth a number of alleged violations relating to hazardous waste management requirements. We were notified by the agency that our response to the Summary of Violations was not accepted and that the matter had been referred to the Attorney General, but to date we have received no communication from the Attorney General's Office concerning this matter. Based on the nature of the specific allegations, and the fact that the activities in question were conducted several years ago and are not ongoing, we do not believe the resolution of this threatened enforcement proceeding will be material to our financial position, results of operations, cash flows or liquidity.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

Information about our executive officers is incorporated by reference from Part III, Item 10 of this annual report.

PART II

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

Our Class A common stock is listed on the NASDAQ Global Select Market ("NASDAQ") under the symbol SCHN. There were 198 holders of record of Class A common stock on October 21, 2016. Our Class A common stock has been trading since November 16, 1993. The following table sets forth the high and low trading stock prices reported on NASDAQ and the dividends paid per share for the periods indicated.

	Fiscal 2016		
	High Price	Low Price	Dividends Per Share
First Quarter	$17.81	$ 12.64	$ 0.1875
Second Quarter	$16.93	$ 11.70	$ 0.1875
Third Quarter	$21.57	$ 14.49	$ 0.1875
Fourth Quarter	$20.65	$ 14.83	$ 0.1875

	Fiscal 2015		
	High Price	Low Price	Dividends Per Share
First Quarter	$28.23	$ 21.41	$ 0.1875
Second Quarter	$24.04	$ 15.69	$ 0.1875
Third Quarter	$19.30	$ 15.06	$ 0.1875
Fourth Quarter	$20.65	$ 15.16	$ 0.1875

Our Class B common stock is not publicly traded. There was one holder of record of Class B common stock on October 21, 2016.

Issuer Purchases of Equity Securities

Pursuant to a share repurchase program as amended in 2001 and 2006, we were authorized to repurchase up to 6 million shares of our Class A common stock when management deems such repurchases to be appropriate. In November 2008, our Board of Directors approved an increase in the shares authorized for repurchase by 3 million, to 9 million. As of the beginning of fiscal 2015, we had repurchased approximately 6.9 million shares of our Class A common stock under the program. We repurchased approximately 68 thousand shares for a total of $1 million and 203 thousand shares for a total of $3 million in open-market transactions in fiscal 2015 and 2016, respectively. We did not repurchase any shares in the fourth quarter of fiscal 2016. At August 31, 2016, there were approximately 1.8 million shares available for repurchase under the program.

The share repurchase program does not require us to acquire any specific number of shares, and we may suspend, extend or terminate the program at any time without prior notice and the program may be executed through open-market purchases, privately negotiated transactions or utilizing Rule 10b5-1 programs. We evaluate long- and short-range forecasts as well as anticipated sources and uses of cash before determining the course of action that would best enhance shareholder value.

Securities Authorized for Issuance under Equity Compensation Plans

See Note 14 - Share-Based Compensation in the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report for information regarding securities authorized for issuance under share-based compensation plans.

Performance Graph

The following graph and related information compares cumulative total shareholder return on our Class A common stock for the five-year period from September 1, 2011 through August 31, 2016, with the cumulative total return for the same period of (i) the S&P 500 Index, (ii) the S&P Steel Index and (iii) the NASDAQ Composite Index. These comparisons assume an investment of $100 at the commencement of the period and that all dividends are reinvested. The stock performance outlined in the performance graph below is not necessarily indicative of our future performance, and we do not endorse any predictions as to future stock performance.

	Year Ended August 31,					
	2011	2012	2013	2014	2015	2016
Schnitzer Steel Industries[(1)]	$100	$ 61	$ 58	$ 65	$ 42	$ 48
S&P 500	100	118	140	175	176	198
S&P Steel Index	100	72	73	94	75	87
NASDAQ	100	120	143	184	195	215

(1) Because we operate in two distinct but related businesses, we have no direct market peer issuers.

ITEM 6. SELECTED FINANCIAL DATA

	Year Ended August 31,				
	2016	2015	2014	2013	2012
STATEMENT OF OPERATIONS DATA:					
(in thousands, except per share and dividend data)					
Revenues	$1,352,543	$1,915,399	$2,534,926	$2,616,792	$3,340,938
Operating income (loss)[1]	$(7,842)	$(195,529)	$24,364	$(323,178)	$53,668
Income (loss) from continuing operations	$(16,240)	$(187,849)	$12,400	$(275,781)	$28,917
Loss from discontinued operations, net of tax[2]	$(1,348)	$(7,227)	$(2,809)	$(4,242)	$—
Net income (loss) attributable to SSI	$(19,409)	$(197,009)	$5,924	$(281,442)	$27,404
Income (loss) per share from continuing operations attributable to SSI (diluted)	$(0.66)	$(7.03)	$0.32	$(10.40)	$0.99
Net income (loss) per share attributable to SSI (diluted)	$(0.71)	$(7.29)	$0.22	$(10.56)	$0.99
Dividends declared per common share	$0.750	$0.750	$0.750	$0.750	$0.410
OTHER DATA:					
Shipments (in thousands)[3]:					
Recycled ferrous metal (tons)	3,289	3,708	4,309	4,506	5,324
Recycled nonferrous metal (pounds)	510,283	585,435	614,518	580,353	709,057
Finished steel products (tons)	488	540	533	488	447
Average net selling price[3][4]:					
Recycled ferrous metal (per ton)	$194	$269	$348	$354	$410
Recycled nonferrous metal (per pound)	$0.59	$0.75	$0.83	$0.89	$0.89
Finished steel products (per ton)	$522	$639	$677	$680	$715

	August 31,				
	2016	2015	2014	2013	2012
BALANCE SHEET DATA (in thousands):					
Total assets	$891,429	$962,299	$1,355,210	$1,405,512	$1,763,573
Long-term debt, net of current maturities	$184,144	$227,572	$318,842	$372,663	$334,629
Redeemable noncontrolling interest	$—	$—	$—	$—	$22,248

(1) The operating loss in fiscal 2016 includes a goodwill impairment charge of $9 million, other asset impairment charges of $21 million and restructuring charges and other exit-related activities of $7 million. Operating loss in fiscal 2015 includes a goodwill impairment charge of $141 million, other asset impairment charges of $45 million and restructuring charges and other exit-related activities of $13 million. Operating income in fiscal 2014 includes other asset impairment charges of $1 million and restructuring charges and other exit-related activities of $7 million. Operating loss in fiscal 2013 includes a goodwill impairment charge of $321 million, other asset impairment charges of $13 million and restructuring charges and other exit-related activities of $8 million.

(2) In fiscal 2015, the Company ceased operations at seven auto parts stores, six of which qualified for discontinued operations reporting and whose results have been removed from other data for all periods presented, as applicable. In fiscal 2014, the Company also released an environmental liability of $1 million associated with operations disposed in fiscal 2010. See Note 8 - Discontinued Operations in the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report for further discussion.

(3) Tons for recycled ferrous metal are long tons (2,240 pounds) and for finished steel products are short tons (2,000 pounds).

(4)

In accordance with generally accepted accounting principles, the Company reports revenues that include amounts billed for freight to customers; however, average net selling prices are shown net of amounts billed for freight.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This section includes a discussion of our operations for the three fiscal years ended August 31, 2016, 2015 and 2014. The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of our results of operations and financial condition. The discussion should be read in conjunction with the Consolidated Financial Statements and the related notes thereto in Part II, Item 8 of this report and the Selected Financial Data contained in Part II, Item 6 of this report.

Business

We are one of North America’s largest recyclers of ferrous and nonferrous scrap metal, including end-of-life vehicles, and a manufacturer of finished steel products.

We use operating income to measure our segment performance. Restructuring charges and other exit-related activities are not allocated to segment operating income because we do not include this information in our measurement of the segments’ performance. Expense related to shared services that support operational activities and transactions is allocated from Corporate to the segments. Unallocated Corporate expense consists primarily of expense for management and certain administrative services that benefit both segments. The results of discontinued operations are excluded from segment operating income and are presented separately, net of tax, from the results of ongoing operations for all periods presented. See Note 18 – Segment Information in the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report for a discussion of the primary activities of each reportable segment, total assets by reportable segment, operating results from continuing operations, revenues from external customers and concentration of sales to foreign countries.

Our internal organizational and reporting structure supports two operating and reportable segments: the Auto and Metals Recycling ("AMR") business and the Steel Manufacturing Business ("SMB").

AMR sells and brokers ferrous scrap metal (containing iron) to foreign and domestic steel producers, including SMB, and nonferrous scrap metal (not containing iron) to both foreign and domestic markets. AMR procures scrap supply from salvaged vehicles, rail cars, home appliances, industrial machinery, manufacturing scrap and construction and demolition scrap. Our largest source of autobodies is our own network of auto parts stores, which operate under the commercial brand-name Pick-n-Pull. AMR procures salvaged vehicles and sells serviceable used auto parts from these vehicles through 52 self-service auto parts stores. The remaining portions of the vehicles, primarily autobodies and major parts containing ferrous and nonferrous materials, are shipped to our metal recycling facilities, or sold to wholesalers where geographically more economical. AMR then processes mixed and large pieces of scrap metal into smaller pieces by crushing, torching, shearing, shredding and sorting, resulting in scrap metal pieces of a size, density and metal content required by customers to meet their production needs. Processed recycled metals are shipped to our own domestic steel mill and to other metal producers globally.

SMB operates a steel mini-mill that produces a wide range of finished steel products. SMB’s scrap metal raw material requirements are sourced almost entirely through AMR, which SMB purchases at rates that approximate market prices for shipments from the West Coast of the U.S. SMB uses its mini-mill in McMinnville, Oregon to melt recycled metal and other raw materials to produce finished steel products. SMB also maintains a mill depot in Southern California.

Our results of operations depend in large part on the demand and prices for recycled metal in foreign and domestic markets and on the supply of raw materials, including end-of-life vehicles, available to be processed at our facilities. Our deep water port facilities on both the East and West Coasts of the U.S. (in Everett, Massachusetts; Providence, Rhode Island; Oakland, California; Portland, Oregon; and Tacoma, Washington) and access to public deep water port facilities (in Kapolei, Hawaii; and Salinas, Puerto Rico) allow us to efficiently meet the global demand for recycled ferrous metal by shipping bulk cargoes to steel manufacturers located in Europe, Africa, the Middle East, Asia, and North, Central and South America. Our exports of nonferrous recycled metal are shipped in containers through various public docks to specialty steelmakers, foundries, aluminum sheet and ingot manufacturers, copper refineries and smelters, brass and bronze ingot manufacturers and wire and cable producers globally. We also transport both ferrous and nonferrous metals by truck, rail and barge in order to transfer scrap metal between our facilities for further

processing, to load shipments at our export facilities and to meet regional domestic demand.

Prior to the fourth quarter of fiscal 2015, our internal organizational and reporting structure supported three operating and reportable segments: the Metals Recycling Business ("MRB"), the Auto Parts Business ("APB") and SMB. In the fourth quarter of fiscal 2015, we combined and integrated our auto parts and metals recycling businesses into a single operating platform. This change in organizational structure further optimized the efficiencies in our operating platform, enabling additional synergies to be captured throughout our supply chain and global sales channels and more effectively leveraging our shared services platform. The change in our internal organizational and reporting structure resulted in the formation of a new operating and reportable segment, AMR, replacing the former MRB and APB operating segments. We began reporting on this new segment in the fourth quarter of fiscal 2015 as reflected in our Annual Report on Form 10-K for the year ended August 31, 2015. The segment data for the comparable periods presented prior to the segment change has been recast to conform to the current presentation for all activities of AMR. Recasting this historical information did not have an impact on the consolidated financial performance of SSI for any of the periods presented.

Strategic Priorities

As we continue to closely monitor economic conditions, we remain focused on the following core strategies to meet our business objectives:

- Use of our seven deep water ports and ground-based logistics network to directly access customers domestically and internationally to meet demand for our products wherever it is greatest;
- Further optimization of our integrated operating platform to maximize opportunities for synergies, cost efficiencies and volumes;
- Continuous improvement initiatives to increase production efficiency, improve productivity, enhance effectiveness in our commercial activities and reduce operating expense;
- Technology and process improvement investments to increase the separation and recovery of recycled materials from our shredding process and to generate more value-added products; and
- Increase market share through initiatives to maximize volumes and through selective partnerships, alliances and acquisitions.

Our auto parts stores are key suppliers to our metal recycling facilities, and we opportunistically look to enhance the geographic proximity of operations among those facilities. AMR has an integrated presence in the Northwestern U.S., in Northern California and in the Northeastern U.S., near AMR's export facilities in Tacoma, Washington, Portland, Oregon, Oakland, California and Everett, Massachusetts, which benefit from the synergies of this enhanced access to supply.

In fiscal 2015, we initiated and implemented restructuring initiatives consisting of idling underutilized metals recycling assets, including a shredder in Johnston, Rhode Island and another shredder in Surrey, British Columbia, and closing seven auto parts stores at AMR to more closely align our business to market conditions. Additional cost saving and productivity improvement initiatives, including additional reductions in personnel, savings from procurement activities, streamlining of administrative and supporting services functions, and adjustments to our operating capacity through additional facility closures, were identified and initiated in fiscal 2016. Facility closures in fiscal 2016 included a shredding facility in Concord, New Hampshire. Six of the auto parts stores closed in fiscal 2015 qualified for discontinued operations reporting beginning in fiscal 2015. See Note 8 - Discontinued Operations and Note 10 - Restructuring Charges and Other Exit-Related Activities in the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report.

Key economic factors and trends affecting the industries in which we operate

We sell recycled metals to the global steel industry for the production of finished steel. Our financial results largely depend on supply of raw materials in the U.S. and Western Canada and demand for recycled metal in foreign and domestic markets and for finished steel products in the Western U.S. and Western Canada. Global economic conditions, changes in supply and demand conditions and the strength of the U.S. dollar affect market prices for and sales volumes of recycled ferrous and nonferrous metal in global markets and steel products in the Western U.S. and Western Canada and can have a significant impact on the results of operations for our reportable segments. Weak global demand fueled by the overproduction of low-priced billets using blast furnace technology and iron ore as the

primary raw material, the limited availability of scrap metal raw materials, and the strong U.S. dollar contribute to lower sales volumes for recycled metals.

Our markets have been impacted by a slowdown of economic activity globally in recent years. The macroeconomic uncertainty, combined with global steel-making overproduction and a strengthening of the U.S. dollar, resulted in deteriorating market conditions for global steel manufacturers and volatile pricing swings. The overall downward trend in commodity prices and selling prices of ferrous and nonferrous recycled materials accelerated in fiscal 2015 and continued into the first half of fiscal 2016 before prices improved from near-decade lows. The falling scrap metal price environment was exacerbated by a decline in iron ore prices, a raw material used in steel-making blast furnaces which compete with EAF mills that use ferrous scrap metal as their primary feedstock. Iron ore prices increased near the end of fiscal 2016 but remained at low levels relative to historical levels. Low priced steel billets, which use iron ore as their primary raw material, and which are direct substitutes for ferrous scrap metal in the manufacturing of finished steel, also contributed to lower scrap metal demand and price. The persistently low economic growth in the U.S. and the lower scrap metal price environment also contributed to constrained scrap flows in our domestic supply markets which, combined with significant scrap recycling capacity and competition in certain regional markets, led to continued low margins in our AMR business during the first half of fiscal 2016 until prices increased significantly in the third quarter. Prices increased in the third quarter primarily due to increased demand for recycled metal, before decreasing in the fourth quarter and returning to the levels seen at the beginning of the fiscal year.

Executive Overview of Financial Results

We generated consolidated revenues of $1.4 billion in fiscal 2016, a decrease of 29% from the $1.9 billion of consolidated revenues in the prior year due to a combination of lower average net selling prices for ferrous and nonferrous scrap metal and finished steel products, and reduced sales volumes compared to the prior year. Average net selling prices for ferrous and nonferrous scrap metal in fiscal 2016 decreased by 28% and 21%, respectively, compared to the prior year. Ferrous and nonferrous sales volumes in fiscal 2016 decreased by 11% and 13%, respectively, compared to the prior year. Overall demand for recycled metals in our end-markets was weaker than in the prior year primarily due to continued low global economic growth, the relative strength of the U.S. dollar and the impact of lower iron ore prices during most of the fiscal year. Demand for our finished steel products was also weaker than in the prior year primarily due to increased competition from lower-priced imports.

Consolidated operating loss was $8 million in fiscal 2016, compared to $196 million in the prior year. Adjusted consolidated operating income in fiscal 2016 was $28 million, compared to $11 million in the prior year. Adjusted results in fiscal 2016 exclude the impact of a goodwill impairment charge of $9 million, other asset impairment charges of $21 million, restructuring charges and other exit-related activities of $7 million, and benefits from contract settlements of $1 million. Adjusted results in fiscal 2015 exclude the impact of a goodwill impairment charge of $141 million, other asset impairment charges of $45 million, restructuring charges and other exit-related activities of $13 million, and the impact of reselling or modifying the terms of certain previously contracted bulk ferrous shipments of $7 million. See the reconciliation of adjusted operating income (loss) in Non-GAAP Financial Measures at the end of this Item 7.

Operating results for fiscal 2016 and 2015 were adversely impacted by the lower price environment which included sharp declines in commodity selling prices during the first half of each year. We reported operating losses in fiscal 2016 and 2015 driven largely by asset impairment charges and restructuring charges and other exit-related activities recorded in each fiscal year. Operating results in the second half of fiscal 2016 benefited from an increase in ferrous average net selling prices after experiencing sharp declines during the first half of the fiscal year which resulted in the adverse impact from average inventory accounting in fiscal 2016 being significantly less than the adverse impact in fiscal 2015. Operating results in fiscal 2016 also benefited from cost saving and productivity improvement measures initiated in fiscal 2015, and further expanded in fiscal 2016, to reduce direct costs of production and selling, general and administrative ("SG&A") expense. Excluding the adverse impact of asset impairment charges, these benefits contributed to higher operating margins per ferrous ton sold at AMR compared to fiscal 2015 despite lower average net selling prices and sales volumes. Consolidated SG&A expense decreased by $22 million, or 13%, compared to the prior year primarily resulting from reduced employee-related expenses and a $6 million benefit from an insurance reimbursement recorded in fiscal 2016. SMB's operating results were lower than in the prior year primarily due to decreased selling prices for finished steel products, reduced sales volumes and lower rolling mill utilization driven by

increased competition from lower-priced imports.

In recent years, we implemented a number of cost reduction and productivity improvement measures to more closely align our business to market conditions. The combined benefit of the measures initiated since the beginning of fiscal 2015 represents a targeted annual improvement to operating performance of $95 million. These initiatives include those announced in the first quarter of fiscal 2015 (the "Q1'15 Plan") followed by additional cost saving and exit-related measures announced in the second quarter of fiscal 2015 and further expanded in fiscal 2016 (the "Q2'15 Plan"). In fiscal 2016, we achieved approximately $78 million in combined benefits related to the Q1'15 and Q2'15 Plans, compared to $28 million achieved in the prior year. We expect to achieve substantially all of the combined annual improvement target of $95 million associated with these Plans in fiscal 2017. Charges incurred in connection with the foregoing initiatives are discussed in Results of Operations, Operating Income (Loss) in this Item 7.

Net loss from continuing operations attributable to SSI in fiscal 2016 was $18 million, or $(0.66) per diluted share, compared to $190 million, or $(7.03) per diluted share, in the prior year. Adjusted net income from continuing operations attributable to SSI in fiscal 2016 was $19 million, or $0.69 per diluted share, compared to $4 million, or $0.13 per diluted share, in the prior year. Adjusted net income from continuing operations attributable to SSI excludes the impact of goodwill impairment charges, other asset impairment charges, restructuring charges and other exit-related activities, the impact of reselling or modifying the terms of certain previously contracted bulk ferrous shipments, net of recoveries, and the non-cash write-off of debt issuance costs. See the reconciliation of adjusted net income (loss) from continuing operations attributable to SSI in Non-GAAP Financial Measures at the end of this Item 7.

The following items further highlight selected liquidity and capital structure metrics for fiscal 2016:

- Net cash provided by operating activities of $99 million, compared to $145 million in the prior year;
- Debt of $193 million, compared to $228 million as of the prior year-end;
- Debt, net of cash, of $166 million, compared to $205 million as of the prior year-end (see the reconciliation of debt, net of cash, in Non-GAAP Financial Measures at the end of this Item 7); and
- Dividends paid of $20 million, compared to the same amount in the prior year.

The following items highlight our reportable segment financial results for fiscal 2016:

- AMR revenues of $1.2 billion and operating income of $23 million, compared to revenues of $1.7 billion and operating loss of $164 million in the prior year;
- AMR adjusted operating income of $49 million, compared to $28 million in the prior year (see the reconciliation of AMR adjusted operating income (loss) in Non-GAAP Financial Measures at the end of this Item 7);
- SMB revenues of $270 million and operating income of $4 million, compared to revenues of $375 million and operating income of $20 million in the prior year; and
- SMB adjusted operating income of $6 million, compared to $20 million in the prior year (see the reconciliation of SMB adjusted operating income in Non-GAAP Financial Measures at the end of this Item 7).

Results of Operations

	For the Year Ended August 31,			% Increase / (Decrease)	
($ in thousands)	2016	2015	2014	2016 vs 2015	2015 vs 2014
Revenues:					
Auto and Metals Recycling	$1,173,032	$1,716,296	$2,334,389	(32)%	(26)%
Steel Manufacturing Business	269,905	375,037	388,640	(28)%	(4)%
Intercompany revenue eliminations[1]	(90,394)	(175,934)	(188,103)	(49)%	(6)%
Total revenues	1,352,543	1,915,399	2,534,926	(29)%	(24)%
Cost of goods sold:					
Auto and Metals Recycling	1,011,293	1,567,356	2,141,253	(35)%	(27)%
Steel Manufacturing Business	257,316	348,499	362,843	(26)%	(4)%
Intercompany cost of goods sold eliminations[1]	(92,621)	(173,177)	(188,141)	(47)%	(8)%
Total cost of goods sold	1,175,988	1,742,678	2,315,955	(33)%	(25)%
Selling, general and administrative expense:					
Auto and Metals Recycling	112,631	129,117	138,255	(13)%	(7)%
Steel Manufacturing Business	6,631	6,160	7,259	8 %	(15)%
Corporate[2]	29,646	35,315	41,999	(16)%	(16)%
Total selling, general and administrative expense	148,908	170,592	187,513	(13)%	(9)%
(Income) from joint ventures:					
Auto and Metals Recycling	(742)	(1,541)	(1,136)	(52)%	36 %
Change in intercompany profit elimination[3]	(77)	51	(60)	NM	NM
Total (income) from joint ventures	(819)	(1,490)	(1,196)	(45)%	25 %
Goodwill impairment charges:					
Auto and Metals Recycling	8,845	141,021	—	(94)%	NM
Other asset impairment charges:					
Auto and Metals Recycling	18,379	44,374	928	(59)%	4,682 %
Steel Manufacturing Business	2,224	—	—	NM	NM
Corporate	79	745	532	(89)%	40 %
Total other asset impairment charges	20,682	45,119	1,460	(54)%	2,990 %
Operating income (loss):					
Auto and Metals Recycling	22,626	(164,031)	55,089	NM	NM
Steel Manufacturing Business	3,734	20,378	18,538	(82)%	10 %
Segment operating income (loss)	26,360	(143,653)	73,627	NM	NM
Restructuring charges and other exit-related activities[4]	(6,781)	(13,008)	(6,830)	(48)%	90 %
Corporate expense[2]	(29,725)	(36,060)	(42,531)	(18)%	(15)%
Change in intercompany profit elimination[5]	2,304	(2,808)	98	NM	NM
Total operating income (loss)	$(7,842)	$(195,529)	$24,364	(96)%	NM

NM = Not Meaningful

(1) AMR sells recycled ferrous metal to SMB at rates per ton that approximate West Coast U.S. market prices. These intercompany revenues and cost of goods sold are eliminated in consolidation.

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

(3) The joint ventures sell recycled metal to AMR and to SMB at prices that approximate local market rates, which produces intercompany profit. This intercompany profit is eliminated while the products remain in inventory and is

not recognized until the finished products are sold to third parties.

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

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

Revenues

Fiscal 2016 compared with fiscal 2015

Consolidated revenues for fiscal 2016 were $1.4 billion, a decrease of 29% compared to the $1.9 billion of consolidated revenues for the prior year. After experiencing sharp declines in the first half of fiscal 2016, net selling prices for shipments of ferrous scrap metal increased significantly during the third quarter of fiscal 2016, primarily due to improved demand, before decreasing in the fourth quarter and returning to the levels seen at the beginning of the fiscal year. Overall demand for recycled metals in our end-markets was weaker than in the prior year primarily due to continued low global economic growth, the relative strength of the U.S. dollar and the impact of lower iron ore prices during most of the fiscal year. This resulted in significantly lower average net selling prices for ferrous and nonferrous scrap metal and finished steel products, and reduced sales volumes in fiscal 2016 compared to the prior year. Average net selling prices for ferrous and nonferrous scrap metal in fiscal 2016 decreased by 28% and 21%, respectively, compared to the prior year. Ferrous and nonferrous sales volumes in fiscal 2016 decreased by 11% and 13%, respectively, compared to the prior year. Demand for our finished steel products was also weaker than in the prior year due to increased competition from lower-priced imports.

Fiscal 2015 compared with fiscal 2014

Consolidated revenues for fiscal 2015 decreased primarily due to significantly lower average net selling prices for ferrous and nonferrous scrap metal and reduced sales volumes compared to the prior year. Export net selling prices for shipments of recycled ferrous metal experienced multiple sharp declines throughout fiscal 2015, decreasing by approximately $150 per ton, or approximately 40%, compared to the end of the fourth quarter of fiscal 2014. The decrease in ferrous and nonferrous scrap metal prices were driven by weaker global steel markets due to excess capacity and overproduction, a further strengthening of the U.S. dollar during the year, the impact of lower iron ore prices on market conditions for recycled metals and weaker demand in the end markets to which we sell. Domestic net selling prices for ferrous metal also decreased sharply during the year. Lower sales volumes of recycled scrap metal by AMR were primarily due to a combination of weaker export demand and, to a lesser extent, weaker domestic demand and competition for available raw materials including end-of-life vehicles, which were only partially offset by higher sales volumes of finished steel products at SMB. In fiscal 2015, we increased the share of domestic sales of ferrous material due to relatively stronger domestic demand compared to the export market.

Operating Income (Loss)

Fiscal 2016 compared with fiscal 2015

Consolidated operating loss was $8 million in fiscal 2016, compared to $196 million in the prior year. Adjusted consolidated operating income in fiscal 2016 was $28 million, compared to $11 million in the prior year. Adjusted results exclude the impact of goodwill impairment charges, other asset impairment charges, restructuring charges and other exit-related activities, and the impact of reselling or modifying the terms of certain previously contracted bulk ferrous shipments, net of recoveries. See the reconciliation of adjusted operating income (loss) in Non-GAAP Financial Measures at the end of this Item 7.

Operating results for fiscal 2016 and 2015 were adversely impacted by the lower price environment which included sharp declines in commodity selling prices during the first half of each year. We reported operating losses in fiscal 2016 and 2015 driven largely by asset impairment charges and restructuring charges and other exit-related activities recorded in each fiscal year. Operating results in the second half of fiscal 2016 benefited from an increase in ferrous average net selling prices after experiencing sharp declines during the first half of the fiscal year which resulted in the adverse impact from average inventory accounting during fiscal 2016 being significantly less than the adverse impact during fiscal 2015. Operating results in fiscal 2016 also benefited from cost saving and productivity improvement initiatives initiated in fiscal 2015, and further expanded in fiscal 2016, to reduce direct costs of production and SG&A expense. Excluding the adverse impact of asset impairment charges, these benefits contributed to higher operating margins per ferrous ton sold at AMR compared to fiscal 2015 despite lower average net selling prices and sales

volumes. Consolidated SG&A expense decreased by $22 million, or 13%, compared to the prior year primarily resulting from reduced employee-related expenses and a $6 million benefit from an insurance reimbursement recorded in fiscal 2016. SMB's operating results were lower than in the prior year primarily due to decreased selling prices for finished steel products, reduced sales volumes and lower rolling mill utilization driven by increased competition from lower-priced imports.

In the second quarter of fiscal 2016, we identified the combination of sustained weak market conditions, including the adverse effects of lower commodity selling prices and the constraining impact of the lower price environment on the supply of raw materials which negatively impacted volumes, our recent financial performance and a decline in our market capitalization as a triggering event requiring an interim impairment test of goodwill allocated to our reporting units. The impairment test resulted in a non-cash goodwill impairment charge of $9 million at a reporting unit within the AMR operating segment.

In the second quarter of fiscal 2015, we identified a triggering event requiring an interim impairment test of goodwill which resulted in a non-cash goodwill impairment charge of $141 million at the former MRB reporting unit. The impairment charge is reported within the results of AMR. We did not record any goodwill impairment charges in fiscal 2014. See further discussion in the Critical Accounting Policies section at the end of Part II, Item 7 of this report.

During fiscal 2016, 2015 and 2014, we also recorded non-cash impairment charges and accelerated depreciation on certain long-lived and other assets. Impairment charges and accelerated depreciation, excluding goodwill impairment charges, were as follows (in thousands):

	Fiscal 2016	Fiscal 2015	Fiscal 2014
Reported within other asset impairment charges[1]:			
Long-lived assets	$7,336	$41,676	$—
Accelerated depreciation	6,208	—	—
Investment in joint venture	1,968	—	—
Assets held for sale	1,659	2,558	928
Supplies inventory[1]	2,224	—	—
Other assets[1]	1,287	885	532
	20,682	45,119	1,460
Reported within restructuring charges and other exit-related activities:			
Long-lived assets	468	—	—
Accelerated depreciation	630	3,836	—
Supplies inventory	1,047	—	—
Other assets	35	—	566
	2,180	3,836	566
Reported within discontinued operations:			
Long-lived assets	673	2,666	—
Accelerated depreciation	274	—	—
	947	2,666	—
Total	$23,809	$51,621	$2,026

(1) Other asset impairment charges were incurred in the AMR reportable segment, except for $79 thousand, $745 thousand and $532 thousand of impairment charges on other assets related to Corporate recorded in fiscal 2016, 2015 and 2014, respectively, and $2,224 thousand of impairment charges on supplies inventory related to SMB recorded in fiscal 2016.

Consolidated operating results in fiscal 2016 also included restructuring charges and other exit-related activities of $7 million, compared to charges of $13 million in fiscal 2015. Additional restructuring charges and other exit-related activities of $1 million were included in the results of discontinued operations in fiscal 2016, compared to charges of $4 million for fiscal 2015.

Restructuring charges consisted of severance, contract termination and other restructuring costs. Other exit-related activities of $2 million in fiscal 2016 consisted of asset impairments and accelerated depreciation of assets in connection with the closure of certain operations, net of gains on exit-related disposals, compared to other exit-related activities of $7 million for fiscal 2015. These charges relate to restructuring initiatives under three separate plans: the plans announced in the first quarter of fiscal 2014 (the “Q1’14 Plan"), the “Q1’15 Plan” and the "Q2'15 Plan."

In the first quarter of fiscal 2014, we initiated the Q1'14 Plan and began implementing restructuring and productivity initiatives to reduce our annual operating expenses by approximately $30 million, which was subsequently increased to $40 million later in the fiscal year. We achieved approximately $29 million of benefits in fiscal 2014, with the full annual benefit achieved in fiscal 2015. The majority of the reduction in operating expenses occurred at AMR and resulted from a combination of headcount reductions, implementation of operational efficiencies, reduced lease costs and other productivity improvements.

Since the beginning of fiscal 2015, we have initiated and implemented a number of additional cost reduction and productivity improvement measures with a combined targeted annual improvement of $95 million. These initiatives included those announced as part of the Q1'15 Plan followed by further cost-saving and exit-related measures as part of the Q2'15 Plan targeting a combined benefit to annual operating performance of approximately $60 million, subsequently increased by $5 million in the first quarter of fiscal 2016. In the second quarter of fiscal 2016, we expanded the Q2'15 Plan initiatives by an additional $30 million.

The cost reduction and productivity improvements associated with the Q1'15 Plan are driven by a combination of revenue drivers and production and SG&A cost reduction initiatives with a targeted aggregate annual improvement of $14 million, which was achieved in fiscal 2016. The improvements to performance associated with the Q2'15 Plan include two components. The first component reflects strategic actions initiated in the second quarter of fiscal 2015 consisting of idling shredding equipment and closing seven auto parts stores at AMR to align our business to market conditions, targeting an improvement in annual operating performance of approximately $18 million, of which approximately one-third is from reduced depreciation expense. As part of the second component of the Q2'15 Plan, in April 2015, we initiated measures, and also announced the integration of the MRB and APB businesses into the combined AMR platform, in order to achieve operational synergies and further reduce our annual operating expenses, primarily SG&A expense, by approximately $28 million through personnel reductions, reducing organizational layers, consolidating shared service functions and reducing other administrative costs. We expanded the Q2'15 Plan and target by initiating measures in fiscal 2016 with an additional $35 million in expected benefits primarily through additional reductions in personnel, savings from procurement activities, streamlining of administrative and supporting services functions, and adjustments to our operating capacity through additional facility closures, with approximately two-thirds of the target coming from a reduction in SG&A expense and the rest from a reduction in production costs, primarily at AMR. Collectively, the initiatives commenced in the second quarter of fiscal 2015 and expanded in subsequent quarters including the initiatives commenced in fiscal 2016 are referred to as the Q2'15 Plan. In fiscal 2016, we achieved approximately $78 million of combined benefits related to the Q1'15 and Q2'15 Plans, compared to $28 million in fiscal 2015. We expect to achieve substantially all of the combined annual improvement target of $95 million associated with the Q1'15 and Q2'15 Plans in fiscal 2017.

Restructuring charges and other exit-related activities incurred in connection with cost reduction and productivity improvement plans for the last three fiscal years ended August 31 were comprised of the following (in thousands):

	2016 All Other Plans	Q2'15 Plan	Total Charges	2015 All Other Plans	Q2'15 Plan	Total Charges	2014 All Other Plans	Total Charges
Restructuring charges:								
Severance costs	$—	$4,915	$4,915	$391	$5,330	$5,721	$4,607	$ 4,607
Contract termination costs	311	796	1,107	377	1,245	1,622	1,384	1,384
Other restructuring costs	—	—	—	1,223	2,048	3,271	410	410
Total restructuring charges	311	5,711	6,022	1,991	8,623	10,614	6,401	6,401
Other exit-related activities:								
Asset impairments and accelerated depreciation	—	3,127	3,127	—	6,502	6,502	566	566
Gains on exit-related disposals	—	(1,337)	(1,337)	—	—	—	—	—
Total other exit-related activities	—	1,790	1,790	—	6,502	6,502	566	566
Total restructuring charges and exit-related activities	$311	$7,501	$7,812	$1,991	$15,125	$17,116	$6,967	$ 6,967
Restructuring charges and other exit-related activities included in continuing operations			$6,781			$13,008		$ 6,830
Restructuring charges and other exit-related activities included in discontinued operations			$1,031			$4,108		$ 137

We do not include restructuring charges and other exit-related activities in the measurement of the performance of our reportable segments. The significant majority of restructuring charges require us to make cash payments.

See Note 10 - Restructuring Charges and Other Exit-Related Activities in the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report.

Fiscal 2015 compared with fiscal 2014

Consolidated operating loss was $196 million in fiscal 2015, compared to consolidated operating income of $24 million in the prior year. Adjusted consolidated operating income in fiscal 2015 was $11 million, which excludes a goodwill impairment charge of $141 million, other asset impairment charges of $45 million, restructuring charges and other exit-related activities of $13 million, and the impact of reselling or modifying the terms of certain previously contracted bulk ferrous shipments of $7 million. This compares to adjusted consolidated operating income of $33 million in the prior year, which excludes other asset impairment charges of $1 million and restructuring charges and other exit-related activities of $7 million. See the reconciliation of adjusted operating income (loss) in Non-GAAP Financial Measures at the end of this Item 7. In an environment of sharply declining commodity prices, average inventory costs in fiscal 2015 did not decrease as quickly as purchase costs for raw materials, resulting in a substantial adverse effect on cost of goods sold and compression of operating margins at AMR. The lower price environment during the year also adversely impacted the supply of scrap metal, which led to lower processed volumes further compressing operating margins. The effects of these adverse conditions on operating results were partially offset by benefits to cost of goods sold resulting from restructuring actions taken to reduce direct costs of production, including headcount and other non-employee costs. Consolidated operating results in fiscal 2015 also benefited from an increase in operating income at SMB of $2 million primarily as a result of higher sales volumes, increased rolling mill utilization levels and lower SG&A expense.

Operating results in fiscal 2015 included a reduction in consolidated SG&A expense of $17 million, or 9%, compared to the prior year primarily as a result of lower employee compensation of $10 million associated with headcount reductions and productivity initiatives implemented in fiscal 2014 and 2015 and reduced incentive compensation from lower financial performance, a reduction in selling and marketing expense of $3 million and a legal settlement resulting in an insurance reimbursement of $2 million in fiscal 2015.

Consolidated operating results in fiscal 2015 also included restructuring charges and other exit-related activities of $13 million, compared to charges of $7 million in fiscal 2014. Additional restructuring charges and other exit-related activities of $4 million were included in the results of discontinued operations in fiscal 2015, compared to charges of less than $1 million for fiscal 2014. Restructuring charges consisted of severance, contract termination and other restructuring costs. Other exit-related activities of $7 million in fiscal 2015 consisted of asset impairments and accelerated depreciation of assets in connection with the closure of certain operations, compared to other exit-related activities of $1 million for fiscal 2014.

Other Income, net

Other income, net was $1 million, $4 million and $1 million for fiscal 2016, 2015 and 2014, respectively. The changes among the fiscal years presented were primarily due to changes in foreign currency gains and losses on transactions denominated in Canadian dollars. For more information about our foreign currency transactions, see Note 2 – Summary of Significant Accounting Policies in the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report.

Interest Expense

Interest expense was $9 million, $9 million and $11 million for fiscal 2016, 2015 and 2014, respectively. The decrease from fiscal 2014 to fiscal 2015 was primarily due to decreased average borrowings under our bank credit facilities. The impact on fiscal 2016 interest expense of reduced average borrowings compared to fiscal 2015 was offset by higher interest rates and the write-off of debt issuance costs of $1 million. For more information about our outstanding debt balances, see Note 7 – Debt in the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report.

Income Tax (Expense) Benefit

	Year Ended August 31,		
	2016	2015	2014
Income (loss) from continuing operations before income taxes	$(15,505)	$(200,464)	$14,982
Income tax (expense) benefit	$(735)	$12,615	$(2,582)
Effective tax rate	(4.7)%	6.3%	17.2%

Income tax (expense) benefit from continuing operations was $(1) million, $13 million and $(3) million for fiscal 2016, 2015 and 2014, respectively.

Our effective tax rate from continuing operations in fiscal 2016 was an expense of 4.7%, which was lower than the U.S. federal statutory rate of 35%. The effective tax rate was reduced for valuation allowances on deferred tax assets and the aggregate impact of foreign income taxed at different rates. Those reductions were partially offset by the realization of foreign investment basis for tax purposes. Our income tax expense is comprised primarily of the increase in deferred tax liabilities from indefinite-lived assets plus certain state cash tax expenses. The increase in valuation allowance on deferred tax assets was recognized as a result of negative evidence, including recent losses in all tax jurisdictions, outweighing the more subjective positive evidence, indicating that it is more likely than not that the associated tax benefit will not be realized. Realization of the deferred tax assets is dependent upon generating sufficient taxable income in the associated tax jurisdictions in future years to benefit from the reversal of net deductible temporary differences and from the utilization of net operating losses.

Our effective tax rate from continuing operations in fiscal 2015 was a benefit of 6.3%, which was lower than the U.S. federal statutory rate of 35%. The effective tax rate was reduced by 33% for valuation allowances on deferred tax assets and the aggregate impact of excluding foreign income taxed at different rates. Those expenses were partially offset by the recognition of a $13 million benefit related to the realization of foreign investment basis for tax purposes. The increase in valuation allowance on deferred tax assets was recognized as a result of negative evidence, including recent losses in all tax jurisdictions, outweighing the more subjective positive evidence, indicating that it is more likely than not that the associated tax benefit will not be realized.

Our effective tax rate from continuing operations in fiscal 2014 was an expense of 17.2% and was lower than the U.S. federal statutory rate of 35%. The effective tax rate benefited from a fixed asset tax basis study performed during fiscal 2014 which resulted in the recognition of a tax benefit of $2 million, as well as the aggregate impact of excluding income associated with noncontrolling interests, foreign income taxed at different rates, and certain deductions and credits. Other significant items impacting the effective tax rate included the recognition of a valuation allowance against certain foreign and state deferred tax assets and the recognition of a liability for unrecognized tax benefits of $2 million. The valuation allowance on deferred tax assets of certain foreign and state tax jurisdictions increased by $2 million compared to the prior year and was recognized as a result of negative evidence, including recent losses in certain foreign and state jurisdictions, outweighing the more subjective positive evidence, indicating that it is more likely than not that the associated tax benefit will not be realized.

We will continue to regularly assess the realizability of deferred tax assets. Changes in historical earnings performance and future earnings projections, among other factors, may cause us to adjust our valuation allowance on deferred tax assets, which would impact our results of operations in the period we determine that these factors have changed.

See Note 15 - Income Taxes in the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report for further discussion.

Discontinued Operations

In the third quarter of fiscal 2015, in connection with the Q2'15 Plan, we ceased operations at seven auto parts stores, six of which qualified for discontinued operations reporting in accordance with the accounting standards in effect at the time prior to adopting the accounting standard update on discontinued operations reporting in the first quarter of fiscal 2016. The operations of the six qualifying stores had previously been reported within the APB reportable segment, which was subsequently replaced by the AMR reportable segment in the fourth quarter of fiscal 2015. In fiscal 2016 and 2015, we recorded impairment charges and accelerated depreciation of $1 million and $3 million, respectively, on the long-lived assets of discontinued auto parts stores. Impaired assets in fiscal 2016 consisted primarily of capital lease assets associated with the buildings on two leased properties.

In fiscal 2014, we released certain environmental liabilities of $1 million that arose from and were directly related to the operations of a component of our AMR business that qualified for separate classification as a discontinued operation in fiscal 2010 prior to the disposal.

Operating results of discontinued operations were comprised of the following (in thousands):

	Year Ended August 31,		
	2016	2015	2014

Revenues	$—	$8,263	$15,682
Loss from discontinued operations before income taxes	$(1,348)	$(7,227)	$(2,888)
Income tax benefit	—	—	79
Loss from discontinued operations, net of tax	$(1,348)	$(7,227)	$(2,809)

See Note 8 - Discontinued Operations in the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report for further discussion.

Financial results by reportable segment

We operate our business across two reportable segments: AMR and SMB. Additional financial information relating to these reportable segments is contained in Note 18 – Segment Information in the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report.

Auto and Metals Recycling

	For the Year Ended August 31,			% Increase / (Decrease)	
($ in thousands, except for prices)	2016	2015	2014	2016 vs 2015	2015 vs 2014
Ferrous revenues	$709,454	$1,098,225	$1,628,685	(35)%	(33)%
Nonferrous revenues	340,025	488,036	556,139	(30)%	(12)%
Retail and other revenues	123,553	130,035	149,565	(5)%	(13)%
Total segment revenues	1,173,032	1,716,296	2,334,389	(32)%	(26)%
Cost of goods sold	1,011,293	1,567,356	2,141,253	(35)%	(27)%
Selling, general and administrative expense	112,631	129,117	138,255	(13)%	(7)%
(Income) from joint ventures	(742)	(1,541)	(1,136)	(52)%	36%
Goodwill impairment charges	8,845	141,021	—	(94)%	NM
Other asset impairment charges	18,379	44,374	928	(59)%	4,682%
Segment operating income (loss)	$22,626	$(164,031)	$55,089	NM	NM
Average recycled ferrous metal sales prices ($/LT):(1)					
Domestic	$193	$275	$345	(30)%	(20)%
Foreign	$195	$265	$350	(26)%	(24)%
Average	$194	$269	$348	(28)%	(23)%
Ferrous sales volume (LT, in thousands):					
Domestic	1,225	1,472	1,508	(17)%	(2)%
Foreign	2,064	2,236	2,801	(8)%	(20)%
Total ferrous sales volume (LT, in thousands)	3,289	3,708	4,309	(11)%	(14)%
Average nonferrous sales price ($/pound)(1)(2)	$0.59	$0.75	$0.83	(21)%	(10)%
Nonferrous sales volumes (pounds, in thousands)(2)	510,283	585,435	614,518	(13)%	(5)%
Cars purchased (in thousands)(3)	319	337	360	(5)%	(6)%
Number of auto parts stores at period end	52	55	56	(5)%	(2)%
Outbound freight included in cost of goods sold	$84,563	$120,297	$146,431	(30)%	(18)%

LT = Long Ton, which is 2,240 pounds

NM = Not meaningful

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

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

(3) Cars purchased by auto parts stores only.

Fiscal 2016 compared with fiscal 2015

Revenues

The 35% decrease in ferrous revenues and 30% decrease in nonferrous revenues were primarily due to significantly lower average net selling prices for ferrous and nonferrous scrap metal, as well as reduced sales volumes compared to the prior year. After experiencing sharp declines in the first half of fiscal 2016, net selling prices for shipments of ferrous scrap metal increased significantly during the third quarter of fiscal 2016, primarily due to improved demand, before decreasing in the fourth quarter and returning to the levels seen at the beginning of the fiscal year. Overall demand for recycled metals in our end-markets was weaker than in the prior year primarily due to continued low global economic growth, the relative strength of the U.S. dollar and the impact of lower iron ore prices during most of the fiscal year. This resulted in significantly lower average net selling prices for ferrous and nonferrous scrap metal

and reduced sales volumes in fiscal 2016 compared to the prior year.

Segment Operating Income (Loss)
Operating income for fiscal 2016 was $23 million, compared to operating loss of $164 million in the prior year. Adjusted operating income in fiscal 2016 was $49 million, which excludes a goodwill impairment charge of $9 million, other asset impairment charges of $18 million and benefits from contract settlements of $1 million. Adjusted operating income in fiscal 2015 was $28 million, which excludes a goodwill impairment charge of $141 million, other asset impairment charges of $44 million and the impact of reselling or modifying the terms of certain previously contracted bulk ferrous shipments of $7 million. See the reconciliation of AMR adjusted operating income (loss) in Non-GAAP Financial Measures at the end of this Item 7.
Operating results during fiscal 2016 and 2015 were adversely impacted by the lower price environment which included sharp declines in commodity selling prices during the first half of each year and asset impairment charges recorded in each year. Operating results in the second half of fiscal 2016 benefited from an increase in ferrous average net selling prices after experiencing sharp declines during the first half of the fiscal year which resulted in the adverse impact from average inventory accounting in fiscal 2016 being significantly less than the adverse impact in fiscal 2015. Operating results in fiscal 2016 also benefited from cost saving and productivity improvement measures initiated in fiscal 2015, and further expanded in fiscal 2016, to reduce direct costs of production and selling, general and administrative ("SG&A") expense. Excluding the adverse impact of asset impairment charges, these benefits contributed to higher operating margins per ferrous ton sold at AMR compared to fiscal 2015 despite lower average net selling prices and sales volumes. SG&A expense in fiscal 2016 decreased by $16 million, or 13%, compared to fiscal 2015 primarily resulting from reduced employee-related expenses.
In the second quarter of fiscal 2016, we identified a triggering event requiring an interim impairment test of goodwill allocated to our reporting units. The impairment test resulted in a non-cash goodwill impairment charge of $9 million at a reporting unit within the AMR operating segment. We also recorded non-cash impairment charges and accelerated depreciation on certain long-lived and other assets at AMR of $18 million primarily related to certain regional metals recycling operations and used auto parts store locations and certain previously-idled recycling equipment assets.
In the second quarter of fiscal 2015, we identified a triggering event requiring an interim impairment test of goodwill which resulted in a non-cash goodwill impairment charge of $141 million at the former MRB reporting unit. The impairment charge is reported within the results of AMR. We also recorded non-cash impairment charges and accelerated depreciation on certain long-lived and other assets at AMR of $44 million primarily in connection with certain strategic actions we undertook to improve our operating performance which included reducing shredding capacity and closing auto parts stores.
AMR's results of operations do not include operating results from discontinued operations. See Note 8 – Discontinued Operations in the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report.
Fiscal 2015 compared with fiscal 2014
Revenues
The 33% decrease in ferrous revenues and 12% decrease in nonferrous revenues were primarily due to significantly lower average net selling prices for ferrous and nonferrous scrap metal, as well as reduced sales volumes compared to the prior year. Export net selling prices for shipments of recycled ferrous metal experienced multiple sharp declines throughout fiscal 2015, decreasing by approximately $150 per ton, or approximately 40%, compared to the end of the fourth quarter of fiscal 2014. These decreases were driven by weaker global steel markets due to excess capacity and overproduction, a further strengthening of the U.S. dollar during the year, the impact of lower iron ore prices on market conditions for recycled metals and weaker demand in the end-markets to which we sell. Domestic net selling prices for ferrous metal also decreased sharply during the year. Lower sales volumes were primarily due to a combination of weaker export demand and, to a lesser extent, weaker domestic demand and competition for available raw materials. In fiscal 2015, we increased the share of domestic sales of ferrous material due to relatively stronger domestic demand compared to the export market.

Segment Operating Income (Loss)

Operating loss for fiscal 2015 was $164 million, compared to operating income of $55 million in the prior year. Adjusted operating income in fiscal 2015, excluding a goodwill impairment charge of $141 million, other asset impairment charges of $44 million and the impact of reselling or modifying the terms of certain previously contracted bulk ferrous shipments of $7 million, was $28 million, compared to adjusted operating income of $56 million in fiscal 2014. See the reconciliation of AMR adjusted operating income (loss) in Non-GAAP Financial Measures at the end of this Item 7. Operating results in fiscal 2015 were negatively impacted by the sharp decline in selling prices resulting in a significant adverse impact on cost of goods sold from average inventory accounting and compression of operating margins. The lower price environment also adversely impacted the supply of scrap metal, including end-of-life vehicles, which led to lower processed volumes further compressing operating margins. The effects of these adverse conditions on operating results were partially offset as operating results benefited from a decrease in SG&A expense of $9 million compared to the prior year primarily as a result of lower employee compensation of $6 million associated with headcount reduction and productivity initiatives implemented in fiscal 2014 and 2015 and by reduced incentive compensation from lower financial performance, and lower selling and marketing expense of $3 million. In fiscal 2015, AMR achieved a total benefit of approximately $28 million in connection with the cost saving and productivity initiatives and other strategic actions initiated in fiscal 2015, with the benefits from productivity improvements impacting cost of goods sold more than offset by the continued challenging ferrous and nonferrous market conditions and the impact of constrained supply conditions for raw materials.

Steel Manufacturing Business

	For the Year Ended August 31,			% Increase / (Decrease)	
($ in thousands, except for price)	2016	2015	2014	2016 vs 2015	2015 vs 2014
Revenues[1]	$269,905	$375,037	$388,640	(28)%	(4)%
Cost of goods sold	257,316	348,499	362,843	(26)%	(4)%
Selling, general and administrative expense	6,631	6,160	7,259	8 %	(15)%
Other asset impairment charges	2,224	—	—	NM	NM
Segment operating income	$3,734	$20,378	$18,538	(82)%	10 %
Finished steel average sales price ($/ST)[2]	$522	$639	$677	(18)%	(6)%
Finished steel products sold (ST, in thousands)	488	540	533	(10)%	1 %
Rolling mill utilization	63 %	73 %	70 %	(14)%	4 %

ST = Short Ton, equivalent to 2,000 pounds

(1) Revenues include sales of semi-finished goods (billets) and finished steel products.

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

Fiscal 2016 compared with fiscal 2015

Revenues

Revenues decreased by $105 million, or 28%, compared to the prior year. This decrease was due to reduced average selling prices and sales volumes driven by increased competition from lower-priced imports of finished steel products and reduced steel-making raw material costs primarily during the first half of fiscal 2016. Sales volumes improved in the second half of fiscal 2016 compared to the first half of the fiscal year primarily due to the impact of seasonality, but remained lower than levels achieved in fiscal 2015.

Segment Operating Income

Operating income for fiscal 2016 was $4 million, a decrease of $17 million compared to $20 million in the prior year. Adjusted operating income in fiscal 2016, excluding other asset impairment charges of $2 million, was $6 million, compared to adjusted operating income of $20 million in fiscal 2015. See the reconciliation of SMB adjusted operating income in Non-GAAP Financial Measures at the end of Item 7.

The year-over-year reduction in operating results was primarily due to the declining price environment during the first half of fiscal 2016 which led to selling prices falling faster than cost of goods sold. Additionally, sales volumes decreased primarily due to increased competition from imported steel products. The rolling mill utilization rate decreased primarily due to lower sales volumes compared to the prior year and the optimization of inventory levels.

Fiscal 2015 compared with fiscal 2014
Revenues
Revenues decreased by $14 million, or 4%, compared to the prior year primarily due to lower average sales prices for finished steel products reflecting lower raw material costs and higher import activity, which more than offset the increase in sales volumes due to higher demand in our West Coast markets mainly driven by improved business conditions for non-residential construction.
Segment Operating Income
Operating income for fiscal 2015 was $20 million, an improvement of $2 million compared to $19 million in the prior year. The improved results were primarily due to higher sales volumes, increased rolling mill utilization levels and a decrease in SG&A expense due to recognition of bad debt expense of $1 million in fiscal 2014.

Liquidity and Capital Resources
We rely on cash provided by operating activities as a primary source of liquidity, supplemented by current cash on hand and borrowings under our existing credit facilities.
Sources and Uses of Cash
We had cash balances of $27 million and $23 million as of August 31, 2016 and 2015, respectively. Cash balances are intended to be used primarily for working capital, capital expenditures, acquisitions, dividends and share repurchases. We also use excess cash on hand to reduce amounts outstanding under our credit facilities. As of August 31, 2016, debt was $193 million, compared to $228 million as of August 31, 2015, and debt, net of cash, was $166 million compared to $205 million (refer to Non-GAAP Financial Measures below), a decrease of $40 million primarily as a result of the positive cash flows generated by operating activities. Our cash balances as of August 31, 2016 and 2015 include $7 million and $5 million, respectively, which are indefinitely reinvested in Puerto Rico and Canada.
Operating Activities
Net cash provided by operating activities in fiscal 2016 was $99 million, compared to $145 million in fiscal 2015 and $141 million in fiscal 2014.
Net cash provided by operating activities in fiscal 2016 primarily benefited from improved operating performance compared to the prior year. Sources of cash in fiscal 2016 included a $28 million decrease in inventories due to the impact of lower raw material prices and timing of purchases and sales, a $6 million decrease in refundable income taxes due to collection of tax refunds, and a $6 million insurance reimbursement. Uses of cash included a $11 million increase in accounts receivable due to the timing of sales and collections. A significant amount of cash generated by operating activities in fiscal 2015 and 2016 stemmed from a reduction in net working capital primarily as a result of the declining price environment for ferrous and nonferrous scrap metal and finished steel and to a lesser extent lower inventory volumes, as well as positive operating performance. In an environment of stable or increasing scrap metal prices, which would require a greater use of cash for net working capital items, our ability to generate significant positive cash flows from operating activities would be largely dependent upon achieving positive operating performance.
Sources of cash in fiscal 2015 included a $56 million decrease in accounts receivable primarily due to the timing of sales and collections and a $69 million decrease in inventories due to the impacts of decreasing raw materials prices and timing of purchases and sales. Uses of cash included a $36 million decrease in accounts payable due to lower raw material purchase prices and the timing of payments.
Cash provided by operating activities in fiscal 2014 included a decrease in inventories of $36 million due to the timing of shipments. Uses of cash included an increase of $16 million in accounts receivable due to the timing of shipments and collections.
Investing Activities
Net cash used in investing activities in fiscal 2016 was $30 million, compared to $28 million in fiscal 2015 and $41 million in fiscal 2014.
Cash used in investing activities in fiscal 2016, 2015 and 2014 included $35 million, $32 million and $39 million, respectively, in capital expenditures to upgrade our equipment and infrastructure and for additional investments in

environmental and safety-related assets. For all fiscal years presented, the significant majority of capital expenditures were associated with projects at AMR.

Financing Activities
Net cash used in financing activities for fiscal 2016 was $65 million, compared with $119 million in fiscal 2015 and $88 million in fiscal 2014.
Cash used in financing activities in fiscal 2016, 2015 and 2014 included $20 million for cash dividends in each fiscal year and $36 million, $91 million and $64 million, respectively, in net repayments of debt. Refer to Non-GAAP Financial Measures below.
Credit Facilities
Following is a summary of our outstanding balances and availability on credit facilities and long-term debt, exclusive of capital lease obligations (in thousands):

	Outstanding as of 8/31/2016	Remaining Availability
Bank secured revolving credit facility(1)	$ 180,000	$ 150,743
Tax-exempt economic development revenue bonds due January 2021	$ 7,700	N/A
Other debt obligations	$ 765	N/A

(1) Remaining availability is net of $16 million of outstanding stand-by letters of credit as of August 31, 2016.
On April 6, 2016, we and certain of our subsidiaries entered into the Third Amended and Restated Credit Agreement (the “Amended Credit Agreement”), by and among Schnitzer Steel Industries, Inc., as the U.S. borrower, Schnitzer Steel Canada Ltd., as a Canadian borrower, Bank of America, N.A., as administrative agent, and the other lenders party thereto, which amended and restated our existing credit agreement, dated as of February 9, 2011 (the “Prior Credit Agreement”). The Amended Credit Agreement provides for $335 million and C$15 million in senior secured revolving credit facilities maturing in April 2021. The $335 million credit facility includes a $50 million sublimit for letters of credit, a $25 million sublimit for swingline loans and a $50 million sublimit for multicurrency borrowings. Subject to the terms and conditions of the Amended Credit Agreement, the Company may request that the commitments under the U.S. credit facility be increased by an aggregate amount not exceeding $100 million if certain conditions are met including pre-approval by our lenders and achievement of certain pro forma financial results. The Prior Credit Agreement provided for unsecured credit facilities with revolving loans of up to $670 million and C$30 million maturing in April 2017. We sized our credit facility renewal based on historic and expected future usage and believe the borrowing capacity of the Amended Credit Agreement is adequate to cover our short- and long-term financing needs.
Interest rates on outstanding indebtedness under the Amended Credit Agreement are based, at our option, on either the London Interbank Offered Rate ("LIBOR"), or the Canadian equivalent, plus a spread of between 1.75% and 2.75%, with the amount of the spread based on a pricing grid tied to the Company’s leverage ratio but no less than 2.50% for the fiscal quarters ended or ending May 31, 2016, August 31, 2016 and November 30, 2016, or the greater of the prime rate, the federal funds rate plus 0.50% or the daily rate equal to one-month LIBOR plus 1.75%, in each case plus a spread of between zero and 1.00% based on a pricing grid tied to the Company's leverage ratio. In addition, commitment fees are payable on the unused portion of the credit facilities at rates between 0.20% and 0.40% based on a pricing grid tied to our leverage ratio.
We had borrowings outstanding under the credit facility of $180 million and $215 million as of August 31, 2016 and 2015, respectively. The weighted average interest rate on amounts outstanding under this facility was 3.01% and 1.95% as of August 31, 2016 and 2015, respectively.
We use this credit facility to fund working capital, capital expenditures, dividends, share repurchases and acquisitions. The Amended Credit Agreement contains various representations and warranties, events of default and financial and other customary covenants which limit (subject to certain exceptions) our ability to, among other things, incur or suffer to exist certain liens, make investments, incur or guaranty additional indebtedness, enter into consolidations, mergers, acquisitions, and sales of assets, make distributions and other restricted payments, change the nature of our business, engage in transactions with affiliates and enter into restrictive agreements, including agreements that restrict

the ability of our subsidiaries to make distributions. The financial covenants under the Amended Credit Agreement include (a) a consolidated fixed charge coverage ratio, defined as the four-quarter rolling sum of consolidated adjusted EBITDA less defined maintenance capital expenditures divided by consolidated fixed charges; (b) a consolidated leverage ratio, defined as consolidated funded indebtedness divided by the sum of consolidated net worth and consolidated funded indebtedness; and (c) a consolidated asset coverage ratio, defined as the consolidated asset value of eligible assets divided by the consolidated funded indebtedness. The financial covenants require maintenance of a minimum consolidated fixed charge coverage ratio of 1.25 to 1.00 for fiscal quarters ending May 31, 2016, August 31, 2016 and November 30, 2016, and 1.50 to 1.00 thereafter, a maximum leverage ratio of 0.55 to 1.00, and a minimum asset coverage ratio of 0.90 to 1.00 for fiscal quarters ending May 31, 2016, August 31, 2016 and November 30, 2016 and 1.00 to 1.00 thereafter.

As of August 31, 2016, we were in compliance with the financial covenants under the Amended Credit Agreement. The consolidated fixed charge coverage ratio was required to be no less than 1.25 to 1.00 and was 2.43 to 1.00 as of August 31, 2016. The consolidated leverage ratio was required to be no more than 0.55 to 1.00 and was 0.29 to 1.00 as of August 31, 2016. The asset coverage ratio was required to be no less than 0.90 to 1.00 and was 1.25 to 1.00 as of August 31, 2016.

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

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

In addition, as of August 31, 2016 and 2015, we had $8 million of tax-exempt economic development revenue bonds outstanding with the State of Oregon and scheduled to mature in January 2021. In August 2016, the Company exercised its option to redeem the bonds prior to maturity. The Company repaid the bonds in full in September 2016. The obligation is reported as a current liability within short-term borrowings as of August 31, 2016 on the Consolidated Balance Sheet.

Capital Expenditures

Capital expenditures totaled $35 million, $32 million and $39 million for fiscal 2016, 2015 and 2014, respectively. Fiscal 2016 and 2015 capital expenditures were primarily to upgrade our equipment and infrastructure and for additional investments in environmental compliance and safety-related projects. Our capital expenditures in fiscal 2014 included completion of our investment in the construction of a nonferrous processing facility in Puerto Rico. We currently plan to invest in the range of $45 million in capital expenditures on maintenance and environmental compliance and safety-related projects in fiscal 2017, an increase from the expenditures made in fiscal 2016 and 2015 primarily due to increased environmental project spending using cash generated from operations and available lines of credit.

Environmental Compliance

Our commitment to recycling and operating our business in an environmentally responsible manner requires us to continue to invest in facilities that improve our environmental presence in the communities in which we operate. As part of our capital expenditures, we invested $14 million, $10 million and $8 million for environmental projects in fiscal 2016, 2015 and 2014, respectively. We plan to invest in the range of $19 million in capital expenditures for environmental projects in fiscal 2017. These projects include investments in storm water systems and equipment to ensure ongoing compliance with air quality and other environmental regulations.

We have been identified by the United States Environmental Protection Agency ("EPA") as one of the potentially responsible parties that own or operate or formerly owned or operated sites which are part of or adjacent to the Portland Harbor Superfund site ("the Site"). See Note 9 – Commitments and Contingencies in the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report for a discussion of this matter. We have insurance policies that we believe will provide reimbursement for costs we incur for defense, remediation and mitigation for natural resource damages claims in connection with the Site, although there are no assurances that those policies will cover all of the costs which we may incur. Significant cash outflows in the future related to the Site could reduce the amounts available for borrowing that could otherwise be used for working capital, capital expenditures, dividends share repurchases, and acquisitions could result in our failure to maintain compliance with certain covenants in our debt agreements, and could adversely impact our liquidity.

Share Repurchase Program

Pursuant to our amended share repurchase program, we have existing authorization to repurchase up to approximately 1.8 million shares of our Class A common stock when we deem such repurchases to be appropriate. We evaluate long- and short-range forecasts as well as anticipated sources and uses of cash before determining the course of action in our share repurchase program. As of the beginning of fiscal 2015, we had repurchased approximately 6.9 million shares of our Class A common stock under the program.

We repurchased approximately 68 thousand shares for a total of $1 million and 203 thousand shares for a total of $3 million in open-market transactions in fiscal 2015 and 2016, respectively.

Assessment of Liquidity and Capital Resources

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

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

Off-Balance Sheet Arrangements

None.

Contractual Obligations and Commitments

We have certain contractual obligations to make future payments. The following table summarizes these future obligations as of August 31, 2016 (in thousands):

	Payment Due by Period						
	2017	2018	2019	2020	2021	Thereafter	Total
Contractual Obligations							
Long-term debt[1]	$7,737	$142	$98	$89	$180,047	$ 352	$188,465
Interest payments on long-term debt[2]	5,454	5,469	5,452	5,446	3,636	80	25,537
Capital leases, including interest	1,164	951	845	845	708	2,081	6,594
Operating leases	21,190	17,946	14,649	10,667	6,065	22,212	92,729
Purchase obligations[3]	53,023	11,218	11,681	11,428	1,920	7,987	97,257
Other[4]	445	388	311	308	305	2,744	4,501
Total	$89,013	$36,114	$33,036	$28,783	$192,681	$ 35,456	$415,083

(1) Long-term debt represents the principal amounts of all outstanding long-term debt, maturities of which extend to 2027.

(2) Interest payments on long-term debt are based on interest rates in effect as of August 31, 2016. As contractual interest rates and the amount of debt outstanding is variable in certain cases, actual cash payments may differ from the estimates provided.

(3) Purchase obligations include all enforceable, legally binding agreements to purchase goods or services that specify all significant terms, regardless of the duration of the agreement, including purchases of inventory items to be sold in the ordinary course of business.

(4) Other contractual obligations consist of pension funding obligations and other accrued liabilities.

We maintain stand-by letters of credit to provide support for certain obligations, including workers' compensation and performance bonds. At August 31, 2016, we had $16 million outstanding under these arrangements.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires us to make certain judgments, estimates, and assumptions regarding uncertainties that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions and judgments about matters that are inherently uncertain at the time the estimate is made, if different estimates reasonably could have been used, or if changes in the estimate that are reasonably likely to occur could materially impact our consolidated financial statements. We deem critical accounting policies to be those that are most important to the portrayal of our financial condition and results of operations. Because of the uncertainty inherent in

these matters, actual results could differ from the estimates we use in applying the critical accounting policies. We are not currently aware of any reasonably likely events or circumstances that would result in materially different amounts being reported.

Our critical accounting estimates include those related to goodwill, long-lived assets, environmental costs, inventories, accounting for business combinations and revenue recognition.

Goodwill

We evaluate goodwill for impairment annually and upon the occurrence of certain triggering events or substantive changes in circumstances that indicate that the fair value of goodwill may be impaired. Impairment of goodwill is tested at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment (referred to as a ‘component’). In the fourth quarter of fiscal 2015, we changed our internal organizational and reporting structure to combine the auto and metals recycling businesses, which resulted in the formation of a new operating and reportable segment, AMR, replacing our MRB and APB operating segments. This change led to the identification of components within AMR based on the disaggregation of financial information regularly reviewed by segment management by geographic area. Components with similar economic characteristics were aggregated into reporting units and goodwill was reassigned to the affected reporting units using the relative fair value approach as of the date of the reassessment, July 1, 2015. Beginning on that date, our goodwill was carried by two regionally-defined reporting units, one consisting of a single component with $168 million of allocated goodwill, and the other consisting of two components with similar economic characteristics aggregated into a reporting unit with $9 million of allocated goodwill. Our SMB operating segment has no goodwill allocated to it.

When testing goodwill for impairment, we have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the estimated fair value of a reporting unit is less than its carrying amount. If we elect to perform a qualitative assessment and determine that an impairment is more likely than not, we are then required to perform the two-step quantitative impairment test, otherwise no further analysis is required. We also may elect not to perform the qualitative assessment and, instead, proceed directly to the two-step quantitative impairment test. In the first step of the quantitative impairment test, the fair value of a reporting unit is compared to its carrying value. If the carrying value of a reporting unit exceeds its fair value, the second step of the impairment test is performed for purposes of measuring the impairment. In the second step, the fair value of the reporting unit is allocated to all of the assets and liabilities of the reporting unit to determine an implied goodwill value. This allocation is similar to a purchase price allocation. If the carrying amount of the reporting unit’s goodwill exceeds the implied fair value of goodwill, an impairment loss is recognized in an amount equal to that excess.

We estimate the fair value of the reporting units using an income approach based on the present value of expected future cash flows utilizing a market-based weighted average cost of capital (“WACC”) determined separately for each reporting unit. To estimate the present value of the cash flows that extend beyond the final year of the discounted cash flow model, we employ a terminal value technique, whereby we use estimated operating cash flows minus capital expenditures, adjust for changes in working capital requirements in the final year of the model, and then discount these estimated cash flows by the WACC to establish the terminal value.

The determination of fair value using the income approach requires judgment and involves the use of significant estimates and assumptions about expected future cash flows derived from internal forecasts and the impact of market conditions on those assumptions. Critical assumptions primarily include revenue growth rates driven by future commodity prices and volume expectations, operating margins, capital expenditures, working capital requirements, tax rates, terminal growth rates, discount rates, benefits associated with a taxable transaction and synergistic benefits available to market participants.

We also use a market approach based on earnings multiple data and our Company’s market capitalization to corroborate our reporting units’ valuations. We reconcile the Company’s market capitalization to the aggregated estimated fair value of our reporting units, including consideration of a control premium representing the estimated amount a market participant would pay to obtain a controlling interest.

In the second quarter of fiscal 2016, we identified the combination of sustained weak market conditions, including the adverse effects of lower commodity selling prices and the constraining impact of the lower price environment on the supply of raw materials which negatively impacted volumes, our recent financial performance and a decline in our market capitalization as a triggering event requiring an interim impairment test of goodwill allocated to our reporting units. The measurement date for the interim goodwill impairment test was February 1, 2016.

For the reporting unit with $9 million of goodwill as of February 1, 2016, the first step of the impairment test showed that the fair value of the reporting unit was less than its carrying amount, indicating a potential impairment. Based on the second step of the impairment test, we concluded that no implied fair value of goodwill remained for the reporting unit, resulting in an impairment of the carrying amount of the reporting unit's goodwill totaling $9 million.

For the reporting unit with $166 million of goodwill as of February 1, 2016, the estimated fair value of the reporting unit exceeded its carrying value by approximately 27%. The projections used in the income approach for the reporting unit took into consideration the impact of current market conditions for ferrous and nonferrous recycled metals, the cost of obtaining adequate supply flows of scrap metal including end-of-life vehicles, and recent trends of self-serve parts sales. The projections assumed a limited recovery of operating margins from current depressed levels over a multi-year period, including the benefits of recently initiated cost-saving and productivity improvement measures. The market-based WACC used in the income approach for the reporting unit was 11.2%. The terminal growth rate used in the discounted cash flow model was 2%. Assuming all other components of the fair value estimate were held constant, an increase in the WACC of 200 basis points or more or weaker than anticipated improvements in operating margins could have resulted in a failure of the step one quantitative impairment test for the reporting unit.

In the fourth quarter of fiscal 2016, we performed the annual goodwill impairment test as of July 1, 2016. As of the testing date, the balance of the Company's goodwill of $167 million was carried by a single reporting unit within the AMR operating segment. We elected to first assess qualitative factors to determine whether the existence of events or circumstances led to a determination that it is more likely than not that the estimated fair value of the reporting unit is less than its carrying amount. As a result of the qualitative assessment, we concluded that it is not more likely than not that the fair value of the reporting unit is less than its carrying value as of the testing date and, therefore, no further impairment testing was required.

As a result of the inherent uncertainty associated with forming the estimates described above, actual results could differ from those estimates. Future events and changing market conditions may impact our assumptions as to future revenue and operating margin growth rates, market-based WACC, and other factors that may result in changes in our estimates of the reporting units' fair value. Although we believe the assumptions used in testing our reporting units' goodwill for impairment are reasonable, declines in market conditions from current levels, a trend of weaker than anticipated financial performance for the reporting unit with allocated goodwill, a decline in our share price from current levels for a sustained period of time, or an increase in the market-based WACC, among other factors, could significantly impact our impairment analysis and may result in future goodwill impairment charges that, if incurred, could have a material adverse effect on our financial condition and results of operations.

Long-Lived Assets

We test long-lived tangible and intangible assets for impairment at the asset group level, which is determined based on the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. For our metals recycling operations, an asset group is generally comprised of the regional shredding and export operation along with surrounding feeder yards. For regions with no shredding and export operations, each metals recycling yard is an asset group. For our auto parts operations, generally each auto parts store is an asset group. Our steel manufacturing business is a single asset group. We test our asset groups for impairment when certain triggering events or changes in circumstances indicate that the carrying value of the asset group may be impaired. If the carrying value of the asset group is not recoverable because it exceeds the estimate of future undiscounted cash flows from the use and eventual disposition of the asset group, an impairment loss is recognized by the amount the carrying value exceeds its fair value, if any. The impairment loss is allocated to the long-lived assets of the group on a pro rata basis using the relative carrying amounts of those assets, except that the loss allocated to an individual long-lived asset of the group shall not reduce the carrying amount of that asset below its fair value. Fair value is determined primarily using the cost and market approaches. During fiscal 2016, we recorded $8 million of impairment charges on long-lived tangible and intangible assets associated with certain regional metals recycling operations and used auto parts store locations. These charges are reported in the Consolidated Statements of Operations within other asset impairment charges, restructuring charges and other exit related activities, or discontinued operations, if related to a component of the Company qualifying for discontinued operations reporting.

With respect to individual long-lived assets, changes in circumstances may merit a change in the estimated useful lives or salvage values of the assets, which are accounted for prospectively in the period of change. For such assets, the useful life is shortened based on our current plans to dispose of or abandon the asset before the end of its original useful life and depreciation is accelerated beginning when that determination is made. During fiscal 2016, we

recognized accelerated depreciation due to shortened useful lives in connection with site closures and idled equipment of $7 million.

Environmental Costs

We operate in industries that inherently possess environmental risks. To manage these risks, we employ both our own environmental staff and outside consultants. Environmental staff and finance personnel meet regularly to discuss environmental risks. We estimate future costs for known environmental remediation requirements and accrue for them on an undiscounted basis when it is probable that we have incurred a liability and the related costs can be reasonably estimated but the timing of incurring the estimated costs is unknown. The regulatory and government management of these projects is complex, which is one of the primary factors that make it difficult to assess the cost of potential and future remediation. When only a wide range of estimated amounts can be reasonably established and no other amount within the range is better than any other, the low end of the range is recorded in the financial statements. If further developments or resolution of an environmental matter result in facts and circumstances that are significantly different than the assumptions used to develop these liabilities, the accrual for environmental remediation could be materially understated or overstated. Adjustments to these liabilities are made when additional information becomes available that affects the estimated costs to study or remediate any environmental issues or when expenditures for which accruals are established are made. The factors we consider in the recognition and measurement of environmental liabilities include:

- Current regulations, both at the time the liability is established and during the course of the investigation or remediation process, which specify standards for acceptable remediation;
- Information about the site which becomes available as the site is studied and remediated;
- The professional judgment of senior level internal staff, who take into account similar, recent instances of environmental remediation issues, and studies of our sites, among other considerations;
- Available technologies that can be used for remediation; and
- The number and financial condition of other potentially responsible parties and the extent of their responsibility for the costs of study and remediation.

Our accrued environmental liabilities as of August 31, 2016 included $1 million related to third party investigation costs for the Portland Harbor Superfund site. Because there has not been a determination of the total cost of the investigations, the remediation that will be required, the amount of natural resource damages or how the costs of the ongoing investigations and any remedy and natural resource damages will be allocated among the PRPs, we believe it is not possible to reasonably estimate the amount or range of costs which it is likely or reasonably possible that we may incur in connection with the Site, although such costs could be material to our financial position, results of operations, cash flows and liquidity. Therefore, no additional amounts have been accrued. See Contingencies – Environmental in Note 9 – Commitments and Contingencies in the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report.

Inventories

Our inventories primarily consist of processed and unprocessed scrap metal (ferrous, nonferrous, and nonferrous recovered joint product arising from the manufacturing process), semi-finished steel products (billets), finished steel products (primarily rebar, merchant bar and wire rod) and used and salvaged vehicles, which are reported within finished goods. Inventories are stated at the lower of cost or market. We consider estimated future selling prices when determining the estimated net realizable value for our inventory. As AMR generally sells its recycled ferrous metal under contracts that provide for shipment within 30 to 60 days after the price is agreed, we utilize the selling prices under committed contracts and sales orders for determining the estimated market price of quantities on hand.

The accounting process we use to record metal quantities relies on significant estimates. With respect to unprocessed metal inventory, we rely on weighed quantities that are reduced by estimated amounts that are moved into production. These estimates utilize estimated recoveries and yields that are based on historical trends. Over time, these estimates are reasonably good indicators of what is ultimately produced; however, actual recoveries and yields can vary depending on product quality, moisture content and source of the unprocessed metal. If ultimate recoveries and yields are significantly different than estimated, the value of our inventory could be materially overstated or understated. To assist in validating the reasonableness of these estimates, we periodically review shrink factors and perform monthly physical inventory estimates. However, due to variations in product density, holding period and production processes

utilized to manufacture the product, physical inventories will not necessarily detect all variances. To mitigate this risk, we adjust the ferrous physical inventories when the volume of a commodity is low and a physical inventory count can more accurately estimate the remaining volume.

Business Combinations

In a business combination, we recognize the assets acquired, the liabilities assumed, and any noncontrolling interests in the acquiree at the acquisition date, measured at their fair values as of that date, generally using a market-based income approach. Measuring assets and liabilities at fair value requires us to determine the price that would be paid by a third party market participant based on the highest and best use of the assets or interests acquired. We utilize management estimates that incorporate input from an independent third party valuation firm in our determination of these fair values. Such estimates and valuations require us to make significant assumptions, including projections of future events and operating performance and determining the highest and best use of the assets or interests acquired. Acquisition costs are expensed as incurred.

Revenue Recognition

We recognize revenue when we have a contract or purchase order from a customer with a fixed or determinable price, the title and risk of loss transfer to the buyer and collectibility is reasonably assured. Title for both metal and finished steel products transfers based on contract terms. A significant portion of our ferrous export sales of recycled metal are made with letters of credit, reducing credit risk. However, domestic recycled ferrous metal sales, nonferrous sales and sales of finished steel are generally made on open account. Nonferrous export sales typically require a deposit prior to shipment. All sales made on open account are evaluated for collectibility prior to revenue recognition. Additionally, when detailed documents support revenue recognition based on transfer of title and risk of loss we recognize revenues on partially loaded shipments, which requires an estimate of the product weight involved in any partial shipments at period end. Retail revenues are recognized when customers pay for parts. Historically, there have been very few sales returns and adjustments that impact the ultimate collection of revenues; therefore, no material provisions have been made when the sale is recognized. We present taxes assessed by governmental authorities collected from customers on a net basis. Therefore, the taxes are excluded from revenue and are shown as a liability on our Consolidated Balance Sheets until remitted. See the discussion on credit risk contained in Item 7A of this report.

Recently Issued Accounting Standards

For a description of recent accounting pronouncements that may have an impact on our financial condition, results of operations or cash flows, see Note 3 – Recent Accounting Pronouncements in the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report.

Non-GAAP Financial Measures

Debt, net of cash

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

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

	August 31, 2016	August 31, 2015	August 31, 2014
Short-term borrowings	$ 8,374	$ 584	$ 523
Long-term debt, net of current maturities	184,144	227,572	318,842
Total debt	192,518	228,156	319,365
Less: cash and cash equivalents	26,819	22,755	25,672
Total debt, net of cash	$ 165,699	$ 205,401	$ 293,693

Net borrowings (repayment) of debt

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

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

	Fiscal 2016	Fiscal 2015	Fiscal 2014
Borrowings from long-term debt	$152,311	$140,536	$313,207
Proceeds from line of credit	135,500	266,500	469,500
Repayment of long-term debt	(187,951)	(231,103)	(368,496)
Repayment of line of credit	(135,500)	(266,500)	(478,000)
Net repayments of debt	$(35,640)	$(90,567)	$(63,789)

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

We present these non-GAAP measures as we believe they provide a meaningful presentation of our results from business operations excluding adjustments for goodwill impairment charges, other asset impairment charges, the non-cash write-off of debt issuance costs as a result of the renewal of our credit facility in April 2016, and restructuring charges and other exit-related activities, that are not related to underlying business operational performance and improve the period-to-period comparability of our results from business operations. These measures also exclude the impact on operating results in fiscal 2015 from the resale or modification of the terms, each at significantly lower prices, of certain previously contracted bulk ferrous shipments for delivery during the first and second quarters of fiscal 2015. Due to the sharp declines in selling prices that occurred in the first and second quarters of fiscal 2015, the revised prices associated with these shipments were significantly lower than the prices in the original sales contracts entered into between August and November 2014. Beginning in fiscal 2016, recoveries resulting from settlements with the original contract parties, which are reported within SG&A expense in the Consolidated Statements of Operations, are also excluded from the measures.

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

	Fiscal 2016	Fiscal 2015	Fiscal 2014
Consolidated operating income (loss):			
As reported	$(7,842)	$(195,529)	$24,364
Goodwill impairment charges	8,845	141,021	—
Other asset impairment charges	20,682	45,119	1,460
Restructuring charges and other exit-related activities	6,781	13,008	6,830
Resale or modification of previously contracted shipments, net of recoveries	(694)	6,928	—
Adjusted	$27,772	$10,547	$32,654
AMR operating income (loss):			
As reported	$22,626	$(164,031)	$55,089
Goodwill impairment charges	8,845	141,021	—
Other asset impairment charges	18,379	44,374	928
Resale or modification of previously contracted shipments, net of recoveries	(694)	6,928	—
Adjusted	$49,156	$28,292	$56,017

SMB operating income:

As reported	$3,734	$20,378	$18,538
Other asset impairment charges	2,224	—	—
Adjusted	$5,958	$20,378	$18,538

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

	Fiscal 2016	Fiscal 2015	Fiscal 2014
Net income (loss) from continuing operations attributable to SSI:			
As reported	$(18,061)	$(189,782)	$8,733
Goodwill impairment charges	8,845	141,021	—
Other asset impairment charges	20,682	45,119	1,460
Restructuring charges and other exit-related activities	6,781	13,008	6,830
Resale or modification of previously contracted shipments, net of recoveries	(694)	6,928	—
Non-cash write-off of debt issuance costs	768	—	—
Income tax expense (benefit) allocated to adjustments[1]	529	(12,703)	(1,430)
Adjusted	$18,850	$3,591	$15,593
Diluted earnings per share from continuing operations attributable to SSI:			
As reported	$(0.66)	$(7.03)	$0.32
Goodwill impairment charges, per share	0.32	5.22	—
Other asset impairment charges, per share	0.76	1.67	0.05
Restructuring charges and other exit-related activities per share	0.25	0.48	0.25
Resale or modification of certain previously contracted shipments, net of recoveries, per share	(0.03)	0.26	—
Non-cash write-off of debt issuance costs, per share	0.03	—	—
Income tax expense (benefit) allocated to adjustments, per share[1]	0.02	(0.47)	(0.05)
Adjusted[2]	$0.69	$0.13	$0.58

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

(2) May not foot due to rounding.

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Commodity Price Risk

We are exposed to commodity price risk, mainly associated with variations in the market price for ferrous and nonferrous metals, including scrap metal, finished steel products, autobodies and other commodities. The timing and magnitude of industry cycles are difficult to predict and are impacted by general economic conditions. We respond to increases and decreases in forward selling prices by adjusting purchase prices. We actively manage our exposure to commodity price risk and monitor the actual and expected spread between forward selling prices and purchase costs and processing and shipping expense. Sales contracts are based on prices negotiated with our customers, and generally orders are placed 30 to 60 days ahead of shipment date. However, financial results may be negatively impacted when forward selling prices fall more quickly than we can adjust purchase prices or when customers fail to meet their contractual obligations. We assess the net realizable value of inventory ("NRV") each quarter based upon contracted sales orders and estimated future selling prices. Based on contracted sales and estimates of future selling prices, a 10% decrease in the selling price of inventory would not have had a material NRV impact on any of our reportable segments as of August 31, 2016 and 2015.

Interest Rate Risk

We are exposed to market risk associated with changes in interest rates related to our debt obligations. Our revolving credit facility is subject to variable interest rates and therefore have exposure to changes in interest rates. If market interest rates had changed 10% from actual interest rate levels in fiscal 2016 or 2015, the effect on our interest expense and net income would not have been material.

Credit Risk

Credit risk relates to the risk of loss that might occur as a result of non-performance by counterparties of their contractual obligations to take delivery of scrap metal and finished steel products and to make financial settlements of these obligations, or to provide sufficient quantities of scrap metal or payment to settle advances, loans and other contractual receivables in connection with demolition and scrap extraction projects. We manage our exposure to credit risk through a variety of methods, including shipping ferrous scrap metal exports under letters of credit, collection of deposits prior to shipment for certain nonferrous export customers, establishment of credit limits for sales on open terms, credit insurance and designation of collateral and financial guarantees securing advances, loans and other contractual receivables.

AMR ships nearly all ferrous bulk sales to foreign customers under contracts supported by letters of credit issued or confirmed by banks it deems creditworthy. The letters of credit ensure payment by the customer. As AMR generally sells its export recycled ferrous metal under contracts or orders that generally provide for shipment within 30 to 60 days after the price is agreed, AMR's customers typically do not have difficulty obtaining letters of credit from their banks in periods of rising ferrous prices, as the value of the letters of credit are collateralized by the value of the inventory on the ship. However, in periods of significantly declining prices, AMR's customers may not be able to obtain letters of credit for the full sales value of the inventory to be shipped.

As of August 31, 2016 and 2015, 34% and 28%, respectively, of our trade accounts receivable balance were covered by letters of credit. Of the remaining balance, 94% and 95% was less than 60 days past due as of August 31, 2016 and 2015 respectively.

Foreign Currency Exchange Rate Risk

We are exposed to foreign currency exchange rate risk, mainly associated with sales transactions and related accounts receivable denominated in the U.S. Dollar by our Canadian subsidiary with a functional currency of the Canadian Dollar. In certain instances, we use derivatives to manage some portion of this risk. Our derivatives are agreements with independent counterparties that provide for payments based on a notional amount. As of August 31, 2016, we did not have any derivative contracts.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management's Annual Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

The Company's internal control over financial reporting includes policies and procedures that relate to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the Company; provide reasonable assurance that transactions are recorded as necessary to permit the preparation of the Company's consolidated financial statements in accordance with generally accepted accounting principles and that the receipts and expenditures of the Company are being made only in accordance with authorization of the Company's management and directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projection of any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies and procedures may deteriorate.

Management of the Company assessed the effectiveness of the Company's internal control over financial reporting using the criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on its assessment, management determined that the Company's internal control over financial reporting was effective as of August 31, 2016.

PricewaterhouseCoopers LLP, the independent registered public accounting firm that audited the Company's consolidated financial statements included in this Annual Report, also audited the effectiveness of the Company's internal control over financial reporting as of August 31, 2016, as stated in their report included herein.

Tamara L. Lundgren	Richard D. Peach
President and Chief Executive Officer	Senior Vice President, Chief Financial Officer and Chief of Corporate Operations
October 25, 2016	October 25, 2016

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Schnitzer Steel Industries, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income (loss), equity and cash flows present fairly, in all material respects, the financial position of Schnitzer Steel Industries, Inc. and its subsidiaries at August 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended August 31, 2016 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of August 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company’s management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it classifies deferred income taxes in fiscal 2016.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may

deteriorate.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Portland, Oregon
October 25, 2016

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SCHNITZER STEEL INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands)

	August 31, 2016	2015
Assets		
Current assets:		
Cash and cash equivalents	$26,819	$22,755
Accounts receivable, net	113,952	111,492
Inventories	132,972	156,532
Deferred income taxes	—	2,792
Refundable income taxes	1,254	7,263
Prepaid expenses and other current assets	24,809	21,531
Total current assets	299,806	322,365
Property, plant and equipment, net	392,820	427,554
Investments in joint ventures	13,616	15,320
Goodwill	166,847	175,676
Intangibles, net	4,931	6,353
Other assets	13,409	15,031
Total assets	$891,429	$962,299
Liabilities and Equity		
Current liabilities:		
Short-term borrowings	$8,374	$584
Accounts payable	58,439	57,105
Accrued payroll and related liabilities	29,116	25,478
Environmental liabilities	1,967	924
Accrued income taxes	—	148
Other accrued liabilities	35,758	36,207
Total current liabilities	133,654	120,446
Deferred income taxes	16,682	19,138
Long-term debt, net of current maturities	184,144	227,572
Environmental liabilities, net of current portion	44,383	45,869
Other long-term liabilities	11,134	10,723
Total liabilities	389,997	423,748
Commitments and contingencies (Note 9)		
Schnitzer Steel Industries, Inc. ("SSI") shareholders' equity:		
Preferred stock – 20,000 shares $1.00 par value authorized, none issued	—	—
Class A common stock – 75,000 shares $1.00 par value authorized, 26,482 and 26,474 shares issued and outstanding	26,482	26,474
Class B common stock – 25,000 shares $1.00 par value authorized, 306 and 306 shares issued and outstanding	306	306
Additional paid-in capital	30,948	26,211
Retained earnings	480,100	520,066
Accumulated other comprehensive loss	(40,115)	(38,522)
Total SSI shareholders' equity	497,721	534,535
Noncontrolling interests	3,711	4,016
Total equity	501,432	538,551
Total liabilities and equity	$891,429	$962,299

See Notes to the Consolidated Financial Statements.

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

	Year Ended August 31,		
	2016	2015	2014
Revenues	$1,352,543	$1,915,399	$2,534,926
Operating expense:			
Cost of goods sold	1,175,988	1,742,678	2,315,955
Selling, general and administrative	148,908	170,592	187,513
Income from joint ventures	(819)	(1,490)	(1,196)
Goodwill impairment charges	8,845	141,021	—
Other asset impairment charges	20,682	45,119	1,460
Restructuring charges and other exit-related activities	6,781	13,008	6,830
Operating income (loss)	(7,842)	(195,529)	24,364
Interest expense	(8,889)	(9,191)	(10,597)
Other income, net	1,226	4,256	1,215
Income (loss) from continuing operations before income taxes	(15,505)	(200,464)	14,982
Income tax (expense) benefit	(735)	12,615	(2,582)
Income (loss) from continuing operations	(16,240)	(187,849)	12,400
Loss from discontinued operations, net of tax	(1,348)	(7,227)	(2,809)
Net income (loss)	(17,588)	(195,076)	9,591
Net income attributable to noncontrolling interests	(1,821)	(1,933)	(3,667)
Net income (loss) attributable to SSI	$(19,409)	$(197,009)	$5,924
Net income (loss) per share attributable to SSI:			
Basic:			
Income (loss) per share from continuing operations attributable to SSI	$(0.66)	$(7.03)	$0.33
Loss per share from discontinued operations attributable to SSI	(0.05)	(0.27)	(0.10)
Net income (loss) per share attributable to SSI[(1)]	$(0.71)	$(7.29)	$0.22
Diluted:			
Income (loss) per share from continuing operations attributable to SSI	$(0.66)	$(7.03)	$0.32
Loss per share from discontinued operations attributable to SSI	(0.05)	(0.27)	(0.10)
Net income (loss) per share attributable to SSI[(1)]	$(0.71)	$(7.29)	$0.22
Weighted average number of common shares:			
Basic	27,229	27,010	26,834
Diluted	27,229	27,010	27,000
Dividends declared per common share	$0.750	$0.750	$0.750

(1) May not foot due to rounding.
See Notes to the Consolidated Financial Statements.

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

	Year Ended August 31,		
	2016	2015	2014
Net income (loss)	$(17,588)	$(195,076)	$9,591
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	(530)	(23,346)	(4,240)
Cash flow hedges, net	240	(298)	179
Pension obligations, net	(1,303)	(2,237)	781
Total other comprehensive loss, net of tax	(1,593)	(25,881)	(3,280)
Comprehensive income (loss)	(19,181)	(220,957)	6,311
Less comprehensive income attributable to noncontrolling interests	(1,821)	(1,933)	(3,667)
Comprehensive income (loss) attributable to	$(21,002)	$(222,890)	$2,644

SSI

See Notes to the Consolidated Financial Statements.

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SCHNITZER STEEL INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF EQUITY
(in thousands)

	Common Stock Class A		Class B		Additional Paid-in	Retained Earnings	Accumulated Other Comprehensive Loss	Total SSI Shareholders' Equity	Noncontrolling Interests	Total Equity
	Shares	Amount	Shares	Amount	Capital					
Balance as of August 31, 2013	26,171	$26,171	393	$393	$7,476	$751,879	$(9,361)	$776,558	$4,641	$781,199
Net income	—	—	—	—	—	5,924	—	5,924	3,667	9,591
Other comprehensive loss, net of tax	—	—	—	—	—	—	(3,280)	(3,280)	—	(3,280)
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(3,115)	(3,115)
Restricted stock withheld for taxes	(59)	(59)	—	—	(1,519)	—	—	(1,578)	—	(1,578)
Issuance of restricted stock	176	176	—	—	(176)	—	—	—	—	—
Stock options exercised	9	9	—	—	231	—	—	240	—	240
Class B common stock converted to Class A common stock	87	87	(87)	(87)	—	—	—	—	—	—
Share-based compensation expense	—	—	—	—	14,506	—	—	14,506	—	14,506
Excess tax deficiency from stock options exercised and restricted stock units vested	—	—	—	—	(1,354)	—	—	(1,354)	—	(1,354)
Cash dividends	—	—	—	—	—	(20,232)	—	(20,232)	—	(20,232)
Balance as of August 31, 2014	26,384	26,384	306	306	19,164	737,571	(12,641)	770,784	5,193	775,977
Net income (loss)	—	—	—	—	—	(197,009)	—	(197,009)	1,933	(195,076)
Other comprehensive loss, net of tax	—	—	—	—	—	—	(25,881)	(25,881)	—	(25,881)
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(3,110)	(3,110)
	(68)	(68)	—	—	(1,279)	—	—	(1,347)	—	(1,347)

Share repurchases										
Restricted stock withheld for taxes	(92)	(92)	—	—	(1,905)	—	—	(1,997)	—	(1,997)
Issuance of restricted stock	250	250	—	—	(250)	—	—	—	—	—
Share-based compensation expense	—	—	—	—	10,481	—	—	10,481	—	10,481
Cash dividends	—	—	—	—	—	(20,496)	—	(20,496)	—	(20,496)
Balance as of August 31, 2015	26,474	26,474	306	306	26,211	520,066	(38,522)	534,535	4,016	538,551
Net income (loss)	—	—	—	—	—	(19,409)	—	(19,409)	1,821	(17,588)
Other comprehensive loss, net of tax	—	—	—	—	—	—	(1,593)	(1,593)	—	(1,593)
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(2,126)	(2,126)
Share repurchases	(203)	(203)	—	—	(3,276)	—	—	(3,479)	—	(3,479)
Restricted stock withheld for taxes	(132)	(132)	—	—	(2,081)	—	—	(2,213)	—	(2,213)
Issuance of restricted stock	343	343	—	—	(343)	—	—	—	—	—
Share-based compensation expense	—	—	—	—	10,437	—	—	10,437	—	10,437
Cash dividends	—	—	—	—	—	(20,557)	—	(20,557)	—	(20,557)
Balance as of August 31, 2016	26,482	$26,482	306	$306	$30,948	$480,100	$(40,115)	$497,721	$3,711	$501,432

See Notes to the Consolidated Financial Statements.

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

	Year Ended August 31,		
	2016	2015	2014
Cash flows from operating activities:			
Net income (loss)	$(17,588)	$(195,076)	$9,591
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Goodwill impairment charges	8,845	141,021	—
Other asset impairment charges	20,682	45,119	1,460
Exit-related asset impairment charges, net of gains	1,790	6,502	566
Write-off of debt issuance costs	768	—	—
Depreciation and amortization	54,630	67,936	79,209
Inventory write-down	710	3,031	—
Deferred income taxes	507	(1,988)	(3,815)
Undistributed equity in earnings of joint ventures	(819)	(1,490)	(1,196)
Share-based compensation expense	10,437	10,481	14,506
Excess tax benefit from share-based payment arrangements	—	(343)	(194)
Gain on the disposal of assets	(465)	(2,875)	(1,126)
Unrealized foreign exchange (gain) loss, net	(109)	(1,909)	240
Bad debt expense (recoveries), net	131	(264)	449
Changes in assets and liabilities, net of acquisitions:			
Accounts receivable	(10,693)	55,600	(16,360)
Inventories	27,504	69,256	36,264
Income taxes	5,861	(5,846)	4,129
Prepaid expenses and other current assets	(1,864)	2,403	(2,453)
Other long-term assets	266	1,064	996
Accounts payable	(763)	(35,638)	9,409
Accrued payroll and related liabilities	3,633	(6,330)	8,114
Other accrued liabilities	(4,362)	(2,710)	(91)
Environmental liabilities	(451)	(702)	(1,581)
Other long-term liabilities	30	(3,384)	1,825
Distributed equity in earnings of joint ventures	560	770	1,310
Net cash provided by operating activities	99,240	144,628	141,252
Cash flows from investing activities:			
Capital expenditures	(34,571)	(32,297)	(39,147)
Acquisitions, net of cash acquired	—	(150)	(2,160)
Joint venture payments, net	(11)	(1)	(3,765)
Proceeds from sale of assets	4,106	4,270	3,841
Net cash used in investing activities	(30,476)	(28,178)	(41,231)
Cash flows from financing activities:			
Proceeds from line of credit	135,500	266,500	469,500
Repayment of line of credit	(135,500)	(266,500)	(478,000)
Borrowings from long-term debt	152,311	140,536	313,207
Repayment of long-term debt	(187,951)	(231,103)	(368,496)
Payment of debt issuance costs	(1,011)	(978)	—
Repurchase of Class A common stock	(3,479)	(1,347)	—
Taxes paid related to net share settlement of share-based payment arrangements	(2,213)	(1,997)	(1,578)
Excess tax benefit from share-based payment arrangements	—	343	194

Stock options exercised	—	—	240
Distributions to noncontrolling interest	(2,126)	(3,110)	(3,115)
Contingent consideration paid relating to business acquisitions	—	(759)	—
Dividends paid	(20,444)	(20,336)	(20,126)
Net cash used in financing activities	(64,913)	(118,751)	(88,174)
Effect of exchange rate changes on cash	213	(616)	344
Net increase (decrease) in cash and cash equivalents	4,064	(2,917)	12,191
Cash and cash equivalents as of beginning of year	22,755	25,672	13,481
Cash and cash equivalents as of end of year	$26,819	$22,755	$25,672

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	Year Ended August 31,		
	2016	2015	2014
SUPPLEMENTAL DISCLOSURES:			
Cash paid (received) during the year for:			
Interest	$6,077	$7,138	$8,838
Income taxes paid (refunds received), net	$(5,691)	$(1,866)	$69
Schedule of noncash investing and financing transactions:			
Purchases of property, plant and equipment included in current liabilities	$8,268	$6,086	$7,249

See Notes to the Consolidated Financial Statements.

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

Note 1 – Nature of Operations
Founded in 1906, Schnitzer Steel Industries, Inc. (the "Company"), an Oregon corporation, is one of North America's largest recyclers of ferrous and nonferrous scrap metal, including end-of-life vehicles, and a manufacturer of finished steel products.
The Company has two reportable segments as follows: the Auto and Metals Recycling ("AMR") business and the Steel Manufacturing Business ("SMB"). AMR buys, collects, processes, recycles, sells and brokers scrap metal through its operation of one of the largest metals recycling businesses in North America and operates one of the country's leading networks of self-service used auto parts stores which supplies AMR's shredding facilities with autobodies that are processed into saleable recycled metal. SMB purchases substantially all of its recycled metal from AMR and uses its mini-mill to process the recycled metal into finished steel products.
As of August 31, 2016, all of the Company's facilities were located in the United States ("U.S.") and its territories and Canada.
Note 2 – Summary of Significant Accounting Policies
Principles of Consolidation
The Consolidated Financial Statements include the accounts of the Company and its majority-owned and wholly-owned subsidiaries. The equity method of accounting is used for investments in joint ventures over which the Company has significant influence but does not have effective control. All significant intercompany account balances, transactions, profits and losses have been eliminated. All transactions and relationships with potential variable interest entities are evaluated to determine whether the Company is the primary beneficiary of the entities, therefore requiring consolidation. The Company does not have any variable interest entities requiring consolidation.
Accounting Changes
In April 2014, an accounting standard update was issued that amends the requirements for reporting discontinued operations, which may include a component of an entity or a group of components of an entity. The amendments limit discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have, or will have, a major effect on an entity's operations and financial results. The amendments require expanded disclosure about the assets, liabilities, revenues and expenses of discontinued operations. Further, the amendments require an entity to disclose the pretax profit or loss of an individually significant component that is being disposed of that does not qualify for discontinued operations reporting. The Company adopted the new requirement in the first quarter of fiscal 2016 with no impact to the Consolidated Financial Statements. The standard is to be applied prospectively to all disposals or classifications as held for sale of components and all businesses that, on acquisition, are classified as held for sale that occur beginning in the first quarter of fiscal 2016, and interim periods within that fiscal year.
In November 2015, an accounting standard update was issued that requires deferred tax liabilities and assets be classified as noncurrent in a statement of financial position. To simplify the presentation of the Company's deferred tax liabilities and assets, along with valuation allowances against deferred tax assets, the Company early-adopted the new requirement as of the beginning of the first quarter of fiscal 2016 and is applying the amendments prospectively. Adoption of the new requirement impacted the classification of the Company's deferred tax liabilities and assets reported in its Consolidated Balance Sheet beginning as of November 30, 2015, and had no impact on its consolidated results of operations and cash flows. The comparative period Consolidated Balance Sheet has not been retrospectively adjusted.
In April 2015, an accounting standard update was issued that clarifies the accounting for cloud computing arrangements that include software licenses. The guidance requires that a cloud computing arrangement that includes a software license be accounted for in the same manner as the acquisition of other software licenses. If the cloud computing arrangement does not include a software license, then it should be accounted for as a service contract. To reduce the complexity of evaluating the accounting for fees paid in a cloud computing arrangement, the Company early-adopted the new requirement as of the beginning of the third quarter of fiscal 2016 and is applying the amendments prospectively to all arrangements entered into or materially modified after adoption. Adoption of the new

requirement results in the recognition of software licenses acquired as part of a cloud computing arrangement within property, plant and equipment in the Company's Consolidated Balance Sheet and recognition of amortization expense within either cost of goods sold or selling, general and administrative expense, depending on the nature of the software license, in the Company's Consolidated Statement of Operations. The new requirement does not represent a substantial change from the manner in which the Company accounted for fees paid in cloud computing arrangements prior to adoption.

Discontinued Operations

The results of discontinued operations are presented separately, net of tax, from the results of ongoing operations for all periods presented. The expenses included in the results of discontinued operations are the direct operating expenses incurred by the disposed components that may be reasonably segregated from the costs of the ongoing operations of the Company. Asset impairments related to the disposed components are also included in the results of discontinued operations. See Note 8 - Discontinued Operations and the Asset Impairment Charges section of this Note for further detail.

Cash and Cash Equivalents

Cash and cash equivalents include short-term securities that are not restricted by third parties and have an original maturity date of 90 days or less. Included in accounts payable are book overdrafts representing outstanding checks in excess of funds on deposit of $3 million and $11 million as of August 31, 2016 and 2015, respectively.

Accounts Receivable, net

Accounts receivable represent amounts primarily due from customers on product and other sales. These accounts receivable, which are reduced by an allowance for doubtful accounts, are recorded at the invoiced amount and do not bear interest. The Company evaluates the collectability of its accounts receivable based on a combination of factors, including whether sales were made pursuant to letters of credit or credit insurance is in place. In cases where management is aware of circumstances that may impair a customer's ability to meet its financial obligations, management records a specific allowance against amounts due and reduces the net recognized receivable to the amount the Company believes will be collected. For all other customers, the Company maintains an allowance that considers the total receivables outstanding, historical collection rates and economic trends. Accounts are written off when all efforts to collect have been exhausted. The allowance for doubtful accounts was $2 million as of August 31, 2016 and 2015.

Inventories

The Company's inventories primarily consist of processed and unprocessed scrap metal (ferrous, nonferrous, and nonferrous recovered joint product arising from the manufacturing process), semi-finished steel products (billets), finished steel products (primarily rebar, wire rod and merchant bar) and used and salvaged vehicles, which are reported within finished goods. Inventories are stated at the lower of cost or market. AMR determines the cost of ferrous and nonferrous inventories using the average cost method and capitalizes substantially all direct costs and yard costs into inventory. AMR allocates material and production costs to joint products using the gross margin method. AMR determines the cost of used and salvaged vehicle inventory based on the average price the Company pays for a vehicle and capitalizes the vehicle cost and substantially all production costs into inventory. SMB determines the cost of its finished steel product inventory based on average costs and capitalizes all direct and indirect costs of manufacturing into inventory. Indirect costs of manufacturing include general plant costs, maintenance and yard costs. The Company considers estimated future selling prices when determining the estimated net realizable value of its inventory. As AMR generally sells its export recycled ferrous metal under contracts that provide for shipment within 30 to 60 days after the price is agreed, it utilizes the selling prices under committed contracts and sales orders for determining the estimated market price of quantities on hand that will be shipped under these contracts and orders. The Company performs periodic physical inventories to verify the quantity of inventory on hand. Due to variations in scrap metal product density, holding period and production processes utilized to manufacture the products, physical inventories will not necessarily detect all variances for scrap metal inventory such that estimates of quantities are required. To mitigate this risk, the Company adjusts its ferrous physical inventories when the volume of a commodity is low and a physical inventory count can more accurately estimate the remaining volume.

Property, Plant and Equipment, net

Property, plant and equipment are recorded at cost. Expenditures for major additions and improvements are capitalized, while routine repair and maintenance costs are expensed as incurred. Interest related to the construction of qualifying assets is capitalized as part of the construction costs and was not material to any of the periods presented. When assets are retired or sold, the related cost and accumulated depreciation are removed from the accounts and

resulting gains or losses are generally included in operating expense. Gains and losses from sales of assets related to an exit activity are reported within restructuring charges and other exit-related activities in the Consolidated Statements of Operations. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets. Upon idling an asset, depreciation continues to be recorded. Leasehold improvements are amortized over the shorter of their estimated useful lives or the remaining lease term.

As of August 31, 2016, the useful lives used for depreciation and amortization were as follows:

	Useful Life (In Years)
Machinery and equipment	3 to 40
Land improvements	3 to 35
Buildings and leasehold improvements	5 to 40
Office equipment	2 to 20
Enterprise Resource Planning ("ERP") systems	7 to 17

Other Assets

The Company's other assets, exclusive of prepaid expenses, consist primarily of receivables from insurers, debt issuance costs, notes and other contractual receivables from suppliers, and assets held for sale. Other assets are reported within either prepaid expenses and other current assets or other assets in the Consolidated Balance Sheets based on their expected use either during or beyond the current operating cycle of one year from the reporting date.

Receivables from insurers represent the portion of insured losses expected to be recovered from the Company's insurance carriers. The receivable is recorded at an amount not to exceed the recorded loss and only if the terms of legally enforceable insurance contracts support that the insurance recovery will not be disputed and is deemed collectible.

Debt issuance costs consist primarily of costs incurred by the Company to enter into or modify its revolving credit facility. The Company reports deferred debt issuance costs within other assets in the Consolidated Balance Sheets and amortizes them to interest expense on a straight-line basis over the contractual term of the arrangement.

Notes and other contractual receivables from suppliers consist primarily of advances to entities in the business of extracting scrap metal through demolition and other activities. Repayment of these advances is in either cash or scrap metal. The Company performs periodic reviews of its notes and other contractual receivables from suppliers to identify credit risks and to assess the overall collectability of the receivables, which typically involves consideration of the value of collateral in the form of scrap metal extracted from demolition and construction projects. A note or other contractual receivable from a supplier is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due in accordance with the contractual terms of the agreement. Once a note or other contractual receivable from a supplier has been identified as impaired, it is measured based on the present value of payments expected to be received, discounted at the receivable's contractual interest rate, or for arrangements that are solely dependent on collateral for repayment, the estimated fair value of the collateral less estimated costs to sell. If the carrying value of the receivable exceeds its recoverable amount, an impairment is recorded for the difference.

A long-lived asset is classified as held for sale upon meeting criteria specified in the accounting standards. An asset classified as held for sale is measured at the lower of its carrying amount or fair value less cost to sell. As of August 31, 2016 and 2015, the Company reported less than $1 million and $2 million, respectively, of assets held for sale within prepaid expenses and other current assets in the Consolidated Balance Sheets. An impairment loss is recognized for any initial or subsequent write-down of the asset to its fair value less cost to sell. The Company determines fair value using Level 3 inputs under the fair value hierarchy consisting of information provided by brokers and other external sources along with management's own assumptions. See the Asset Impairment Charges section of this Note below for tabular presentation of impairment charges recorded by the Company during the fiscal years ended August 31, 2016, 2015 and 2014 on assets held for sale.

Long-Lived Assets
The Company tests long-lived tangible and intangible assets for impairment at the asset group level, which is determined based on the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. For the Company's metals recycling operations, an asset group is generally comprised of the regional shredding and export operation along with surrounding feeder yards. For regions with no shredding and export operations, each metals recycling yard is an asset group. For the Company's auto parts operations, generally each auto parts store is an asset group. The Company's steel manufacturing business is a single asset group. The Company tests its asset groups for impairment when certain triggering events or changes in circumstances indicate that the carrying value of the asset group may be impaired. If the carrying value of the asset group is not recoverable because it exceeds the Company’s estimate of future undiscounted cash flows from the use and eventual disposition of the asset group, an impairment loss is recognized by the amount the carrying value exceeds its fair value, if any. The impairment loss is allocated to the long-lived assets of the group on a pro rata basis using the relative carrying amounts of those assets, except that the loss allocated to an individual long-lived asset of the group shall not reduce the carrying amount of that asset below its fair value. Fair value is determined primarily using the cost and market approaches.
During fiscal 2016 and 2015, the Company recorded impairment charges on long-lived tangible and intangible assets associated with certain regional metals recycling operations and used auto parts store locations.
With respect to individual long-lived assets, changes in circumstances may merit a change in the estimated useful lives or salvage values of the assets, which are accounted for prospectively in the period of change. For such assets, the useful life is shortened based on the Company's current plans to dispose of or abandon the asset before the end of its original useful life and depreciation is accelerated beginning when that determination is made. During fiscal 2016 and 2015, the Company recognized accelerated depreciation due to shortened useful lives in connection with site closures and idled equipment.
See the Asset Impairment Charges section of this Note for tabular presentation of long-lived asset impairment charges and accelerated depreciation. Long-lived asset impairment charges and accelerated depreciation are reported in the Consolidated Statements of Operations within (1) other asset impairment charges; (2) restructuring charges and other exit-related activities if related to a site closure not qualifying for discontinued operations reporting; or (3) discontinued operations, if related to a component of the Company qualifying for discontinued operations reporting.
Investments in Joint Ventures
As of August 31, 2016 and 2015, the Company had five 50%-owned joint venture interests which were accounted for under the equity method of accounting and presented as part of AMR operations. The Company’s investments in equity method joint ventures have resulted in cumulative undistributed earnings of $11 million as of August 31, 2016 and 2015. The joint ventures sell recycled metal to AMR and to SMB at prices that approximate local market rates, which produces intercompany profit. This intercompany profit is eliminated while the products remain in inventory and is not recognized until the finished products are sold to third parties.
A loss in value of an investment in a joint venture that is other than a temporary decline is recognized. Management considers all available evidence to evaluate the realizable value of its investments including the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the joint venture business, and the Company’s intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value. Once management determines that an other-than-temporary impairment exists, the investment is written down to its fair value, which establishes a new cost basis. The Company determines fair value using Level 3 inputs under the fair value hierarchy using an income approach based on a discounted cash flow analysis. During fiscal 2016, the Company recorded an impairment charge of $2 million related to an investment in a joint venture, which is reported within other asset impairment charges in the Consolidated Statements of Operations. See Note 17 - Related Party Transactions for further detail on transactions with joint ventures.

Asset Impairment Charges

The following asset impairment charges, excluding goodwill impairment charges discussed below in this Note, were recorded in the Consolidated Statements of Operations (in thousands):

	Year Ended August 31,		
	2016	2015	2014
Reported within other asset impairment charges(1):			
Long-lived assets	$7,336	$41,676	$—
Accelerated depreciation	6,208	—	—
Investment in joint venture	1,968	—	—
Assets held for sale	1,659	2,558	928
Supplies inventory(1)	2,224	—	—
Other assets(1)	1,287	885	532
	20,682	45,119	1,460
Reported within restructuring charges and other exit-related activities:			
Long-lived assets	468	—	—
Accelerated depreciation	630	3,836	—
Supplies inventory	1,047	—	—
Other assets	35	—	566
	2,180	3,836	566
Reported within discontinued operations:			
Long-lived assets	673	2,666	—
Accelerated depreciation	274	—	—
	947	2,666	—
Total	$23,809	$51,621	$2,026

(1) Other asset impairment charges were incurred in the AMR reportable segment, except for $79 thousand, $745 thousand and $532 thousand of impairment charges on other assets related to Corporate recorded in fiscal 2016, 2015 and 2014, respectively, and $2,224 thousand of impairment charges on supplies inventory related to SMB recorded in fiscal 2016.

Goodwill and Other Intangible Assets, net

Goodwill represents the excess of the purchase price over the net amount of identifiable assets acquired and liabilities assumed in a business combination measured at fair value. The Company evaluates goodwill for impairment annually on July 1 and upon the occurrence of certain triggering events or substantive changes in circumstances that indicate that the fair value of goodwill may be impaired. Impairment of goodwill is tested at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment (referred to as a component). A component of an operating segment is required to be identified as a reporting unit if the component is a business for which discrete financial information is available and segment management regularly reviews its operating results.

In the fourth quarter of fiscal 2015, the Company changed its internal organizational and reporting structure to combine the auto and metals recycling businesses, which resulted in the formation of a new operating and reportable segment, AMR, replacing the former Metals Recycling Business ("MRB") and Auto Parts Business ("APB") operating segments. This change led to the identification of components within AMR based on the disaggregation of financial information regularly reviewed by segment management by geographic area. Components with similar economic characteristics were aggregated into reporting units and goodwill was reassigned to the affected reporting units using the relative fair value approach as of the date of the reassessment, July 1, 2015. Beginning on that date, the Company's goodwill was carried by two regionally-defined reporting units, one consisting of a single component with $168 million of allocated goodwill, and the other consisting of two components with similar economic characteristics aggregated into a reporting unit with $9 million of allocated goodwill.

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

In the first step of the two-step quantitative impairment test, the fair value of a reporting unit is compared to its carrying value. If the carrying value of a reporting unit exceeds its fair value, the second step of the impairment test is performed for purposes of measuring the impairment. In the second step, the fair value of the reporting unit is allocated to all of the assets and liabilities of the reporting unit to determine an implied goodwill value. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of goodwill, an impairment loss will be recognized in an amount equal to that excess.

The Company estimates the fair value of its reporting units using an income approach based on the present value of expected future cash flows, including terminal value, utilizing a market-based weighted average cost of capital ("WACC") determined separately for each reporting unit. The determination of fair value involves the use of significant estimates and assumptions, including revenue growth rates driven by future commodity prices and volume expectations, operating margins, capital expenditures, working capital requirements, tax rates, terminal growth rates, discount rates, benefits associated with a taxable transaction and synergistic benefits available to market participants. In addition, to corroborate the reporting units' valuation, the Company uses a market approach based on earnings multiple data and a reconciliation of the Company's estimate of the aggregate fair value of the reporting units to the Company's market capitalization, including consideration of a control premium. See Note 6 - Goodwill and Other Intangible Assets, net for further detail including the recognition of goodwill impairment charges of $9 million and $141 million during the fiscal years ended August 31, 2016 and 2015, respectively.

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

Acquisitions

The Company recognizes the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. Contingent purchase consideration is recorded at fair value at the date of acquisition. Any excess purchase price over the fair value of the net assets acquired is recorded as goodwill. Within one year from the date of acquisition, the Company may update the value allocated to the assets acquired and liabilities assumed and the resulting goodwill balance as a result of information received regarding the valuation of such assets and liabilities that was not available at the time of purchase. Measuring assets and liabilities at fair value requires the Company to determine the price that would be paid by a third party market participant based on the highest and best use of the assets or interests acquired. Acquisition costs are expensed as incurred.

The Company did not complete any significant acquisitions in fiscal 2016 and 2015. During fiscal 2014, the Company acquired all of the equity interests of a used auto parts business. The acquisition was not material to the Company's financial position or results of operations. Pro forma operating results for this acquisition are not presented, since the aggregate results would not be significantly different than reported results.

Restructuring Charges

Restructuring charges consist of severance, contract termination and other restructuring-related costs. A liability for severance costs is typically recognized when the plan of termination has been communicated to the affected employees and is measured at its fair value at the communication date. Contract termination costs consist primarily of costs that will continue to be incurred under operating leases for their remaining terms without economic benefit to the Company. A liability for contract termination costs is recognized at the date the Company ceases using the rights

conveyed by the lease contract and is measured at its fair value, which is determined based on the remaining contractual lease rentals reduced by estimated sublease rentals. A liability for other restructuring-related costs is measured at its fair value in the period in which the liability is incurred. See Note 10 - Restructuring Charges and Other Exit-Related Activities for further detail.

Accrued Workers' Compensation Costs

The Company is self-insured for the significant majority of workers' compensation claims with exposure limited by various stop-loss insurance policies. The Company estimates the costs of workers' compensation claims based on the nature of the injury incurred and on guidelines established by the applicable state. An accrual is recorded based upon the amount of unpaid claims as of the balance sheet date. Accrued amounts recorded for individual claims are reviewed periodically as treatment progresses and adjusted to reflect additional information that becomes available. The estimated cost of claims incurred but not reported is included in the accrual. The Company accrued $10 million for the estimated cost of unpaid workers' compensation claims as of August 31, 2016 and 2015, which are included in other accrued liabilities in the Consolidated Balance Sheets.

Environmental Liabilities

The Company estimates future costs for known environmental remediation requirements and accrues for them on an undiscounted basis when it is probable that the Company has incurred a liability and the related costs can be reasonably estimated but the timing of incurring the estimated costs is unknown. The Company considers various factors when estimating its environmental liabilities. Adjustments to the liabilities are recorded to selling, general and administrative expense and made when additional information becomes available that affects the estimated costs to study or remediate any environmental issues or when expenditures are made for which liabilities were established. Legal costs incurred in connection with environmental contingencies are expensed as incurred.

When only a wide range of estimated amounts can be reasonably established and no other amount within the range is a better estimate than another, the low end of the range is recorded in the financial statements. In a number of cases, it is possible that the Company may receive reimbursement through insurance or from other potentially responsible parties for a site. In these situations, recoveries of environmental remediation costs from other parties are recognized when the claim for recovery is either realized or realizable. The amounts recorded for environmental liabilities are reviewed periodically as site assessment and remediation progresses at individual sites and adjusted to reflect additional information that becomes available. Due to evolving remediation technology, changing regulations, possible third party contributions, the subjective nature of the assumptions used and other factors, amounts accrued could vary significantly from amounts paid. See "Contingencies – Environmental" in Note 9 – Commitments and Contingencies for further detail.

Loss Contingencies

The Company is subject to certain legal proceedings and contingencies in addition to those related to environmental liabilities discussed above in this Note, the outcomes of which are subject to significant uncertainty. The Company accrues for estimated losses if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The Company uses judgment and evaluates whether a loss contingency arising from litigation or an unasserted claim should be disclosed or recorded. The outcome of legal proceedings and other contingencies is inherently uncertain and often difficult to estimate. Accordingly, if the outcome of legal proceedings and other contingencies is different than the amount accrued by the Company, the Company would record the difference between any previously recorded amount and the full amount at which the matter was resolved, in earnings in the period resolved. As of August 31, 2016 and 2015, accruals for legal contingencies net of corresponding receivables from insurers were not material.

Financial Instruments

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

Fair Value Measurements

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

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

When developing the fair value measurements, the Company uses quoted market prices whenever available or seeks to maximize the use of observable inputs and minimize the use of unobservable inputs when quoted market prices are not available. See Note 6 - Goodwill and Other Intangible Assets, net, and Note 12 - Derivative Financial Instruments for further detail.

Derivatives

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

Derivative contracts for commodities used in normal business operations that are settled by physical delivery, among other criteria, are eligible for and may be designated as normal purchases and normal sales. Contracts that qualify as normal purchases or normal sales are not marked-to-market. The Company does not use derivative instruments for trading or speculative purposes.

Foreign Currency Translation and Transactions

Assets and liabilities of the Company's operations in Canada are translated into U.S. dollars at the period-end exchange rate, revenues and expenses of these operations are translated into U.S. dollars at the average exchange rate for the period, and cash flows of these operations are translated into U.S. dollars using the exchange rates in effect at the time of the cash flows. Translation adjustments are not included in determining net income (loss) for the period, but are recorded in accumulated other comprehensive loss, a separate component of shareholders' equity. Foreign currency transaction gains and losses are generated from the effects of exchange rate changes on transactions denominated in a currency other than the functional currency. Gains and losses on foreign currency transactions are generally included in determining net income (loss) for the period. The Company records these gains and losses in other income, net in the Consolidated Statements of Operations. Net realized and unrealized foreign currency transaction gains and losses were not material for the fiscal years ended August 31, 2016, 2015 and 2014.

Common Stock

Each share of Class A and Class B common stock is entitled to one vote. Additionally, each share of Class B common stock may be converted to one share of Class A common stock. As such, the Company reserves one share of Class A common stock for each share of Class B common stock outstanding. There are currently no meaningful distinctions between the rights of holders of Class A shares and Class B shares.

Share Repurchases

The Company accounts for the repurchase of stock at par value. All shares repurchased are deemed retired. Upon retirement of the shares, the Company records the difference between the weighted average cost of such shares and the par value of the stock as an adjustment to additional paid-in capital, with the excess recorded to retained earnings when additional paid-in capital is not sufficient.

Revenue Recognition

The Company recognizes revenue when it has a contract or purchase order from a customer with a fixed or determinable price, the title and risk of loss transfer to the buyer and collectibility is reasonably assured. Title for both recycled metal and finished steel products transfers based on contract terms. Nearly all of the Company's ferrous export sales of recycled metal are made with letters of credit, reducing credit risk. However, domestic recycled ferrous metal sales, nonferrous sales and sales of finished steel are generally made on open account. Nonferrous export sales typically require a deposit prior to shipment. All sales made on open account are evaluated for collectibility prior to revenue recognition. Additionally, the Company recognizes revenues on partially loaded shipments when detailed documents support revenue recognition based on transfer of title and risk of loss. The Company reports revenue net of the payments made to the supplier of scrap metal when the supplier, and not the Company, is responsible for fulfillment, including the acceptability of the products purchased by the customer. Retail revenues are recognized when customers pay for parts. Historically, there have been very few sales returns and adjustments that impact the ultimate collection of revenues; therefore, no material provisions for returns have been made when sales are recognized. The Company presents taxes assessed by governmental authorities collected from customers on a net basis. Therefore, the taxes are excluded from revenues and are shown as a liability on the Consolidated Balance Sheets until remitted.

Freight Costs

The Company classifies shipping and handling costs billed to customers as revenue and the related costs incurred as a component of cost of goods sold.

Share-Based Compensation

The Company recognizes compensation cost relating to share-based payment transactions with employees and non-employee directors over the vesting period, with the cost measured based on the grant-date fair value of the equity instruments issued, net of an estimated forfeiture rate. See Note 14 – Share-Based Compensation for further detail.

Income Taxes

Income taxes are accounted for using the asset and liability method. This requires the recognition of taxes currently payable or refundable and the recognition of deferred tax assets and liabilities for the future tax consequences of events that are recognized in one reporting period on the Consolidated Financial Statements but in a different reporting period on the tax returns. Tax credits are recognized as a reduction of income tax expense in the year the credit arises. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. Tax benefits arising from uncertain tax positions are recognized when it is more likely than not that the position will be sustained upon examination by the relevant tax authorities. The amount recognized in the financial statements is the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. The Company recognizes interest and penalties, if any, related to uncertain tax positions in income tax expense. See Note 15 – Income Taxes for further detail.

Net Income (Loss) Per Share

Basic net income (loss) per share attributable to SSI is computed by dividing net income (loss) by the weighted average number of outstanding common shares during the periods presented including vested deferred stock units ("DSUs") and restricted stock units ("RSUs") meeting certain criteria. Diluted net income (loss) per share attributable to SSI is computed by dividing net income (loss) by the weighted average number of common shares outstanding, assuming dilution. Potentially dilutive common shares include the assumed exercise of stock options and assumed vesting of performance shares, DSU and RSU awards using the treasury stock method. Certain of the Company's stock options, RSUs and performance share awards were excluded from the calculation of diluted net income (loss) per share because they were antidilutive; however, these options and awards could be dilutive in the future. Net income attributable to noncontrolling interests is deducted from income (loss) from continuing operations to arrive at income (loss) from continuing operations attributable to SSI for purposes of calculating income (loss) per share from continuing operations attributable to SSI. Loss per share from discontinued operations attributable to SSI is presented

separately in the Consolidated Statements of Operations. See Note 16 – Net Income (Loss) Per Share for further detail.

Use of Estimates

The preparation of the Company’s Consolidated Financial Statements in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and reported amounts of revenue and expenses during the reporting period. Examples include valuation of assets received in acquisitions; revenue recognition; the allowance for doubtful accounts; estimates of contingencies, including environmental liabilities and other legal liabilities; goodwill, long-lived asset and indefinite-lived intangible asset valuation; valuation of investments in joint ventures; valuation of certain share-based awards; other asset valuation; inventory valuation; pension plan assumptions; and the assessment of the valuation of deferred income taxes and income tax contingencies. Actual results may differ from estimated amounts.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentration of credit risk consist primarily of cash and cash equivalents, accounts receivable, notes and other contractual receivables from suppliers and derivative financial instruments. The majority of cash and cash equivalents is maintained with one major financial institution. Balances with this and certain other institutions exceeded the Federal Deposit Insurance Corporation insured amount of $250,000 as of August 31, 2016. Concentration of credit risk with respect to accounts receivable is limited because a large number of geographically diverse customers make up the Company’s customer base. The Company controls credit risk through credit approvals, credit limits, credit insurance, letters of credit or other collateral, cash deposits and monitoring procedures. The Company is exposed to a residual credit risk with respect to open letters of credit by virtue of the possibility of the failure of a bank providing a letter of credit. The Company had $40 million and $33 million of open letters of credit as of August 31, 2016 and 2015, respectively.

Note 3 – Recent Accounting Pronouncements

In May 2014, an accounting standard update was issued that clarifies the principles for recognizing revenue from contracts with customers. The update will supersede the existing standard for recognizing revenue. Additional updates have been issued since May 2014 amending aspects of the initial update and providing implementation guidance. The guidance is applicable to all contracts with customers regardless of industry-specific or transaction-specific fact patterns. Further, the guidance requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. The standard is effective for the Company beginning in the first quarter of fiscal 2019, including interim periods within that fiscal year. Upon becoming effective, the Company will apply the amendments in the standard either retrospectively to each prior reporting period presented, or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application. The Company is evaluating the impact of adopting this standard on its consolidated financial position, results of operations and cash flows.

In April 2015, an accounting standard update was issued that amends the requirements for presenting debt issuance costs. The guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the debt liability, consistent with the presentation of a debt discount. This is not applicable to debt issuance costs related to line-of-credit arrangements, as specified in a related accounting standard update issued in August 2015. The standard is effective for the Company beginning in the first quarter of fiscal 2017, including interim periods within that fiscal year, and is to be applied retrospectively to each prior reporting period presented. Adoption of the standard is not expected to have a material impact on the Company's consolidated financial position.

In July 2015, an accounting standard update was issued that requires an entity to measure certain types of inventory, including inventory that is measured using the first-in, first out (FIFO) or average cost method, at the lower of cost and net realizable value. The current accounting standard requires an entity to measure inventory at the lower of cost or market, whereby market could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. The amendments do not apply to inventory that is measured using the last-in,

first-out (LIFO) or retail inventory method. The standard is effective for the Company beginning in the first quarter of fiscal 2018, including interim periods within that fiscal year. Adoption of the standard is not expected to have a material impact on the Company's consolidated financial position, results of operations and cash flows.

In September 2015, an accounting standard update was issued that eliminates the requirement to retrospectively adjust provisional amounts recognized in a business acquisition recorded in previous reporting periods. The amendments, instead, require that the acquirer recognize adjustments to provisional amounts that are identified during the one-year measurement period in the reporting period in which the adjustment amount is determined. The acquirer is required to also record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The standard is effective for the Company beginning in the first quarter of fiscal 2017, including interim periods within that fiscal year. Adoption of the standard is not expected to have a material impact on the Company's consolidated financial position, results of operations and cash flows.

In February 2016, an accounting standard was issued that will supersede the existing lease standard and requiring a lessee to recognize a lease liability and a lease asset on its balance sheet for all leases, including those classified as operating leases under the existing lease standard. The update also expands the required quantitative and qualitative disclosures surrounding leases. This standard is effective for the Company beginning in the first quarter of fiscal 2020, including interim periods within that fiscal year. This standard will be applied using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is evaluating the impact of adopting this standard on its consolidated financial position, results of operations and cash flows.

In March 2016, an accounting standard update was issued that amends several aspects of the accounting for share-based payments, including accounting for income taxes, forfeitures and statutory tax withholding requirements, and classification within the statement of cash flows. The standard is effective for the Company beginning in the first quarter of fiscal 2018, including interim periods within that fiscal year. Early adoption is permitted in any interim or annual period; however, if the Company elects early adoption, it must adopt all of the amendments in the same period. The Company does not expect adoption to have an immediate material impact on its consolidated financial position, results of operations and cash flows.

In June 2016, an accounting standard update was issued that amends guidance on reporting credit losses for assets held at amortized cost basis and available for sale debt securities. For assets held at amortized cost basis, which include trade and other receivables, loans and other financial instruments, the update eliminates the probable initial recognition threshold in current GAAP and, instead, requires an entity to reflect its current estimate of all expected credit losses. For available for sale debt securities, credit losses should be measured in a manner similar to current GAAP; however, the update requires that credit losses be presented as an allowance rather than as a write-down. This standard is effective for the Company beginning in the first quarter of fiscal 2021, including interim periods within that fiscal year. The standard will be applied using a modified retrospective transition approach through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The Company is evaluating the impact of adopting this standard on its consolidated financial position, results of operations and cash flows.

In August 2016, an accounting standard update was issued that addresses how certain cash receipts and cash payments are presented and classified in the statement of cash flows. Among the cash flow matters addressed in the update are payments for costs related to debt prepayments or extinguishments, payments related to settlement of certain types of debt instruments, payments of contingent consideration made after a business combination, proceeds from insurance claims and corporate-owned life insurance policies, and distributions received from equity method investees, among others. The standard is effective for the Company beginning in the first quarter of fiscal 2019, including interim periods within that fiscal year. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period, and all of the amendments must be adopted together in the same period. The amendments will be applied using a retrospective transition method to each period presented, unless impracticable for specific cash flow matters, in which case the amendments would be applied prospectively as of the earliest date practicable. The Company is evaluating the impact of adopting this standard on its consolidated statement of cash

flows.

Note 4 – Inventories

Inventories consisted of the following as of August 31 (in thousands):

	2016	2015
Processed and unprocessed scrap metal	$49,061	$56,860
Semi-finished goods (billets)	8,320	10,648
Finished goods	40,646	50,440
Supplies	34,945	38,584
Inventories	$132,972	$156,532

Note 5 – Property, Plant and Equipment, net

Property, plant and equipment, net consisted of the following as of August 31 (in thousands):

	2016	2015
Machinery and equipment	$659,641	$662,018
Land and improvements	245,266	250,545
Buildings and leasehold improvements	104,121	106,804
Office equipment	49,924	50,083
ERP systems	17,735	17,340
Construction in progress	31,098	19,799
Property, plant and equipment, gross	1,107,785	1,106,589
Less: accumulated depreciation	(714,965)	(679,035)
Property, plant and equipment, net	$392,820	$427,554

Depreciation expense for property, plant and equipment, which includes amortization expense for assets under capital leases, was $53 million, $66 million and $75 million for the years ended August 31, 2016, 2015 and 2014, respectively. Included in these amounts is depreciation expense of $1 million reported within discontinued operations for the years ended August 31, 2015 and 2014, respectively. No depreciation expense was reported within discontinued operations for the year ended August 31, 2016.

Note 6 – Goodwill and Other Intangible Assets, net

In the fourth quarter of fiscal 2014, the Company performed its annual goodwill impairment test and determined that the fair value of each reporting unit for which goodwill was allocated was in excess of its respective carrying value and, therefore, no goodwill impairment was identified. For the former MRB reporting unit with goodwill of $147 million as of July 1, 2014, the calculated fair value exceeded the carrying value by approximately 13%. The projections used in the income approach for MRB took into consideration the challenging market conditions for recycled metals, including the continued constrained supply of scrap metal and level of competition in the Company's domestic markets, the generally weak macroeconomic indicators in the markets in which the Company's customers are based, and the cyclical nature of the industry. The projections assumed a recovery of operating margins over a multi-year period, eventually returning to levels of profitability in the range of average historical levels. Assuming all other components of the fair value estimate were held constant, an increase in the WACC in excess of 100 basis points, or weaker-than-anticipated improvements in either operating margins or volumes, could have resulted in a failure of the step one quantitative impairment test for the MRB reporting unit.

In the second quarter of fiscal 2015, management identified the combination of a significant further weakening in market conditions, continued constrained supply of raw materials due to the lower price environment which negatively impacted volumes, the planned idling or closure of certain production facilities and retail stores, the Company’s recent financial performance and a decline in the Company’s market capitalization during the first half of fiscal 2015 as a triggering event requiring an interim impairment test of goodwill allocated to its reporting units. In connection with the interim impairment test performed in the second quarter of fiscal 2015, the Company used a measurement date of February 1, 2015.

For the former MRB reporting unit with goodwill of $141 million as of February 1, 2015, the first step of the impairment test showed that the fair value of the MRB reporting unit was less than its carrying amount, indicating a potential impairment. Based on the second step of the impairment test, the Company concluded that no implied fair value of goodwill remained for the MRB reporting unit, resulting in an impairment of the entire carrying amount of MRB's goodwill totaling $141 million. The impairment charge is reported within the results of AMR in this report.
For the former APB reporting unit with goodwill of $176 million as of February 1, 2015, the estimated fair value of the reporting unit exceeded its carrying value by approximately 20%. The projections used in the income approach for APB took into consideration the impact of current market conditions for ferrous and nonferrous commodities, the cost of obtaining adequate supply flows of end-of-life vehicles and recent trends of self-serve parts sales. The projections assumed a recovery of operating margins from current depressed levels over a multi-year period, including the benefits from recently initiated productivity improvements and cost-saving measures, but remaining significantly below the level of operating margins experienced in fiscal years 2010 and 2011. The market-based WACC used in the income approach for APB was 10.37%. The terminal growth rate used in the discounted cash flow model was 1%. Assuming all other components of the fair value estimate were held constant, an increase in the WACC of 150 basis points or more or weaker-than-anticipated improvements in operating margins could have resulted in a failure of the step one quantitative impairment test for the APB reporting unit.
In the fourth quarter of fiscal 2015, the Company changed its internal organizational and reporting structure to combine the auto and metals recycling businesses, which resulted in the formation of a new operating and reportable segment, AMR, replacing the former MRB and APB operating segments. This change led to the identification of components within AMR based on the disaggregation of financial information regularly reviewed by segment management by geographic area. Components with similar economic characteristics were aggregated into reporting units and goodwill was reassigned to the affected reporting units using the relative fair value approach as of the date of the reassessment, July 1, 2015. Beginning on that date, the Company's goodwill was carried by two regionally-defined reporting units, one consisting of a single component with $168 million of allocated goodwill, and the other consisting of two components with similar economic characteristics aggregated into a reporting unit with $9 million of allocated goodwill.
During the second quarter of fiscal 2016, management identified the combination of sustained weak market conditions, including the adverse effects of lower commodity selling prices and the constraining impact of the lower price environment on the supply of raw materials which negatively impacted volumes, the Company's recent financial performance and a decline in the Company's market capitalization as a triggering event requiring an interim impairment test of goodwill allocated to its reporting units. In connection with the interim impairment test performed in the second quarter of fiscal 2016, the Company used a measurement date of February 1, 2016.
For the reporting unit with $9 million of goodwill as of February 1, 2016, the first step of the impairment test showed that the fair value of the reporting unit was less than its carrying amount, indicating a potential impairment. Based on the second step of the impairment test, the Company concluded that no implied fair value of goodwill remained for the reporting unit, resulting in an impairment of the entire carrying amount of the reporting unit's goodwill totaling $9 million.
For the reporting unit with $166 million of goodwill as of February 1, 2016, the estimated fair value of the reporting unit exceeded its carrying value by approximately 27%. The projections used in the income approach for the reporting unit took into consideration the impact of current market conditions for ferrous and nonferrous recycled metals, the cost of obtaining adequate supply flows of scrap metal including end-of-life vehicles, and recent trends of self-serve parts sales. The projections assumed a limited recovery of operating margins from current depressed levels over a multi-year period, including the benefits of recently initiated cost-saving and productivity improvement measures. The market-based WACC used in the income approach for the reporting unit was 11.2%. The terminal growth rate used in the discounted cash flow model was 2%. Assuming all other components of the fair value estimate were held constant, an increase in the WACC of 200 basis points or more or weaker than anticipated improvements in operating margins could have resulted in a failure of the step one quantitative impairment test for the reporting unit.
The Company also used a market approach based on earnings multiple data and the Company's market capitalization to corroborate the reporting units' valuations. The Company reconciled its market capitalization to the aggregated estimated fair value of its reporting units, including consideration of a control premium representing the estimated

amount a market participant would pay to obtain a controlling interest. The implied control premium resulting from the difference between the Company's market capitalization (based on the average trading price of the Company's Class A common stock for the two-week period ended February 1, 2016) and the higher aggregated estimated fair value of all of its reporting units was within the historical range of average and mean premiums observed on historical transactions within the steel-making, scrap processing and metals industries. The Company identified specific reconciling items, including market participant synergies, which supported the implied control premium as of February 1, 2016.

In the fourth quarter of fiscal 2016, the Company performed the annual goodwill impairment test as of July 1, 2016. As of the testing date, the balance of the Company's goodwill of $167 million was carried by a single reporting unit within the AMR operating segment. The Company elected to first assess qualitative factors to determine whether the existence of events or circumstances led to a determination that it is more likely than not that the estimated fair value of the reporting unit is less than its carrying amount. As a result of the qualitative assessment, the Company concluded that it was not more likely than not that the fair value of the reporting unit was less than its carrying value as of the testing date and, therefore, no further impairment testing was required.

The determination of fair value of the reporting units used to perform the first step of the impairment test requires judgment and involves significant estimates and assumptions about the expected future cash flows and the impact of market conditions on those assumptions. Due to the inherent uncertainty associated with forming these estimates, actual results could differ from those estimates. Future events and changing market conditions may impact the Company's assumptions as to future revenue and operating margin growth rates, market-based WACC, and other factors that may result in changes in the estimates of the Company's reporting units' fair value. Although management believes the assumptions used in testing the Company's reporting units' goodwill for impairment are reasonable, declines in market conditions from current levels, a trend of weaker than anticipated financial performance for the reporting unit with allocated goodwill, a decline in the Company's share price from current levels for a sustained period of time, or an increase in the market-based WACC, among other factors, could significantly impact the impairment analysis and may result in future goodwill impairment charges that, if incurred, could have a material adverse effect on the Company's financial condition and results of operations.

The gross changes in the carrying amount of goodwill by reportable segment for the years ended August 31, 2016 and 2015 were as follows (in thousands):

	AMR
Balance as of August 31, 2014	$325,903
Acquisitions	201
Foreign currency translation adjustment	(9,407)
Goodwill impairment charge	(141,021)
Balance as of August 31, 2015	175,676
Foreign currency translation adjustment	16
Goodwill impairment charge	(8,845)
Balance as of August 31, 2016	$166,847

Accumulated goodwill impairment charges were $471 million and $462 million, respectively, as of August 31, 2016 and 2015.

The following table presents the Company's intangible assets as of August 31 (in thousands):

	2016		2015	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Covenants not to compete	$6,145	$ (2,791)	$10,382	$ (5,991)
Other intangible assets subject to amortization[1]	1,162	(666)	1,716	(927)
Indefinite-lived intangibles[2]	1,081	—	1,173	—
Total	$8,388	$ (3,457)	$13,271	$ (6,918)

(1) Other intangible assets subject to amortization include leasehold interests, permits and licenses.

(2) Indefinite-lived intangibles include trade names, permits and licenses and real property options.

Total intangible asset amortization expense was $1 million, $2 million and $4 million, respectively, for the years ended August 31, 2016, 2015 and 2014. Included in these amounts is amortization expense of less than $1 million reported within discontinued operations for the years ended August 31, 2015 and 2014. No amortization expense was reported within discontinued operations for the year ended August 31, 2016. Impairments of intangible assets were

immaterial for all periods presented.

The estimated amortization expense, based on current intangible asset balances, during the next five fiscal years and thereafter is as follows (in thousands):

Years Ending August 31,	Estimated Amortization Expense
2017	$ 553
2018	410
2019	303
2020	274
2021	274
Thereafter	2,036
Total	$ 3,850

Note 7 – Debt

Debt consisted of the following as of August 31 (in thousands):

	2016	2015
Bank revolving credit facility, interest at LIBOR plus a spread	$180,000	$215,000
Tax-exempt economic development revenue bonds due January 2021, interest payable monthly at a variable rate (0.7% as of August 31, 2016), secured by a letter of credit	7,700	7,700
Capital lease obligations due through February 2028	4,053	4,608
Other debt obligations	765	848
Total debt	192,518	228,156
Less current maturities	(8,374)	(584)
Debt, net of current maturities	$184,144	$227,572

On April 6, 2016, the Company and certain of its subsidiaries entered into the Third Amended and Restated Credit Agreement (the "Amended Credit Agreement") with Bank of America, N.A. as administrative agent, and the other lenders party thereto, which amends and restates the Company’s existing unsecured credit agreement. The Amended Credit Agreement provides for $335 million and C$15 million in senior secured revolving credit facilities maturing in April 2021. Subject to the terms and conditions of the Amended Credit Agreement, the Company may request that the commitments under the U.S. credit facility be increased by an aggregate amount not exceeding $100 million if certain conditions are met including pre-approval by the lenders and achievement of certain pro forma financial results. Prior to its amendment and renewal, the credit agreement provided for revolving loans of $670 million and C$30 million maturing in April 2017. The Company had $198 million in borrowings outstanding under the credit agreement as of April 5, 2016 prior to its amendment and renewal. As of August 31, 2016 and 2015, borrowings outstanding under the credit facility were $180 million and $215 million, respectively. The weighted average interest rate on amounts outstanding under this facility was 3.01% and 1.95% as of August 31, 2016 and 2015, respectively.

Interest rates on outstanding indebtedness under the Amended Credit Agreement are based, at the Company’s option, on either the London Interbank Offered Rate ("LIBOR"), or the Canadian equivalent, plus a spread of between 1.75% and 2.75%, with the amount of the spread based on a pricing grid tied to the Company’s leverage ratio but no less than 2.50% for the fiscal quarters ended or ending May 31, 2016, August 31, 2016 and November 30, 2016, or the greater of the prime rate, the federal funds rate plus 0.50% or the daily rate equal to one-month LIBOR plus 1.75%, in each case plus a spread of between zero and 1.00% based on a pricing grid tied to the Company's leverage ratio. In addition, commitment fees are payable on the unused portion of the credit facilities at rates between 0.20% and 0.40% based on a pricing grid tied to the Company’s leverage ratio.

The Amended Credit Agreement contains certain customary covenants, including covenants that limit the ability of the Company and its subsidiaries to enter into certain types of transactions. Financial covenants include covenants requiring maintenance of a minimum fixed charge coverage ratio, a maximum leverage ratio and a minimum asset coverage ratio. The Company’s obligations under the Amended Credit Agreement are guaranteed by substantially all of its subsidiaries. The credit facilities and the related guarantees are secured by senior first priority liens on certain of the Company's and its subsidiaries’ assets, including equipment, inventory and accounts receivable.

As of August 31, 2016 and 2015, the Company had $8 million of tax-exempt economic development revenue bonds outstanding with the State of Oregon and scheduled to mature in January 2021. In August 2016, the Company exercised its option to redeem the bonds prior to maturity. The Company repaid the bonds in full in September 2016. The obligation is reported as a current liability within short-term borrowings as of August 31, 2016 on the Consolidated Balance Sheet.

Principal payments on long-term debt and capital lease obligations during the next five fiscal years and thereafter are as follows (in thousands):

Years Ending August 31,	Long-Term Debt	Capital Lease Obligations	Total
2017	$ 7,737	$ 1,164	$ 8,901
2018	142	951	1,093
2019	98	845	943
2020	89	845	934
2021	180,047	708	180,755
Thereafter	352	2,081	2,433
Total	188,465	6,594	195,059
Amounts representing interest and executory costs	—	(2,541)	(2,541)
Total less interest	$ 188,465	$ 4,053	$ 192,518

The Company maintains stand-by letters of credit to provide for certain obligations including workers' compensation and performance bonds. The Company had $16 million outstanding under these arrangements as of August 31, 2016 and 2015.

The Company also had an unsecured, uncommitted $25 million credit line with Wells Fargo Bank, N.A. that expired on April 1, 2016. Interest rates were set by the bank at the time of borrowing. The Company had no borrowings outstanding under this credit line as of August 31, 2015.

Note 8 - Discontinued Operations

In fiscal 2015, the Company ceased operations at seven auto parts stores, six of which qualified for discontinued operations reporting in accordance with the accounting standards in effect at the time prior to adopting the accounting standard update on discontinued operations reporting in the first quarter of fiscal 2016. The operations of the six qualifying stores had previously been reported within the APB reportable segment, which was subsequently replaced by the AMR reportable segment in the fourth quarter of fiscal 2015. In fiscal 2016 and 2015, the Company recorded impairment charges and accelerated depreciation of $1 million and $3 million, respectively, on the long-lived assets of discontinued auto parts stores. Impaired assets in fiscal 2016 consisted primarily of capital lease assets associated with the buildings on two leased properties.

In fiscal 2014, the Company released an environmental liability of $1 million associated with a component disposed of through sale in a prior period. The release was the result of a periodic review of the Company's estimate of future environmental remediation costs associated with the disposed sites, for which it bears responsibility based on contractual agreements.

Operating results of discontinued operations were comprised of the following for the years ended August 31 (in thousands):

	2016	2015	2014
Revenues	$—	$ 8,263	$ 15,682
Loss from discontinued operations before income taxes	$ (1,348)	$ (7,227)	$ (2,888)
Income tax benefit	—	—	79

Loss from discontinued operations, net of tax	$(1,348)	$(7,227)	$(2,809)

Note 9 – Commitments and Contingencies

Commitments

The Company leases a portion of its capital equipment and certain of its facilities under leases that expire at various dates through fiscal 2047. Rent expense was $24 million, $26 million and $27 million for fiscal 2016, 2015 and 2014, respectively.

The table below sets forth the Company’s future minimum obligations under non-cancelable operating leases as of August 31, 2016 (in thousands):

Years ending August 31,	Operating Leases
2017	$ 21,190
2018	17,946
2019	14,649
2020	10,667
2021	6,065
Thereafter	22,212
Total	$ 92,729

Contingencies – Environmental

Changes in the Company’s environmental liabilities for the years ended August 31, 2016 and 2015 were as follows (in thousands):

	Balance 8/31/2014	Liabilities Established (Released), Net	Payments and Other	Ending Balance 8/31/2015	Liabilities Established (Released), Net	Payments and Other	Ending Balance 8/31/2016	Short-Term	Long-Term
AMR	$ 47,961	$ 505	$ (1,972)	$ 46,494	$ 480	$ (852)	$ 46,122	$ 1,859	$ 44,263
Corporate	388	—	(89)	299	—	(71)	228	108	120
Total	$ 48,349	$ 505	$ (2,061)	$ 46,793	$ 480	$ (923)	$ 46,350	$ 1,967	$ 44,383

Auto and Metals Recycling

As of August 31, 2016, AMR had environmental liabilities of $46 million for the potential remediation of locations where it has conducted business or has environmental liabilities from historical or recent activities.

Portland Harbor

In December 2000, the Company was notified by the United States Environmental Protection Agency (“EPA”) under the Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”) that it is one of the potentially responsible parties (“PRPs”) that own or operate or formerly owned or operated sites which are part of or adjacent to the Portland Harbor Superfund site (the “Site”). The precise nature and extent of any cleanup of the Site, the parties to be involved, the process to be followed for any cleanup and the allocation of the costs for any cleanup among responsible parties have not yet been determined, but the process of identifying additional PRPs and beginning allocation of costs is underway. It is unclear to what extent the Company will be liable for environmental costs or natural resource damage claims or third party contribution or damage claims with respect to the Site. While the Company participated in certain preliminary Site study efforts, it is not party to the consent order entered into by the EPA with certain other PRPs, referred to as the “Lower Willamette Group” (“LWG”), for a remedial investigation/feasibility study (“RI/FS”). During fiscal 2007, the Company and certain other parties agreed to an interim settlement with the LWG under which the Company made a cash contribution to the LWG RI/FS. The Company has also joined with more than 80 other PRPs, including the LWG, in a voluntary process to establish an allocation of costs at the Site. These parties have selected an allocation team and have entered into an allocation process design agreement. The LWG has also commenced federal court litigation, which has been stayed, seeking to bring additional parties into the allocation

process.

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

On March 30, 2012, the LWG submitted to the EPA and made available on its website a draft feasibility study ("FS") for the Site based on approximately ten years of work and $100 million in costs classified by the LWG as investigation-related. The draft FS submitted by the LWG identified ten possible remedial alternatives which ranged in estimated cost from approximately $170 million to $250 million (net present value) for the least costly alternative to approximately $1.08 billion to $1.76 billion (net present value) for the most costly alternative and estimated a range of two to 28 years to implement the remedial work, depending on the selected alternative. However, the EPA largely rejected this draft FS, and took over the drafting process. The EPA provided their revised draft FS to the LWG and other key stakeholders in sections, with the final section being made available in August 2015. The revised draft FS identified five possible remedial alternatives which ranged in estimated cost from approximately $550 million to $1.19 billion (net present value) for the least costly alternative to approximately $1.71 billion to $3.67 billion (net present value) for the most costly alternative and estimated a range of four to 18 years to implement the remedial work, depending on the selected alternative.

In November 2015, EPA Region 10 presented its preferred alternative remedy to the National Remedy Review Board ("NRRB"), a peer review group that has been established to review proposed Superfund cleanup decisions for consistency with the Superfund statute, regulations, and guidance. EPA Region 10's preferred alternative presented to the NRRB was a modified version of one of the alternatives (Alternative E) in the revised draft FS, and EPA Region 10 estimated that its preferred alternative would take seven years to implement, with an estimated cost of $1.4 billion (net present value).

In June 2016, the EPA issued its Proposed Plan for the cleanup of the in-river portion of the Site. In the Proposed Plan, the EPA identified its preferred alternative, which includes a combination of dredging, capping, and enhanced natural recovery and which the EPA estimates will take approximately seven years to construct with additional time for monitored natural recovery to occur and cost an estimated $746 million (net present value). This is approximately half of the estimated $1.4 billion (net present value) cost of the very similar preferred alternative that EPA Region 10 presented in November 2015. The Proposed Plan also describes other alternatives that were considered and the criteria the EPA used to compare the alternatives, including estimated costs and construction timelines. In conjunction with the Proposed Plan, the EPA issued its final FS in June 2016. The final FS identifies eight possible remedial alternatives (some of which contain two disposal alternatives, for a total of 13 possible alternative remedial scenarios) which ranged in estimated cost from approximately $316 million to $677 million (net present value) for the least costly alternative to approximately $1.21 billion to $2.67 billion (net present value) for the most costly alternative that the EPA did not screen out and estimates a range of four to 19 years to implement the remedial work, depending on the selected alternative. The final FS includes one alternative (Alternative H) which would involve capping/dredging the entire Site with an estimated cost range from approximately $6.61 billion to $14.29 billion and 62 years to implement. The EPA screened out this Alternative H due to implementability and cost considerations. Each of the draft and final FS also contains a No Action alternative considered as a baseline for comparison with the other alternatives. The FS and the Proposed Plan do not determine or allocate the responsibility for remediation costs. Issuance of the Proposed Plan is part of the continuing process for evaluation and remediation of the Site. There was a 90-day public comment period on the Proposed Plan that closed on September 6, 2016. Approximately 5,300 commenters submitted comments. Following its review and consideration of these comments, the EPA will prepare a summary responding to the submitted comments and select a remedy for the Site in a Record of Decision ("ROD"). The EPA has indicated that it plans to issue the ROD by the end of 2016 or in early January 2017. In the ROD, the EPA may modify the preferred alternative or select a different alternative than that presented in the Proposed Plan based on

new information or public comments. It is uncertain whether the preferred alternative identified by EPA in the Proposed Plan will be the selected remedy in the ROD or whether the EPA will be able to maintain its proposed schedule for issuing the ROD. Even when the ROD is issued, it is likely that there will continue to be significant uncertainty regarding the costs of the selected remedy.

The Company and other stakeholders have identified a number of serious concerns regarding the EPA's risk and remedial alternatives assessments and the EPA's cost estimates, scheduling assumptions and conclusions regarding the feasibility, effectiveness, community impact and assignment of remediation technologies. The EPA’s FS and Proposed Plan are based on data that are more than a decade old and may not accurately represent site or background conditions. In its Proposed Plan, the EPA acknowledged that the assumptions used to estimate costs for the remedial alternatives were developed based on the existing data and will be finalized during the remedial design, after design level data to refine the baseline conditions are obtained. In addition, the FS and Proposed Plan provide only site-wide cost estimates and do not provide sufficient detail regarding costs for specific sediment management areas. Accordingly, it is anticipated that additional pre-remedial design investigative work will need to occur after the ROD is issued in order to provide a re-baseline for costs and determine particular remedial actions for specific areas within the Site.

The next phase in the process following the ROD is the remedial design. The remedial design phase is an engineering phase during which additional technical information and data will be collected, identified and incorporated into technical drawings and specifications developed for the subsequent remedial action. The EPA will be seeking a new coalition of PRPs to perform the remedial design activities. Remediation activities are not expected to commence for a number of years and responsibility for implementing and funding the EPA’s selected remedy will be determined in a separate allocation process. While an allocation process is currently underway, the EPA's FS and its approach to the proposed alternative remedies have raised questions and uncertainty as to how that allocation process will proceed.

Because there has not been a determination of the total cost of the investigations, the remediation that will be required, the amount of natural resource damages or how the costs of the ongoing investigations and any remedy and natural resource damages will be allocated among the PRPs, the Company believes it is not possible to reasonably estimate the amount or range of costs which it is likely to or which it is reasonably possible that it will incur in connection with the Site, although such costs could be material to the Company’s financial position, results of operations, cash flows and liquidity. Among the facts currently being developed are detailed information on the history of ownership of and the nature of the uses of and activities and operations performed on each property within the Site, which are factors that will play a substantial role in determining the allocation of investigation and remedy costs among the PRPs. The Company has insurance policies that it believes will provide reimbursement for costs it incurs for defense, remediation and mitigation for natural resource damages claims in connection with the Site, although there is no assurance that those policies will cover all of the costs which the Company may incur. The Company previously recorded a liability for its estimated share of the costs of the investigation of $1 million.

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

Other AMR Sites

As of August 31, 2016, the Company had environmental liabilities related to various AMR sites other than Portland Harbor of $45 million. The liabilities relate to the potential future remediation of soil contamination, groundwater contamination and storm water runoff issues and were not individually material at any site.

Steel Manufacturing Business

SMB’s electric arc furnace generates dust (“EAF dust”) that is classified as hazardous waste by the EPA because of its zinc and lead content. As a result, the Company captures the EAF dust and ships it in specialized rail cars to a firm that applies a treatment that allows the EAF dust to be delisted as hazardous waste.

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

SMB had no environmental liabilities as of August 31, 2016.

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

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

Note 10 - Restructuring Charges and Other Exit-Related Activities

The Company has implemented a number of restructuring initiatives designed to reduce operating expenses and improve profitability and to achieve further integration and synergistic cost efficiencies in its operating platform. The restructuring charges incurred by the Company during the periods presented pertain primarily to three separate plans: the plans announced in the first quarter of fiscal 2014 (the “Q1’14 Plan”), the Q1’15 Plan and the Q2'15 Plan.

The Q1'14 Plan was designed to reduce the Company's annual operating expenses through headcount reductions, productivity improvements, procurement savings and other operational efficiencies.

The Q1'15 Plan included additional productivity initiatives to improve profitability through a combination of revenue drivers and cost reduction initiatives.

At the end of the second quarter of fiscal 2015, the Company commenced additional restructuring and exit-related initiatives by undertaking strategic actions consisting of idling underutilized assets at AMR and initiating the closure of seven auto parts stores to align the Company's business to market conditions. The Company expanded these initiatives in April 2015 and also announced the integration of the MRB and APB businesses into the combined AMR platform in order to achieve operational synergies and reduce the Company's annual operating expenses, primarily selling, general and administrative expenses, through headcount reductions, reducing organizational layers, consolidating shared service functions and other non-headcount measures. Additional cost savings and productivity improvement initiatives, including additional reductions in personnel, savings from procurement activities, streamlining of administrative and supporting services functions, and adjustments to its operating capacity through facility closures, were identified and initiated in fiscal 2016. Collectively, these initiatives are referred to as the Q2'15 Plan.

The Company incurred restructuring charges of $6 million, $11 million and $6 million in fiscal 2016, 2015 and 2014, respectively. The remaining charges relating to these initiatives are expected to be substantially incurred by the end of fiscal 2017. The significant majority of the restructuring charges require the Company to make cash payments.

In addition to the restructuring charges related to these initiatives, the Company incurred other exit-related activities of $2 million, $7 million and $1 million in fiscal 2016, 2015 and 2014, respectively, consisting primarily of long-lived asset impairments and accelerated depreciation due to shortened useful lives of long-lived assets, including from abandonment, in connection with site closures and idled equipment. Other exit-related activities in fiscal 2016 also included $1 million in gains recorded in connection with the disposition of business assets leading to the elimination of certain auto and metals recycling operations.

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

	2016 All Other Plans	2016 Q2'15 Plan	2016 Total Charges	2015 All Other Plans	2015 Q2'15 Plan	2015 Total Charges	2014 All Other Plans	2014 Total Charges
Restructuring charges:								
Severance costs	$—	$4,915	$4,915	$391	$5,330	$5,721	$4,607	$ 4,607
Contract termination costs	311	796	1,107	377	1,245	1,622	1,384	1,384
Other restructuring costs	—	—	—	1,223	2,048	3,271	410	410
Total restructuring charges	311	5,711	6,022	1,991	8,623	10,614	6,401	6,401
Other exit-related activities:								
Asset impairments and accelerated depreciation	—	3,127	3,127	—	6,502	6,502	566	566
Gains on exit-related disposals	—	(1,337)	(1,337)	—	—	—	—	—
Total other exit-related activities	—	1,790	1,790	—	6,502	6,502	566	566
Total restructuring charges and other exit-related activities	$311	$7,501	$7,812	$1,991	$15,125	$17,116	$6,967	$ 6,967
Restructuring charges and other exit-related activities included in continuing operations			$6,781			$13,008		$ 6,830
Restructuring charges and other exit-related activities included in discontinued operations			$1,031			$4,108		$ 137

	All Other Plans	Q2'15 Plan	Total
Total restructuring charges to date	$8,072	$14,334	$22,406
Total expected restructuring charges	$8,072	$14,500	$22,572

Total restructuring charges to date and total expected restructuring charges presented throughout this Note include costs associated with the Q1'14, Q1'15 and Q2'15 Plans. Fiscal 2014 restructuring charges also include an immaterial amount of costs incurred in connection with restructuring measures initiated prior to fiscal 2014.

The following illustrates the reconciliation of the restructuring liability by major type of activities for the years ended August 31, 2016 and 2015 (in thousands):

	Q2'15 Plan						
	Balance 8/31/2014	Charges	Payments and Other	Balance 8/31/2015	Charges	Payments and Other	Balance 8/31/2016
Severance costs	$—	$5,330	$(4,104)	$ 1,226	$4,915	$(5,223)	$ 918
Contract termination costs	—	1,245	75	1,320	796	(957)	1,159
Other restructuring costs	—	2,048	(2,048)	—	—	—	—
Total	$—	$8,623	$(6,077)	$ 2,546	$5,711	$(6,180)	$ 2,077

	All Other Plans						
	Balance 8/31/2014	Charges	Payments and Other	Balance 8/31/2015	Charges	Payments and Other	Balance 8/31/2016
Severance costs	$669	$391	$(1,060)	$ —	$ —	$ —	$ —
Contract termination costs	1,489	377	(1,504)	362	311	(644)	29

Other restructuring costs	—	1,223	(1,223)	—	—	—	—
Total	$2,158	$1,991	$(3,787)	$ 362	$ 311	$ (644)	$ 29

Due to the individual immateriality of the activity and liability balances for each of the Q1'14 Plan and Q1'15 Plan, the disclosure of restructuring activity and the reconciliation of the restructuring liability for these two plans is provided in the aggregate ("All Other Plans").

	Total Charges to Date	Total Expected Charges
Severance costs	$ 15,151	$ 15,151
Contract termination costs	3,573	3,739
Other restructuring costs	3,682	3,682
Total	$ 22,406	$ 22,572

Restructuring charges and other exit-related activities by reportable segment were as follows (in thousands):

	Fiscal 2016 Charges	Fiscal 2015 Charges	Fiscal 2014 Charges	Total Charges to Date	Total Expected Charges
Restructuring charges:					
Auto and Metals Recycling	$ 4,995	$ 6,944	$ 5,191	$ 15,793	$ 15,895
Unallocated (Corporate)	943	2,228	1,073	4,950	4,950
Discontinued operations	84	1,442	137	1,663	1,727
Total restructuring charges	6,022	10,614	6,401	22,406	$ 22,572
Other exit-related activities:					
Asset impairments and accelerated depreciation					
Auto and Metals Recycling	2,180	3,836	566	6,582	
Discontinued operations	947	2,666	—	3,613	
Total asset impairments and accelerated depreciation	3,127	6,502	566	10,195	
Gain on exit-related disposals					
Auto and Metals Recycling	(1,337)	—	—	(1,337)	
Total gain on exit-related disposals	(1,337)	—	—	(1,337)	
Total exit-related activities	1,790	6,502	566	8,858	
Total restructuring charges and other exit-related activities	$ 7,812	$ 17,116	$ 6,967	$ 31,264	

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

Note 11 – Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss, net of tax, are as follows as of August 31, 2016, 2015 and 2014 (in thousands):

	Foreign Currency Translation Adjustments	Pension Obligations, net	Net Unrealized Gain (Loss) on Cash Flow Hedges	Total
Balance as of August 31, 2013	$ (6,423)	$ (2,817)	$ (121)	$(9,361)
Other comprehensive income (loss) before reclassifications	(4,240)	(234)	325	(4,149)
Income tax benefit (expense)	—	74	(81)	(7)
Other comprehensive income (loss) before reclassifications, net of tax	(4,240)	(160)	244	(4,156)
Amounts reclassified from accumulated other comprehensive loss	—	1,483	(151)	1,332
Income tax (benefit) expense	—	(542)	86	(456)
Amounts reclassified from accumulated other comprehensive loss, net of tax	—	941	(65)	876
Net periodic other comprehensive income (loss)	(4,240)	781	179	(3,280)
Balance as of August 31, 2014	(10,663)	(2,036)	58	(12,641)
Other comprehensive loss before reclassifications	(23,346)	(2,874)	(5,310)	(31,530)
Income tax benefit	—	260	428	688
Other comprehensive loss before reclassifications, net of tax	(23,346)	(2,614)	(4,882)	(30,842)
Amounts reclassified from accumulated other comprehensive loss	—	575	4,923	5,498
Income tax benefit	—	(198)	(339)	(537)
Amounts reclassified from accumulated other comprehensive loss, net of tax	—	377	4,584	4,961
Net periodic other comprehensive loss	(23,346)	(2,237)	(298)	(25,881)
Balance as of August 31, 2015	(34,009)	(4,273)	(240)	(38,522)
Other comprehensive loss before reclassifications	(530)	(2,139)	—	(2,669)
Income tax benefit	—	167	—	167
Other comprehensive loss before reclassifications, net of tax	(530)	(1,972)	—	(2,502)
Amounts reclassified from accumulated other comprehensive loss	—	688	312	1,000
Income tax benefit	—	(19)	(72)	(91)
Amounts reclassified from accumulated other comprehensive loss, net of tax	—	669	240	909
Net periodic other comprehensive income (loss)	(530)	(1,303)	240	(1,593)
Balance as of August 31, 2016	$ (34,539)	$ (5,576)	$ —	$(40,115)

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

Note 12 – Derivative Financial Instruments

Foreign Currency Exchange Rate Risk Management

To manage exposure to foreign exchange rate risk, the Company has entered into foreign currency forward contracts to stabilize the U.S. dollar amount of the transaction at settlement. The Company previously entered into a series of foreign currency exchange forward contracts to sell U.S. dollars in order to hedge a portion of its exposure to fluctuating rates of exchange on anticipated U.S. dollar-denominated sales by its Canadian subsidiary with a functional currency of the Canadian dollar. The Company utilized intercompany foreign currency derivatives and offsetting derivatives with external counterparties in order to designate the intercompany derivatives as hedging instruments. Once the U.S. dollar-denominated sales have been recognized and the corresponding receivables collected, the Company utilized foreign currency exchange forward contracts to sell Canadian dollars, achieving a result similar to net settling the contracts to sell U.S. dollars. The foreign currency exchange forward contracts to sell Canadian dollars are not designated as hedging instruments.

The Company did not have any foreign currency exchange forward contracts as of August 31, 2016, and the results of contracts that expired during fiscal 2016 were immaterial. Accordingly, the results of foreign currency exchange forward contracts for fiscal 2016 are excluded from the tabular disclosures below.

The fair value of derivative instruments in the Consolidated Balance Sheet as of August 31, 2015 is as follows (in thousands):

	Asset (Liability) Derivatives	
	Balance Sheet Location	August 31, 2015
Foreign currency exchange forward contracts	Prepaid expenses and other current assets	$—
Foreign currency exchange forward contracts	Other accrued liabilities	$(751)

The following table summarizes the results of foreign currency exchange derivatives for the years ended August 31 (in thousands):

	Derivative Gain (Loss) Recognized in					
	Fiscal 2015			Fiscal 2014		
	Other Comprehensive Income	Revenues - Effective Portion	Other Income (Expense), net	Other Comprehensive Income	Revenues - Effective Portion	Other Income (Expense), net
Foreign currency exchange forward contracts - designated as cash flow hedges	$(5,310)	$(4,923)	$ 216	$325	$ 249	$ 112
Foreign currency exchange forward contracts - not designated as cash flow hedges	—	—	(87)	—	—	(12)

There was no hedge ineffectiveness with respect to the foreign currency exchange cash flow hedges for any of the periods presented.

Note 13 – Employee Benefits

The Company and certain of its subsidiaries have qualified and nonqualified retirement plans covering substantially all employees. These plans include a defined benefit pension plan, a supplemental executive retirement benefit plan (“SERBP”), multiemployer pension plans and defined contribution plans.

Defined Benefit Pension Plan and Supplemental Executive Retirement Benefit Plan

The Company maintains a qualified defined benefit pension plan for certain nonunion employees. Effective June 30, 2006, the Company froze this plan and ceased accruing further benefits for employee service. The Company reflects the funded status of the defined benefit pension plan as a net asset or liability in its Consolidated Balance Sheets. Changes in its funded status are recognized in comprehensive income (loss). The Company amortizes as a component of net periodic pension benefit cost a portion of the net gain or loss reported within accumulated other comprehensive loss if the beginning-of-year net gain or loss exceeds 5% of the greater of the benefit obligation or the market value of plan assets. Net periodic pension benefit cost was not material for the years ended August 31, 2016, 2015 and 2014. The fair value of the plan assets was $15 million as of August 31, 2016 and 2015, and the projected benefit obligation was $15 million and $13 million as of August 31, 2016 and 2015, respectively. The plan was fully funded with the plan assets exceeding the projected benefit obligation by $1 million and $2 million as of August 31, 2016 and 2015, respectively. Plan assets were comprised entirely of Level 1 investments as of August 31, 2016 and 2015. Level 1 investments are valued based on quoted market prices of identical securities in the principal market. No contributions are expected to be made to the defined benefit pension plan in the future; however, changes in the discount rate or actual investment returns that are lower than the long-term expected return on plan assets could result in the need for the Company to make additional contributions. The assumed discount rate used to calculate the projected benefit obligations was 3.22% and 4.10% as of August 31, 2016 and 2015, respectively. The Company estimates future annual benefit payments to be between $1 million and $3 million per year.

The Company also has a nonqualified SERBP for certain executives. A restricted trust fund has been established with assets invested in life insurance policies that can be used for plan benefits, although the fund is subject to claims of the Company’s general creditors. The trust fund is included in other assets and the pension liability is included in other long-term liabilities in the Company’s Consolidated Balance Sheets. The trust fund is valued at $3 million as of August 31, 2016 and 2015. The trust fund assets’ gains and losses are included in other income, net in the Company’s Consolidated Statements of Operations. The benefit obligation and the unfunded amount were $4 million as of August 31, 2016 and 2015. Net periodic pension cost under the SERBP was not material for the years ended August 31, 2016, 2015 and 2014.

Because the defined benefit pension plan and the SERBP are not material to the Consolidated Financial Statements, other disclosures required by U.S. GAAP have been omitted.

Multiemployer Pension Plans

The Company contributes to 14 multiemployer pension plans in accordance with its collective bargaining agreements. Multiemployer pension plans are defined benefit plans sponsored by multiple employers in accordance with one or more collective bargaining agreements. The plans are jointly managed by trustees that include representatives from both management and labor unions. Contributions to the plans are made based upon a fixed rate per hour worked and are agreed to by contributing employers and the unions in collective bargaining. Benefit levels are set by a joint board of trustees based on the advice of an independent actuary regarding the level of benefits that agreed-upon contributions can be expected to support. To the extent that the pension obligation of other participating employers is unfunded, the Company may be required to make additional contributions in the future to fund these obligations.

One of the multiemployer plans that the Company contributes to is the Steelworkers Western Independent Shops Pension Plan (“WISPP”, EIN 90-0169564, Plan No. 001) benefiting the union employees of SMB, which are covered by a collective bargaining agreement that will expire on March 31, 2019. As of October 1, 2012, the WISPP had an accumulated funding deficiency (i.e., a failure to satisfy the minimum funding requirements) and was certified in a Red Zone Status, as defined by the Pension Protection Act of 2006. As of October 1, 2013, the WISPP was no longer in Red Zone Status, having been certified by the plan’s actuaries as being in the Green Zone. The Company contributed

$3 million to the WISPP for each of the years ended August 31, 2016, 2015 and 2014. These contributions represented more than 5% of total contributions to the WISPP for each year.

In 2004, the Internal Revenue Service ("IRS") approved a seven-year extension of the period over which the WISPP may amortize unfunded liabilities, conditioned upon maintenance of certain minimum funding levels. In 2014, the WISPP obtained relief from the specified funding requirements from the IRS, which requires that the WISPP meet a minimum funded percentage on each valuation date and achieve a funded percentage of 100% as of October 1, 2029. Based on the actuarial valuation for the WISPP as of October 1, 2015, the funded percentage (based on the ratio of the market value of assets to the accumulated benefits liability (present value of accrued benefits) using the valuation method prescribed by the IRS) was 74.3%, which satisfies the minimum funded percentage requirements of the IRS. Company contributions to all of the multiemployer plans were $4 million for the years ended August 31, 2016, 2015 and 2014.

Defined Contribution Plans

The Company has several defined contribution plans covering certain employees. Company contributions to the defined contribution plans totaled $3 million, $3 million and $2 million, respectively, for the years ended August 31, 2016, 2015 and 2014.

Note 14 – Share-Based Compensation

The Company's 1993 Stock Incentive Plan, as amended, ("the Plan") was established for its employees, consultants and directors. There are 12.2 million shares of Class A common stock reserved for issuance under the Plan, of which 4.9 million are available for future grants as of August 31, 2016. Share-based compensation expense was $10 million, $10 million and $15 million for the years ended August 31, 2016, 2015 and 2014, respectively. Tax benefits used for option exercises and vesting of restricted stock units were $3 million and $2 million for the years ended August 31, 2016 and August 31, 2015, respectively, and immaterial for the year ended August 31, 2014.

Restricted Stock Units

The Plan provides for the issuance of RSUs. The estimated fair value of the RSUs is based on the market closing price of the underlying Class A common stock on the date of grant. The compensation expense associated with RSUs is recognized over the respective requisite service period of the awards, net of estimated forfeitures.

During the years ended August 31, 2016, 2015 and 2014, the Compensation Committee granted 361,131 RSUs, 287,180 RSUs and 219,504 RSUs, respectively, to its key employees, officers and employee directors under the Plan. The RSUs vest 20% per year over five years commencing October 31 or June 1 of the year after grant. In addition, in the first quarter of fiscal 2016 the Compensation Committee granted 48,163 RSUs with a two-year vesting term and no retirement-eligibility provisions under the SIP. The estimated fair value of the RSUs granted during the years ended August 31, 2016, 2015 and 2014 was $7 million, $6 million and $7 million, respectively.

A summary of the Company's restricted stock unit activity is as follows:

	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value	Fair Value[1]
Outstanding as of August 31, 2013	311	$ 39.11	
Granted	220	$ 30.55	
Vested	(93)	$ 42.13	$ 25.01
Forfeited	(49)	$ 35.73	
Outstanding as of August 31, 2014	389	$ 33.97	
Granted	287	$ 22.58	
Vested	(151)	$ 35.96	$ 20.34
Forfeited	(40)	$ 26.59	
Outstanding as of August 31, 2015	485	$ 27.21	
Granted	409	$ 18.28	
Vested	(145)	$ 30.86	$ 16.36
Forfeited	(14)	$ 22.61	
Outstanding as of August 31, 2016	735	$ 21.59	

(1) Amounts represent the weighted average value of the Company's Class A common stock on the date that the restricted stock units vested.

The Company recognized compensation expense associated with RSUs of $6 million, $7 million and $6 million for the years ended August 31, 2016, 2015 and 2014, respectively. As of August 31, 2016, total unrecognized compensation costs related to unvested RSUs amounted to $6 million, which is expected to be recognized over a weighted average period of 2.8 years.

Performance Share Awards

The Plan authorizes performance-based awards to certain employees subject to certain conditions and restrictions. A participant generally must be employed by the Company on October 31 following the end of the performance period to receive an award payout, although adjusted awards will be paid if employment terminates earlier on account of death, disability, retirement, termination without cause after the first year of the performance period or a sale of the Company or the reportable segments for which the participant works. Awards will be paid in Class A common stock

as soon as practicable after October 31 following the end of the performance period.

The Company accrues compensation cost for performance share awards based on the probable outcome of specified performance conditions, net of estimated forfeitures. The Company accrues compensation cost if it is probable that the performance conditions will be achieved. The Company reassesses whether achievement of the performance conditions are probable at each reporting date. If it is probable that the actual performance results will exceed the stated target performance conditions, the Company accrues additional compensation cost for the additional performance shares to be awarded. If, upon reassessment, it is no longer probable that the actual performance results will exceed the stated target performance conditions, or that it is no longer probable that the target performance condition will be achieved, the Company reverses any recognized compensation cost for shares no longer probable of being issued. If the performance conditions are not achieved at the end of the service period, all related compensation cost previously recognized is reversed.

Fiscal 2014 – 2015 (August) Performance Share Awards

The Compensation Committee approved performance-based awards under the Plan with a grant date of August 13, 2013. The Compensation Committee established performance targets based on the Company’s EBITDA (weighted at 50%) and return on equity (weighted at 50%) for the two years of the performance period, with award payouts ranging from a threshold of 50% to a maximum of 200% for each portion of the awards.

Fiscal 2014 – 2015 (November) Performance Share Awards

The Compensation Committee approved performance-based awards under the Plan with a grant date of November 21, 2013. The Compensation Committee established performance targets based on divisional volume metrics (weighted at 50%) and divisional operating income metrics (weighted at 50%) for the two years of the performance period, with award payouts ranging from a threshold of 50% to a maximum of 200% for each portion of the awards.

Fiscal 2015 – 2016 Performance Share Awards

The Compensation Committee approved performance-based awards under the Plan with a grant date of November 25, 2014. The performance targets are based on the Company's EBITDA (weighted at 50%) and return on equity (weighted at 50%) for the two years of the performance period, with award payouts ranging from a threshold of 50% to a maximum of 200% for each portion of the awards.

Fiscal 2016 – 2018 (November) Performance Share Awards

In the first quarter of fiscal 2016, the Compensation Committee approved performance-based awards under the Plan with a grant date of November 9, 2015. The 201,702 performance share awards granted by the Compensation Committee are comprised of two separate and distinct awards with different vesting conditions.

The Compensation Committee granted 99,860 of the performance share awards based on a relative Total Shareholder Return ("TSR") metric over a performance period spanning November 9, 2015 to August 31, 2018. Award share payouts range from a threshold of 50% to a maximum of 200% based on the relative ranking of the Company's TSR among a designated peer group of 16 companies. The TSR award stipulates certain limitations to the payout in the event the payout reaches a defined ceiling level or the Company's TSR is negative. The TSR awards contain a market condition and, therefore, once the award recipients complete the requisite service period, the related compensation expense based on the grant-date fair value is not changed, regardless of whether the market condition has been satisfied. The estimated fair value of the TSR awards at the date of grant was $2 million. The Company estimated the fair value of the TSR awards using a Monte-Carlo simulation model utilizing several key assumptions including expected Company and peer company share price volatility, correlation coefficients between peers, the risk-free rate of return, the expected dividend yield and other award design features.

The remaining 101,842 performance share awards have a three-year performance period consisting of the Company’s fiscal 2016, 2017 and 2018. The performance targets are based on the Company's cash flow return on investment ("CFROI") over the three-year performance period, with award payouts ranging from a threshold of 50% to a maximum of 200%. The fair value of the awards granted was based on the market closing price of the underlying Class A common stock on the grant date and totaled $2 million.

Fiscal 2016 – 2018 (April) Performance Share Awards

In the third quarter of fiscal 2016, the Compensation Committee approved the second half of the fiscal 2016 performance-based awards with a grant date of April 27, 2016. The Compensation Committee granted 152,221 performance share awards consisting of 73,546 TSR awards and 78,675 CFROI awards to the Company's key employees and officers under the Plan with terms substantially similar to the awards granted in the first quarter of fiscal 2016, as described above in this Note, except that the performance period for the TSR awards started on April 27, 2016 and for the CFROI awards on March 1, 2016. The estimated fair value of each of the TSR awards and CFROI awards at the date of grant was $2 million.

A summary of the Company's performance-based awards activity is as follows:

	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value	Fair Value[(1)]
Outstanding as of August 31, 2013	573	$ 32.47	
Granted	220	$ 30.55	
Vested	(62)	$ 55.43	$ 28.87
Forfeited	(108)	$ 41.48	
Outstanding as of August 31, 2014	623	$ 27.93	
Granted	269	$ 24.02	
Vested	(98)	$ 26.27	$ 23.60
Forfeited	(159)	$ 26.36	
Outstanding as of August 31, 2015	635	$ 26.92	
Granted	364	$ 19.19	
Vested	(194)	$ 28.82	$ 16.86
Forfeited	(210)	$ 28.48	
Outstanding as of August 31, 2016	595	$ 21.02	

(1) Amounts represent the weighted average value of the Company's Class A common stock on the date that the performance share awards vested.

Compensation expense associated with performance-based awards was calculated using management's current estimate of the expected level of achievement of the performance targets under the Plan. Compensation expense for anticipated awards based on the Company's financial performance was $4 million, $2 million and $6 million for the years ended August 31, 2016, 2015 and 2014, respectively. As of August 31, 2016, unrecognized compensation costs related to non-vested performance shares amounted to $5 million, which is expected to be recognized over a weighted average period of 1.3 years.

Deferred Stock Units

The Deferred Compensation Plan for Non-Employee Directors ("DSU Plan") provides for the issuance of DSUs to non-employee directors to be granted under the Plan. Each DSU gives the director the right to receive one share of Class A common stock at a future date. Immediately following the annual meeting of shareholders, each non-employee director will receive DSUs which will become fully vested on the day before the next annual meeting, subject to continued service on the Board. The compensation expense associated with the DSUs granted is recognized over the respective requisite service period of the awards.

The Company will issue Class A common stock to a director pursuant to vested DSUs in a lump sum in January of the first year after the director ceases to be a director of the Company, subject to the right of the director to elect an installment payment program under the DSU Plan.

DSUs granted during the years ended August 31, 2016, 2015 and 2014 were for a total of 57,780 shares, 48,590 shares and 30,848 shares, respectively. The compensation expense associated with DSUs and the total value of shares vested during each of the years ended August 31, 2016, 2015 and 2014, as well as the unrecognized compensation expense as of August 31, 2016, were not material.

Stock Options

Under the Plan, stock options are granted to employees at exercise prices that are set at the sole discretion of the Board of Directors. The fair value of each option grant under the Plan is estimated at the date of grant using the Black-Scholes Option Pricing Model, which utilizes assumptions related to volatility, the risk-free interest rate, the dividend yield and employee exercise behavior. Expected volatilities utilized in the model are based on the historical volatility of the Company's stock price. The risk-free interest rate is derived from the U.S. Treasury yield curve in

effect at the time of grant. The expected term of the options is based on an analysis of expected post-vesting exercise behavior including historical exercise patterns when available.
No options were granted in fiscal 2016, 2015, and 2014.

A summary of the Company's stock option activity and related information is as follows:

	Options (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)[1]
Outstanding as of August 31, 2013	555	$ 32.07	3.1	$ 47
Granted	—	$ —		
Exercised	(9)	$ 25.56		
Canceled	(20)	$ 30.55		
Outstanding as of August 31, 2014	526	$ 32.25	2.2	$ 335
Granted	—	$ —		
Exercised	—	$ —		
Canceled	(122)	$ 24.95		
Outstanding as of August 31, 2015	404	$ 34.46	1.3	$ —
Granted	—	$ —		
Exercised	—	$ —		
Canceled	(182)	$ 34.11		
Outstanding as of August 31, 2016	222	$ 34.75	1.0	$ —

(1) Amounts represent the difference between the exercise price and the closing price of the Company's stock on the last trading day of the corresponding fiscal year, multiplied by the number of in-the-money options.

All outstanding stock options were vested as of August 31, 2016 and 2015. The aggregate intrinsic value of stock options exercised, which was zero for the years ended August 31, 2016 and 2015 and immaterial for the year ended August 31, 2014, represents the difference between the exercise price and the value of the Company's stock at the time of exercise. No stock options vested in the years ended August 31, 2016 and August 31, 2015 and 307,855 stock options vested in the year ended August 31, 2014. Compensation expense associated with stock options, the total proceeds received from option exercises and the tax benefits realized from options exercised was zero for the years ended August 31, 2016 and 2015 and not material during the year ended August 31, 2014.

Note 15 – Income Taxes

Income (loss) from continuing operations before income taxes was as follows for the years ended August 31 (in thousands):

	2016	2015	2014
United States	$(4,303)	$(113,084)	$12,286
Foreign	(11,202)	(87,380)	2,696
Total	$(15,505)	$(200,464)	$14,982

Income tax expense (benefit) from continuing operations consisted of the following for the years ended August 31 (in thousands):

	2016	2015	2014
Current:			
Federal	$23	$(11,275)	$6,508
State	180	(84)	229
Foreign	25	732	177
Total current tax expense (benefit)	$228	$(10,627)	$6,914
Deferred:			
Federal	$502	$(4,752)	$(4,911)
State	54	2,805	880
Foreign	(49)	(41)	(301)
Total deferred tax expense (benefit)	507	(1,988)	(4,332)
Total income tax expense (benefit)	$735	$(12,615)	$2,582

A reconciliation of the difference between the federal statutory rate and the Company’s effective tax rate for the years ended August 31 is as follows:

	2016	2015	2014
Federal statutory rate	35.0 %	35.0 %	35.0 %
State taxes, net of credits	1.3	1.1	(2.5)
Foreign income taxed at different rates	(12.0)	(7.7)	(8.6)
Section 199 deduction	—	—	(5.3)
Non-deductible officers’ compensation	(2.0)	(0.1)	2.0
Noncontrolling interests	4.1	0.3	(8.7)
Research and development credits	2.4	0.3	(0.8)
Fixed asset tax basis adjustment	—	—	(15.3)
Valuation allowance on deferred tax assets	(59.0)	(25.2)	10.2
Unrecognized tax benefits	(3.6)	(0.6)	12.9
Non-deductible goodwill	(0.9)	(2.5)	—
Realized foreign investment basis	29.4	6.3	—
Other	0.6	(0.6)	(1.7)
Effective tax rate	(4.7)%	6.3 %	17.2 %

The Company's effective tax rate from continuing operations in fiscal 2016 was an expense of 4.7%, which was lower than the U.S. federal statutory rate of 35%. The effective tax rate was reduced for valuation allowances on deferred tax assets and the aggregate impact of foreign income taxed at different rates. Those reductions were partially offset by the realization of foreign investment basis for tax purposes. The Company’s income tax expense is comprised primarily of the increase in deferred tax liabilities from indefinite-lived assets plus certain state cash tax expenses. The increase in valuation allowance on deferred tax assets was recognized as a result of negative evidence, including recent losses in all tax jurisdictions, outweighing the more subjective positive evidence, indicating that it is more likely than not that the associated tax benefit will not be realized. Realization of the deferred tax assets is dependent upon generating sufficient taxable income in the associated tax jurisdictions in future years to benefit from the reversal of net deductible temporary differences and from the utilization of net operating losses.

The Company's effective tax rate from continuing operations in fiscal 2015 was a benefit of 6.3% which was lower than the U.S. federal statutory rate of 35%. The effective tax rate was reduced by 33% for valuation allowances on deferred tax assets and the aggregate impact of excluding foreign income taxed at different rates. Those expenses were partially offset by the recognition of a $13 million benefit related to the realization of foreign investment basis for tax purposes. The increase in valuation allowance on deferred tax assets was recognized as a result of negative evidence, including recent losses in all tax jurisdictions, outweighing the more subjective positive evidence, indicating that it is more likely than not that the associated tax benefit will not be realized.

The Company's effective tax rate from continuing operations in fiscal 2014 was an expense of 17.2% and was lower than the U.S. federal statutory rate of 35%. The effective tax rate benefited from a fixed asset tax basis study performed during fiscal 2014 which resulted in the recognition of a tax benefit of $2 million, as well as the aggregate impact of excluding income associated with noncontrolling interests, foreign income taxed at different rates, and certain deductions and credits. Other significant items impacting the effective tax rate included the recognition of a valuation allowance against certain foreign and state deferred tax assets and the recognition of a liability for unrecognized tax benefits of $2 million. The valuation allowance on deferred tax assets of certain foreign and state tax jurisdictions increased by $2 million compared to the prior year and was recognized as a result of negative evidence, including recent losses in certain foreign and state jurisdictions, outweighing the more subjective positive evidence, indicating that it is more likely than not that the associated tax benefit will not be realized. Realization of the foreign subsidiaries' deferred tax assets is dependent upon generating sufficient taxable income in the foreign tax jurisdiction in future years to benefit from the reversal of net deductible temporary differences and from the utilization of net operating losses.

Deferred tax assets and liabilities were comprised of the following as of August 31 (in thousands):

	2016	2015
Deferred tax assets:		
Environmental liabilities	$11,048	$11,623
Employee benefit accruals	12,620	13,471
State income tax and other	8,518	4,601
Net operating loss carryforwards	19,723	20,485
State credit carryforwards	6,352	5,935
Inventory valuation methods	—	975
Amortizable goodwill and other intangibles	47,023	51,459
Valuation allowances	(86,917)	(78,304)
Total deferred tax assets	$18,367	$30,245
Deferred tax liabilities:		
Accelerated depreciation and other basis differences	$32,528	$44,131
Prepaid expense acceleration	2,402	2,460
Inventory valuation methods	119	—
Total deferred tax liabilities	35,049	46,591

Net deferred tax liability	$16,682	$16,346

As of August 31, 2016, the Company had federal net operating loss carryforwards of $35 million, which will expire if not used by 2035. Foreign operating loss carryforwards were $32 million, which expire if not used between 2022 and 2036. State credit carryforwards will expire if not used between 2017 and 2026.

Accounting for Uncertainty in Income Taxes

The following table summarizes the activity related to the Company's reserve for unrecognized tax benefits, excluding interest and penalties, for the years ended August 31 (in thousands):

	2016	2015	2014
Unrecognized tax benefits, as of the beginning of the year	$3,970	$2,780	$526
Additions for tax positions of prior years	—	—	1
Reductions for tax positions of prior years	(56)	—	—
Additions for tax positions of the current year	810	1,571	2,253
Settlements with tax authorities	—	(381)	—
Unrecognized tax benefits, as of the end of the year	$4,724	$3,970	$2,780

The Company does not anticipate any material changes to the reserve in the next 12 months. Reserves pertaining to positions claimed on the fiscal year 2014, 2015 and 2016 tax returns would result in net operating loss offsets in the event the positions were successfully challenged. Pursuant to FASB's Accounting Standards Update 2013-11, the reserves are netted against deferred tax assets related to net operating loss carryforwards.

The recognized amounts of tax-related penalties and interest were not material for all periods presented.

The Company files federal and state income tax returns in the U.S. and foreign tax returns in Puerto Rico and Canada. For U.S. federal income tax returns, fiscal years 2012 to 2015 remain subject to examination under the statute of limitations.

Note 16 – Net Income (Loss) Per Share

The following table sets forth the information used to compute basic and diluted net income (loss) per share attributable to SSI for the years ended August 31 (in thousands):

	2016	2015	2014
Income (loss) from continuing operations	$(16,240)	$(187,849)	$12,400
Net income attributable to noncontrolling interests	(1,821)	(1,933)	(3,667)
Income (loss) from continuing operations attributable to SSI	(18,061)	(189,782)	8,733
Loss from discontinued operations, net of tax	(1,348)	(7,227)	(2,809)
Net income (loss) attributable to SSI	$(19,409)	$(197,009)	$5,924
Computation of shares:			
Weighted average common shares outstanding, basic	27,229	27,010	26,834
Incremental common shares attributable to dilutive stock options, performance share awards, DSUs and RSUs	—	—	166
Weighted average common shares outstanding, diluted	27,229	27,010	27,000

Common stock equivalent shares of 1,016,745, 1,018,858 and 618,348 were considered antidilutive and were excluded from the calculation of diluted net income (loss) per share attributable to SSI for the years ended August 31, 2016, 2015 and 2014, respectively.

Note 17 – Related Party Transactions

The Company purchases recycled metal from its joint venture operations at prices that approximate fair market value. These purchases totaled $12 million, $22 million and $30 million for the years ended August 31, 2016, 2015 and 2014, respectively. Net advances to these joint ventures were zero for the years ended August 31, 2016 and 2015, and $3 million for the year ended August 31, 2014.

Thomas D. Klauer, Jr., who had been President of the Company's former Auto Parts Business prior to his retirement on January 5, 2015, is the sole shareholder of a corporation that is the 25% minority partner in a partnership in which the Company is the 75% partner and which operates five self-service stores in Northern California. Mr. Klauer's 25% share of the profits of this partnership, through the date of his retirement, totaled $1 million and $2 million for the years ended August 31, 2015 and 2014, respectively. The partnership leases properties from entities in which Mr. Klauer has ownership interests under agreements that expire in December 2020 with options to renew the leases, upon expiration, for multiple periods. The rent paid by the partnership to the entities in which Mr. Klauer has ownership interests, through the date of his retirement, was less than $1 million for the year ended August 31, 2015, and $1 million for the year ended August 31, 2014.

Certain members of the Schnitzer family own significant interests in, or are related to owners of, MMGL Corp ("MMGL," formerly known as Schnitzer Investment Corp.), which is engaged in the real estate business and was a subsidiary of the Company prior to 1989. The Company and MMGL are involved in a cost sharing arrangement with respect to defense costs related to Portland Harbor. MMGL was considered a related party for financial reporting purposes prior to January 2015 due to the involvement of Kenneth M. Novack, a former member of the Company's board of directors, in the management of MMGL. As of January 2015, Mr. Novack was no longer a member of the Company's board of directors and, thus, MMGL ceased being a related party. As of August 31, 2014, $1 million was receivable from MMGL, which was paid in full in the first quarter of fiscal 2015.

Note 18 – Segment Information

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

Prior to the fourth quarter of fiscal 2015, the Company's internal organizational and reporting structure supported three operating and reportable segments: the Metals Recycling Business ("MRB"), the Auto Parts Business ("APB") and the Steel Manufacturing Business ("SMB"). In the fourth quarter of fiscal 2015, in accordance with its plan announced in April 2015, the Company combined and integrated its auto parts and metals recycling businesses into a single operating platform. This resulted in a realignment of how the Chief Executive Officer, who is considered the Company's chief operating decision maker, reviews performance and makes decisions on resource allocation. The change in the Company's internal organizational and reporting structure resulted in the formation of a new operating and reportable segment, the Auto and Metals Recycling ("AMR") business, replacing the former MRB and APB segments. The Company began reporting on this new segment in the fourth quarter of fiscal 2015 as reflected in its Annual Report on Form 10-K for the year ended August 31, 2015. The segment data for the comparable periods presented prior to the segment change has been revised to conform to the current period presentation for all activities of AMR. Recasting this historical information did not have an impact on the Company's consolidated financial performance for any of the periods presented.

Additionally, the Company is a noncontrolling partner in joint ventures, which are either in the metals recycling business or are suppliers of unprocessed metal.

AMR buys and processes ferrous and nonferrous metal for sale to foreign and other domestic steel producers or their representatives and to SMB. AMR also purchases ferrous metal from other processors for shipment directly to SMB. AMR also procures salvaged vehicles and sells serviceable used auto parts from these vehicles through a network of self-service auto parts stores.

SMB operates a steel mini-mill that produces a wide range of finished steel products using recycled metal and other raw materials.

Intersegment sales from AMR to SMB are made at rates that approximate market prices for shipments from the West Coast of the U.S. These intercompany sales tend to produce intercompany profits which are not recognized until the finished products are ultimately sold to third parties.

The information provided below is obtained from internal information that is provided to the Company's chief operating decision maker for the purpose of corporate management. The Company uses segment operating income to measure segment performance. The Company does not allocate corporate interest income and expense, income taxes and other income to its reportable segments. Expenses related to shared services that support operational activities and transactions is allocated from Corporate to the segments. Unallocated Corporate expense consists primarily of expense for management and certain administrative services that benefit both reportable segments. In addition, the Company does not allocate restructuring charges and other exit-related activities to the segment operating income because management does not include this information in its measurement of the performance of the operating segments. The results of discontinued operations are excluded from segment operating income and are presented separately, net of tax, from the results of ongoing operations for all periods presented.

The following is a summary of the Company's total assets as of August 31 (in thousands):

	2016	2015
Total assets:		
Auto and Metals Recycling[1]	$1,510,688	$1,492,906
Steel Manufacturing Business	373,130	370,955
Total segment assets	1,883,818	1,863,861
Corporate and eliminations[2]	(992,389)	(901,562)
Total assets	$891,429	$962,299
Property, plant and equipment, net [3]	$392,820	$427,554

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(1) AMR total assets include $14 million and $15 million as of August 31, 2016 and 2015 respectively, for investments in joint ventures.

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

(3) Property, plant and equipment, net includes $19 million and $29 million as of August 31, 2016 and 2015, respectively, at our Canadian locations.

The table below illustrates the Company's results from continuing operations by reportable segment for the years ended August 31 (in thousands):

	2016	2015	2014
Auto and Metals Recycling:			
Revenues	$1,173,032	$1,716,296	$2,334,389
Less: Intersegment revenues	(90,394)	(175,934)	(188,103)
AMR external customer revenues	1,082,638	1,540,362	2,146,286
Steel Manufacturing Business:			
Revenues	269,905	375,037	388,640
Total revenues	$1,352,543	$1,915,399	$2,534,926
Depreciation and amortization:			
Auto and Metals Recycling	$44,719	$56,767	$66,894
Steel Manufacturing Business	7,366	7,523	8,256
Segment depreciation and amortization	52,085	64,290	75,150
Corporate	2,545	2,825	2,724
Total depreciation and amortization	$54,630	$67,115	$77,874
Capital expenditures:			
Auto and Metals Recycling	$27,879	$22,762	$29,281
Steel Manufacturing Business	5,788	6,899	5,379
Segment capital expenditures	33,667	29,661	34,660
Corporate	904	2,636	4,487
Total capital expenditures	$34,571	$32,297	$39,147
Reconciliation of the Company's segment operating income (loss) to income (loss) from continuing operations before income taxes:			
Auto and Metals Recycling[1]	$22,626	$(164,031)	$55,089
Steel Manufacturing Business[2]	3,734	20,378	18,538
Segment operating income (loss)	26,360	(143,653)	73,627
Restructuring charges and other exit-related activities	(6,781)	(13,008)	(6,830)
Corporate and eliminations	(27,421)	(38,868)	(42,433)
Operating income (loss)	(7,842)	(195,529)	24,364
Interest expense	(8,889)	$(9,191)	(10,597)
Other income, net	1,226	4,256	1,215
Income (loss) from continuing operations before income taxes	$(15,505)	$(200,464)	$14,982

(1) AMR operating income (loss) includes $1 million, $2 million and $1 million in income from joint ventures accounted for by the equity method in fiscal 2016, 2015 and 2014, respectively. The AMR operating income (loss) for fiscal 2016, 2015 and 2014 includes a goodwill impairment charge of $9 million, $141 million and zero , respectively, and other asset impairment charges of $18 million, $44 million and $1 million, respectively.

(2) SMB operating income for fiscal 2016 includes other asset impairment charges of $2 million.

The following revenues from external customers are presented based on the sales destination and by major product for the years ended August 31 (in thousands):

	2016	2015	2014
Revenues based on sales destination:			
Foreign	$683,569	$984,910	$1,472,023
Domestic	668,974	930,489	1,062,903
Total revenues from external customers	$1,352,543	$1,915,399	$2,534,926
Major product information:			
Ferrous scrap metal	$619,060	$922,291	$1,440,582
Nonferrous scrap metal	340,025	488,036	556,139
Retail and other	123,553	130,035	149,565
Finished steel products	269,355	363,795	377,678
Semi-finished steel products	550	11,242	10,962
Total revenues from external customers	$1,352,543	$1,915,399	$2,534,926

In fiscal 2016, 2015 and 2014, there were no external customers that accounted for more than 10% of the Company's consolidated revenues. Sales to customers in foreign countries are a significant part of the Company's business. The schedule below identifies those foreign countries in which the Company's sales exceeded 10% of consolidated revenues in any of the last three years ended August 31 (in thousands):

	2016	% of Revenue	2015	% of Revenue	2014	% of Revenue
China	$150,570	11.1 %	$240,279	12.5 %	$390,634	15.4 %
Turkey	163,696	12.1 %	225,040	11.7 %	261,558	10.3 %
South Korea[(1)]	N/A	N/A	N/A	N/A	265,912	10.5 %

(1) N/A - sales were less than the 10% threshold.

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Quarterly Financial Data (Unaudited)

In the opinion of management, this unaudited quarterly financial summary includes all adjustments necessary for a fair statement of the results for the periods represented (in thousands, except per share amounts):

	Fiscal 2016			
	First	Second	Third	Fourth
Revenues	$321,198	$289,077	$351,604	$390,664
Cost of goods sold	$284,854	$259,670	$294,738	$336,726
Operating income (loss)	$(4,028)	$(37,076)	$14,886	$18,376
Loss from discontinued operations, net of tax	$(65)	$(1,024)	$(116)	$(143)
Net income (loss) attributable to SSI	$(5,296)	$(41,245)	$11,000	$16,132
Basic net income (loss) per share attributable to SSI	$(0.20)	$(1.52)	$0.40	$0.59
Diluted net income (loss) per share attributable to SSI	$(0.20)	$(1.52)	$0.40	$0.58

	Fiscal 2015			
	First	Second	Third	Fourth
Revenues	$553,624	$437,449	$467,309	$457,017
Cost of goods sold	$508,015	$406,649	$424,312	$403,702
Operating income (loss)	$785	$(201,011)	$(4,020)	$8,717
Loss from discontinued operations, net of tax	$(838)	$(4,242)	$(1,234)	$(913)
Net income (loss) attributable to SSI	$(2,473)	$(195,642)	$(9,626)	$10,732
Basic net income (loss) per share attributable to SSI	$(0.09)	$(7.24)	$(0.36)	$0.40
Diluted net income (loss) per share attributable to SSI	$(0.09)	$(7.24)	$(0.36)	$0.39

In the second quarter of fiscal 2016, operating results included a goodwill impairment charge of $9 million, other asset impairment charges of $18 million and restructuring charges and other exit-related activities of $5 million. In the fourth quarter of fiscal 2016, operating results included other asset impairment charges of $2 million and an insurance reimbursement gain of $6 million.

Net income attributable to SSI for the fourth quarter of fiscal 2015 included a benefit of $3 million, net of valuation allowances, related to the realization of foreign investment basis for income tax purposes. In the second quarter of fiscal 2015, operating results included a goodwill impairment charge of $141 million, other asset impairment charges of $44 million and restructuring charges and other exit-related activities of $5 million.

See Note 2 - Summary of Significant Accounting Policies, Note 6 - Goodwill and Other Intangible Assets, net, Note 8 - Discontinued Operations, and Note 9 - Commitments and Contingencies.

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Schedule II – Valuation and Qualifying Accounts
For the Years Ended August 31, 2016, 2015 and 2014
(In thousands)

Column A	Column B	Column C	Column D	Column E
Description	Balance at beginning of period	Charges to cost and expenses	Deductions	Balance at end of period
Fiscal 2016				
Allowance for doubtful accounts	$ 2,496	$ 131	$ (312)	$ 2,315
Deferred tax valuation allowance	$ 78,304	$ 8,613	$ —	$ 86,917
Fiscal 2015				
Allowance for doubtful accounts	$ 2,720	$ (280)	$ 56	$ 2,496
Allowance for notes and other contractual receivables	$ 7,602	$ —	$ (7,602)	$ —
Deferred tax valuation allowance	$ 30,265	$ 48,039	$ —	$ 78,304
Fiscal 2014				
Allowance for doubtful accounts	$ 2,990	$ 650	$ (920)	$ 2,720
Allowance for notes and other contractual receivables	$ 7,803	$ (201)	$ —	$ 7,602
Deferred tax valuation allowance	$ 29,696	$ 2,827	$ (2,258)	$ 30,265

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities and Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving the desired control objectives. The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, has completed an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of August 31, 2016, the Company's disclosure controls and procedures were effective at the reasonable assurance level.

Management's Annual Report on Internal Control Over Financial Reporting

Management's Annual Report on Internal Control Over Financial Reporting is presented within Part II, Item 8 of this report and is incorporated herein by reference.

Changes in Internal Control Over Financial Reporting

There was no change in the Company's internal control over financial reporting (as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during its most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required by Item 401 of Regulation S-K regarding directors, and information required by Items 405, 407(c)(3), 407(d)(4) and 407(d)(5) of Regulation S-K, will be included under "Election of Directors," "Corporate Governance" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's Proxy Statement for its 2017 Annual Meeting of Shareholders and is incorporated herein by reference.

Executive Officers of the Registrant

Name	Age	Office
Tamara L. Lundgren	59	President and Chief Executive Officer
Richard D. Peach	53	Senior Vice President,Chief Financial Officer and Chief of Corporate Operations
Michael Henderson	57	Senior Vice President and Co-President, Auto and Metals Recycling
Steven Heiskell	47	Senior Vice President and Co-President, Auto and Metals Recycling
Jeffrey Dyck	53	Senior Vice President and President, Steel Manufacturing Business
Peter Saba	55	Senior Vice President, General Counsel and Corporate Secretary
Stefano Gaggini	45	Vice President, Corporate Controller and Principal Accounting Officer

Tamara L. Lundgren has been our President and Chief Executive Officer since December 2008. She joined the Company in September 2005 as Vice President and Chief Strategy Officer and held roles of increasing responsibility, including Executive Vice President and Chief Operating Officer. Prior to joining us, Ms. Lundgren was a Managing Director in the Investment Banking Division of JPMorgan Chase, which she joined in 2001, and Deutsche Bank, which she joined in 1996. Ms. Lundgren began her career as an attorney and was a partner at Hogan & Hartson LLP in Washington, D.C.

Richard D. Peach joined us in March 2007 and was appointed Chief Financial Officer in December 2007. In September 2016, in addition to his responsibilities as Chief Financial Officer, Mr. Peach assumed the role of Chief of Corporate Operations. Prior to joining us, Mr. Peach was the Chief Financial Officer and Senior Vice President with the Western U.S. energy utility, PacifiCorp, from 2003 to 2006. From 1995 to 2002, he served in a variety of senior management positions with ScottishPower, the international energy company, including Group Controller, Managing Director of United Kingdom Customer Services and Director of Energy Supply Finance. Prior to joining ScottishPower, Mr. Peach was a senior manager with Coopers & Lybrand. Mr. Peach is a member of the Institute of Chartered Accountants of Scotland.

Michael Henderson joined us in April 2012 and served as Chief Operating Officer and President of the Metals Recycling Business, prior to his promotion to Co-President of the Auto and Metals Recycling business in April 2015. Prior to joining Schnitzer, he was Eastern Region President for Sims Metal Management where he was responsible for 26 facilities, including four shredders and five port locations. He began his career with Naparano Iron & Metal and has more than 30 years in the scrap industry, including expertise in both the ferrous and nonferrous sides of the business.

Steven Heiskell joined us in August 2004 and served in a variety of capacities within our Auto Parts Business, including as Vice President Corporate Development, Chief Development Officer, General Manager and Vice President and Managing Director, prior to his promotion to Co-President of the Auto and Metals Recycling business in April 2015. Prior to joining us, Steven served in a variety of executive positions at Simpata, Inc., a venture capital backed internet startup in San Francisco, Enron, and BP/Amoco Oil.

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

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Peter Saba joined us in July 2015 as Senior Vice President, General Counsel and Corporate Secretary. He is a member of the New York State, District of Columbia and U.S. Supreme Court Bar, not admitted in Oregon State. Prior to joining us, Peter was the Senior Vice President, General Counsel, Chief Compliance Officer and Corporate Secretary for Centrus Energy Corp. (formerly, USEC, Inc.), a global energy company that enriches uranium for nuclear fuel, which he joined in 2008. USEC, Inc. filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code in March 2014 and emerged from Chapter 11 as Centrus Energy Corp. on September 30, 2014. Over a 30-year career, Peter has worked in leading international law firms focusing on corporate and project finance, served as Chief Operating Officer and General Counsel at the Export-Import Bank of the United States and as the Principal Deputy Assistant Secretary for Domestic and International Energy Policy at the U.S. Department of Energy, and taught international business transactions as an Adjunct Professor at Georgetown Law School.

Stefano Gaggini joined us in July 2011 as Senior Manager of SEC Reporting and Technical Accounting and became Director of SEC Reporting and Technical Accounting in March 2012. He became Vice President, Corporate Controller and Principal Accounting Officer in December 2013. Prior to joining Schnitzer, Mr. Gaggini was a senior manager at KPMG LLP, where he served in various auditing roles since 1998 in the Portland, Oregon and Zurich, Switzerland offices. He is licensed as a Certified Public Accountant in the State of Oregon.

Code of Ethics

On April 28, 2010, the Board of Directors approved a revised Company's Code of Conduct that is applicable to all of its directors and employees. It includes additional provisions that apply to the Company's principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions (the "Senior Financial Officers"). This document is posted on the Corporate Governance page of the Company's internet website (www.schnitzersteel.com) and is available free of charge by calling the Company or submitting a request to ir@schn.com. The Company intends to satisfy its disclosure obligations with respect to any amendments to or waivers of the Code for directors, executive officers or Senior Financial Officers by posting such information on its internet website set forth above rather than by filing a Form 8-K.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Items 402, 407(e)(4) and 407(e)(5) of Regulation S-K will be included under "Compensation of Executive Officers," "Compensation Discussion and Analysis", "Director Compensation", "Corporate Governance – Assessment of Compensation Risk" and "Compensation Committee Report" in the Company's Proxy Statement to be filed for its 2017 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information with respect to security ownership of certain beneficial owners and management, as required by Item 403 of Regulation S-K, will be included under "Voting Securities and Principal Shareholders" in the Company's Proxy Statement for its 2017 Annual Meeting of Shareholders and is incorporated herein by reference. Information with respect to securities authorized for issuance under equity compensation plans, as required by Item 201(d) of Regulation S-K, will be included under "Compensation Plan Information" in the Company's Proxy Statement for its 2017 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Items 404 and 407(a) of Regulation S-K will be included under "Certain Transactions" and "Corporate Governance – Director Independence" in the Company's Proxy Statement for its 2017 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information regarding the Company's principal accountant fees and services required by Item 9(e) of Schedule 14A will be included under "Independent Registered Public Accounting Firm" in the Company's Proxy Statement for its 2017 Annual Meeting of Shareholders and is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1 The following financial statements are filed as part of this report:
The Report of Independent Registered Public Accounting Firm, the Company's Consolidated Financial Statements, the Notes thereto and the quarterly financial data (unaudited) are on pages 52 through 96 of this report.

2 The following financial statement schedule is filed as part of this report:
Schedule II Valuation and Qualifying Accounts is on page 97 of this report.
All other schedules are omitted as the information is either not applicable or is not required.

3 The following exhibits are filed as part of this report:

3.1	2006 Restated Articles of Incorporation (as corrected December 2, 2011) of the Registrant. Filed as Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended November 30, 2011, and incorporated herein by reference.
3.2	Restated Bylaws of the Registrant. Filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on December 13, 2013, and incorporated herein by reference.
10.1	Lease Agreement, dated September 1, 1988, between Schnitzer Investment Corp. and the Registrant, as amended, relating to the Portland Metals Recycling operation and which has terminated except for surviving indemnity obligations. Filed as Exhibit 10.3 to the Registrant's Registration Statement on Form S-1 filed on September 24, 1993 (Commission File No. 33-69352), and incorporated herein by reference.
10.2	Purchase and Sale Agreement, dated May 4, 2005, between Schnitzer Investment Corp. and the Registrant, relating to purchase by the Registrant of the Portland Metals Recycling operations real estate. Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on May 10, 2005, and incorporated herein by reference.
10.3	Third Amended Shared Services Agreement, dated July 26, 2006, between the Registrant, Schnitzer Investment Corp. and Island Equipment Company, Inc. Filed as Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed on July 28, 2006, and incorporated herein by reference.
10.4	Third Amended and Restated Credit Agreement dated as of April 6, 2016 among Schnitzer Steel Industries, Inc., as the US Borrower, and Schnitzer Steel Canada Ltd., as a Canadian Borrower, Bank of America, N.A., as Administrative Agent, and the other Lenders party thereto. Filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended February 29, 2016, and incorporated herein by reference.
10.5	Security Agreement dated as of April 6, 2016 among Schnitzer Steel Industries, Inc., the other Grantor's party thereto and Bank of America, N.A., as Administrative Agent. Filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended February 29, 2016, and incorporated herein by reference.
10.6	General Security Agreement dated as of April 6, 2016 between Schnitzer Steel Canada Ltd. and Bank of America, N.A., as Collateral Agent. Filed as Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended February 29, 2016, and incorporated herein by reference.

*10.7	Amended Executive Annual Bonus Plan. Filed as Appendix A to the Registrant’s Annual Proxy Report on Form DEF 14A filed on December 17, 2014, and incorporated herein by reference.
*10.8	Annual Incentive Compensation Plan, effective September 1, 2006. Filed as Exhibit 10.1 to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended February 28, 2007, and incorporated herein by reference.
*10.9	1993 Stock Incentive Plan of the Registrant as Amended and Restated on November 7, 2013. Filed as Appendix A to the Registrant’s Definitive Proxy Statement filed on December 18, 2013, and incorporated herein by reference.
*10.10	Form of Stock Option Agreement used for option grants to employees under the 1993 Stock Incentive Plan. Filed as Exhibit 10.49 to the Registrant’s Annual Report on Form 10-K for the fiscal year ended August 31, 2007, and incorporated herein by reference.

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*10.11	Form of Stock Option Agreement used for option grants to non-employee directors under the 1993 Stock Incentive Plan. Filed as Exhibit 10.15 to the Registrant’s Annual Report on Form 10-K/A for the fiscal year ended August 31, 2004, and incorporated herein by reference.
*10.12	Form of Deferred Stock Unit Award Agreement under the 1993 Stock Incentive Plan used for non-employee directors. Filed as Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed on July 28, 2006, and incorporated herein by reference.
*10.13	Deferred Compensation Plan for Non-Employee Directors. Filed as Exhibit 10.2 to the Registrant’s Current Report on Form 8-K filed on July 28, 2006, and incorporated herein by reference.
*10.14	Summary Sheet for 2016 Non-Employee Director Compensation. Filed as Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended February 29, 2016, and incorporated herein by reference.
*10.15	Amended and Restated Supplemental Executive Retirement Bonus Plan of the Registrant effective January 1, 2009. Filed as Exhibit 10.1 to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended May 31, 2009, and incorporated herein by reference.
*10.16	Form of Change in Control Severance Agreement between the Registrant and executive officers other than Tamara L. Lundgren and used for agreements entered into prior to 2011. Filed as Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed on May 5, 2008, and incorporated herein by reference.
*10.17	Form of Change in Control Severance Agreement between the Registrant and executive officers and used for agreements entered into between 2011 and 2014. Filed as Exhibit 10.19 to the Registrant's Annual Report on Form 10-K filed October 29, 2013 and incorporated herein by reference.
*10.18	Form of Change in Control Severance Agreement between the Registrant and executive officers and used for agreements entered into after 2014. Filed as Exhibit 10.16 to the Registrant's Annual Report on Form 10-K filed October 27, 2015, and incorporated herein by reference.
*10.19	Amended and Restated Employment Agreement by and between the Registrant and Tamara L. Lundgren dated October 29, 2008. Filed as Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed on November 4, 2008, and incorporated herein by reference.
*10.20	Amendment No. 1 dated June 29, 2011 to Amended and Restated Employment Agreement by and between the Registrant and Tamara L. Lundgren dated October 29, 2008. Filed as Exhibit 10.1 to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended May 31, 2011 and incorporated herein by reference.
*10.21	Amended and Restated Change in Control Severance Agreement by and between the Registrant and Tamara L. Lundgren dated October 29, 2008. Filed as Exhibit 10.2 to the Registrant’s Current Report on Form 8-K filed on November 4, 2008, and incorporated herein by reference.
*10.22	Amended and Restated Change in Control Severance Agreement by and between the Registrant and John D. Carter dated October 29, 2008. Filed as Exhibit 10.4 to the Registrant’s Current Report on Form 8-K filed on November 4, 2008, and incorporated herein by reference.
*10.23	

	Form of Indemnification Agreement for Directors and certain officers used for agreements entered into prior to 2016. Filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on July 28, 2006, and incorporated herein by reference.
*10.24	Form of Indemnification Agreement for Directors and certain officers used for agreements entered into after 2015. Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on May 3, 2016, and incorporated herein by reference.
*10.25	Amended and Restated Employment Agreement by and between the Registrant and John D. Carter dated June 29, 2011. Filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended May 31, 2011 and incorporated herein by reference.
*10.26	Form of Non-Statutory Stock Option Agreement used for premium-priced option grants to executive officers on August 28, 2012 under the 1993 Stock Incentive Plan. Filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on August 31, 2012, and incorporated herein by reference.

*10.27	Form of Restricted Stock Unit Award Agreement used for award to chief executive officer on August 30, 2012 under the 1993 Stock Incentive Plan. Filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on August 31, 2012, and incorporated herein by reference.
*10.28	Form of Restricted Stock Unit Award Agreement under the 1993 Stock Incentive Plan used for award to chief executive officer on October 28, 2015. Filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended November 30, 2015 and incorporated herein by reference.
*10.29	Form of Restricted Stock Unit Award Agreement under the 1993 Stock Incentive Plan used for awards granted prior to fiscal 2013. Filed as Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended November 30, 2008 and incorporated herein by reference.
*10.30	Form of Restricted Stock Unit Award Agreement under the 1993 Stock Incentive Plan used for awards granted after fiscal 2012 through the first half of fiscal 2016. Filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended November 30, 2012 and incorporated herein by reference.
*10.31	Form of Restricted Stock Unit Award Agreement under the 1993 Stock Incentive Plan used for awards granted after the first half of fiscal 2016. Filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended May 31, 2016 and incorporated herein by reference.
*10.32	Form of Long-Term Incentive Award Agreement under the 1993 Stock Incentive Plan used for awards granted in fiscal 2014. Filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended November 30, 2013 and incorporated herein by reference.
*10.33	Form of Long-Term Incentive Award Agreement under the 1993 Stock Incentive Plan used for awards granted in fiscal 2015. Filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended November 30, 2014 and incorporated herein by reference.
*10.34	Form of Long-Term Incentive Award Agreement under the 1993 Stock Incentive Plan used for awards granted in first half of fiscal 2016. Filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended November 30, 2015 and incorporated herein by reference.
*10.35	Form of Long-Term Incentive Award Agreement under the 1993 Stock Incentive Plan used for awards granted in second half of fiscal 2016. Filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended May 31, 2016 and incorporated herein by reference.
*10.36	Fiscal 2015 Annual Performance Bonus Program for Tamara L. Lundgren. Filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended November 30, 2014 and incorporated herein by reference.
*10.37	Fiscal 2016 Annual Performance Bonus Program for Tamara L. Lundgren. Filed as Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended November 30, 2015 and incorporated herein by reference.
*10.38	Amendment No. 1 to Fiscal 2016 Annual Performance Bonus Program for Tamara L. Lundgren. Filed as Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended February 28, 2016 and incorporated herein by reference.

21.1	Subsidiaries of Registrant.
23.1	Consent of Independent Registered Public Accounting Firm.
24.1	Powers of Attorney.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial information from Schnitzer Steel Industries, Inc.'s Annual Report on Form 10-K for the year ended August 31, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Operations for the years ended August 31, 2016, 2015 and 2014, (ii) Consolidated Balance Sheets as of August 31, 2016, and August 31, 2015, (iii) Consolidated Statements of Comprehensive Income (Loss) for the years ended August 31, 2016, 2015 and 2014, (iv) Consolidated Statements of Cash Flows for the years ended August 31, 2016, 2015 and 2014, and (v) the Notes to Consolidated Financial Statements.

*Management contract or compensatory plan or arrangement.

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Dated: October 25, 2016 By: /s/ RICHARD D. PEACH
Richard D. Peach
Senior Vice President, Chief Financial Officer and Chief of Corporate Operations

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant on October 25, 2016 in the capacities indicated.

Signature	Title
Principal Executive Officer:	
/s/ TAMARA L. LUNDGREN Tamara L. Lundgren	President and Chief Executive Officer and Director
Principal Financial Officer:	
/s/ RICHARD D. PEACH Richard D. Peach	Senior Vice President, Chief Financial Officer and Chief of Corporate Operations
Principal Accounting Officer:	
/s/ STEFANO GAGGINI Stefano Gaggini	Vice President, Corporate Controller and Principal Accounting Officer
Directors:	
*DAVID J. ANDERSON David J. Anderson	Director
*JOHN D. CARTER John D. Carter	Director
*WAYLAND R. HICKS Wayland R. Hicks	Director
*DAVID L. JAHNKE David L. Jahnke	Director

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Signature	Title
*JUDITH A. JOHANSEN Judith A. Johansen	Director
*WILLIAM D. LARSSON William D. Larsson	Director
*MICHAEL SUTHERLIN Michael Sutherlin	Director

*By: /s/ RICHARD D. PEACH
Attorney-in-fact, Richard D. Peach