RELIANCE STEEL & ALUMINUM CO
Form 10-K
February 27, 2009

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2008

OR

o **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: 001-13122

RELIANCE STEEL & ALUMINUM CO.
(Exact name of registrant as specified in its charter)

California	**95-1142616**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

350 South Grand Avenue, Suite 5100
Los Angeles, California 90071
(213) 687-7700
(Address of principal executive offices and telephone number)

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

Title of each class	Name of each exchange on which registered
Common Stock	New York 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 þ No o

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 o No þ

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

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 the 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. þ

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, based on the closing price on the New York Stock Exchange on June 30, 2008 was approximately $4,860,000,000. As of January 31, 2009, 73,312,714 shares of the registrant s common stock, no par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive Proxy Statement for the Annual Meeting of Shareholders to be held May 20, 2009 (the Proxy Statement) are incorporated by reference into Part III of this report.

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PART IV

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SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Unless otherwise indicated or required by the context, as used in this Annual Report on Form 10-K, the terms we, our, and us refer to Reliance Steel & Aluminum Co. and all of its subsidiaries that are consolidated in conformity with U.S. generally accepted accounting principles. This Annual Report on Form 10-K and the documents incorporated by reference contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Our forward-looking statements include discussions of our business strategies and our expectations concerning future operations, margins, profitability, liquidity and capital resources. In some cases, you can identify forward-looking statements by terminology such as may, will, should, expects, intends, plans, anticipates, thinks, estimates, seeks, predicts, potential and similar expressions. These statements relate to future events or o future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ materially from those in the future that are implied by these forward-looking statements. These risks and other factors include those described under Risk Factors and elsewhere in this Annual Report on Form 10-K and the documents incorporated by reference. These factors, among others, could cause our actual results and performance to differ materially from the results and performance projected in, or implied by, the forward-looking statements. As you read and consider this Annual Report and the documents incorporated by reference, you should understand that the forward-looking statements are not guarantees of performance or results.

All future written and oral forward-looking statements attributable to us or to any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. New risks and uncertainties arise from time to time, and we cannot predict those events or how they may affect us. We assume no obligation to update any forward-looking statements after the date of this Annual Report as a result of new information, future events or developments, except as required by the federal securities laws.

Forward-looking statements involve known and unknown risks and uncertainties. Various factors, such as the factors listed below and further discussed in detail in Risk Factors may cause our actual results, performance, or achievements to be materially different from those expressed or implied by any forward-looking statements. Among the factors that could cause our results to differ are the following:

Our future operating results depend on a number of factors beyond our control, such as the prices for and the availability of metals, which could cause our results to fluctuate significantly over time. During periods of low customer demand it could be more difficult for us to pass through price increases to our customers, which could reduce our gross profit and net income. A significant or rapid increase or decrease in costs from current levels could also have a severe negative impact on our gross profit.

We service industries that are highly cyclical, and downturns in our customers industries could reduce our revenue and profitability.

The success of our business is affected by general economic conditions and, accordingly, our business was adversely impacted by the current economic recession. In the 2008 fourth quarter the effects of the depressed economy impacted our industry in a very significant and rapid manner from both demand and pricing perspectives. In addition to reducing our direct business activity, the financial viability of many of our customers is also threatened which may impact their ability to pay us amounts due, further affecting our financial condition and results of operations. We do not know how long the economic recession will last and our financial condition could worsen from current levels.

We operate in a very competitive industry and increased competition could reduce our gross profit margins and net income. In the fourth quarter of 2008 the destocking of inventory by our competitors as a result of price reductions from our suppliers significantly increased the competitive pressures and negatively impacted our gross profit margins.

Global economic factors may cause increased imports of metal products to the U.S., which may cause the cost of the metals we purchase to decline, which could also cause our selling prices and gross profits to decline.

Producers of carbon steel products have reduced production capacity to react to end demand levels. If the producers increase production levels without offsetting increases in end demand, metal costs could decline, which may cause our selling prices and gross profits to decline.

As a decentralized business, we depend on both senior management and our operating employees; if we are unable to attract and retain well-qualified individuals, our results of operations may decline.

Foreign currency exchange rates could change, which could affect the price we pay for certain metals and the results of our foreign operations, which have grown as a percentage of our total operations to approximately 4% of net sales in 2008 based on where sales originated from.

The interest rates on our debt could change. The interest rates on our variable rate debt decreased in 2008, however, these rates may increase in the future.

We may not be able to consummate future acquisitions, and those acquisitions that we do complete may be difficult to integrate into our business.

Our acquisitions might fail to perform as we anticipate or there could be significant negative events in our industry or the general economy that fundamentally alter our business model and outlook. This could result in an impairment charge to write off some or all of the goodwill and/or other intangible assets for that entity. Acquisitions may also result in our becoming responsible for unforeseen liabilities that may adversely affect our financial condition and liquidity. If our acquisitions do not perform as anticipated, our operating results also may be adversely affected.

Various environmental and other governmental regulations may require us to expend significant capital and incur substantial costs or may impact the customers we serve which may have a negative impact on our financial results.

We may discover internal control deficiencies in our decentralized operations or in an acquisition that must be reported in our SEC filings, which may result in a negative impact on the market price of our common stock or the ratings of our debt.

If existing shareholders with substantial holdings of our common stock sell their shares, the market price of our common stock could decline.

Principal shareholders who own a significant number of our shares may have interests that conflict with yours.

We have implemented a staggered or classified Board that may adversely impact your rights as a shareholder.

We may pursue growth opportunities that require us to increase our leverage ratios. This may cause our stock price to decline.

The volatility of our stock price has increased significantly. This volatility may continue in the future and may increase from current levels.

The foregoing factors are not exhaustive, and new factors may emerge or changes to the foregoing factors may occur that could impact our business. Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future performance or results. We are not obligated to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You should consider these risks when reading any forward-looking statements and review carefully the section captioned Risk Factors in Item 1.A of this Annual Report on Form 10-K for a more complete discussion of the risks of an investment in the Company s securities.

This Annual Report on Form 10-K includes registered trademarks, trade names and service marks of the Company and its subsidiaries

PART I

Item 1. Business

We are the largest metals service center company in North America. Our network of metals service centers operates more than 200 locations in 38 states, Belgium, Canada, China, Mexico, Singapore, South Korea and the United Kingdom. Through this network, we provide metals processing services and distribute a full line of more than 100,000 metal products, including alloy, aluminum, brass, copper, carbon steel, stainless steel, titanium and specialty steel products, to more than 125,000 customers in a broad range of industries. Many of our metals service centers process and distribute only specialty metals. In addition to being diversified by products and customers, we are geographically diversified. We deliver products from facilities located across the United States and Canada, and have a growing international presence to support the globalization of our customers.

Our primary business strategy is to enhance our operating results through strategic acquisitions, expansion of our existing operations and improved operating performance at our locations. We continued our growth strategy in 2008 with a small, strategic acquisition in April, followed by our largest acquisition to-date based on transaction value, with our $1.1 billion purchase of PNA Group Holding Corporation on August 1, and the purchase of a small business in Singapore in September. Overall, in 2008 we achieved our highest ever levels of net sales of $8.72 billion and net income of $482.8 million. The first nine months of 2008 were very strong for us, as well as for others in our industry; however, in the 2008 fourth quarter the effects of the depressed economy impacted our industry in a very significant and rapid manner. Even in this environment, we remained profitable in the 2008 fourth quarter. We believe our focused growth strategy of diversifying our products, customers and geographic locations makes us less vulnerable to regional or industry specific economic volatility and has somewhat lessened the impact of the current recession on our financial results, especially our minimal exposure to the auto and residential housing markets.

Industry Overview

Metals service centers acquire products from primary metals producers and then process carbon steel, aluminum, stainless steel and other metals to meet customer specifications, using techniques such as blanking, leveling (or cutting-to-length), sawing, shape cutting, shearing and slitting. These processing services save our customers time, labor, and expense and reduce their overall manufacturing costs. Specialized equipment used to process the metals requires high-volume production to be cost effective. Many manufacturers are not able or willing to invest in the necessary technology, equipment, and inventory to process the metals for their own manufacturing operations. Accordingly, industry dynamics have created a niche in the market. Metals service centers purchase, process, and deliver metals to end-users in a more efficient and cost-effective manner than the end-user could achieve by dealing directly with the primary producer or with an intermediate steel processor. Service centers comprise the largest single customer group for North American mills, buying and reselling more than 40% of all the carbon, alloy, stainless and specialty steels, aluminum, copper, brass and bronze, and superalloys produced in the U.S. and Canada each year (*Purchasing* magazine, May 2008).

In May 2008, the magazine *Purchasing* also reported that the North American (U.S. and Canada) metals distribution industry was estimated to have generated record revenues of about $143 billion in 2007 (the latest year for which such information is available), up from $126.5 billion in 2006, with the increase being primarily due to increased prices for nonferrous and specialty (especially aerospace-grade) metals.

The metals service center industry is highly fragmented and intensely competitive within localized areas or regions. Many of our competitors operate single stand-alone service centers. According to *Purchasing*, the number of intermediate steel processors and metal center facilities in North America has decreased from approximately 7,000 locations in 1980 to approximately 3,500 locations operated by more than 1,200 companies in 2007. This consolidation trend creates opportunities for us to expand by making acquisitions.

Metals service centers are generally less susceptible to market cycles than producers of the metals, because service centers are usually able to pass on all or a portion of increases in metal costs to their customers. In recent years, consolidation at the carbon steel mill level has led to capacity rationalization and elevated the pricing levels for these products. We believe that service centers, like Reliance, with the most rapid inventory turnover are generally the least vulnerable to changing metals prices.

Customers purchase from service centers to obtain value-added metals processing, readily available inventory, reliable and timely delivery, flexible minimum order size, and quality control. Many customers deal exclusively with service centers because the quantities of metal products that they purchase are smaller than the minimum orders specified by mills or because those customers require intermittent deliveries over long or irregular periods. Metals service centers respond to a niche market created because of the focus of the capital goods and related industries on just-in-time inventory management and materials management

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outsourcing, and because integrated mills have reduced in-house direct sales efforts to small sporadic purchasers to enhance their production efficiency.

History of Reliance

Reliance Steel & Aluminum Co. was organized as a California corporation on February 3, 1939, and commenced business in Los Angeles, California fabricating steel reinforcing bar. Within ten years, we had become a full-line distributor of steel and aluminum, operating a single metals service center in Los Angeles. In the early 1950 s, we automated our materials handling operations and began to provide processing services to meet our customers requirements. In the 1960 s, we began to acquire other companies to establish additional service centers, expanding into other geographic areas.

In the mid-1970 s, we began to establish specialty metals centers stocked with inventories of selected metals such as aluminum, stainless steel, brass, and copper, and equipped with automated materials handling and precision cutting equipment. We have continued to expand our network, with a focus on servicing our customers as opposed to merely distributing metal. In the mid-1990 s we began to expand nationally and focused on acquiring well-run, profitable service center companies. We have continued that strategy, and in 2009, after seventy years of operating metals service center companies, we are the largest North American (U.S. and Canada) metals service center company, with over 200 locations and 2008 sales of $8.72 billion. We have not diversified outside of our core business and we strive to consistently perform as one of the best in our industry. We currently operate metals service centers under the following trade names:

Trade Name	No. of Locations	Primary Products Processed & Distributed
Reliance Divisions		
Affiliated Metals	*1*	*Plate and flat-rolled aluminum and stainless steel*
Bralco Metals	*6*	*Aluminum, brass, copper and stainless steel*
Central Plains Steel Co.	*1*	*Carbon steel*
MetalCenter	*1*	*Flat-rolled aluminum and stainless steel*
Olympic Metals	*1*	*Aluminum, brass, copper and stainless steel*
Reliance Metalcenter	*9*	*Variety of carbon steel and non-ferrous metal products*
Reliance Steel Company	*2*	*Carbon steel flat-rolled and plate*
Tube Service Co.	*6*	*Specialty tubing*
Allegheny Steel Distributors, Inc.	*1*	*Carbon steel*
Aluminum and Stainless, Inc.	*2*	*Aluminum sheet, plate and bar*
American Metals Corporation		
American Metals	*3*	*Carbon steel*
American Steel	*2*	*Carbon steel*
AMI Metals, Inc.		
AMI Metals	*6*	*Heat-treated aluminum sheet and plate*
AMI Metals Europe S.P.R.L.	*1*	*Heat-treated aluminum sheet and plate*
CCC Steel, Inc.		
CCC Steel	*1*	*Carbon steel bar, plate, structural and tubing*
IMS Steel	*1*	*Carbon steel bar, plate, structural and tubing*
Chapel Steel Corp.	*5*	*Carbon steel plate*
Chatham Steel Corporation.	*5*	*Carbon and stainless steel*
Clayton Metals, Inc.	*3*	*Aluminum and stainless steel flat rolled products and custom extrusions*
Crest Steel Corporation	*2*	*Carbon steel flat-rolled, plate, bar and structurals*
Delta Steel, Inc.		
Delta Steel	*6*	*Carbon steel bar, flat rolled, plate, structural and tubing*
Smith Pipe & Steel Company.	*2*	*Carbon steel bar, flat rolled, plate, structural and tubing*

Durrett Sheppard Steel Co., Inc.	*1*	*Carbon steel bar, flat rolled, plate, structural and tubing*
Earle M. Jorgensen Company		
Earle M. Jorgensen	*32*	*Specialty bar and tubing*
Encore Metals USA	*3*	*Stainless and alloy bar, plate and tube*
Steel Bar	*1*	*Carbon steel bars and tubing*

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Trade Name	No. of Locations	Primary Products Processed & Distributed
Everest Metals (Suzhou) Co., Ltd.	*1*	*Aluminum plate and bar*
Feralloy Corporation		
Acero Prime (40%- owned)	*3*	*Toll processing (slitting and leveling) of carbon steel*
Feralloy	*5*	*Flat-rolled steel service centers*
Feralloy Processing Company (51%-owned)	*1*	*Toll processing (leveling and blanking) of carbon steel*
Indiana Pickling & Processing (45%-owned)	*1*	*Toll processing (pickling) of carbon steel*
Oregon Feralloy Partners (40%-owned)	*1*	*Toll processing (leveling and blanking) of carbon steel*
Infra Metals Co.	*6*	*Carbon steel, bar, plate, structural and tubing*
Liebovich Bros., Inc.		
Liebovich Steel & Aluminum Company	*3*	*Full-line service centers*
Custom Fab Company	*1*	*Metal fabrication*
Good Metals Company	*1*	*Tool and alloy steels*
Hagerty Steel & Aluminum Company	*1*	*Plate and flat-rolled carbon steel*
Lusk Metals	*1*	*Precision cut aluminum plate and aluminum sheet and extrusions*
Metals Supply Company, Ltd.	*2*	*Carbon steel bar, flat-rolled, plate, structural bar and tubing*
Metalweb Limited	*4*	*Aluminum sheet, plate and bar*
Pacific Metal Company	*7*	*Aluminum and coated carbon steel*
PDM Steel Service Centers, Inc.	*8*	*Carbon steel bars, flat-rolled, plate, structural and tubing*
Phoenix Corporation		
Phoenix Metals Company	*11*	*Flat-rolled aluminum, stainless steel and coated carbon steel*
Precision Flamecutting and Steel, Inc.	*1*	*Carbon , alloy, and HSLA steel plate*
Precision Strip, Inc		
Precision Strip	*10*	*Toll processing (slitting, leveling, blanking) of aluminum, stainless steel and carbon steel*
Precision Strip de Mexico	*1*	*Toll processing (slitting, leveling, blanking) of aluminum, stainless steel and carbon steel*
Reliance Metalcenter Asia Pacific Pte. Ltd.	*1*	*Aluminum plate, sheet and coil*
Reliance Metals Canada Ltd.		
Earle M. Jorgensen (Canada)	*5*	*Specialty bar and tubing*
Encore Metals	*4*	*Stainless and alloy bar, plate and tube*
Team Tube Canada ULC	*5*	*Alloy and carbon steel tubing*
Service Steel Aerospace Corp.		
Dynamic Metals International	*1*	*Maraging and specialty steels*
Service Steel Aerospace	*2*	*Stainless and alloy specialty steels*
United Alloys Aircraft Metals	*1*	*Titanium products*

Sugar Steel Corporation	*1*	*Carbon steel bar, plate, structural and tubing*
Siskin Steel & Supply Company, Inc.		
Siskin Steel	*5*	*Full-line service centers*
Athens Steel	*1*	*Carbon steel structurals, flat-rolled and ornamental iron*
East Tennessee Steel Supply	*1*	*Carbon steel plate, bar and structurals*
Industrial Metals and Surplus/Georgia Steel	*1*	*Carbon steel structurals, flat-rolled and ornamental iron*
Toma Metals, Inc.	*1*	*Stainless steel sheet and coil*
Valex Corp.		
Valex	*1*	*Electropolished stainless steel tubing and fittings*
Valex China Co., Ltd..	*1*	*Electropolished stainless steel tubing and fittings*
Valex Korea Co., Ltd.	*1*	*Electropolished stainless steel tubing and fittings*
Viking Materials, Inc.	*2*	*Flat-rolled carbon steel*
Yarde Metals, Inc.	*7*	*Stainless steel and aluminum plate, rod and bar*

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We serve our customers primarily by providing quick delivery, metals processing and inventory management services. We purchase a variety of metals from primary producers and sell these products in small quantities based on our customers needs. We performed metals processing services, or first-stage processing, on approximately 35% of our sales orders in 2008 before distributing the product to manufacturers and other end-users. For more than 40% of our 2008 orders, we delivered the metal to our customer within 24 hours from receipt of an order, if the order did not require extensive or customized processing. These services save time, labor, and expense for our customers and reduce their overall manufacturing costs. During 2008, we handled approximately 21,500 transactions per business day, with an average price of approximately $1,650 per transaction. Our net sales were $8.72 billion for the 2008 year. We believe that our focus on small orders with quick turnaround differentiates us from many of the other large metals service center companies and allows us to generate higher profits than those companies.

Historically, we have expanded both through acquisitions and internal growth. Since our initial public offering in September 1994, we have successfully purchased more than 40 businesses. In 2008 we continued our growth with the acquisition of PNA Group Holding Corporation, our largest to-date based on transaction value. From 1984 to September 1994, we acquired 20 businesses. Our internal growth activities during the last two years have been at historically high levels for us and have included the opening of new facilities, adding to our processing capabilities and relocating existing operations to larger, more efficient facilities. We will continue to evaluate acquisition opportunities and although we have currently placed acquisitions on hold because of the poor economic climate, we expect to continue to grow our business through acquisitions and internal growth initiatives, particularly those that will diversify our products, customer base and geographic locations.

Acquisitions

In August 2008, we formed Reliance Metalcenter Asia Pacific Pte. Ltd. (RMAP), a Singapore company. On September 17, 2008, RMAP acquired the assets, including the inventory, machinery, and equipment, of the Singapore operation of HLN Metal Centre Pte. Ltd. RMAP focuses primarily on supplying metal to the electronics, semiconductor, and solar energy markets. We entered this market primarily to support existing customers that moved or expanded their operations to Asia. Net sales of RMAP during the period from September 17, 2008 through December 31, 2008 were approximately $1 million.

On August 1, 2008, we acquired all of the outstanding capital stock of PNA Group Holding Corporation, a Delaware corporation (PNA), for a total transaction value of approximately $1.1 billion. PNA s subsidiaries include the operating entities Delta Steel, Inc, Feralloy Corporation, Infra-Metals Co., Metals Supply Company, Ltd., Precision Flamecutting and Steel, Inc. and Sugar Steel Corporation. Through its subsidiaries, PNA processes and distributes primarily carbon steel plate, bar, structural and flat-rolled products. PNA operates 23 steel service centers throughout the United States, as well as four joint ventures with six additional service centers in the United States and Mexico. PNA s net sales for the five months ended December 31, 2008 were approximately $888 million.

Effective April 1, 2008, through our subsidiary Service Steel Aerospace Corp., we acquired the business of Dynamic Metals International LLC (Dynamic) based in Bristol, Connecticut. Dynamic was founded in 1999 and is a specialty metal distributor. Dynamic has been merged into and currently operates as a division of Service Steel Aerospace Corp. headquartered in Tacoma, Washington. This strategic acquisition expands Reliance s existing Service Steel Aerospace specialty product offerings in the Northeastern area of the U.S. Dynamic s net sales for the nine months ended December 31, 2008 were approximately $9 million.

Effective October 1, 2007, we acquired all of the outstanding capital stock of Metalweb plc (Metalweb), a metals service center company headquartered in Birmingham, England. Metalweb, established in 2001, specializes in the processing and distribution of primarily aluminum products for non-structural aerospace components and general engineering parts and has three additional service centers located in London, Manchester and Oxford, England. Metalweb s net sales for the year ended December 31, 2008 were approximately $46 million. Metalweb has been re-registered as Metalweb Limited.

On July 1, 2007, we acquired all of the outstanding capital stock of Clayton Metals, Inc. (Clayton Metals), headquartered in Wood Dale, Illinois. Clayton Metals, founded in 1976, specializes primarily in the processing and distribution of aluminum, stainless steel and red metal flat-rolled products, custom extrusions and aluminum circles through its metals service center locations in Wood Dale, Illinois; Cerritos, California; High Point, North Carolina;

and Parsippany, New Jersey. Clayton Metals net sales for the year ended December 31, 2008 were approximately $92 million. We closed the North Carolina location in early 2009.

As of February 1, 2007, we acquired the net assets and business of the Encore Group of metals service center companies (Encore Metals, Encore Metals (USA), Inc., Encore Coils, and Team Tube in Canada) headquartered in Edmonton, Alberta, Canada. Encore was organized in 2004 in connection with the buyout by management and a private equity fund of certain former Corus CIC and Corus America businesses. Encore specializes in the processing and distribution of alloy and carbon bar and tube, as well as stainless steel sheet, plate and bar and carbon steel flat-rolled products, through its facilities located mainly in Western Canada. The net sales of the Encore Group for the year ended December 31, 2008 were approximately $188 million. On January 1, 2008 we sold certain assets and the business of the Encore Coils division and in October 2008 we sold the remaining assets and business of the Encore Coils division. The Canadian Encore Group businesses now operate as divisions or subsidiaries of Reliance Metals Canada Limited.

On January 2, 2007, we purchased all of the outstanding capital stock of Crest Steel Corporation (Crest), a metals service center company headquartered in Carson, California with facilities in Riverside, California and Phoenix, Arizona. Crest was founded in 1963 and specializes in the processing and distribution of carbon steel products including flat-rolled, plate, bars and structurals. Crest s net sales for the year ended December 31, 2008 were approximately $147 million.

Also on January 2, 2007, our wholly-owned subsidiary, Siskin Steel & Supply Company, Inc. (Siskin), purchased the outstanding capital stock of Industrial Metals and Surplus, Inc. (Industrial Metals), a metals service center company headquartered in Atlanta, Georgia and a related company, Athens Steel, Inc. (Athens Steel), located in Athens, Georgia. Industrial Metals was founded in 1978 and specializes in the processing and distribution of carbon steel structurals, flat-rolled and ornamental iron products. Siskin s Georgia Steel Supply Company division located in Atlanta has been combined with the Industrial Metals operations. Net sales for Industrial Metals (including Athens Steel) for the year ended December 31, 2008 were approximately $137 million. Industrial Metals and Athens Steel now operate as divisions of Siskin.

Other Developments

In 2008, our focus on organic growth continued and included the opening of new facilities, building or expanding existing facilities and adding processing equipment with total capital expenditures of $151.9 million. Phoenix Metals Company opened a new facility near St. Louis, Missouri, and Siskin Steel opened a new facility in Louisville, Kentucky. We built and opened new facilities for Earle M. Jorgensen Company in Richmond, Virginia, Metals Supply Company in Dallas, Texas, and Infra-Metals Co. in Petersburg, Virginia. American Steel relocated its Portland operation to a newly-built, more efficient facility. Precision Strip, Inc. opened a new facility in Mexico to support a key domestic customer and also expanded certain of its U.S operations. We expanded and improved our existing facilities for Chatham Steel in Birmingham, Alabama, Durrett Sheppard Steel Co. in Baltimore, Maryland, Infra-Metals in Tampa, Florida, Liebovich Bros. in Rockford, Illinois, and Reliance Metalcenter in Salt Lake City, Utah. We are in the process of building a new, larger facility for PDM Steel Service Centers Las Vegas, Nevada operation which should be completed in early 2009. Our 2008 budget was $210 million, with the majority of the amount related to growth projects. As the economy deteriorated in 2008, we pulled back on our capital expenditures. We have also closed a few small operations and may close additional facilities if business conditions warrant such action. Our 2009 capital expenditure budget is $80 million. Although a large portion of this amount is growth related, we reduced our 2009 budget significantly to focus our use of cash on debt paydowns. We have many additional growth projects that we expect to initiate once we are comfortable that the economic outlook has improved. Because of the significant capital expenditures we have made to replace and improve our equipment and facilities over the past few years, our 2009 maintenance costs are not burdensome.

Our executive officers maintain a control environment that is focused on integrity and ethical behavior, establish general policies and operating guidelines and monitor adherence to proper financial controls, while our division managers and subsidiary officers have virtual autonomy with respect to day-to-day operations. This balanced, yet entrepreneurial, management style has enabled us to improve the productivity and profitability both of acquired businesses and of our own expanded operations. Key management personnel are eligible for incentive compensation based, in part, on the profitability of their particular division or subsidiary and, in part, on the Company s overall profitability.

We seek to increase our profitability by expanding our existing operations and acquiring businesses that diversify or enhance our customer base, product range, processing services and geographic coverage. We have developed and maintained an excellent reputation in the industry for our integrity and the quality and timeliness of our service to customers.

Customers

Our customers purchase from us and other metals service centers to obtain value-added metals processing, readily available inventory, reliable and timely delivery, flexible minimum order size and quality control. Many of our customers deal exclusively with service centers because the quantities of metal products that they purchase are smaller than the minimum orders specified by mills, because those customers require intermittent deliveries over long or irregular periods, or because those customers require specialized processing services. We believe that metals service centers have also enjoyed an increasing share of total metal shipments due to the focus of the capital goods and other manufacturing industries on just-in-time inventory management and materials management outsourcing, and because metal producers have reduced in-house direct sales efforts to small sporadic purchasers in order to enhance their production efficiency. The recent consolidation of carbon steel mills has further reduced the number of potential sources of metal available to customers purchasing small quantities of metal.

We have more than 125,000 metals service center customers in various industries. Our customers are manufacturers and end-users in the general manufacturing, non-residential construction, transportation (rail, truck trailer and shipbuilding), aerospace, energy, electronics and semiconductor fabrication and related industries. In 2003, many of our suppliers also became our customers as a result of our purchase of Precision Strip, which typically sells processing services, but not metal, to larger customers, such as mills and original equipment manufacturers (OEM s), and in larger annual volumes than we have experienced historically. Precision Strip has also indirectly increased our participation in the auto and appliance end markets with the auto exposure primarily relating to the processing and delivery of metal for the transplants, or New Domestic companies.

Our metals service centers wrote and delivered over 5,290,000 orders during 2008 at an average price of approximately $1,650 per order. Most of our metals service center customers are located within a 200-mile radius of the metals service center serving them. The proximity of our centers to our customers helps us provide just-in-time delivery to our customers as well as have repeat business. In 2008, approximately 85% of our orders were from repeat customers. With our fleet of approximately 1,820 trucks (some of which are leased), we are able to service many smaller customers. Moreover, our computerized order entry system and flexible production scheduling enable us to meet customer requirements for short lead times and just-in-time delivery. We believe that our long-term relationships with many of our customers significantly contribute to the success of our business. Providing prompt and efficient services and quality products at reasonable prices are important factors in maintaining these relationships.

Our acquisitions in recent years have increased our international exposure both from a customer and physical location perspective. Approximately 7% of our 2008 net sales or $576 million were to international customers (based on the shipping destination), with approximately 66% of these sales or $380 million to Canadian customers. Approximately 77% of our Canadian sales or $293 million were made by our EMJ Canada and Encore Canada locations. However, net sales of our international locations (based on where the shipments originated from) accounted for only 4% of our 2008 net sales or $377 million.

Customer demand may change from time to time based on, among other things, general economic conditions and industry capacity. Many of the industries in which our customers compete are cyclical in nature. Because we sell to a wide variety of customers in many industries, we believe that the effect of such changes on us is significantly reduced. In addition, many of our customers are small job shops and fabricators who also have a diverse customer base and have the versatility to service different end markets when an existing market slows. However, we have not escaped the negative impacts of the current crisis. Due to the economic recession that technically began in December 2007, along with the financial crisis that has spread to global markets, we are concerned about the viability of customers in all of our end markets and geographic areas at this time. We sell very little metal to the auto and residential housing markets which have been severely depressed beginning in 2007 and continue to worsen. Because of this, our business was strong through most of 2008 until the industrial economy tightened in the 2008 fourth quarter. Our customers are buying minimal amounts of metal from us and many have limited access to capital if additional capacity is needed.

The reduced buying patterns of our customers have created extremely competitive markets for service centers. This has caused Reliance to lower selling prices to retain volume which has negatively impacted our profit margins. However, we believe that our ability to service customer orders in small quantities and with next day service provides a substantial advantage to metal buyers in the current environment. We are uncertain as to when demand from our customers will improve and believe that increased demand is needed to support increased prices for metal products.

Although many customers requested extended payment terms in 2008, our 2008 days sales outstanding in receivables was at 42 days at December 31, 2008 (based on two month period ended December 31, 2008), compared to 40 days at December 31, 2007. Most customers pay in 30 to 60 days. Our DSO rate trended up slightly due to the PNA acquisition, as many of the PNA companies have slightly longer payment terms than the Reliance companies. We are very comfortable with our current DSO rate; however, we have noted some increased closures and bankruptcy filings in our customer end markets that we serve, as reflected in the increase in our accounts receivable reserve. Our total accounts receivable write-offs in 2008 were only $8.1 million, or 0.09% of sales. We continue to see increased customer credit issues across all of our end markets and all of our geographic areas. Although we have not incurred any substantial losses through February 2009, we may incur increased write-offs in 2009 compared to our historical amounts. To have a material impact on our financial statements, multiple customers would have to default, as our largest customer in 2008 represented 2.3% of our sales, and all other customers were less than 1% of our sales, with only 13 customers having total 2008 sales greater than $25 million.

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California was our largest market for many years, but we have expanded our geographic coverage in recent years and the Midwest region of the United States has become our largest market. Although our sales dollars in each of these regions have increased, the percent of total sales in each region has changed due to our growth. California represented 14% of our 2008 sales, which was a significant decrease from 45% of our 1997 sales. The Midwest region, which we entered in 1999, is now our largest market and represented 26% of our 2008 sales.

The geographic breakout of our sales based on the location of our metals service center facilities in each of the three years ended December 31 was as follows:

	2008	2007	2006
Midwest	26%	25%	23%
Southeast	19%	19%	20%
West/Southwest	16%	12%	14%
California	14%	16%	17%
Pacific Northwest	6%	8%	9%
Northeast	6%	6%	4%
Mid-Atlantic	5%	4%	4%
Mountain	4%	5%	5%
International	4%	5%	4%
Total	100%	100%	100%

Suppliers

We purchase our inventory from the major metals mills, both domestic and foreign, and have multiple suppliers for all of our product lines. Our major suppliers of domestic carbon steel products include California Steel Industries, Inc., Gerdau Ameristeel Corporation (including Chaparral Steel Company), Evraz Claymont Steel, Evraz Oregon Steel Mills, Mittal Steel, Nucor Corporation, Steel Dynamics, Inc., SSAB and United States Steel Corporation. Allegheny Technologies Incorporated, AK Steel, and North American Stainless supply stainless steel products. We are a recognized distributor for various major aluminum companies, including Alcoa Inc., Alcan Aluminum Limited, Aleris International, Inc. and Kaiser Aluminum Corp.

During 2001 through 2003, many domestic steel mills entered bankruptcy proceedings which resulted in significant consolidation at the carbon steel mill level. The primary domestic mills have exercised pricing discipline since this time resulting in higher prices for carbon steel products beginning in 2004. The mills have exercised their discipline by reducing their production capacity when a supply demand imbalance was anticipated. In general, the higher prices for carbon steel have been supported since 2004 by limited imports to the US due to strong global demand and a weak US dollar, and increased raw material costs. Although there has been volatility in carbon steel pricing since 2004, the low end of the pricing has been at historically high levels. In 2008, mill pricing for carbon steel products almost doubled in the first half of the year and then declined rapidly at the end of 2008 due to the poor global demand levels. However, the mills reduced their capacity to less than 50% as they saw the significant deterioration in demand levels. We believe this has prevented carbon steel pricing from falling further and will support a bottom in pricing that is still at a historically high level. Costs for aluminum and stainless steel products also declined in 2008. Aluminum prices increased earlier in the year and then fell significantly in the last half of 2008 to levels that we believe will cause aluminum mills to operate at a loss. Until there is a meaningful improvement in demand we do not anticipate metal prices to increase from current levels. In addition, further demand weakening, domestic mills increasing production without offsetting demand increases or increased imports to the US could weaken pricing.

Because of our total volume of purchases and our long-term relationships with our suppliers, we believe that we are generally able to purchase inventory at the best prices offered by the suppliers, given the order size. We believe that we are not dependent on any one of our suppliers for metals. In recent years, when the supply of certain metals was tight, we believe that these relationships provided an advantage to us in our ability to source product and have it available for our customers. Our size and strong relationships with our suppliers is now more important because mill consolidation has somewhat reduced the number of suppliers.

Backlog

Because of the just-in-time delivery and the short lead-time nature of our business, we do not believe the information on backlog of orders is material to an understanding of our metals service center business.

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Products and Processing Services

We provide a wide variety of processing services to meet each customer s specifications and deliver products to fabricators, manufacturers and other end users. We maintain a wide variety of products in inventory. Our product mix has changed mainly as a result of our acquisitions. Flat-rolled carbon steel products are generally the most volatile and competitive products in terms of pricing and accounted for only 10% of our 2008 sales. For orders that do not require extensive or specialized processing, we often deliver to the customer within 24 hours after receiving the order. Our sales dollars by product type as a percentage of total sales in each of the three years ended December 31 were as follows:

	2008	2007	2006	
	13%	11%	13%	carbon steel plate
	12%	9%	10%	carbon steel tubing
	10%	10%	9%	carbon steel bar
	10%	7%	7%	carbon steel structurals
	5%	3%	3%	hot rolled steel sheet and coil
	3%	4%	5%	galvanized steel sheet and coil
	2%	2%	2%	cold rolled steel sheet and coil
Carbon Steel	55%	46%	49%	
	6%	7%	6%	aluminum bar and tube
	4%	5%	6%	heat-treated aluminum plate
	4%	4%	4%	common alloy aluminum sheet and coil
	1%	2%	1%	common alloy aluminum plate
	1%	1%	1%	heat-treated aluminum sheet and coil
Aluminum	16%	19%	18%	
	7%	10%	9%	stainless steel bar and tube
	5%	6%	6%	stainless steel sheet and coil
	2%	3%	3%	stainless steel plate
Stainless Steel	14%	19%	18%	
	6%	7%	4%	alloy bar and rod
	1%	1%	1%	alloy tube
	1%	1%	1%	alloy plate, sheet and coil
Alloy	8%	9%	6%	
	2%	2%	2%	toll processing of aluminum, carbon steel and stainless steel
	5%	5%	7%	miscellaneous, including brass, copper and titanium
Total	100%	100%	100%	

We do not depend on any particular customer group or industry because we process a variety of metals. Because of this diversity of product type and material, we believe that we are less exposed to fluctuations or other weaknesses in the financial or economic stability of particular customers or industries. We also are less dependent on particular suppliers.

For sheet and coil products, we purchase coiled metal from primary producers in the form of a continuous sheet, typically 36 to 60 inches wide, between .015 and .25 inches thick, and rolled into 3- to 20-ton coils. The size and weight of these coils require specialized equipment to move and process the coils into smaller sizes and various products. Many of the other products that we carry also require specialized equipment. Few of our customers have the capability to process the metal into the desired products.

After receiving an order, we enter it into our computerized order entry system, select appropriate inventory and schedule the processing to meet the specified delivery date. In 2008, we delivered more than 40% of our orders within 24 hours. We attempt to maximize the yield from the various metals that we process by combining customer orders to use each product that we purchase to the fullest extent practicable.

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Few metals service centers offer the full scope of processing services and metals that we provide. In 2008, we performed processing services for approximately 35% of our sales orders. Our primary processing services are described below:

Bar turning involves machining a metal bar into a smaller diameter.

Bending is the forming of metals into various angles.

Blanking is the cutting of metals into close-tolerance square or rectangular shapes.

Deburring is the process used to smooth the sharp, jagged edges of a cut piece of metal.

Electropolishing is the process used on stainless steel tubing and fittings to simultaneously smooth, brighten, clean and passivate the interior surfaces of these components. Electropolishing is an electrochemical removal process that selectively removes a thin layer of metal, including surface flaws and imbedded impurities. Electropolishing is a required surface treatment for all ultra high-purity components used in the gas distribution systems of semiconductor manufacturers worldwide and many sterile water distribution systems of pharmaceutical and biotechnology companies.

Fabricating includes performing second- and/or third-stage processing per customer specifications, typically to provide a part, casing or kit which is used in the customer s end product.

Forming involves bending and forming plate or sheet products into customer-specified shapes and sizes with press brakes.

Grinding or blanchard grinding involves grinding the top and/or bottom of carbon or alloy steel plate or bars into close tolerance.

Leveling (cutting-to-length) involves cutting metal along the width of a coil into specified lengths of sheets or plates.

Machining refers to performing multiple processes to a piece of metal to produce a customer-specified component part.

Oscillate slitting involves slitting the metal into specified widths and then oscillating the slit coil when it is wound. The oscillated coil winds the strip metal similar to the way fishing line is wound on a reel rather than standard ribbon winding. An oscillate coil can typically hold five to six times more metal than a standard coil, which allows customers to achieve longer production run times by reducing the number of equipment shut-downs to change coils.

Pipe threading refers to the cutting of threads around the circumference of the pipe.

Polishing changes the texture of the surface of the metal to specific finishes in accordance with customer specifications.

Precision plate sawing involves sawing plate (primarily aluminum plate products) into square or rectangular shapes to tolerances as close as 0.003 of an inch.

Punching is the cutting of holes into carbon steel beams or plates by pressing or welding per customer specifications.

Routing produces various sizes and shapes of aluminum plate according to customer-supplied drawings through the use of CNC controlled machinery.

Sawing involves cutting metal into customer-specified lengths, shapes or sizes.

Shape cutting, or burning, can produce various shapes according to customer-supplied drawings through the use of CNC controlled machinery. This procedure can include the use of oxy-fuel, plasma, high-definition plasma, laser burning or water jet cutting for carbon, aluminum and stainless steel sheet and plate.

Shearing is the cutting of metal into small, precise square or rectangular pieces.

Skin milling grinds the top and/or bottom of a large aluminum plate into close tolerance.

Slitting involves cutting metal to specified widths along the length of the coil.

Tee splitting involves splitting metal beams. Tee straightening is the process of straightening split beams.

Twin milling grinds one or all six sides of a small square or rectangular piece of aluminum plate into close tolerance.

Welding is the joining of one or more pieces of metal.

Wheelabrating, shotblasting and bead-blasting involve pressure blasting metal grid onto carbon steel products to remove rust and scale from the surface.

We generally process specific metals to non-standard sizes only at the request of customers pursuant to purchase orders. We do not maintain a significant inventory of finished products, but we carry a wide range of metals to meet the short lead time and just-in-time delivery requirements of our customers. Our metals service centers maintain inventory and equipment selected to meet the needs of that facility s customers.

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Marketing

As of year-end 2008, we had approximately 1,700 sales personnel located in 42 states, Belgium, Canada, China, France, Mexico, Singapore, South Korea, Thailand and the United Kingdom that provide marketing services throughout each of those areas, as well as nearby locations. The sales personnel are organized by division or subsidiary among our profit centers and are divided into two groups. Our outside sales personnel are considered those personnel who travel throughout a specified geographic territory to maintain relationships with our existing customers and develop new customers. Those sales personnel who remain at the facilities to write and price orders are our inside sales personnel. The inside sales personnel generally receive incentive compensation, in addition to their base salary, based on the gross profit or pretax profit of their particular profit center. The outside sales personnel generally receive incentive compensation based on the gross profit from their particular geographic territories.

Industry and Market Cycles

We distribute metal products to our customers in a variety of industries, including non-residential construction, manufacturing, transportation, aerospace, energy and semiconductor fabrication. Many of the industries in which our customers compete are cyclical in nature and are subject to changes in demand based on general economic conditions. We sell to a wide variety of customers in diverse industries to reduce the effect of changes in these cyclical industries on our results. However, our diversity could not overcome the effect of the global economic downturn and financial crisis in our 2008 fourth quarter and thus far into 2009, as the recession has significantly affected all industries.

During the first nine months of 2008, demand levels from our customers were relatively strong and down only slightly from 2007 levels. The energy, non-residential construction and aerospace markets were the strongest markets for us during this period. We sell minimal amounts of metal directly to the auto or residential housing markets, which somewhat shielded us from the poor U.S. economy during 2007 and the first nine months of 2008. The healthy demand levels, along with increased raw material costs and limited imports of carbon steel products into the U.S. in 2008 supported significant price increases in the first half of the year. Benchmark carbon steel hot-rolled coil prices increased from about $563 per ton at the end of 2007 to $1,080 per ton in May and June of 2008 (according to *American Metal Market*). We had never experienced such rapid and significant price increases for carbon steel products, except in 2004. We were initially uncertain as to our customers tolerance to accept these price increases in advance of our receipt of the higher cost inventory. However, we were successful in pushing these price increases to our customers and were able to expand our gross profit margins during the first nine months of 2008.

Throughout 2008, we were aware of the difficulties being experienced in the economy; however, we did not feel the impact of this in our business until the 2008 fourth quarter. Demand and pricing for our products started to decline somewhat in October, and then deteriorated rapidly beginning in November and continuing into 2009. As of February 2009, we believe that both demand and pricing for most products has somewhat stabilized, albeit at the lower levels experienced in the 2008 fourth quarter with December 2008 benchmark carbon steel hot-rolled coil prices at $560 per ton (according to *American Metal Market*).

Managing through both price and demand volatility is a normal part of our business and we have successfully managed through such cycles for many years. However, the 2008 cycles were more dramatic than those we have experienced historically. Because of the dramatic reduction in demand in the 2008 fourth quarter, mills cut prices leaving most service centers with large amounts of material on hand at a higher cost than replacement cost. In reaction to this, service centers, including Reliance, entered an inventory destocking mode to try to clear out their higher cost material and replace it with the lower cost material. However, poor customer demand required that selling prices be lowered, which resulted in significant gross profit margin pressures pushing many service center companies into a fourth quarter operating loss. We were able to remain profitable during this period.

Although there was significant volatility in metals pricing in 2008, especially carbon steel products, current prices are at reasonably high levels on a historical basis. In reaction to the significant demand declines, carbon steel mills, in late 2008 and early 2009, reduced production levels to less than 50% of capacity. We believe this is a positive action for the metals industry to reduce supply to better match demand and allow pricing to be maintained. We believe that carbon steel prices have reached a bottom of about $500 per ton in early 2009. Prices for certain aluminum products declined by about 30% in the last five months of 2008. Stainless steel prices were less volatile in 2008 than in 2007 and we believe that they will be even less volatile in 2009. Although we believe that prices for metal products have somewhat stabilized at February 2009 levels, they could drop further. We do not anticipate any meaningful increases in prices until demand improves. We are uncertain as to the demand outlook at this time.

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Fluctuations in the cost of our materials affect the prices we can charge to our customers. We have historically been able to pass increases in metal costs on to our customers as costs typically increase due to strong demand. In the current environment we expect continued pressure on our profit margins. We cannot guarantee that the margin between our metal costs and selling prices will improve or decline from or remain at the levels experienced during the 2008 fourth quarter, especially if demand declines further or if costs of domestic metals decline. If metals costs and related selling prices remain at current levels or increase, we should be able to remain profitable.

Competition

The metals distribution industry is highly fragmented and competitive. We have numerous competitors in each of our product lines and geographic locations, although competition is most frequently local or regional. Most of our competitors are smaller than we are, but we still face strong competition from national, regional and local independent metals distributors and the producers themselves, some of which have greater resources than we do. As reported in the May 2003 issue of *Purchasing* magazine, it is estimated that there were approximately 3,500 intermediate steel processors and metals service center facilities in North America in 2003. *Purchasing* magazine has identified Reliance as the largest metals service center company in North America (based upon 2007 revenue). According to the May 2008 issue of *Purchasing* magazine, the 2007 revenues for the five largest North American metals service center companies ranged from $3.2 billion to $7.3 billion for total revenues of $23.6 billion, which represents approximately 16.5% of the estimated $143 billion total revenue for the metals service center industry in 2007. Our 2007 sales of $7.26 billion represented approximately 5.1% of the estimated $143 billion industry total. We are now the largest North American metals service center company on a revenue basis.

We compete with other companies on price, service, quality and availability of products. We maintain centralized relationships with our major suppliers and a decentralized operational structure. We believe that this division of responsibility has increased our ability to obtain competitive prices of metals and to provide more responsive service to our customers. In addition, we believe that the size of our inventory, the different metals and products we have available, and the wide variety of processing services we provide, distinguish us from our competition. We believe that we have increased our market share during recent years due to our strong financial condition, our high quality of service, our acquisitions and opportunities created by activities of certain of our competitors.

In the fourth quarter of 2008, when both customer demand and metal pricing were rapidly deteriorating, competition in the metals service center industry reached a level that we have not experienced before. Because of the sudden slowing in demand, service centers had higher quantities of metal on hand than they would typically carry to support their demand base. In addition, the inventory on hand was at a higher cost than the replacement cost of the metal being sold by the mills. This environment allowed customers to demand that service centers lower their prices to be more in line with current replacement cost, even if the service center had to fill the order with higher cost metal. This eroded gross profit margins on these orders. The competition was further heightened because of the general lack of credit availability, motivating many service centers to liquidate as much inventory as possible. These competitive forces have continued into the 2009 first quarter. We believe that both demand and pricing will need to stabilize before the competitive pressures lessen. As long as there are service centers trying to convert inventory to cash without regard to profit levels, we will be required to lower our prices to be competitive. This has, and could continue to, reduce our profit margins.

Quality Control

Procuring high quality metal from suppliers on a consistent basis is critical to our business. We have instituted strict quality control measures to assure that the quality of purchased raw materials will enable us to meet our customers specifications and to reduce the costs of production interruptions. We perform physical and chemical analyses on selected raw materials to verify that their mechanical and dimensional properties, cleanliness and surface characteristics meet our requirements. We conduct similar analyses on selected processed metal before delivery to the customer. We believe that maintaining high standards for accepting metals ultimately results in reduced return rates from our customers.

In 2008, 23 divisions and 14 subsidiaries of Reliance, at a total of 95 facilities, maintained ISO 9001-2000 certifications; however, we do not expect to obtain the certification for any additional facilities at this time. The ISO 9001-2000 quality standard includes a matrix to record and review customer satisfaction and organizes the quality standard requirements to around eight elements. The certification takes approximately one year to obtain. Each facility seeking ISO certification is required to establish a quality system that is documented in a quality control manual that affects all aspects of the facility s operations, including sales, product inspections, product storage, delivery and documentation. A certifying agent performs a physical audit of each facility every six months to determine that the facility is in fact following the procedures set forth in the quality control manual. A recertification is required for each facility every three years. Initially in 1996, when we first began the certification process, we expected that more customers would require such certification, but we have learned that for the types of products and services which most of our facilities provide, very few of our customers require such certification and most of our customers have responded that they would purchase products from Reliance or its subsidiaries regardless of such certification. However, we believe that going through the certification process allowed our facilities to improve their efficiency and the quality of products and services provided to our customers.

Our subsidiary Precision Strip maintains ISO/TS 16949:2002 certifications at all ten facilities. ISO/TS 16949:2002 is an ISO Technical Specification, which aligns existing American (QS-9000), German (VDA6.1), French (EAQF) and Italian (AVSQ) automotive quality systems standards within the global automotive industry. Quality System Requirements QS-9000 (QS-9000) is the common quality standard for automotive suppliers and is based upon the 1994 edition of ISO 9001, with additional requirements specific to the automotive industry. In addition, our subsidiary Valex Korea maintains ISO 14001:2004 certification at its operating facility in South Korea. ISO 14001:2004 gives the generic requirements for an environmental management system. The intention of ISO 14001:2004 is to provide a framework for a strategic approach to the organization s environmental policy, plans and actions.

Systems

We have converted our Reliance divisions and certain of our subsidiaries from various software programs to the StelplanÔ and eStelplanÔ manufacturing and distribution information systems. StelplanÔ is a registered trademark of Invera, Inc. StelplanÔ is an integrated business application system with functions ranging from order entry to the generation of financial statements. StelplanÔ was developed specifically for the metals service center and processor industry. StelplanÔ also provides information in real time, such as inventory availability, location and cost. With this information, our marketing and sales personnel can respond to our customers needs more efficiently and more effectively.

Certain of our subsidiaries use other vendor or in-house developed systems to support their operations, including EMJ at its 40 locations. The basic functionality of the software is similar to StelplanÔ but in many instances has been designed specifically for each of their operations with features to accommodate the products that they carry, automated equipment interfaces, or other specialized needs. These systems are included in our internal control testing. A common financial reporting system is used company-wide. We have initiated efforts to allow us to identify the appropriate system solutions to provide a common ERP platform across our operating companies and to develop more efficient means of consolidating data. This will be a multi-phased, multi-year project that will be pursued and implemented in a manner to limit both operational and financial risk.

Government Regulation

Our metals service centers are subject to many foreign, federal, state and local requirements to protect the environment, including hazardous waste disposal and underground storage tank regulations. The only hazardous substances that we generally use in our operations are lubricants, cleaning solvents and petroleum for fueling our trucks. We pay state-certified private companies to haul and dispose of our hazardous waste.

Our operations are also subject to laws and regulations relating to workplace safety and worker health, principally the Occupational Health and Safety Act and related regulations, which, among other requirements, establish noise, dust and safety standards. We maintain comprehensive health and safety policies and encourage our employees to follow established safety practices. We encourage social well being by instituting these high quality labor, health and safety standards. We do not anticipate that future compliance with such laws and regulations will have a material adverse effect on our results of operations or financial condition.

Certain of our operations sell metal to foreign customers, subjecting us to various export compliance regulations. We have implemented a Corporate export compliance function to monitor adherence to our export compliance policy and to provide appropriate training to our operating personnel. Although the actual dollar amount of our sales that are subject to these regulations are not material, penalties assessed to any violations may be material. Although we have implemented policies and procedures to comply with export compliance regulations, we cannot guarantee that we will not incur any violations and resulting penalties from such activity.

Environmental

Some of the properties we own or lease are located in industrial areas with histories of heavy industrial use. We may incur some environmental liabilities because of the location of these properties. In addition, we are currently investigating and remediating contamination at certain properties we have acquired or that acquired subsidiaries own or previously owned, but we do not expect that these liabilities would have a material adverse impact on our results of operations. All scrap metal produced by our operations is sold to independent scrap metal companies and we believe is recycled. We continue to evaluate and implement energy conservation and other initiatives to reduce pollution.

Employees

As of December 31, 2008, we had approximately 10,230 employees. Approximately 13% of the employees are covered by collective bargaining agreements, which expire at various times over the next five years. We have entered into collective bargaining agreements with 34 union locals at 38 of our locations. These collective bargaining agreements have not had a material impact either favorably or unfavorably on our revenues or profitability at our various locations. We have always maintained excellent relations with our employees. Over the years we have experienced minor work stoppages by our employees at certain of our locations, but due to the small number of employees and the short time periods involved, these stoppages have not had a material impact on our operations. Employees at certain of our locations have recently de-certified with their local unions and are now non-union employees. We have never experienced a significant work stoppage.

Because of the poor economic conditions that began to impact our industry, and our company, in late 2008, we have made significant reductions in our workforce. In the 2008 fourth quarter, we eliminated about 800 jobs in our company, as our reduced business levels have made these changes necessary in order for us to maintain profitability. Personnel costs are the most significant variable cost that we have and are also the most impacted by changes in our order volumes. Therefore, we have eliminated many jobs, and will continue to do so if business levels continue to deteriorate. In addition, we have taken many other cost cutting measures including certain changes that impact our employees such as voluntary time off and reduced work weeks. In addition, many of our employees participate in various bonus programs based upon the financial results of a particular operation or the Company as a whole. Because of our expected lower profitability levels in 2009, we expect our compensation expense to be lower as our employees will receive lower bonuses than in 2008.

Available Information

We file annual, quarterly and current reports, proxy statements and other documents with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934, as amended (the Exchange Act). The public may read and copy any materials that we file with the SEC at the SEC s Public Reference Room at 450 Fifth Street, N.W., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains a Website that contains reports, proxy information statements and other information regarding issuers, including our Company, that file electronically with the SEC. The public can obtain any documents that we file with the SEC at *http://www.sec.gov*.

We also make available free of charge on or through our Internet Website (*http://www.rsac.com*) our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and, if applicable, amendments to those reports filed or furnished pursuant to Section 13(a) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Reference to our Website is not intended to incorporate anything on the Website into this report.

Item 1A. Risk Factors

Set forth below are the risks that we believe are material to our investors. Our business, results of operations and financial condition may be materially adversely affected due to any of the following risks. The risks described below are not the only ones we face. Additional risks of which we are not presently aware or that we currently believe are immaterial may also harm our business. This section contains forward-looking statements. You should refer to the explanation of the qualifications and limitations on forward-looking statements set forth at the beginning of this Report.

Risks Related to Our Business and Industry

Our indebtedness could impair our financial condition and reduce the funds available to us for other purposes and our failure to comply with the covenants contained in our debt instruments could result in an event of default that could adversely affect our operating results.

We have substantial debt service obligations. As of December 31, 2008, we had aggregate outstanding indebtedness of approximately $1.77 billion. This indebtedness could adversely affect us in the following ways:

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- our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes may not be available and if available, may be considerably more costly than our current debt costs;

- a significant portion of our cash flow from operations must be dedicated to the payment of interest and principal on our debt, which reduces the funds available to us for our operations or other purposes;

- some of the interest on debt is, and will continue to be, accrued at variable rates, which may result in higher interest expense in the event of increases in interest rates, which may occur in future periods;

- because we may be more leveraged than some of our competitors, our debt may place us at a competitive disadvantage;

- our leverage may increase our vulnerability to economic downturns and limit our ability to withstand adverse events in our business by limiting our financial alternatives; and

- our ability to capitalize on significant business opportunities, including potential acquisitions, and to plan for, or respond to, competition and changes in our business may be limited.

Our existing debt agreements contain financial and restrictive covenants that limit our ability to incur additional debt, including to finance future operations or other capital needs, and to engage in other activities that we may believe are in our long-term best interests, including to dispose of or acquire assets or other companies or to pay dividends to our shareholders. Our failure to comply with these covenants may result in an event of default which, if not cured or waived, could accelerate the maturity of our indebtedness or prevent us from accessing availability under our credit facility. Our ability to obtain a waiver or amendment to our existing credit agreements may be limited or extremely costly in the current environment. In addition, any changes to our existing debt agreements or any new debt agreements may include substantially more restrictive covenants than in our current agreements. If our indebtedness is accelerated, we may not have sufficient cash resources to satisfy our debt obligations and we may not be able to continue our operations as planned.

We may not be able to generate sufficient cash flow to meet our existing debt service obligations.

Our annual debt service obligations until November 2011, when our revolving credit facility is scheduled to mature, will be primarily limited to interest and principal payments on multiple series of privately placed senior notes and our outstanding debt securities with an aggregate principal amount of $823 million, and on borrowings under our $1.1 billion credit facility and our $500 million term loan. Our ability to generate sufficient cash flow from operations to make scheduled payments on our debt obligations will depend on our future financial performance, which will be affected by a range of economic, competitive and business factors, many of which are outside of our control. For example, we may not generate sufficient cash flow from our operations or new acquisitions to repay amounts drawn under our credit facility or term loan when they mature in 2011, our private notes when they mature on various dates between 2009 and 2013 or our debt securities when they mature in 2016 and 2036. If we do not generate sufficient cash flow from operations to satisfy our debt obligations, we expect to undertake alternative financing plans, such as refinancing or restructuring our debt, selling assets, reducing or delaying capital investments or seeking to raise additional capital. We may not be able to consummate any such transaction at all or on a timely basis or on terms, and for proceeds, that are acceptable to us. These transactions may not be permitted under the terms of our various debt instruments then in effect, however, our inability to generate sufficient cash flow to satisfy our debt obligations, or to timely refinance our obligations on acceptable terms, could adversely affect our ability to serve our customers and could cause us to reduce or discontinue our planned operations. Beginning in the 2008 fourth quarter, our profit margins were negatively impacted because we had higher cost material in a rapidly declining price environment where customers demanded lower sales prices. Our profit margins could be impacted even further if metal prices continue to decline.

The costs that we pay for metals fluctuate due to a number of factors beyond our control, and such fluctuations could adversely affect our operating results, particularly if we cannot pass on higher metal prices to our customers.

We purchase large quantities of aluminum, carbon, alloy and stainless steel and other metals, which we sell to a variety of end-users. The costs to us for these metals and the prices that we charge customers for our products may change depending on many factors outside of our control, including general economic conditions (both domestic and international), competition, production levels, customer demand levels, import duties and other trade restrictions, currency fluctuations and surcharges imposed by our suppliers. We attempt to pass cost increases on to our customers with higher selling prices but we may not always be able to do so.

We maintain substantial inventories of metal to accommodate the short lead times and delivery requirements of our customers. Our customers typically purchase products from us pursuant to purchase orders and typically do not enter into long-term purchase agreements or arrangements with us. Accordingly, we purchase metal in quantities we believe to be appropriate to satisfy the anticipated needs of our customers based on information derived from customers, market conditions, historic usage and industry research. Commitments for metal purchases are generally at prevailing market prices in effect at the time orders are placed or at the time of shipment. During periods of rising prices for metal, we may be negatively impacted by delays between the time of increases in the cost of metals to us and increases in the prices that we charge for our products if we are unable to pass these increased costs on to our customers immediately. In addition, when metal prices decline, customer demand for lower prices could result in lower sale prices for our products and, as we use existing inventory that we purchased at higher metal prices, lower margins. Consequently, during periods in which we use this existing inventory, the effects of changing metal prices could adversely affect our operating results.

Our business could be adversely affected by economic downturns.

Demand for our products is affected by a number of general economic factors. A decline in economic activity in the U.S. and other markets in which we operate could materially affect our financial condition and results of operations. The U.S. economy technically entered an economic recession in December 2007 and this spread to many global markets in 2008. In late 2008, the metals industry, including service centers and Reliance, felt the effects of the recession. Both demand for our products and pricing levels declined rapidly and significantly. In addition to reducing our direct business activity, the financial viability of many of our customers is also threatened which may impact their ability to pay us amounts due, further affecting our financial condition and results of operations. We have little visibility as to the duration of the economic recession which may cause our financial condition to worsen from current levels.

The prices of metals are subject to fluctuations in the supply and demand for metals worldwide and changes in the worldwide balance of supply and demand could negatively impact our revenues, gross profit and net income.

Metal prices are volatile due to, among other things, fluctuations in foreign and domestic production capacity, raw material availability, metals consumption and foreign currency rates. For example, in the past few years, China has significantly increased both its consumption and production of metals and metal products. Initially, China s large and growing demand for metals significantly affected the metals industry by diverting supply to China and contributing to the global increases in metal prices. With China s increased production of metals, it has become a net exporter of certain metals. While this development can affect global pricing, it has yet to have a significant impact on U.S. pricing or the pricing for our products. Any future downturn in China s general economic conditions or increases in its export of metals could cause a reduction in metal prices globally, which could adversely affect our revenues, gross profit and net income. Due to the global recession in 2008, mills have significantly reduced their production capacities by idling production lines in an effort to maintain a steady supply and demand balance. Domestic carbon steel mills are operating at less than 50% of capacity in early 2009. We believe this has stabilized pricing levels. However, if mills begin to increase production without a corresponding increase in demand, prices may decline further. Global mills, including those in China, may react more irrationally than domestic mills.

Additionally, significant currency fluctuations in the United States or abroad could negatively impact our cost of metals and the pricing of our products. The decline in the dollar relative to foreign currencies in recent years has resulted in increased prices for metals and metal products in the United States as imported metals have become relatively more expensive. In addition, when prices for metal products in the U.S. are lower than in foreign markets, metals may be sold in the foreign markets rather than in the U.S., reducing the availability of metal products in the U.S. which may allow the domestic mills to increase their prices. The dollar has increased in value relative to many other currencies in 2008 because of the global financial crisis; however, imports of metal into the U.S. did not increase significantly. If, in the future, the dollar continues to increase in value relative to foreign currencies, the U.S. market may be more attractive to foreign producers, resulting in increased supply that could cause decreased metal prices and adversely affect our revenues, gross profit and net income.

We operate in an industry that is subject to cyclical fluctuations and any downturn in general economic conditions or in our customers specific industries could negatively impact our revenues, gross profit and net income.

The metals service center industry is cyclical and impacted by both market demand and metals supply. Periods of economic slowdown or recession in the United States or other countries, or the public perception that these may occur, could decrease the demand for our products and adversely affect our pricing. For example, the economic recession that began in December 2007 significantly impacted our revenue levels due to both demand and pricing levels deteriorating beginning in the 2008 fourth quarter. This has also impacted our gross profit and net income levels as we have had to lower our selling prices to our customers faster than we have received lower cost metal into our inventory. The poor economic environment could cause our demand or pricing levels, or both, to continue to decline which could further reduce our revenues, gross profit and net income.

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We sell many products to industries that are cyclical, such as the non-residential construction, semiconductor, energy and transportation industries, including aerospace. The demand for our products is directly related to, and quickly impacted by, demand for the finished goods manufactured by our customers in these industries, which may change as a result of changes in the general U.S. or worldwide economy, domestic exchange rates, energy prices or other factors beyond our control. If we are unable to accurately project the product needs of our customers over varying lead times or if there is a limited availability of products through allocation by the mills or otherwise, we may not have sufficient inventory to be able to provide products desired by our customers on a timely basis. In addition, if we are not able to diversify our customer base and/or increase sales of products to customers in other industries when one or more of the cyclical industries that we serve are experiencing a decline, our revenues, gross profit and net income may be adversely affected.

We compete with a large number of companies in the metals service center industry, and, if we are unable to compete effectively, our revenues, gross profit and net income may decline.

We compete with a large number of other general-line distributors and specialty distributors in the metals service center industry. Competition is based principally on price, inventory availability, timely delivery, customer service, quality and processing capabilities. Competition in the various markets in which we participate comes from companies of various sizes, some of which have more established brand names in the local markets that we serve. Accordingly, these competitors may be better able to withstand adverse changes in conditions within our customers industries and may have greater operating and financial flexibility than we have. To compete for customer sales, we may lower prices or offer increased services at a higher cost, which could reduce our revenues, gross profit and net income. The significantly lower demand levels beginning in the 2008 fourth quarter have escalated competitive pressures, with service centers selling at substantially reduced prices, and sometimes at a loss, in an effort to reduce their high cost inventory and generate cash. These competitive pressures could continue to increase as demand and pricing remain at low levels or fall further and as companies become more desperate for cash. Any increased competitive pressure could cause our revenues, gross profit and net income to decline further.

If we were to lose any of our primary suppliers or otherwise be unable to obtain sufficient amounts of necessary metals on a timely basis, we may not be able to meet our customers needs and may suffer reduced sales.

We have few long-term contracts to purchase metals. Therefore, our primary suppliers of carbon steel, alloy steel, stainless steel, aluminum or other metals could curtail or discontinue their delivery of these metals to us in the quantities we need with little or no notice. Our ability to meet our customers needs and provide value-added inventory management services depends on our ability to maintain an uninterrupted supply of high quality metal products from our suppliers. If our suppliers experience production problems, lack of capacity or transportation disruptions, the lead times for receiving our supply of metal products could be extended and the cost of our inventory may increase. If, in the future, we are unable to obtain sufficient amounts of the necessary metals at competitive prices and on a timely basis from our traditional suppliers, we may not be able to obtain these metals from acceptable alternative sources at competitive prices to meet our delivery schedules. Even if we do find acceptable alternative suppliers, the process of locating and securing these alternatives may be disruptive to our business, which could have an adverse impact on our ability to meet our customers needs and reduce our sales, gross profit and net income. In addition, if a significant domestic supply source is discontinued and we cannot find acceptable domestic alternatives, we may need to find a foreign source of supply. Dependence on foreign sources of supply could lead to longer lead times, increased price volatility, less favorable payment terms, increased exposure to foreign currency movements and certain tariffs and duties and require greater levels of working capital. Alternative sources of supply may not maintain the quality standards that are in place with our current suppliers that could impact our ability to provide the same quality of products to our customers that we have provided in the past, which could cause our customers to move their business to our competitors or to file claims against us. There has been significant consolidation at the metal producer level both globally and within the U.S. This has reduced the number of suppliers available to us which could result in increased metals costs to us that we may not be able to pass on to our customers and may limit our ability to obtain the necessary metals to service our customers. The number of available suppliers may be further reduced because of the current economic crisis. Lower metal prices may cause certain mills to operate at a loss, which could cause the mill to discontinue operations if the losses continue over an extended period of time or if the mill cannot obtain the necessary financing to fund its operating costs. Also, due to reduced demand levels, many mills have reduced production capacity, reducing their cash flow and profits. This may cause certain of these mills to suspend or discontinue operations.

We rely upon our suppliers as to the specifications of the metals we purchase from them.

We rely on mill certifications that attest to the physical and chemical specifications of the metal received from our suppliers for resale and generally, consistent with industry practice, do not undertake independent testing of such metals. Unless otherwise specifically notified by our customers, we rely on our customers to notify us of any metal that does not conform to the specifications certified by the supplying mill. A subsidiary of PNA was in a dispute with certain steel traders regarding the quality of specific orders of steel purchased from certain foreign mills and may have unknowingly received non-conforming products. Although our primary sources of products have been domestic mills, we have and will continue to purchase product from foreign suppliers when we believe it is appropriate. In the event that metal purchased from domestic suppliers is deemed to not meet quality specifications as set forth in the mill certifications or customer specifications, we generally have recourse against these suppliers for both the cost of the products purchased and possible claims from our customers. However, such recourse will not compensate us for the damage to our reputation that may arise from sub-standard products and possible losses of customers. Moreover, there is a greater level of risk that similar recourse will not be available to us in the event of claims by our customers related to products delivered from foreign suppliers that do not meet the specifications set forth in the mill certifications. In these circumstances, we may be at greater risk of loss for claims for which we do not carry, or do not carry sufficient, insurance.

If we do not successfully implement our acquisition growth strategy, our ability to grow our business could be impaired.

We may not be able to identify suitable acquisition candidates or successfully complete any acquisitions or integrate any other businesses into our operations. If we cannot identify suitable acquisition candidates or are otherwise unable to complete acquisitions, we are unlikely to sustain our historical growth rates, and, if we cannot successfully integrate these businesses, we may incur increased or redundant expenses. Moreover, any additional indebtedness we incur to pay for these acquisitions could adversely affect our liquidity and financial condition. In late 2008, we suspended our acquisition activity to prioritize the use of our cash to pay down debt and increase our liquidity position. In light of the dismal business climate and difficulty in obtaining new or additional financing, we are not certain when we will be in a position to begin significant growth activities, including acquisitions. Also, if we were to obtain new financing to complete an acquisition, the higher cost of new money may reduce our accretion from the acquisition or may impair our ability to complete the acquisition. Because of our reduced stock price, the cost of using equity to finance an acquisition may make certain deals prohibitive.

Acquisitions present many risks, and we may not realize the financial and strategic goals that were contemplated at the time of any transaction.

Historically, we have expanded both through acquisitions and internal growth. Since our initial public offering in September 1994, we have successfully purchased more than 40 businesses. From 1984 to September 1994, we acquired 20 businesses. We continue to evaluate acquisition opportunities and although we have currently placed acquisitions on hold because of the poor economic climate, we expect to continue to grow our business through acquisitions. Risks we may encounter in acquisitions include:

- the acquired company may not further our business strategy, or we may pay more than it is worth;
- the acquired company may not perform as anticipated, which could result in an impairment charge or otherwise impact our results of operations;
- we may not realize the anticipated increase in our revenues if a larger than predicted number of customers decline to continue purchasing products from us;
- we may have to delay or not proceed with a substantial acquisition if we cannot obtain the necessary funding to complete the acquisition in a timely manner;
- we may significantly increase our interest expense, leverage and debt service requirements if we incur additional debt to pay for an acquisition or assume existing debt of an acquired company which, among other things, may result in a downgrade of our debt ratings;
- we may have multiple and overlapping product lines that may be offered, priced and supported differently, which could cause our gross profit margins to decline;

our relationship with current and new employees, customers and suppliers could be impaired;

our due diligence process may fail to identify risks that could negatively impact our financial condition;

we may lose anticipated tax benefits or have additional legal or tax exposures if we have prematurely or improperly combined entities;

we may face contingencies related to product liability, intellectual property, financial disclosures, tax positions and accounting practices or internal controls;

the acquisition may result in litigation from terminated employees or third parties;

our management s attention may be diverted by transition or integration issues; and

we may be unable to obtain timely approvals from governmental authorities under competition and antitrust laws.

These factors could have a material adverse effect on our business, results of operations, financial condition or cash flows, particularly in the case of a larger acquisition or a number of acquisitions.

As a decentralized business, we depend on both senior management and our key operating employees; if we are unable to attract and retain these individuals, our ability to operate and grow our business may be adversely affected.

Because of our decentralized operating style, we depend on the efforts of our senior management, including our chairman and chief executive officer, David H. Hannah, our president and chief operating officer, Gregg J. Mollins, and our executive vice president and chief financial officer, Karla Lewis, as well as our key operating employees. We may not be able to retain these individuals or attract and retain additional qualified personnel when needed. We do not have employment agreements with any of our corporate officers or most of our key employees, so they may have less of an incentive to stay with us when presented with alternative employment opportunities. The compensation of our officers and key employees is heavily leveraged to our profitability and in times of reduced profitability this may cause our employees to seek employment opportunities that provide a more stable compensation structure. In addition, our senior management and key operating employees hold stock options that have vested and may also hold common stock in our employee stock ownership plan. These individuals may, therefore, be more likely to leave us if the shares of our common stock significantly appreciate in value. The loss of any key officer or employee will require remaining officers and employees to direct immediate and substantial attention to seeking a replacement. Our inability to retain members of our senior management or key operating employees or to find adequate replacements for any departing key officer or employee on a timely basis could adversely affect our ability to operate and grow our business.

We are subject to various environmental, employee safety and health and customs and export laws and regulations, which could subject us to significant liabilities and compliance expenditures.

We are subject to various foreign, federal, state and local environmental laws and regulations concerning air emissions, wastewater discharges, underground storage tanks and solid and hazardous waste disposal at or from our facilities. Our operations are also subject to various employee safety and health laws and regulations, including those concerning occupational injury and illness, employee exposure to hazardous materials and employee complaints. We are also subject to customs and exporting laws and regulations for international shipment of our products. Environmental, employee safety and health and customs and export laws and regulations are comprehensive, complex and frequently changing. Some of these laws and regulations are subject to varying and conflicting interpretations. We may be subject from time to time to administrative and/or judicial proceedings or investigations brought by private parties or governmental agencies with respect to environmental matters, employee safety and health issues or customs and exporting issues. Proceedings and investigations with respect to environmental matters, any employee safety and health issues or customs and exporting issues could result in substantial costs to us, divert our management s attention and result in significant liabilities, fines or the suspension or interruption of our service center activities. Some of our current properties are located in industrial areas with histories of heavy industrial use. The location of these properties may require us to incur environmental expenditures and to establish accruals for environmental liabilities that arise from causes other than our operations. In addition, we are currently investigating and remediating contamination in connection with certain properties we have acquired. Our international presence has grown, so the risk of incurring liabilities or fines resulting from non-compliance with customs or export laws has increased. We are currently investigating and remediating potential violations, most of which occurred at companies prior to Reliance acquiring them; however, we may incur fines or penalties for any such violations. Future events, such as changes in existing laws and regulations or their enforcement, new laws and regulations or the discovery of conditions not currently known to us, could result in material environmental or export compliance or remedial liabilities and costs, constrain our operations or make such operations more costly.

Our operating results have fluctuated, and are expected to continue fluctuating, depending on the season.

Many of our customers are in seasonal businesses, including customers in the construction and related industries. In addition, our revenues in the months of July, November and December traditionally have been lower than in other months because of increased vacation days and holiday closures for various customers. Consequently, you should not rely on our results of operations during any particular quarter as an indication of our results for a full year or any other quarter.

Ongoing tax audits may result in additional taxes.

Reliance and our subsidiaries are undergoing various tax audits. These tax audits could result in additional taxes, plus interest and penalties being assessed against Reliance or any of our subsidiaries and the amounts assessed could be material.

Damage to our computer infrastructure and software systems could harm our business.

The unavailability of any of our primary information management systems for any significant period of time could have an adverse effect on our operations. In particular, our ability to deliver products to our customers when needed, collect our receivables and manage inventory levels successfully largely depend on the efficient operation of our computer hardware and software systems. Through information management systems, we provide inventory availability to our sales and operating personnel, improve customer service through better order and product reference data and monitor operating results. Difficulties associated with upgrades, installations of major software or hardware, and integration with new systems could lead to business interruptions that could harm our reputation, increase our operating costs and decrease our profitability. In addition, these systems are vulnerable to, among other things, damage or interruption from power loss, computer system and network failures, loss of tele-communications services, operator negligence, physical and electronic loss of data, or security breaches and computer viruses.

We have contracted with a third-party service provider that provides us with backup systems in the event that our major information management systems are damaged. The backup facilities and other protective measures we take could prove to be inadequate.

The value of your investment may be subject to sudden decreases due to the potential volatility of the price of our common stock.

The market price of our common stock may be highly volatile and subject to wide fluctuations in response to various factors, including variations in our quarterly results of operations and our leverage position, as well as a general economic downturn. In 2008, our stock price was extremely volatile reaching an all-time high of $78 per share in July and then declining to $13 per share in November. Other factors may include matters discussed in other risk factors and the following factors:

- changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors or changes in estimates that we provide in our quarterly earnings release and conference call;
- developments affecting our Company, our customers or our suppliers;
- changes in the legal or regulatory environment affecting our business;
- press releases, earnings releases or publicity relating to us or our competitors or relating to trends in the metals service center industry;
- inability to meet securities analysts and investors quarterly or annual estimates or targets of our performance;
- a decline in our credit rating by the rating agencies;
- the operating and stock performance of other companies that investors may deem comparable;
- sales of our common stock by large shareholders;
- general domestic or international economic, market and political conditions.

These factors may adversely affect the trading price of our common stock, regardless of our actual operating performance. In addition, stock markets from time to time experience extreme price and volume fluctuations that may be unrelated or disproportionate to the operating performance of companies. In the past, some shareholders have brought securities class action lawsuits against companies following periods of volatility in the market price of their securities. We may in the future be the target of similar litigation. Securities litigation, regardless of whether our defense is ultimately successful, could result in substantial costs and divert management s attention and resources.

The volatility of the market could result in a material impairment of goodwill.

We review the recoverability of goodwill annually or whenever significant events or changes occur which might impair the recovery of recorded costs, making certain assumptions regarding future operating performance. We test for impairment of goodwill by calculating the fair value of a reporting unit using the discounted cash flow method. Under this method, the fair value of each reporting unit is estimated based on expected future economic benefits discounted to a present value at a rate of return commensurate with the risk associated with the investment. Projected cash flows are discounted to present value using an estimated weighted average cost of capital, which considers both returns to equity and debt investors. Significant changes in any one of the assumptions made as part of our analysis, which could occur as a result of actual events, or further declines in the market conditions for our products or our common stock could significantly impact our impairment analysis. An impairment charge, if incurred, could be material.

Principal shareholders who own a significant number of shares may have interests that conflict with yours.

Florence Neilan, our largest shareholder, through a revocable trust, owns approximately 11% of the outstanding shares of our common stock. She, together with Thomas W. Gimbel, one of our directors who is trustee of her trust, controls 12% of the outstanding shares of our common stock. Together, they may have the ability to significantly influence matters requiring shareholder approval. In deciding how to vote on such matters, these shareholders may be influenced by interests that conflict with yours.

We have implemented anti-takeover provisions that may adversely impact your rights as a holder of Reliance common stock.

Certain provisions in our articles of incorporation and our bylaws could delay, defer or prevent a third party from acquiring Reliance, despite the possible benefit to our shareholders, or otherwise adversely affect the price of our common stock and the rights of our shareholders. We are authorized to issue 5,000,000 shares of preferred stock, no par value, with the rights, preferences, privileges and restrictions of such stock to be determined by our board of directors, without a vote of the holders of common stock. Our board of directors could grant rights to holders of preferred stock to reduce the attractiveness of Reliance as a potential takeover target or make the removal of management more difficult. In addition, our restated articles of incorporation and restated and amended bylaws (1) impose advance notice requirements for shareholder proposals and nominations of directors to be considered at shareholder meetings and (2) establish a staggered or classified board of directors. These provisions may discourage potential takeover attempts, discourage bids for our common stock at a premium over market price or adversely affect the market price of, and the voting and other rights of the holders of, our common stock. These provisions could also discourage proxy contests and make it more difficult for you and other shareholders to elect directors other than the candidates nominated by our board of directors. In addition, our credit facility and the provisions of our senior private notes and debt securities contain limitations on our ability to enter into change of control transactions.

Risks Related to our Debt Securities

Because our senior debt securities and the related guarantees are not secured and are effectively subordinated to the rights of secured creditors, the debt securities and the related guarantees will be subject to the prior claims of any secured creditors, and if a default occurs, we may not have sufficient funds to fulfill our obligations under the debt securities or the related guarantees.

The notes and the guarantees are unsecured obligations, ranking equally with other senior unsecured indebtedness. The indenture governing the notes, as well as our credit facility and private placement notes, permit us and the subsidiary guarantors to incur additional secured or unsecured debt under specified circumstances. If we or the subsidiary guarantors incur additional secured debt, our assets and the assets of the subsidiary guarantors securing such debt will be subject to prior claims by our secured creditors. In the event of bankruptcy, insolvency, liquidation, reorganization, dissolution or other winding up of either Reliance or any of the subsidiary guarantors, assets that secure debt will be available to pay obligations on the notes and guarantees only after all debt secured by those assets has been repaid in full. Holders of the notes will participate in any remaining assets ratably with all of their respective unsecured and unsubordinated creditors, including trade creditors. If Reliance or any of the subsidiary guarantors incur any additional unsecured obligations that rank equally with the notes, including trade payables, the holders of those obligations will be entitled to share ratably with the holders of the notes in any proceeds distributed as a result of bankruptcy, insolvency, liquidation, reorganization, dissolution or other winding up. If we and the subsidiary guarantors do not have sufficient assets to pay all creditors, a portion of the notes outstanding would remain unpaid.

The guarantees may be unenforceable due to fraudulent conveyance statutes and, accordingly, the holders of our debt securities may not have a claim against the subsidiary guarantors.

The obligations of each subsidiary guarantor under its guarantee will be limited as necessary to prevent that guarantee from constituting a fraudulent conveyance or fraudulent transfer under applicable law. However, a court in some jurisdictions could, under fraudulent conveyance laws, further subordinate or void the guarantee of any subsidiary guarantor if it found that such guarantee was incurred with actual intent to hinder, delay or defraud creditors, or such subsidiary guarantor did not receive fair consideration or reasonably equivalent value for the guarantee and that the subsidiary guarantor was any of the following: insolvent or rendered insolvent because of the guarantee, engaged in a business or transaction for which its remaining assets constituted unreasonably small capital, or intended to incur, or believed that it would incur, debts beyond its ability to pay such debts at maturity.

If a court were to void the guarantee of a subsidiary guarantor as the result of a fraudulent conveyance, or hold it unenforceable for any other reason, holders of the notes would cease to have a claim against that subsidiary guarantor on its guarantee and would be creditors solely of Reliance and any other subsidiary guarantor whose guarantee is not voided or held to be unenforceable.

The guarantees will be released under certain circumstances.

The debt securities will be guaranteed by any subsidiary guarantor for so long as such subsidiary guarantor is a borrower or a guarantor of obligations under our credit agreement and our private notes. In the event that, for any reason, the obligations of any subsidiary guarantor terminate as a borrower or guarantor under our credit agreement and our private notes, that subsidiary guarantor will be deemed released from all of its obligations under the indenture and its guarantee of the notes will terminate. A subsidiary guarantor s guarantee will also terminate and such subsidiary guarantor will be deemed released from all of its obligations under the indenture with respect to the notes of a series upon legal defeasance of such series or satisfaction and discharge of the indenture as it relates to such series. A subsidiary guarantor s guarantee will also terminate and such subsidiary guarantor will be deemed released from all of its obligations under the indenture with respect to each series of notes in connection with any sale or other disposition by Reliance of all of the capital stock of that subsidiary guarantor (including by way of merger or consolidation) or other transaction such that after giving effect to such transaction such subsidiary guarantor is no longer a domestic subsidiary of Reliance. If the obligations of any subsidiary guarantor as a guarantor terminate or are released, the risks applicable to our subsidiaries that are not guarantors will also be applicable to such subsidiary guarantor.

We depend on the receipt of dividends or other intercompany transfers from our subsidiaries to meet our obligations under the notes. Claims of creditors of our subsidiaries may have priority over your claims with respect to the assets and earnings of our subsidiaries.

We conduct a substantial portion of our operations through our subsidiaries. We will therefore be dependent upon dividends or other intercompany transfers of funds from our subsidiaries in order to meet our obligations under the notes and to meet our other obligations. Generally, creditors of our subsidiaries will have claims to the assets and earnings of our subsidiaries that are superior to the claims of our creditors, except to the extent the claims of our creditors are guaranteed by our subsidiaries. All of our wholly-owned domestic subsidiaries, which constitute the substantial majority of our subsidiaries, guarantee the notes. As of December 31, 2008, Reliance and the subsidiary guarantors accounted for approximately $4.94 billion, or 95%, of our total consolidated assets. Reliance and the subsidiary guarantors accounted for approximately $8.32 billion, or 95%, of our total consolidated revenues for the year ended December 31, 2008. If Reliance expands its international presence at a greater pace than it expands its US presence, a smaller percentage of its consolidated assets may be subject to the guarantee obligations.

In the event of the bankruptcy, insolvency, liquidation, reorganization, dissolution or other winding up of Reliance, the holders of our notes may not receive any amounts with respect to the notes until after the payment in full of the claims of creditors of our subsidiaries that are not subsidiary guarantors.

We are permitted to incur more debt, which may intensify the risks associated with our current leverage, including the risk that we will be unable to service our debt.

Subject to certain limitations, our existing credit facility and private notes permit us to incur additional debt. The indenture governing the notes does not limit the amount of additional debt that we may incur. If we incur additional debt, the risks associated with our leverage, including the risk that we will be unable to service our debt, will increase.

The provisions in the indenture that governs the notes relating to change of control transactions will not necessarily protect the holders of our notes in the event of a highly leveraged transaction.

The provisions contained in the indenture will not necessarily afford the holders of our notes protection in the event of a highly leveraged transaction that may adversely affect them, including a reorganization, restructuring, merger or other similar transaction involving Reliance. These transactions may not involve a change in voting power or beneficial ownership or, even if they do, may not involve a change of the magnitude required under the definition of change of control repurchase event in the indenture to trigger these provisions, notably, that the transactions are accompanied or followed within 60 days by a downgrade in the rating of the notes. Except in the event of a change of control, the indenture does not contain provisions that permit the holders of the notes to require us to repurchase the notes in the event of a takeover, recapitalization or similar transaction.

Reliance may not be able to repurchase all of the notes upon a change of control repurchase event.

We will be required to offer to repurchase certain outstanding senior notes upon the occurrence of a change of control repurchase event. We may not have sufficient funds to repurchase the notes in cash at such time or have the ability to arrange necessary financing on acceptable terms. In addition, our ability to repurchase the notes for cash may be limited by law or the terms of other agreements relating to our indebtedness outstanding at the time. Under the terms of our new credit facility, we are prohibited from repurchasing the notes if we are in default under such credit facility.

Ratings of our notes may change after issuance and affect the market price and marketability of the notes.

The notes are rated by Moody s Investors Service Inc. and Standard & Poor s. Such ratings are limited in scope, and do not address all material risks relating to an investment in the notes, but rather reflect only the view of each rating agency at the time the rating is issued. An explanation of the significance of such rating may be obtained from such rating agency. There is no assurance that such credit ratings will be issued or remain in effect for any given period of time or that such ratings will not be lowered, suspended or withdrawn entirely by the rating agencies, if, in each rating agency s judgment, circumstances so warrant. It is also possible that such ratings may be lowered in connection with future events, such as future acquisitions. Holders of our notes have no recourse against us or any other parties in the event of a change in or suspension or withdrawal of such ratings. Any lowering, suspension or withdrawal of such ratings may have an adverse effect on the market price or marketability of the notes. In addition, any decline in the ratings of the notes may make it more difficult for us to raise capital on acceptable terms.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties.

As of December 31, 2008, we maintained more than 200 metals service center processing and distribution facilities in 38 states, and in Belgium, Canada, China, Mexico, Singapore, South Korea and the United Kingdom, and a sales office in France, plus our corporate headquarters. All of our service center facilities are in good or excellent condition and are adequate for our existing operations. These facilities generally operate at about 60% of capacity based upon a 24-hour seven-day week, with each location averaging slightly less than two shifts operating at full capacity for a five-day work week. One hundred and thirty-two of these processing and distribution facilities are leased with total square footage of approximately 9.0 million. Total square footage on all company-owed properties is approximately 14.0 million. In addition, we lease our corporate headquarters in Los Angeles, California and several of our subsidiaries lease other sales offices or non-operating locations. The lease terms expire at various times through 2031 and the aggregate monthly rent amount is approximately $3.2 million.

Item 3. Legal Proceedings.

From time to time, we are named as a defendant in legal actions. Generally, these actions arise out of our normal course of business. We are not a party to any pending legal proceedings other than routine litigation incidental to the business. We expect that these matters will be resolved without having a material adverse effect on our results of operations or financial condition. We maintain liability insurance against risks arising out of our normal course of business.

Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is listed on the New York Stock Exchange (NYSE) under the symbol RS and was first traded on September 16, 1994. The following table sets forth the high and low reported closing sale prices of the common stock on the NYSE Composite Tape for the stated calendar quarters.

	2008		2007	
	High	Low	High	Low
First Quarter	$61.07	$44.50	$48.40	$37.85
Second Quarter	$77.09	$59.78	$63.76	$50.27
Third Quarter	$78.11	$36.26	$63.18	$43.33
Fourth Quarter	$36.78	$12.63	$59.04	$47.34

As of February 13, 2009, there were 271 record holders of our common stock. We have paid quarterly cash dividends on our common stock for 49 years. In February 2007, the regular quarterly dividend was increased 33% from $.06 to $.08 per share of common stock. In February 2008 the Board again increased the quarterly dividend amount 25% from $.08 to $.10 per share of common stock. In July 2006, we effected a two-for-one stock split in the form of a stock dividend (all share and per share information has been adjusted to reflect this two-for-one stock split). Our Board of Directors has increased the quarterly dividend rate on a periodic basis. The Board may reconsider or revise this policy from time to time based on conditions then existing, including our earnings, cash flows, financial condition and capital requirements, or other factors the Board may deem relevant. We expect to continue to declare and pay dividends in the future, if earnings are available to pay dividends, but we also intend to continue to retain a portion of earnings for reinvestment in our operations and expansion of our business. We cannot assure you that either cash or stock dividends will be paid in the future or that, if paid, the dividends will be at the same amount or frequency as paid in the past.

In January 2008, we repurchased approximately 2.4 million shares of our common stock at an average cost per share of $46.97. Since initiating the Repurchase Plan we have purchased 15.2 million shares at an average cost of $18.41 per share. As of December 31, 2008 we had authorization to purchase an additional 7.9 million shares under our existing Repurchase Plan.

The private placement debt agreements for our senior notes and our syndicated credit facility contain covenants which, among other things, require us to maintain a minimum net worth, which may restrict our ability to pay dividends. Since our initial public offering in September 1994 through 2008, we have paid between 5% and 25% of earnings to our shareholders as dividends. In 2002, our dividend payments represented 25% of our earnings due to the low earnings in 2002 as a result of the poor economic conditions. In 2008, our dividend payments represented 6% of earnings.

The following table contains certain information with respect to our cash dividends declared during the past two fiscal years:

Date of Declaration	Record Date	Payment Date	Dividends
10/15/08	12/5/08	1/5/09	$.10 per share
7/16/08	8/22/08	9/12/08	$.10 per share
4/16/08	6/2/08	6/23/08	$.10 per share
2/13/08	3/7/08	3/28/08	$.10 per share
10/17/07	12/7/07	1/4/08	$.08 per share
7/18/07	8/24/07	9/14/07	$.08 per share
4/18/07	6/1/07	6/22/07	$.08 per share
2/14/07	3/9/07	3/30/07	$.08 per share

Although we have not offered any securities for sale in the last three years, we have issued restricted stock on exercise of stock options granted pursuant to the Directors Stock Option Plan, as amended, which was approved by shareholders. Proceeds from the exercise of these options were used for working capital. Shares of our common stock were issued only to non-management directors in the following transactions exempt from registration under Sections 4(2) and 4(6) of the Securities Act:

Number of Shares	Exercise Price	Date of Exercise
15,000	$15.62	12/17/08
6,000	$61.33	6/17/08
6,000	$43.34	6/17/08
3,750	$15.41	6/17/08
15,000	$8.56	5/7/08
6,000	$18.31	5/2/08
7,500	$17.16	3/6/08

Restricted shares of common stock were also issued as bonuses under the Key-Man Incentive Plan, which we have maintained since 1965. The recipients of the restricted stock are restricted from trading the shares for a period of two years from the date of the grant. There were no proceeds received from the restricted stock granted under the Key-Man Incentive Plan. Shares of our common stock were issued only to a limited number of key employees in the following transactions exempt from registration under Sections 4(2) and 4(6) of the Securities Act:

Number of Shares