

SCHNITZER STEEL INDUSTRIES INC
Form DEF 14A
December 15, 2009

SCHEDULE 14A INFORMATION

**PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Additional Materials

Soliciting Material Pursuant to Section 240.14a-12

Schnitzer Steel Industries, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3)

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Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

SCHNITZER STEEL INDUSTRIES, INC.

December 15, 2009

Dear Shareholder:

You are invited to attend the Annual Meeting of Shareholders of your Company, which will be held on Wednesday, January 27, 2010 at 8 A.M., local time, at the Multnomah Athletic Club, 1849 SW Salmon Street, Portland, Oregon 97205.

The formal notice of the meeting appears on the following pages and describes the matters to be acted upon. Time will be provided during the meeting for discussion and you will have an opportunity to ask questions about your Company. Only shareholders of record at the close of business on December 4, 2009 are entitled to vote at the Annual Meeting or any adjournment of the meeting.

Again this year, the Company will utilize the Securities and Exchange Commission rules allowing issuers to furnish proxy materials over the Internet. We intend to mail a printed copy of this proxy statement and a proxy card to certain of our shareholders of record entitled to vote at the Annual Meeting on or about December 15, 2009. All other shareholders will receive a Notice Regarding the Availability of Proxy Matters (the Notice), which will be mailed on or about December 15, 2009. If you received a Notice by mail and would like to receive a printed copy of our proxy materials, not including a proxy card, you should follow the instructions for requesting such materials included in the Notice. Please read the proxy statement for more information on this alternative, which we believe allows the Company to provide shareholders with the information they need while lowering the costs and reducing the environmental impact of delivering the proxy statement.

Whether or not you plan to attend the meeting in person, it is important that your shares be represented and voted. Instructions have been provided for each of the alternative voting methods in the accompanying proxy statement. Please be sure to vote as soon as possible.

Sincerely,

Tamara L. Lundgren

President and Chief Executive Officer

SCHNITZER STEEL INDUSTRIES, INC.

3200 NW Yeon Ave., Portland, OR 97210

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD JANUARY 27, 2010

The Annual Meeting of Shareholders of Schnitzer Steel Industries, Inc. (the Company) will be held at the Multnomah Athletic Club, 1849 SW Salmon Street, Portland, Oregon 97205, on Wednesday, January 27, 2010 at 8 A.M., local time, for the following purposes:

- (1) To elect one director to serve until the 2012 Annual Meeting of Shareholders and four directors to serve until the 2013 Annual Meeting of Shareholders, and until their successors have been elected and qualified, as listed in the accompanying proxy statement;
- (2) To re-approve and amend the Executive Annual Bonus Plan; and
- (3) To transact such other business (which does not include nominations of directors) as may properly be brought before the meeting or any adjournment or postponement thereof.

Only shareholders of record at the close of business on December 4, 2009 are entitled to notice of and to vote at the meeting or any adjournments thereof.

Please submit a proxy through the internet or, if this proxy statement was mailed to you, by completing, signing and dating the enclosed proxy card and returning it promptly in the enclosed reply envelope. If you are able to attend the meeting, you may, if you wish, revoke the proxy and vote personally on all matters brought before the meeting.

By Order of the Board of Directors,

Richard C. Josephson

Secretary

Portland, Oregon

December 15, 2009

SCHNITZER STEEL INDUSTRIES, INC.

PROXY STATEMENT

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors (the **Board**) of Schnitzer Steel Industries, Inc., an Oregon corporation (the **Company**), to be voted at the Annual Meeting of Shareholders to be held at the time and place and for the purposes set forth in the accompanying Notice of Annual Meeting. We intend to mail a printed copy of this proxy statement and a proxy card to certain of our shareholders of record entitled to vote at the Annual Meeting on or about December 15, 2009. All other shareholders will receive a Notice Regarding the Availability of Proxy Matters (the **Notice**), which will be mailed on or about December 15, 2009. If you received a Notice by mail and would like to receive a printed copy of our proxy materials, not including a proxy card, you should follow the instructions for requesting such materials included in the Notice.

QUESTIONS AND ANSWERS ABOUT THESE PROXY MATERIALS AND VOTING

Why am I being provided with these materials?

The Company is providing you with this proxy statement because the Board is soliciting your proxy to vote at the Annual Meeting of Shareholders to be held on January 27, 2010. You are invited to attend the Annual Meeting, and we request that you vote on the proposals described in this proxy statement. You do not need to attend the meeting to vote your shares. If you have received a printed copy of these materials by mail, you may simply complete, sign and return your proxy card or follow the instructions below to submit your proxy over the telephone or through the Internet. If you did not receive a printed copy of these materials by mail and are accessing them on the Internet, you may simply follow the instructions below to submit your proxy through the Internet.

What if I received a Notice Regarding the Availability of Proxy Materials?

In accordance with rules and regulations adopted by the Securities and Exchange Commission (**SEC**), instead of mailing a printed copy of our proxy materials to each shareholder of record we may now furnish proxy materials to our shareholders over the Internet. If you received a Notice by mail, you will not receive a printed copy of the proxy materials. Instead, the Notice will instruct you as to how you may access and review all of the important information contained in the proxy materials. The Notice will also instruct you as to how you may submit your proxy over the Internet. If you received a Notice by mail and would like to receive a printed copy of our proxy materials, not including a proxy card, you should follow the instructions for requesting such materials included in the Notice.

What am I voting on?

The only matters scheduled for a vote are the election of the five nominated directors and the proposal to re-approve and amend the Company's Executive Annual Bonus Plan described in this proxy statement.

How does the Board recommend that I vote my shares?

The Board recommends that you vote FOR each of the nominees to the Board and FOR the proposal to re-approve and amend the Executive Annual Bonus Plan.

Who can vote at the Annual Meeting?

Only shareholders of record at the close of business on December 4, 2009 will be entitled to vote at the Annual Meeting.

Am I a shareholder of record?

If at the close of business on December 4, 2009 your shares were registered directly in your name with our transfer agent then you are a shareholder of record.

What if my shares are not registered directly in my name but are held in street name?

If at the close of business on December 4, 2009 your shares were held in an account at a brokerage firm, bank, dealer, or other similar organization, then you are the beneficial owner of shares held in street name and the Notice or proxy materials, as applicable, are being forwarded to you by that organization. The organization holding your account is considered the shareholder of record for purposes of voting at the Annual Meeting. As a beneficial owner, you have the right to direct that organization on how to vote the shares in your account. If that organization is not given specific direction, shares held in the name of that organization may not be voted and will not be considered as present and entitled to vote with respect to the election of directors or the amendments to the Executive Annual Bonus Plan.

If I am a shareholder of record, how do I cast my vote?

If you are a shareholder of record, you may vote in person at the Annual Meeting. We will give you a ballot when you arrive. If you do not wish to vote in person or you will not be attending the Annual Meeting, you may vote by proxy. If you received a printed copy of these proxy materials by mail, you may vote by proxy using the enclosed proxy card, over the telephone, or on the Internet. If you received a Notice by mail, you may vote by proxy over the Internet.

We provide Internet proxy voting to allow you to vote your shares on-line, with procedures designed to ensure the authenticity and correctness of your proxy vote instructions. However, please be aware that you must bear any costs associated with your Internet access, such as usage charges from Internet access providers and telephone companies.

If I am a beneficial owner of Company shares, how do I cast my vote?

If you are a beneficial owner of shares held in street name and you would like to vote in person at the Annual Meeting, you must obtain a valid proxy from the record owner. To request the requisite proxy form, follow the instructions provided by your broker or contact your broker.

If you do not wish to vote in person or you will not be attending the Annual Meeting, you may vote by proxy. If you received a printed copy of these proxy materials by mail, you should have also received a proxy card and voting instructions with these proxy materials from the organization that is the record owner of your shares rather than from us. To vote by proxy, you may complete and mail that proxy card or may vote by telephone or over the Internet as instructed by that organization in the proxy card. If you received a Notice by mail, you should have received the Notice from the organization that is the record owner of your shares rather than from us. To vote by proxy, you should follow the instructions included in the Notice to view the proxy statement and transmit your voting instructions.

What if I return a proxy card but do not make specific choices?

If you are a shareholder of record and return a signed and dated proxy card without marking any voting selections, your shares will be voted For the election of all five nominees for director and For the proposal to re-approve and amend the Executive Annual Bonus Plan. If any other matter is properly presented at the meeting, your proxy (one of the individuals named on your proxy card) will vote your shares using his or her best judgment.

If you are a beneficial owner of shares held in street name and return a signed and dated proxy card without marking any voting selections, your shares may not be voted and will not be considered as present and entitled to vote with respect to the election of all five nominees for director and the proposal to re-approve and amend the Executive Annual Bonus Plan. If any matter which is considered routine is properly presented at the meeting, your proxy (one of the individuals named on the proxy card) will vote your shares using his or her best judgment. Please note that this year, the rules that guide how brokers vote your shares have changed. Brokers may no longer vote your shares with respect to the election of all nominees for director in the absence of your specific instructions as to how to vote. Please return your proxy card so that your vote can be counted.

Can I change my vote after submitting my proxy?

Yes. You can revoke your proxy at any time before the final vote at the meeting. You may revoke your proxy in any one of the following four ways:

If you received a printed copy of these proxy materials by mail, you may submit another properly completed proxy card with a later date.

You may vote again on the Internet or by telephone (only your latest Internet or telephone proxy submitted prior to the Annual Meeting will be counted).

You may send a written notice that you are revoking your proxy to the Company's Secretary at Schnitzer Steel Industries, Inc., P.O. Box 10047, Portland, Oregon 97296-0047, Attention: Richard C. Josephson, Secretary, or hand-deliver it to the Secretary at or before the taking of the vote at the Annual Meeting.

You may attend the Annual Meeting and vote in person. Simply attending the Annual Meeting will not, by itself, revoke your proxy. Remember that if you are a beneficial owner of Company shares and wish to vote in person at the Annual Meeting, you must obtain a valid proxy from the organization that is the record owner of your shares (such as your broker).

VOTING SECURITIES AND PRINCIPAL SHAREHOLDERS

The record date for determination of shareholders entitled to receive notice of and to vote at the Annual Meeting was December 4, 2009. At the close of business on December 4, 2009, 22,182,806 shares of Class A Common Stock (Class A), par value \$1.00 per share, and 5,583,059 shares of Class B Common Stock (Class B), par value \$1.00 per share, of the Company (collectively, the Common Stock) were outstanding and entitled to vote at the Annual Meeting. Each share of Class A Common Stock is entitled to one vote and each share of Class B Common Stock is entitled to ten votes with respect to each matter to be voted on at the Annual Meeting. If on the date of the Annual Meeting, the outstanding shares of Class B Common Stock represent less than 20% of the total outstanding shares of Common Stock, each share of Class B Common Stock will have only one vote at the Annual Meeting. As of December 4, 2009, Class B Common Stock represented 20.11% of the outstanding Common Stock.

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The following table sets forth certain information regarding the beneficial ownership of the Common Stock, as of September 30, 2009 (unless otherwise noted in the footnotes to the table), by (i) persons known to the Company to be the beneficial owner of more than 5% of either class of the Company's Common Stock, (ii) each of the Company's current directors, (iii) each executive officer of the Company listed in the Summary Compensation Table (each a named executive officer and collectively the named executive officers), and (iv) all current directors and executive officers of the Company as a group. Unless otherwise noted in the footnotes to the table, the persons named in the table have sole voting and investment power with respect to all outstanding shares of Common Stock shown as beneficially owned by them. Except as noted below, the address of each shareholder in the table is Schnitzer Steel Industries, Inc., P.O. Box 10047, Portland, Oregon 97296-0047.

Name of Beneficial Owner or Number of Persons in Group	Class A Shares Beneficially Owned(1)		Class B Shares Beneficially Owned(1)	
	Number	Percent	Number	Percent
Schnitzer Steel Industries, Inc. Voting Trust (Schnitzer Trust)			5,437,464	86.7%
Marilyn S. Easley(2)			354,365	5.7%
Carol S. Lewis(2)	4,500	*	405,419	6.5%
Scott Lewis(2)	84,245 (4)	*	34,524	*
MANUEL SCHNITZER FAMILY GROUP, Carol S. Lewis, Trustee(3)			1,152,102	18.4%
Dori Schnitzer(2)	9,000	*	890,298	14.2%
Susan Schnitzer(2)			620,178	9.9%
Jean S. Reynolds(2)	13,600 (4)	*	390,279	6.2%
MORRIS SCHNITZER FAMILY GROUP, Dori Schnitzer, Trustee(3)			1,802,175	28.8%
Kenneth M. and Deborah S. Novack(2)	29,350 (5)	*	321,784	5.1%
Gary Schnitzer and Sandra Wilder(2)	25,095 (6)	*	25,333	*
GILBERT SCHNITZER FAMILY GROUP, Gary Schnitzer, Trustee(3)			392,350	6.3%
Robert W. and Rita S. Philip(2)		*	371,961	5.9%
Dina S. Meier(2)			354,700	5.7%
Jill Schnitzer Edelson(2)	300 (7)	*	359,503	5.7%
Mardi S. Schnitzer(2)	1,800	*	367,181	5.9%
LEONARD SCHNITZER FAMILY GROUP, Rita S. Philip, Trustee(3)			2,090,837	33.4%
Royce & Associates LLC	3,213,548 (8)	15.0%		
M&G Investment Management Ltd.	3,054,413 (9)	14.3%		
Bank of America Corporation	1,973,662 (10)	9.2%		
Advisory Research, Inc.	1,887,959 (11)	8.8%		
David J. Anderson	(12)			
Robert S. Ball	23,100 (13)	*		
William A. Furman	13,779 (4)	*		
Wayland R. Hicks	(12)			
Judith A. Johansen	(7)			
William D. Larsson	(7)			
Ralph R. Shaw	20,100 (4)	*		
John D. Carter	189,580 (14)	*		
Tamara L. Lundgren	50,482 (15)	*		
Richard D. Peach	634	*		
Donald W. Hamaker	20,181 (16)	*		
Richard C. Josephson	16,610 (17)			
Jay Robinovitz	4,678 (19)	*		
All current directors and executive officers as a group (21 persons)(2)	513,505 (18)	2.4%	1,131,423	18.1%

* Less than 1%

- (1) Includes, in all cases, shares held by either spouse, either directly or as trustee or custodian or through another family entity. For purposes of this table, Class A shares beneficially owned do not include Class A shares issuable upon conversion of Class B shares. Shares held in a trust which has more than one trustee are reported for only one trustee as beneficial owner, generally the trustee who is either the beneficiary, or a parent of the beneficiary, of the trust.
- (2) Except as described below, Class B shares owned by these shareholders are subject to the Schnitzer Trust and represented by voting trust certificates beneficially owned by the shareholders. Class B shares beneficially owned that are not subject to the Schnitzer Trust are as follows:

Name of Beneficial Owner	Class B Shares Beneficially Owned	
	Number	Percent
Marilyn S. Easley	53,465	*
Carol S. Lewis	30,000	*
Dori Schnitzer	112,500	*
Susan Schnitzer	112,500	*
Jean S. Reynolds	75,000	*
Jill Schnitzer Edelson	45,000	*
Mardi S. Schnitzer	45,000	*
Dina S. Meier	45,000	*

- (3) Class B shares shown in the table as owned by a family group represent the total number of shares subject to the Schnitzer Trust owned by members of the family group. The trustee for each family group has certain voting powers with respect to the family group's shares as described below under Schnitzer Steel Industries, Inc. Voting Trust and Buy-Sell Agreement.
- (4) Includes 8,100 shares subject to options exercisable prior to November 30, 2009. Excludes 8,346 shares covered by deferred stock units (DSUs) or credited to an account under the Deferred Compensation Plan for Non-Employee Directors (the Director DCP).
- (5) Includes 29,350 shares subject to options exercisable prior to November 30, 2009. Excludes 11,148 shares covered by DSUs or credited to an account under the Director DCP.
- (6) Includes 20,856 shares subject to options exercisable prior to November 30, 2009.
- (7) Excludes 8,346 shares covered by DSUs or credited to an account under the Director DCP.
- (8) Beneficial ownership as of September 30, 2009 as reported by Royce & Associates, LLC, 1414 Avenue of the Americas, 9th Floor, New York, NY 10019-2578, in a Form 13F filed by the shareholder.
- (9) Consists of 1,850,000 shares owned by Vanguard Precious Metals & Mining Fund as of July 31, 2009 as reported in its semiannual report as of that date, and an additional 1,204,413 shares owned beneficially as of September 30, 2009 as reported in a Form 13F filed by the shareholder. M&G Investment Management Ltd., Laurence Pountney Hill, London, England EC4R 0HH is the investment advisor to Vanguard Precious Metals and Mining Fund.
- (10) Beneficial ownership as of September 30, 2009 as reported by Bank of America Corporation, 100 North Tryon Street, Charlotte, NC 28255, in a Form 13F filed by the shareholder.

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- (11) Beneficial ownership as of September 30, 2009 as reported by Advisory Research, Inc., 180 North Stetson, Suite 5500, Chicago, IL 60601 in a Form 13F filed by the shareholder.
- (12) Excludes 1,979 shares covered by DSUs.
- (13) Includes 8,100 shares subject to options exercisable prior to November 30, 2009. Excludes 12,349 shares covered by DSUs or credited to an account under the Director DCP.
- (14) Includes 94,916 shares subject to options exercisable prior to November 30, 2009.

- (15) Includes 22,128 shares subject to options exercisable prior to November 30, 2009.

- (16) Includes 6,244 shares subject to options exercisable prior to November 30, 2009.

- (17) Includes 8,102 shares subject to options exercisable prior to November 30, 2009.

- (18) Includes 232,322 shares subject to options exercisable prior to November 30, 2009.

(19) This executive officer resigned on September 4, 2009.

Schnitzer Steel Industries, Inc. Voting Trust and Buy-Sell Agreement

Voting Trust Provisions. Pursuant to the terms of the Schnitzer Steel Industries, Inc. 2001 Restated Voting Trust and Buy-Sell Agreement dated March 26, 2001 (the "Schnitzer Trust Agreement"), the beneficial owners of over 80% of the outstanding shares of Class B Common Stock have made their shares subject to the terms of the Schnitzer Steel Industries, Inc. Voting Trust (the "Schnitzer Trust"). The Schnitzer Trust is divided into four separate groups, one for each branch of the Schnitzer family. Carol S. Lewis, Dori Schnitzer, Gary Schnitzer, and Rita S. Philip are the four trustees of the Schnitzer Trust, and each is also the separate trustee for his or her separate family group. Pursuant to the Schnitzer Trust Agreement, the trustees as a group have the power to vote the shares subject to the Schnitzer Trust and, in determining how the trust shares will be voted, each trustee separately has the number of votes equal to the number of shares held in trust for his or her family group. Any action by the trustees requires the approval of the trustees with votes equal to at least 52.5% of the total number of shares subject to the Schnitzer Trust. Before voting with respect to the following actions, each trustee is required to obtain the approval of holders of a majority of the voting trust certificates held by his or her family group: (a) any merger or consolidation of the Company with any other corporation, (b) the sale of all or substantially all the Company's assets or any other sale of assets requiring approval of the Company's shareholders, (c) any reorganization of the Company requiring approval of the Company's shareholders, (d) any partial liquidation or dissolution requiring approval of the Company's shareholders, and (e) dissolution of the Company. The Schnitzer Trust will terminate on March 26, 2011 unless terminated prior thereto by agreement of the holders of trust certificates representing two-thirds of the shares held in trust for each family group.

Provisions Restricting Transfer. The trustees are prohibited from selling or encumbering any shares held in the Schnitzer Trust. The Schnitzer Trust Agreement contains transfer restrictions binding on both holders of voting trust certificates and holders of shares of Class B Common Stock distributed from the Schnitzer Trust, unless such restrictions are waived by the trustees. The Schnitzer Trust Agreement prohibits shareholders who are subject thereto from selling or otherwise transferring their voting trust certificates or their shares of Class B Common Stock except to other persons in their family group or to entities controlled by such persons. Such transfers are also restricted by the Company's Restated Articles of Incorporation. A holder of voting trust certificates is permitted to sell or make a charitable gift of the shares of Class B Common Stock represented by his or her certificates by first directing the trustees to convert the shares into Class A Common Stock, which will then be distributed to the holder free from restrictions under the agreement. Similarly, a holder of Class B Common Stock subject to the transfer restrictions is permitted to sell or make a charitable gift of the holder's Class B Common Stock by first converting the shares into Class A Common Stock, which will then be free from restrictions under the agreement. However, before causing any shares to be converted for sale, a holder must either (a) offer the shares (or the voting trust certificates representing the shares) to the other voting trust certificate holders who may purchase the shares at the current market price for the Class A Common Stock or exchange shares of Class A Common Stock owned by them for the Class B Common Stock proposed to be converted, or (b) obtain a waiver of this requirement from the trustees.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors, executive officers and persons who own more than 10% of the outstanding Common Stock of the Company to file with the Securities and Exchange Commission reports of changes in ownership of the Common Stock of the Company held by such persons. Officers, directors and greater than 10% shareholders are also required to furnish the Company with copies of all forms they file under this regulation. To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and representations that no other reports were required, during fiscal 2009 all of its officers, directors and 10% shareholders complied with all applicable Section 16(a) filing requirements, except that the following individuals filed the indicated number of late reports and total number of late transactions: (a) Company employees: Donald Hamaker - one late report with one late transaction; Tamara Lundgren - one late report with one late transaction; and Gary Schnitzer - one late report with two late transactions; and (b) other persons: Danielle Nye - two late reports with two late transactions; Dori Schnitzer - one late report with four late transactions; and Lois Schnitzer - one late report with five late transactions.

CERTAIN TRANSACTIONS

The Company's Restated Articles of Incorporation and Bylaws obligate the Company to indemnify current or former directors and officers to the fullest extent not prohibited by law, and further obligate the Company to advance expenses incurred in defending any pending or threatened proceeding to any such person in advance of a final disposition of such matters, but only if the involved officer or director affirms a good faith belief of entitlement to indemnification and undertakes to repay such expenses if it is ultimately determined by a court that the person is not entitled to be indemnified. In connection with the continuing investigation of certain former employees of the Company related to the Company's past practice of making improper payments to purchasing managers of customers in Asia, Robert W. Philip, the Company's former Chairman, President and Chief Executive Officer, and Gary Schnitzer, Executive Vice President of the Company, have requested advancement of expenses and have provided the required undertaking. During fiscal 2009, the Company advanced a total of \$889,572 to Mr. Philip for legal expenses in connection with the investigation. To date, the Company has advanced a total of \$2,776,371 to Mr. Philip and \$155,542 to Mr. Schnitzer for legal expenses incurred in connection with the investigation.

Thomas D. Klauer, Jr., President of the Company's Auto Parts Business, 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 four self-service stores in Northern California. Mr. Klauer's 25% share of the profits of this partnership totaled \$530,903 in fiscal 2009. Mr. Klauer and the Company also jointly own the real property at one of these stores, which is leased to the partnership. In fiscal 2009 Mr. Klauer's share of the rent paid by the partnership was \$236,770. The term of this lease expires in December 2010, and the partnership has the option to renew the lease, upon its expiration, for a five-year period. Rent under the lease is adjusted annually based on the Consumer Price Index. Also in 2009 Mr. Klauer, through a company of which he is the sole shareholder, acquired ownership of a contiguous parcel of real property, a portion of which is occupied by the partnership under an expired lease. The Company and Mr. Klauer are discussing the terms for a new long-term lease of that parcel by the partnership. The rent paid by the partnership to Mr. Klauer's company in fiscal 2009 for this parcel was \$38,178. In addition, during fiscal 2008, the Company loaned this partnership \$4,652,973 to fund the exercise of an option to purchase another property occupied by the partnership from an unrelated third party. The loan bears interest at 5% per annum, and the partnership is prohibited from making distributions to its partners (other than for taxes on the income of the partnership) until the loan is repaid. Interest payments of \$106,371 and principal payments of \$2,327,666 were paid on this loan in fiscal 2009, and the principal balance was \$1,118,468 at August 31, 2009.

William Furman, a director of the Company, is the Chairman and Chief Executive Officer of The Greenbrier Companies (with its subsidiaries, Greenbrier). During fiscal 2009, the Company engaged in a series of transactions with Greenbrier in which the Company sold goods to Greenbrier in the amount of \$192,301.

At August 31, 2009, the Company was controlled by members of the Schnitzer family. Gary Schnitzer, Gregory Schnitzer and Joshua Philip, each a member of the Schnitzer family, are employed by the Company. In fiscal 2009 these individuals received total compensation of \$889,668, \$218,653 and \$104,395, respectively.

Members of the Schnitzer family own all of the outstanding Class B Common Stock of the Company and also own all of the outstanding stock of Schnitzer Investment Corp. (SIC), which is engaged in the real estate business and was a subsidiary of the Company prior to 1988. Since December 2000 when the Portland Harbor was designated as a superfund site, the Company has incurred \$4.3 million, net of insurance reimbursements, in legal and consultant fees related to the investigation of this site. The Company and SIC are both potentially responsible parties (PRPs) with respect to the Portland Harbor, in some cases with respect to the same properties including the location of the Company's Portland scrap operations. The Company and SIC have worked together in response to Portland Harbor matters, and the Company has paid all of the legal and consultant fees for the joint defense, in part due to its environmental indemnity obligation to SIC with respect to the Portland scrap operations property. As these costs have increased substantially in the last two years, the Company and SIC have agreed to an equitable cost sharing arrangement with respect to defense costs under which SIC will pay 50% of the legal and consultant costs with respect to the Portland Harbor, including reimbursing the Company \$2.15 million for SIC's share of costs incurred to date. SIC has agreed to pay \$650,000 in December 2009 towards this obligation and an additional \$600,000 in each calendar quarter of 2010 until its 50% share of all previously incurred costs is paid.

The Audit Committee charter requires the Audit Committee to review any transaction or proposed transaction with a related person, or in which a related person has a direct or indirect interest, and determine whether to ratify or approve the transaction, with ratification or approval to occur only if the Audit Committee determines that the transaction is fair to the Company or that approval or ratification of the transaction is in the interest of the Company. The Audit Committee has reviewed and approved or ratified each of the foregoing transactions.

ELECTION OF DIRECTORS

The Board of Directors currently consists of 13 members divided into three classes pursuant to the Company's 2006 Restated Articles of Incorporation and Restated Bylaws. One class of directors is elected each year for a three-year term. The term of Class I directors expires at the 2010 annual meeting; the term of Class II directors expires at the 2011 annual meeting; and the term of Class III directors expires at the 2012 annual meeting. In all cases, the terms of the directors will continue until their respective successors are duly elected and qualified.

Action will be taken at the 2010 annual meeting to elect one Class III director to serve until the 2012 annual meeting of shareholders and four Class I directors to serve until the 2013 annual meeting of shareholders. The nominees for election are David J. Anderson, William A. Furman, William D. Larsson and Scott Lewis to Class I and Wayland R. Hicks to Class III. The Board has determined that Messrs. Anderson, Furman, Larsson and Hicks qualify as independent directors under the Company's Corporate Governance Guidelines, SEC rules and NASDAQ requirements. Mr. Hicks was elected to the Board as a Class III director in April 2009 and now must be re-elected by the shareholders to serve the remaining two years of the Class III term. If any nominee is unable to stand for election, the persons named in the proxy will vote the proxy for a substitute nominee. All of the nominees are currently directors of the Company. The Company is not aware that any nominee is or will be unable to stand for reelection. Directors are elected by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors. Proxies received from shareholders of record, unless directed otherwise, will be voted FOR the election of each of the five nominees. Abstentions and broker non-votes will have no effect on the results of the vote.

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Set forth below is the name, age, position with the Company, present principal occupation or employment and five-year employment history of each of the nominees, as well as the Class II and Class III directors who are continuing to serve.

Name, Year First Became	Director and Director Class <u>Class I Directors Nominees</u>	Business Experience	Age as of January 27, 2010
David J. Anderson 2009		Director of the Company since April 2009. Mr. Anderson served as Executive Director and Co-Vice Chairman of Sauer-Danfoss Inc., a worldwide leader in the design, manufacture and sale of engineered hydraulic, electric and electronic systems and components, from July 2008 through January 2009. He was President and Chief Executive Officer of Sauer-Danfoss Inc. from July 2002 until January 2009 and a director of Sauer-Danfoss Inc. from July 2002 until July 2008. Mr. Anderson served as Executive Vice President Strategic Business Development of Sauer-Danfoss Inc. from May 2000 until July 2002. From 1984 to May 2000, he held various senior management positions with Sauer-Danfoss Inc. and Sauer-Danfoss (US) Company. From 1970 to 1984, Mr. Anderson held various executive positions in business development, sales, marketing and applications engineering with a manufacturing and distribution business in the fluid power industry. Mr. Anderson is a director of MTS Systems Corporation and a member of its Compensation Committee. He also serves on the Boards of the National Fluid Power Association and the National Fluid Power Association's Technology and Education Foundation, chairing each in 2008 and 2009. Mr. Anderson holds a B.S. degree in Mechanical Engineering from the University of Wisconsin.	61
William A. Furman 1993		Director of the Company since September 1993. Since 1981, he has been President, Chief Executive Officer and a director of The Greenbrier Companies, a publicly-held company engaged in manufacturing, marketing and leasing railcars and other equipment.	65
William D. Larsson 2006		Director of the Company since March 2006. Mr. Larsson is Lead Director and chairman of the Company's Audit Committee. From 2000 until 2009, Mr. Larsson was Senior Vice President and Chief Financial Officer of Precision Castparts Corp., a leading supplier of precision cast and forged industrial products. Mr. Larsson is a director of Clearwater Paper Corporation.	64
Scott Lewis 1998		Director of the Company since April 1998. Mr. Lewis is a graduate of Stanford Law School and is the founder and principal of Brightworks, a leading provider of organizational sustainability consulting and green building advisory services.	50

Name, Year First Became	Business Experience	Age as of January 27, 2010
Director and Director Class <u>Class II Directors</u>		
Jill Schnitzer Edelson 2005	Director of the Company since July 2005. Ms. Edelson was a business development manager for Sarcos, Inc., a provider of research and development services, from 1990 to 1992 and a consultant with Booz, Allen & Hamilton, a management consulting firm, from 1985 to 1987. Ms. Edelson holds an MBA from the University of Pennsylvania's Wharton School.	46
Judith A. Johansen 2006	Director of the Company since January 2006. Ms. Johansen is chairman of the Company's Compensation Committee. Ms. Johansen is President of Marylhurst University in Portland, a position she assumed in July 2008. Ms. Johansen was previously employed by PacifiCorp, an electric utility, as Executive Vice President of Regulation and External Affairs from December 2000 to December 2001 and was President and Chief Executive Officer from December 2001 through March 2006. She was an Executive Director of ScottishPower plc, a power and gas company, until March 2006. Ms. Johansen is a director of Cascade BanCorp, IDACORP and Idaho Power, and Kaiser Permanente Foundation Hospitals and Health Plan.	51
Tamara L. Lundgren 2008	President, Chief Executive Officer and a Director of the Company since December 2008. Ms. Lundgren joined the Company in September 2005 as Vice President and Chief Strategy Officer and became Executive Vice President, Strategy and Investments and President - Shared Services in April 2006. Ms. Lundgren had served as Executive Vice President and Chief Operating Officer of the Company since November 2006. Prior to joining the Company, Ms. Lundgren was a managing director in investment banking at JPMorgan Chase, which she joined in 2001. From 1996 until 2001, Ms. Lundgren was a managing director of Deutsche Bank AG in New York and London. Prior to joining Deutsche Bank, Ms. Lundgren was a partner at the law firm of Hogan & Hartson, LLP in Washington, D.C.	52
Ralph R. Shaw 1993	Director of the Company since September 1993. Mr. Shaw is President of Shaw Management Company, Inc., a financial services firm. He is a director of Rentrak Corporation and the Tax-Free Trust of Oregon.	71
<u>Class III Directors</u>		
Robert S. Ball 1993	Director of the Company since September 1993. Mr. Ball is chairman of the Company's Nominating and Corporate Governance Committee. From 1982 to 2005, Mr. Ball was a partner in the Portland, Oregon law firm Ball Janik LLP. In July 2005, he became Senior Counsel to Ball Janik LLP. He is now retired from the practice of law.	68

Name, Year First Became	Director and Director Class	Business Experience	Age as of January 27, 2010
John D. Carter 2005		Director of the Company since May 2005 and Chairman of the Board since December 2008. Mr. Carter was President and Chief Executive Officer of the Company from May 2005 to December 2008. From 2002 to May 2005, Mr. Carter was engaged in a consulting practice focused primarily on strategic planning in transportation and energy for national and international businesses, as well as owning other small business ventures. From 1982 to 2002, Mr. Carter served in a variety of senior management capacities at Bechtel Group, Inc., an engineering and construction company, including Executive Vice President and Director, as well as President of Bechtel Enterprises, Inc., a wholly owned subsidiary, and other operating groups. He retired from Bechtel at the end of 2002. Prior to his Bechtel tenure, Mr. Carter was a partner in a San Francisco law firm. He is a director of Northwest Natural Gas Company, FLIR Systems, Inc., and Kuni Automotive.	63
Wayland R. Hicks 2009	(Nominee)	Director of the Company since April 2009. Mr. Hicks served as Director and Vice Chairman of United Rentals, Inc., a construction rental company, from 1998 until March 2009. At United Rentals, Inc., he also served as Chief Executive Officer from December 2003 until June 2007 and Chief Operating Officer from 1997 until December 2003. Mr. Hicks served as Chief Executive Officer and President of Indigo N.V., a manufacturer of commercial and industrial printers, from 1996 to 1997, and as Vice Chairman and Chief Executive Officer of Nextel Communications Corp. from 1994 to 1995. From 1967 to 1994, he held various executive positions with Xerox Corporation. Mr. Hicks is a director of Perdue Farms Incorporated and Gemesis Corporation.	66
Kenneth M. Novack 1991		Director of the Company since 1991 and Chairman from May 2005 until December 2008. Mr. Novack is Special Advisor to Schnitzer Investment Corp (SIC). Mr. Novack was Chief Executive Officer of SIC from January 2002 until January 2006, Chairman of the Board of SIC from 2004 to 2006, and President from 1991 until 2002. Mr. Novack served as Chairman of the Board of Liberty Shipping Group from 1991 until 2006 and Chairman of the Board of Lasco Shipping Co. from 2000 to 2003. He is a director of Genesis Financial Solutions, Inc.	64
Jean S. Reynolds 1993		Director of the Company since September 1993. Ms. Reynolds was previously a marketing and efficiency consultant.	61

Jill Schnitzer Edelson, Scott Lewis, Kenneth M. Novack and Jean S. Reynolds are all members of the Schnitzer family. Ms. Edelson and Ms. Reynolds are first cousins; Mr. Lewis is the son of a first cousin of Ms. Edelson and Ms. Reynolds; and Mr. Novack is married to a first cousin of Ms. Edelson and Ms. Reynolds.

Corporate Governance

The Board of Directors has determined that David Anderson, Robert Ball, William Furman, Wayland Hicks, Judith Johansen, William Larsson and Ralph Shaw are independent directors as defined by the Company's Corporate Governance Guidelines, SEC rules and NASDAQ listing requirements and has not determined that any other current director qualifies as an independent director. The Board of Directors had determined that Mark Palmquist was an independent director prior to his resignation on October 22, 2008. Accordingly, a majority of the directors have been determined to be independent directors. The independent directors hold regularly scheduled meetings at which only independent directors are present.

The Company's Board of Directors has an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee, each of which has a written charter adopted by the Board of Directors, copies of which are posted on the