



# State of the Art

*Reliance Steel & Aluminum Co.  
2005 Annual Report*

# Selected Consolidated Financial Data

	Year Ended December 31,				
(In thousands, except per share data)	2005	2004	2003	2002	2001
<b>Income Statement Data:<sup>(1)</sup></b>					
Net sales	\$3,367,051	\$2,943,034	\$1,882,933	\$1,745,005	\$1,656,974
Cost of sales	2,449,000	2,110,848	1,372,310	1,268,251	1,194,512
Gross profit	918,051	832,186	510,623	476,754	462,462
Operating expenses <sup>(2)</sup>	550,411	525,306	430,493	406,479	371,006
Operating profit	367,640	306,880	80,130	70,275	91,456
Other income (expense):					
Interest expense	(25,222)	(28,690)	(26,745)	(22,605)	(26,738)
Other income, net	3,671	4,168	2,837	3,266	3,796
Amortization expense <sup>(3)</sup>	(4,125)	(3,208)	(2,304)	(1,355)	(8,641)
Equity earnings of 50%-owned company	—	—	—	263	286
Minority interest	(8,752)	(9,182)	938	(124)	—
Income before income taxes	333,212	269,968	54,856	49,720	60,159
Provision for income taxes	(127,775)	(100,240)	(20,846)	(19,553)	(23,823)
Net income	\$ 205,437	\$ 169,728	\$ 34,010	\$ 30,167	\$ 36,336
<b>Earnings per Share:</b>					
Income from continuing operations – diluted	\$ 6.21	\$ 5.19	\$ 1.07	\$ .95	\$ 1.28
Income from continuing operations – basic	\$ 6.24	\$ 5.23	\$ 1.07	\$ .95	\$ 1.28
Weighted average common shares outstanding – diluted	33,097	32,675	31,866	31,799	28,470
Weighted average common shares outstanding – basic	32,935	32,480	31,853	31,687	28,336
<b>Other Data:</b>					
EBITDA <sup>(4)</sup>	\$ 405,065	\$ 343,285	\$ 118,471	\$ 100,871	\$ 119,234
Cash flow from operations	272,219	121,768	107,820	90,638	104,038
Capital expenditures	53,740	35,982	20,909	18,658	24,539
Cash dividends per share	.38	.26	.24	.24	.24
<b>Balance Sheet Data (December 31):</b>					
Working capital	\$ 513,529	\$ 458,551	\$ 341,762	\$ 390,201	\$ 379,669
Total assets	1,769,070	1,563,331	1,369,424	1,139,758	1,082,502
Long-term debt <sup>(5)</sup>	306,790	380,850	469,250	344,080	331,975
Shareholders' equity	1,029,865	822,552	647,619	610,435	583,561
<b>Reconciliation of EBIT and EBITDA:</b>					
Income before provision for income taxes	\$ 333,212	\$ 269,968	\$ 54,856	\$ 49,720	\$ 60,159
Interest expense	25,222	28,690	26,745	22,605	26,738
EBIT	358,434	298,658	81,601	72,325	86,897
Depreciation expense	42,506	41,419	34,566	27,191	23,696
Amortization expense	4,125	3,208	2,304	1,355	8,641
EBITDA	\$ 405,065	\$ 343,285	\$ 118,471	\$ 100,871	\$ 119,234

<sup>(1)</sup> Does not include financial results of American Steel, L.L.C. for the year ended December 31, 2001 and the period January 1, 2002 to April 30, 2002 because we accounted for our 50% investment by the equity method, and therefore we excluded 50% of American Steel's earnings in our net income and earnings per share amounts. Effective May 1, 2002 we began consolidating American Steel's financial results due to an amendment to the Operating Agreement, which gave us 50.5% of the ownership units and eliminated all super-majority and unanimous voting rights, among other changes. The portion of American Steel's earnings attributable to our 49.5% partner is included in minority interest.

<sup>(2)</sup> Operating expenses include warehouse, delivery, selling, general and administrative expenses and depreciation expense.

<sup>(3)</sup> Amortization expense included the amortization expense related to goodwill in the year ended December 31, 2001.

<sup>(4)</sup> EBITDA is defined as the sum of income before interest expense, income taxes, depreciation expense and amortization of intangibles (including goodwill). We believe that EBITDA is commonly used as a measure of performance for companies in our industry and is frequently used by analysts, investors, lenders and other interested parties to evaluate a company's financial performance and its ability to incur and service debt while providing useful information. EBITDA should not be considered in isolation or as a substitute for consolidated statements of income and cash flows data prepared in accordance with accounting principles generally accepted in the United States and should not be construed as an indication of a company's operating performance or as a measure of liquidity. EBITDA as measured in this Annual Report is not necessarily comparable with similarly titled measures for other companies.

<sup>(5)</sup> Includes the long-term portion of capital lease obligations as of December 31, 2005. We did not have any capital lease obligations for any other years presented.

**F**ounded in 1939 and headquartered in Los Angeles, Reliance Steel & Aluminum Co. (NYSE:RS) is one of the largest metals service center companies in the United States. Through a network of more than 100 locations in 32 states and Belgium, China and South Korea, the Company provides value-added metals processing services and distributes a full line of over 90,000 metal products. These products include galvanized, hot-rolled and cold-finished steel; stainless steel; aluminum; brass; copper; titanium and alloy steel, which are sold to more than 95,000 customers in a broad range of industries.

### *Sales by Product*

15%	Carbon steel plate
10%	Heat treated aluminum plate, sheet & coil
9%	Carbon steel structurals
9%	Stainless steel plate, sheet & coil
8%	Carbon steel tubing
8%	Galvanized steel sheet & coil
7%	Common alloy aluminum plate, sheet & coil
6%	Carbon steel bar
6%	Hot-rolled steel sheet & coil
6%	Miscellaneous, including brass, copper & titanium
4%	Aluminum bar & tube
4%	Stainless steel bar & tube
4%	Toll processing of aluminum, carbon steel & stainless steel
3%	Cold-rolled steel sheet & coil
1%	Electropolished stainless steel tubing & fittings

### *Sales by Region*

25%	Southeast
21%	California
20%	Midwest
12%	West/Southwest
10%	Pacific Northwest
6%	Mountain
4%	Mid-Atlantic
2%	International

### *Sales by Commodity*

55%	Carbon steel
20%	Aluminum
15%	Stainless steel
6%	Other
4%	Toll processing



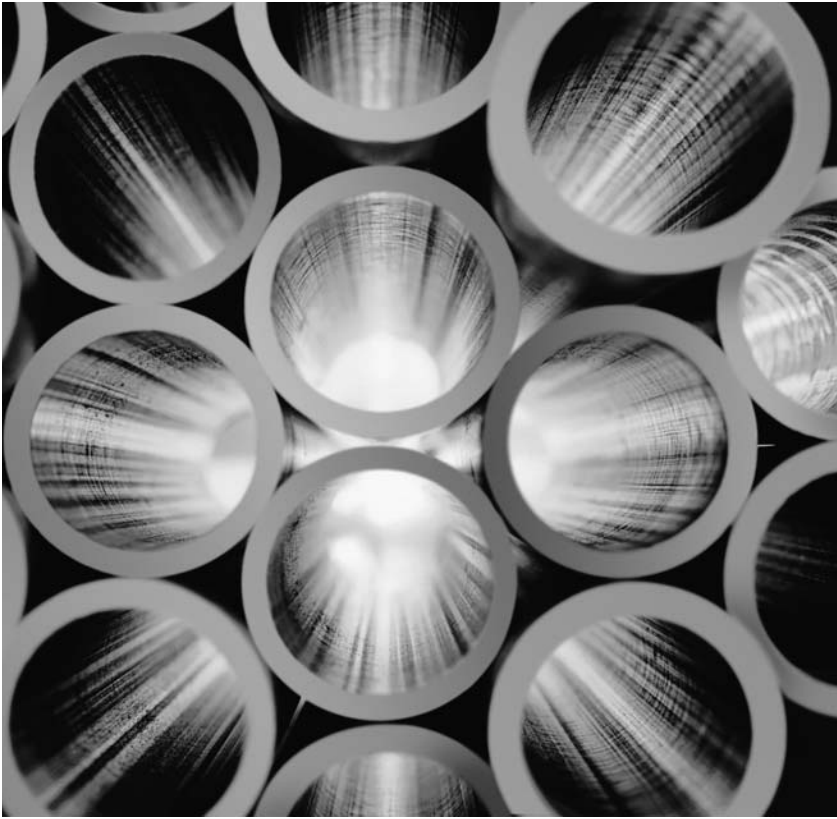
*Record sales of \$3.4 billion*

*Record net income of \$205.4 million*



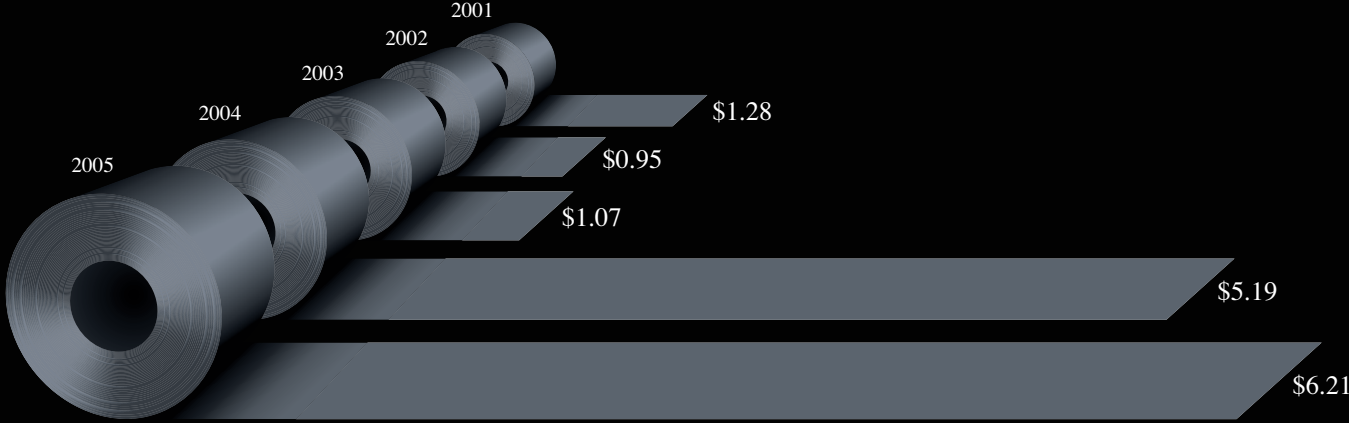
*Best-ever earnings per diluted share of \$6.21*



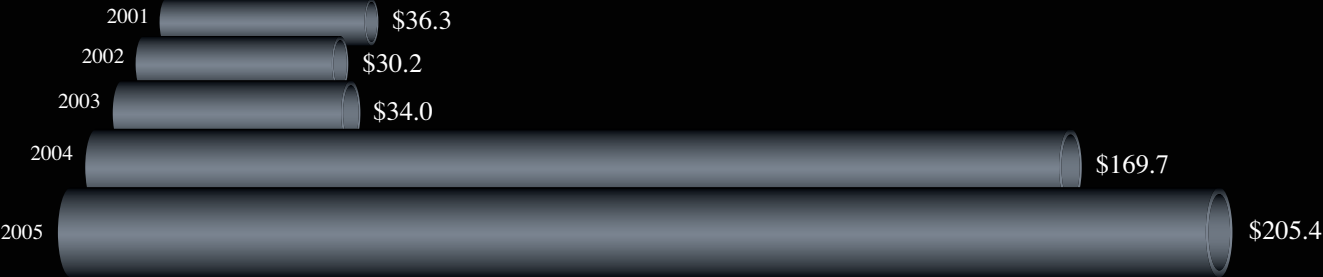


*Dividend increased 67% to **\$ .10** per share*  
(over the last eight quarters)

# Earnings per Share diluted

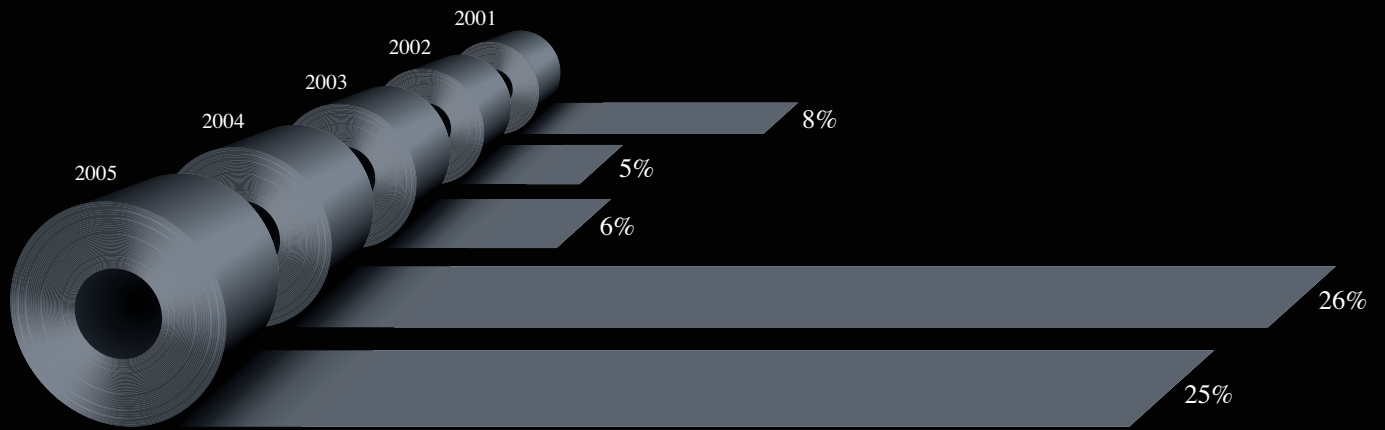


# Net Income millions





# Return on Equity % return<sup>(1)</sup>



(1) Based on beginning of the year equity amount, except for 2001, which is weighted for a secondary public equity offering.

# Net Sales millions<sup>(2)</sup>



(2) Includes revenues of American Steel, L.L.C. for the years ended December 31, 2005, 2004 and 2003 and the period May 1, 2002 through December 31, 2002.

# To Our Shareholders

The year 2005 and the 2006 first quarter were quite exciting times for Reliance. We reported record-breaking financial results for the fiscal year ended December 31, 2005. We completed the acquisition of Chapel Steel Corp.; entered into a definitive merger agreement to acquire Earle M. Jorgensen Company; agreed to acquire the assets and business of a toll processing company; formed a joint venture company based in Singapore that acquired a metals service center company in China; acquired the remaining 49.5% of our subsidiary, American Steel, L.L.C.; finalized a \$600 million, five-year, unsecured revolving credit facility; amended and restated our Stock Repurchase Plan; expanded certain of our facilities and moved into new geographic markets.

For the 2005 fiscal year, net income was up 21% to \$205.4 million, or \$6.21 earnings per diluted share.

This compares with net income of \$169.7 million, or \$5.19 earnings per diluted share for the 2004 fiscal year. Sales for 2005 totaled \$3.4 billion, an increase of 14%, compared with 2004 sales of \$2.9 billion.

As noted above, we announced on January 17, 2006 that we entered into a definitive merger agreement to acquire Earle M. Jorgensen Company (NYSE:JOR) for about \$934 million. If approved by Jorgensen's stockholders, Reliance will acquire Jorgensen for about \$13.00 per share, subject to a collar, with Jorgensen stockholders being paid approximately 50% in Reliance stock and 50% in cash. The transaction will be immediately accretive to our earnings and is expected to be completed in early April of 2006. Upon the closing of the acquisition, we will have total assets of about \$3 billion and annual revenues of more than \$5 billion with



*David H. Hannah, Karla R. Lewis and Gregg J. Mollins*

7,350 employees and more than 150 locations in 35 states and Belgium, Canada, China and South Korea.

At closing, we expect to issue between 4.5 million and 6.1 million shares of Reliance common stock.

The cash portion will be financed under our \$600 million syndicated credit facility that will be increased to \$700 million upon completion of the Jorgensen transaction.

Additionally, we will assume Jorgensen's outstanding debt.

We are very excited about Jorgensen becoming a member of our Reliance

family. This will be our largest acquisition to-date and our first acquisition of a public company.

This transaction will add a total of 40 facilities in the United States and Canada to our existing network.

We will significantly increase our geographic, product and customer diversification by combining with an industry peer that complements our reputation for excellence and our corporate culture. Jorgensen has an outstanding management group and they will continue to run the business as they have in the past. We believe that together, Reliance and Jorgensen will be well positioned to continue

to outperform our competitors going forward.

A more detailed explanation of our key activities during 2005 and the first quarter of 2006, in addition to the pending Jorgensen acquisition follows:

- In March of 2006, Reliance Pan Pacific Pte., Ltd., a joint venture company formed in October of 2005 that is 70% owned by Reliance and 30% owned by Manufacturing Network Pte. Ltd., a Singapore company, completed the purchase of Everest Metals (Suzhou) Co., Ltd., a Chinese metals service center company. Everest Metals was formed in 2001 and began processing and distributing primarily aluminum products to the electronics industry in 2002. Everest's 2005 revenues were approximately \$5.5 million.
- During the 2006 first quarter, Phoenix Metals Company

completed its move to a new, larger, upgraded facility with added capabilities to better serve its growing customer base in Birmingham, Alabama and opened another new facility near Philadelphia, Pennsylvania.

Phoenix also expanded into a facility near Cincinnati, Ohio in late 2005. Phoenix processes and distributes primarily flat-rolled aluminum, stainless steel and carbon steel products.

- In February of 2006, our toll processing subsidiary, Precision Strip, Inc., entered into an agreement to acquire certain assets and business of Flat Rock Metal Processing, L.L.C. Flat Rock is also a toll processor with locations in Perrysburg, Ohio and Eldridge, Iowa. Precision Strip also expanded its facility in Talladega, Alabama in 2005.
- Additionally, on the international front, we are in the process of doubling the size of our AMI

Metals facility in Belgium that services the growing European-based aerospace industry. We are also expanding our Valex Korea operation to support the growing semiconductor business in Asia.

- Domestically, we are increasing the size of our Allegheny Steel Distributors, Inc. facility in Pennsylvania and are purchasing facilities that were previously leased at Reliance Steel Company in Los Angeles, California; Viking Materials, Inc. in Minneapolis, Minnesota and Pacific Metal Company in Portland, Oregon. In 2005, Siskin Steel & Supply Company, Inc. expanded its facility in Chattanooga, Tennessee. Also, in February of 2006, Liebovich Bros., Inc. opened a new facility near Green Bay, Wisconsin, to further penetrate that geographic market.
- Effective January 3, 2006 we acquired the remaining 49.5% of our subsidiary, American Steel,

L.L.C. from American Industries, Inc. The 2005 net sales of American Steel were approximately \$107 million. American Steel operates metals service centers in Portland, Oregon and Kent, Washington and processes and distributes primarily carbon steel products.

- In July of 2005 we acquired Chapel Steel Corp., headquartered in Spring House (Philadelphia), Pennsylvania, for about \$94.2 million in cash plus the assumption of approximately \$16.8 million of debt. Chapel was a privately held metals service center company founded in 1972 that processes and distributes carbon and alloy steel plate products from five facilities in Pottstown (Philadelphia), Pennsylvania; Bourbonnais (Chicago), Illinois; Houston, Texas; Birmingham, Alabama; and Portland, Oregon. Chapel also warehouses and distributes its

products in Cincinnati, Ohio and Hamilton, Ontario, Canada. Chapel's net sales for the year ended December 31, 2005 were approximately \$268 million. Chapel services the construction, defense, heavy equipment, shipbuilding, energy and other industries.

- In June of 2005 we entered into a \$600 million, five-year, unsecured revolving credit facility that replaced our previous \$335 million credit facility. We will use this credit facility for working capital and general corporate purposes, internal growth initiatives and the funding of acquisitions.
- On May 18, 2005, our Board of Directors amended and restated our Stock Repurchase Plan to authorize the purchase of up to an additional 6,000,000 shares of common stock and to extend the term of the Stock Repurchase Plan for 10 years to December 31,

2014. As of March 31, 2005, Reliance has repurchased a total of 5,538,275 shares of its common stock, since the initial Stock Repurchase Plan was adopted in December of 1994.

In July of 2005, the quarterly dividend rate was increased 11% to \$.10 per share of common stock. Over the past eight quarters, the regular quarterly dividend payment has increased in total \$.04 per share or 67%. We continue to believe that our 46 years of dividend payments represent a key factor in our efforts to provide a favorable return on investment for our shareholders.

Effective January 1, 2006, Richard J. Slater, 59, joined our Board of Directors. Mr. Slater is the President and a director of ORBIS L.L.C., an investment and advisory firm, and is an advisor to the Chairman and Chief Executive Officer of Jacobs

Engineering Group, Inc., a New York Stock Exchange listed company that provides global technical professional services. Mr. Slater previously served in various positions with Jacobs Engineering Group from 1980–2003, most recently as Executive Vice President of Worldwide Operations.

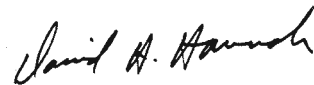
We are very pleased with our position in our industry. There are many opportunities for continued acquisitions in the still fragmented metals service center industry.

We are proud of what we have accomplished so far, and are eager to pursue those opportunities that we see for successful growth of our Company into the future.

For the sixth year, Reliance was named to the *Forbes* “Platinum 400 List of America’s Best Big Companies” for 2006. We would like to say “thank you” to our shareholders, customers, suppliers

and employees for supporting our efforts. Their contributions have enabled Reliance to be a premiere metals service center company. We are excited about our future and our opportunities for continued success as a leader in the industry.

Sincerely,



David H. Hannah  
Chief Executive Officer



Gregg J. Mollins  
President and  
Chief Operating Officer



Karla R. Lewis  
Executive Vice President and  
Chief Financial Officer

March 28, 2006

# Selected Consolidated Financial Data

(Dollars in thousands other than per share data)

Year Ended December 31,	2005	2004	2003	2002
<b>Income Statement Data:<sup>(1)</sup></b>				
Net sales	\$ 3,367,051	\$ 2,943,034	\$ 1,882,933	\$ 1,745,005
Operating profit <sup>(2)</sup>	367,640	306,880	80,130	70,275
Net income	205,437	169,728	34,010	30,167
Pretax income	333,212	269,968	54,856	49,720
Income taxes	127,775	100,240	20,846	19,553
EBITDA <sup>(3)</sup>	405,065	343,285	118,471	100,871
EBIT <sup>(3)</sup>	358,434	298,658	81,601	72,325
Weighted average shares outstanding – diluted	33,097	32,675	31,866	31,799
<b>Balance Sheet Data:</b>				
Current assets	\$ 847,348	\$ 733,229	\$ 544,586	\$ 533,055
Working capital	513,529	444,449	341,762	390,201
Net fixed assets	479,719	458,813	466,871	306,189
Total assets	1,769,070	1,563,331	1,369,424	1,139,758
Current liabilities	333,819	288,780	202,824	142,854
Long-term debt	306,790	380,850	469,250	344,080
Shareholders' equity	1,029,865	822,552	647,619	610,435
<b>Per Share Data:<sup>(4)</sup></b>				
Earnings	\$ 6.21	\$ 5.19	\$ 1.07	\$ 0.95
Dividends	\$ 0.38	\$ 0.26	\$ 0.24	\$ 0.24
Cash flow from operations <sup>(5)</sup>	\$ 8.22	\$ 3.73	\$ 3.38	\$ 2.85
EBITDA <sup>(3)</sup>	\$ 12.24	\$ 10.51	\$ 3.72	\$ 3.17
EBIT <sup>(3)</sup>	\$ 10.83	\$ 9.14	\$ 2.56	\$ 2.27
Book value <sup>(6)</sup>	\$ 31.11	\$ 25.18	\$ 20.10	\$ 19.23
<b>Ratio Analysis:</b>				
Return on equity <sup>(7)</sup>	25.0%	26.2%	5.6%	5.2%
Current ratio	2.5	2.5	2.7	3.7
Net debt-to-capital ratio <sup>(8)</sup>	23.8%	33.6%	43.1%	35.4%
Gross margin	27.3%	28.3%	27.1%	27.3%
Operating profit margin <sup>(2)</sup>	10.9%	10.4%	4.3%	4.0%
Pretax margin	9.9%	9.2%	2.9%	2.9%
Net margin	6.1%	5.8%	1.8%	1.7%
<b>Reconciliation of EBIT and EBITDA:<sup>(9)</sup></b>				
Pretax income	\$ 333,212	\$ 269,968	\$ 54,856	\$ 49,720
Interest expense	25,222	28,690	26,745	22,605
EBIT	\$ 358,434	\$ 298,658	\$ 81,601	\$ 72,325
Depreciation and amortization expense	46,631	44,627	36,870	28,546
EBITDA	\$ 405,065	\$ 343,285	\$ 118,471	\$ 100,871

<sup>(1)</sup> Does not include financial results for January 1 through April 30, 2002 and for 2001, 2000, 1999, 1998, 1997, 1996 and for the six months ended December 31, 1995 for the 50% interest in American Steel, L.L.C., accounted for by the equity method. Effective May 1, 2002, we began consolidating American Steel's financial results due to an amendment to the Operating Agreement, which gave us 50.5% of the ownership units and eliminated all super-majority and unanimous voting rights, among other things.

<sup>(2)</sup> Operating profit represents net sales less cost of sales, warehouse, delivery, selling, general and administrative expenses and depreciation expense. Certain reclassifications were made to 1999 and prior years to exclude amortization expense from the calculation of operating profit.

<sup>(3)</sup> EBIT is defined as the sum of income before interest expense and income taxes. EBITDA is defined as the sum of income before interest expense, income taxes, depreciation expense and amortization of intangibles (including goodwill). We believe that EBIT and EBITDA are commonly used as a measure of performance for companies in our industry and are frequently used by analysts, investors, lenders and other interested parties to evaluate a company's financial performance and its ability to incur and service debt. EBIT and EBITDA should not be considered as a measure of financial performance under accounting principles generally accepted in the United States. The items excluded from EBIT and EBITDA are significant components in understanding and assessing financial performance. EBIT or EBITDA should not be considered in isolation or as an alternative to net income, cash flows generated by operating, investing or financing activities or other financial statement data presented in the consolidated financial statements as an indicator of operating performance or as a measure of liquidity. EBIT and EBITDA as measured in this Annual Report are not necessarily comparable with similarly titled measures for other companies.



	2001	2000	1999	1998	1997	1996	1995
\$	1,656,974	\$ 1,726,665	\$ 1,511,065	\$ 1,352,807	\$ 961,518	\$ 653,975	\$ 561,341
	91,456	130,349	116,282	93,578	62,199	44,624	35,593
	36,336	62,319	57,610	47,675	34,176	29,790	22,702
	60,159	102,587	96,410	80,272	57,986	49,551	38,595
	23,823	40,268	38,800	32,597	23,810	19,761	15,893
	119,234	156,747	145,307	117,303	82,012	61,955	45,398
	86,897	128,655	119,709	97,857	68,847	53,491	40,190
	28,470	27,289	27,892	28,305	23,812	23,520	23,387
\$	518,202	\$ 491,396	\$ 428,918	\$ 418,290	\$ 322,074	\$ 210,900	\$ 166,937
	379,669	347,659	273,040	289,147	213,252	136,765	100,731
	290,353	245,351	227,382	213,081	160,964	133,614	66,286
	1,082,502	997,243	900,005	841,395	583,866	391,176	260,473
	138,533	143,737	155,878	129,143	108,822	74,135	66,206
	331,975	421,825	318,050	343,250	143,350	107,450	30,350
	583,561	403,039	400,328	345,802	313,164	192,642	163,917
\$	1.28	\$ 2.28	\$ 2.07	\$ 1.68	\$ 1.44	\$ 1.27	\$ 0.97
\$	0.24	\$ 0.22	\$ 0.18	\$ 0.16	\$ 0.11	\$ 0.08	\$ 0.07
\$	3.65	\$ 0.93	\$ 4.73	\$ 1.09	\$ 1.67	\$ 1.55	\$ 1.68
\$	4.19	\$ 5.74	\$ 5.21	\$ 4.14	\$ 3.44	\$ 2.63	\$ 1.94
\$	3.05	\$ 4.71	\$ 4.29	\$ 3.46	\$ 2.89	\$ 2.27	\$ 1.72
\$	18.48	\$ 16.04	\$ 14.40	\$ 12.50	\$ 11.09	\$ 8.29	\$ 7.09
	7.6%	15.9%	16.7%	15.2%	16.5%	18.2%	15.1%
	3.7	3.4	2.8	3.2	3.0	2.8	2.5
	36.3%	51.0%	43.5%	49.3%	25.9%	36.2%	8.5%
	27.9%	27.2%	27.4%	24.3%	23.3%	24.7%	23.0%
	5.5%	7.6%	7.7%	6.9%	6.5%	6.8%	6.3%
	3.6%	5.9%	6.4%	5.9%	6.0%	7.6%	6.9%
	2.2%	3.6%	3.8%	3.5%	3.6%	4.6%	4.0%
\$	60,159	\$ 102,587	\$ 96,410	\$ 80,272	\$ 57,986	\$ 49,551	\$ 38,595
	26,738	26,068	23,299	17,585	10,861	3,940	1,595
\$	86,897	\$ 128,655	\$ 119,709	\$ 97,857	\$ 68,847	\$ 53,491	\$ 40,190
	32,337	28,092	25,598	19,446	13,165	8,464	5,208
\$	119,234	\$ 156,747	\$ 145,307	\$ 117,303	\$ 82,012	\$ 61,955	\$ 45,398

<sup>(4)</sup> Amounts have been retroactively adjusted to reflect the September 1999 and June 1997 3-for-2 stock splits. Per share amounts based upon weighted average shares are on a diluted basis.

<sup>(5)</sup> Cash flow from operations per share is calculated as cash flow from operations divided by weighted average shares outstanding – diluted.

<sup>(6)</sup> Book value per share is calculated as shareholders' equity divided by number of shares outstanding as of December 31 of each year.

<sup>(7)</sup> Return on equity is based on the beginning of year equity amount, except for 2001, 2000 and 1997 which are weighted for a secondary public equity offering in 2001, a significant stock repurchase in 2000 and a secondary public equity offering in 1997.

<sup>(8)</sup> Net debt-to-capital ratio is calculated as total debt (net of cash) divided by shareholders' equity plus total debt (net of cash).

# Corporate Locations

## Reliance Division Locations

### Affiliated Metals

Salt Lake City, UT  
801/363-1711

### Bralco Metals

La Mirada, CA  
(Headquarters)  
714/736-4800

Garland, TX  
972/276-2676

Phoenix, AZ  
602/252-1918

Seattle, WA  
866/285-9984

Wichita, KS  
316/838-9351

### Engbar Pipe & Steel Co.

Denver, CO  
303/297-1456

### MetalCenter

Santa Fe Springs, CA  
562/944-3322

### Olympic Metals

Denver, CO  
303/286-9700

### Reliance Metalcenter

Albuquerque, NM  
505/345-0959

Colorado Springs, CO  
719/390-4911

Dallas, TX  
817/640-7222

Houston, TX  
281/441-1300

Phoenix, AZ  
602/275-4471

Portland, OR  
503/286-3344

Salt Lake City, UT  
801/974-5300

San Antonio, TX  
210/661-2301

San Diego, CA  
619/263-2141

Union City, CA  
510/476-4400

### Reliance Steel Company

Albuquerque, NM  
505/247-1441

Los Angeles, CA  
323/583-6111

### Tube Service Co.

Santa Fe Springs, CA  
(Headquarters)  
562/695-0467

Denver, CO  
303/321-9200

El Cajon, CA  
619/579-3011

Milpitas, CA  
408/946-5500

Phoenix, AZ  
602/267-9865

Portland, OR  
503/944-5420

## Subsidiaries

### Allegheny Steel Distributors, Inc.

Indianola, PA  
412/767-5000

### Aluminum and Stainless, Inc.

Lafayette, LA  
(Headquarters)  
337/837-4381

New Orleans, LA  
504/586-9191

### American Metals Corporation

West Sacramento, CA  
(Headquarters)  
916/371-7700

Fresno, CA  
559/266-0881

Redding, CA  
530/243-5263

### American Steel, L.L.C.

Portland, OR  
(Headquarters)  
503/226-1511

Kent, WA  
425/251-8222

### AMI Metals, Inc.

Brentwood, TN  
(Corporate Office)  
615/377-0400

Auburn, WA  
253/735-0181

Fontana, CA  
909/429-1336

Fort Worth, TX  
817/831-9586

St. Louis, MO  
636/946-9492

Swedesboro, NJ  
856/241-9180

Wichita, KS  
316/945-7771

### AMI Metals Europe SPRL (A Subsidiary of AMI Metals, Inc.)

Gosselies, Belgium  
32 (0) 71376799

Lyon, France  
(Sales Office)  
33 (0) 472430489

### CCC Steel, Inc.

Rancho Dominguez, CA  
310/637-0111

### A Division of CCC Steel, Inc.

### IMS Steel Co.

Salt Lake City, UT  
801/973-1000

### Central Plains Steel Co.

Kansas City, KS  
913/321-5200

Wichita, KS  
316/636-4500

### Chapel Steel Corp.

Lower Gwynedd, PA  
(Corporate Office)  
215/793-0899

Birmingham, AL  
205/781-0317

Bourbonnais, IL  
815/937-1970

Houston, TX  
713/462-4449

Portland, OR  
503/228-3355

Pottstown, PA  
610/705-0477

Tinley Park, IL  
(Sales Office)  
708/429-2244

### Chatham Steel Corporation

Savannah, GA  
(Headquarters)  
912/233-5751

Birmingham, AL  
205/791-2261

Columbia, SC  
803/799-8888

Durham, NC  
919/682-3388

Orlando, FL  
407/859-0310

### Durrett Sheppard Steel Co., Inc.

Baltimore, MD  
410/633-6800

### Liebovich Bros., Inc.

Rockford, IL  
(Corporate Office)  
815/987-3200

### Divisions of Liebovich Bros., Inc.

#### Good Metals Company

Wyoming, MI  
616/241-4425

#### Hagerty Steel & Aluminum Company

Peoria, IL  
309/699-7251

#### Liebovich Custom Fabricating Co.

Loves Park, IL  
815/987-3210

#### Liebovich/PDM Steel & Aluminum Company

Cedar Rapids, IA  
319/366-8431

#### Liebovich Steel & Aluminum Company

Rockford, IL  
(Headquarters)  
815/987-3200

Green Bay, WI  
815/987-3200

### Lusk Metals

Hayward, CA  
510/785-6400

### Pacific Metal Company

Portland, OR  
(Headquarters)  
503/454-1051

Billings, MT  
406/245-2210

Boise, ID  
208/323-8045

Eugene, OR  
541/485-1876

Medford, OR  
541/664-5419

Spokane, WA  
509/535-0326

Tukwila, WA  
425/251-6100

**PDM Steel Service Centers, Inc.**

Stockton, CA  
(Headquarters)  
209/943-0555

Fresno, CA  
559/442-1410

Las Vegas, NV  
702/413-0067

Santa Clara, CA  
408/988-3000

Spanish Fork, UT  
801/798-8676

Sparks, NV  
775/358-1441

Woodland, WA  
360/225-1133

**Phoenix Corporation  
(Doing Business as  
Phoenix Metals  
Company)**

Norcross, GA  
(Headquarters)  
770/447-4211

Birmingham, AL  
205/841-7477

Charlotte, NC  
704/588-7075

Monroe, OH  
513/539-2633

Philadelphia, PA  
610/321-0866

Spring Hill, TN  
931/486-1456

Tampa, FL  
813/626-8999

**A Division of  
Phoenix Corporation  
Steel Bar**

Greensboro, NC  
336/294-0053

**Precision Strip, Inc.**

Minster, OH  
(Headquarters)  
419/628-2343

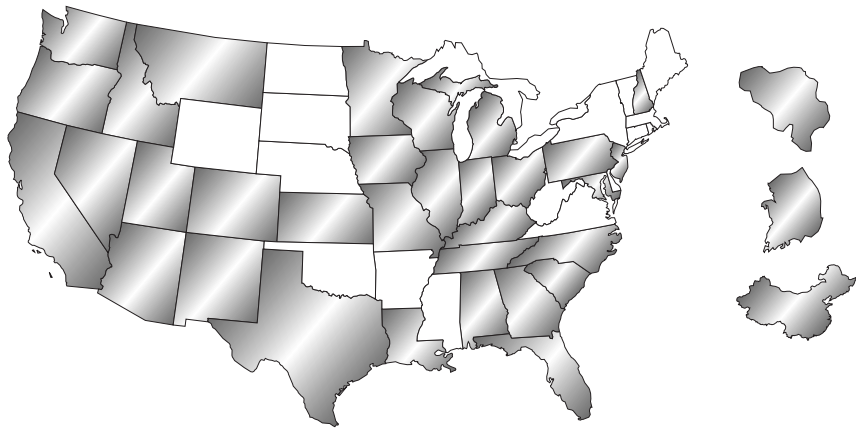
Anderson, IN  
765/778-4452

Bowling Green, KY  
270/542-6100

Eldridge, IA  
563/285-3993

Kenton, OH  
419/674-4186

Middletown, OH  
513/423-4166



**Locations – U.S.**

Alabama	Kentucky	North Carolina
Arizona	Louisiana	Ohio
California	Maryland	Oregon
Colorado	Michigan	Pennsylvania
Florida	Minnesota	South Carolina
Georgia	Missouri	Tennessee
Idaho	Montana	Texas
Illinois	Nevada	Utah
Indiana	New Hampshire	Washington
Iowa	New Jersey	Wisconsin
Kansas	New Mexico	

**International**

Belgium
China
South Korea

**Corporate Office**

Los Angeles, CA 213/687-7700
---------------------------------

Perrysburg, OH  
419/661-1100

Rockport, IN  
812/362-6480

Talladega, AL  
256/315-2345

Tipp City, OH  
937/667-6255

**Service Steel  
Aerospace Corp.**

Tacoma, WA  
(Headquarters)  
253/627-2910

Massillon, OH  
330/833-5800

**A Division of Service Steel  
Aerospace Corp.**

**United Alloys  
Aircraft Metals**  
Vernon, CA  
323/588-2688

**Reliance Pan  
Pacific Pte., Ltd.  
(70% Owned)**

Jurong, Singapore  
65 6 268 6622

**Everest Metals  
(Suzhou) Co., Ltd.  
(A Subsidiary of  
Reliance Pan Pacific  
Pte., Ltd.)**

Suzhou, The People's  
Republic of China  
0512 6760 7075

**Siskin Steel & Supply  
Company, Inc.**

Chattanooga, TN  
(Headquarters)  
423/756-3671

Birmingham, AL  
205/326-6826

Nashville, TN  
615/242-4444

Spartanburg, SC  
864/599-9988

**Divisions of Siskin  
Steel & Supply  
Company, Inc.**

**East Tennessee  
Steel Supply**

Morristown, TN  
423/587-3500

**Georgia Steel  
Supply Company**

Atlanta, GA  
404/355-9510

**Toma Metals, Inc.**

Johnstown, PA  
814/536-3596

**Valex Corp.  
(97% Owned)**

Ventura, CA  
(Headquarters and  
Manufacturing Facility)  
805/658-0944

**Distribution Centers:**

Allentown, PA  
610/791-7600

Austin, TX  
512/251-6210

Nashua, NH  
603/889-0172

**Valex Korea Co., Ltd.  
(A 99% owned Subsidiary  
of Vallex Corp.)**

Seoul, The Republic  
of Korea  
82 31 683 0119

**Viking Materials, Inc.**

Minneapolis, MN  
(Headquarters)  
612/617-5800

Franklin Park, IL  
847/451-7171

# Corporate Directory

## Directors

**Joe D. Crider** <sup>(1), (4), (5)</sup>

Non-Executive  
Chairman of the Board

**David H. Hannah** <sup>(1)</sup>

Chief Executive Officer

**Gregg J. Mollins** <sup>(1)</sup>

President and  
Chief Operating Officer

**Thomas W. Gimbel** <sup>(1), (5)</sup>

President  
Advanced Systems Group  
A computer consulting firm

**Douglas M. Hayes** <sup>(2), (3), (4)</sup>

Hayes Capital Corporation  
An investment banking firm

**Franklin R. Johnson** <sup>(2), (3), (5)</sup>

Former partner  
PricewaterhouseCoopers L.L.P.  
A public accounting firm

**Mark V. Kaminski** <sup>(1), (4), (5)</sup>

Former Chief Executive Officer  
Commonwealth Industries, Inc.

**Richard J. Slater** <sup>(2), (5)</sup>

President  
ORBIS L.L.C.  
An investment and advisory firm

**Leslie A. Waite** <sup>(2), (3), (4)</sup>

Principal  
Valenzuela Capital Partners, L.L.C.  
An investment counseling firm

<sup>(1)</sup> Term of office – Expires 2006

<sup>(2)</sup> Term of office – Expires 2007

<sup>(3)</sup> Member of the Audit Committee

<sup>(4)</sup> Member of the Compensation and  
Stock Option Committee

<sup>(5)</sup> Member of the Nominating and  
Governance Committee

## Officers

**David H. Hannah**

Chief Executive Officer

**Gregg J. Mollins**

President and  
Chief Operating Officer

**Karla R. Lewis**

Executive Vice President  
and Chief Financial Officer

**James P. MacBeth**

Senior Vice President,  
Carbon Steel Operations

**William K. Sales, Jr.**

Senior Vice President,  
Non-Ferrous Operations

**Donna Newton**

Vice President, Human Resources

**Kay Rustand**

Vice President and  
General Counsel

**Yvette M. Schiotis**

Secretary

**Bernie J. Herrmann**

President of Allegheny Steel  
Distributors, Inc.

**Joseph B. Wolf, Sr.**

President of Aluminum and  
Stainless, Inc.

**Craig A. Schwartz**

President of American  
Metals Corporation and  
President of American Steel, L.L.C.

**Scott A. Smith**

President of AMI Metals, Inc.

**Bernd D. Hildebrandt**

President of CCC Steel, Inc.

**James G. O'Neal**

Vice President of Central Plains  
Steel Co. – Wichita, KS

**Craig Doveala**

Vice President of Central Plains  
Steel Co. – Kansas City, KS

**James R. Sutow**

President of Chapel Steel Corp.

**Bert M. Tenenbaum**

President of  
Chatham Steel Corporation

**James Maskeroni**

President of Durrett Sheppard  
Steel Co., Inc.

**Michael J. Tulley**

President of Liebovich Bros., Inc.

**Eric W. Schneider**

President of Lusk Metals

**John S. Nosler**

President of  
Pacific Metal Company

**Derek A. Halecky**

President of PDM Steel Service  
Centers, Inc.

**Stephen E. Almond**

President of Phoenix Corporation

**Thomas A. Compton**

President of Precision Strip, Inc.

**Terry L. Wilson**

President of Service Steel  
Aerospace Corp.

**Jerry D. Pearson**

President of Siskin Steel & Supply  
Company, Inc.

**Daniel T. Yunetz**

President of Toma Metals, Inc.

**Daniel A. Mangan**

President of Valex Corp.

**Craig Sauer**

President of Viking Materials, Inc.

---

---

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

---

---

(Mark One)

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

For the fiscal year ended December 31, 2005

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-13122

**RELIANCE STEEL & ALUMINUM CO.**

(Exact name of registrant as specified in its charter)

California  
(State or other jurisdiction of  
incorporation or organization)

95-1142616  
(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

Common Stock

Name of each exchange on  
which registered

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  No

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

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  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of 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.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

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, 2005 was \$1,177,105,989.

As of February 28, 2006, 33,156,699 shares of the registrant's common stock, no par value, were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

None.

---

---

## INDEX

Page

### PART I

Item 1.	Business .....	1
	Industry Overview.....	1
	History of Reliance .....	2
	Customers .....	5
	Suppliers .....	6
	Backlog .....	6
	Products and Processing Services .....	6
	Marketing .....	8
	50.5% – Owned Company .....	8
	Industry and Market Cycles .....	8
	Competition.....	9
	Quality Control .....	9
	Systems .....	10
	Government Regulation .....	10
	Environmental.....	10
	Employees.....	11
	Available Information .....	11
Item 1A.	Risk Factors .....	11
Item 1B.	Unresolved Staff Comments .....	16
Item 2.	Properties .....	16
Item 3.	Legal Proceedings .....	19
Item 4.	Submission of Matters to a Vote of Security Holders.....	19

### PART II

Item 5.	Market for Registrant’s Common Equity and Related Stockholder Matters.....	20
Item 6.	Selected Financial Data.....	22
Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations..	24
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk .....	33
Item 8.	Financial Statements and Supplementary Data .....	34
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure .....	61
Item 9A.	Controls and Procedures .....	61
Item 9B.	Other Information .....	61

### PART III

Item 10.	Directors and Executive Officers of the Registrant.....	63
Item 11.	Executive Compensation.....	66
Item 12.	Security Ownership of Certain Beneficial Owners and Management.....	71
Item 13.	Certain Relationships and Related Transactions .....	73
Item 14.	Principal Accountant Fees and Services .....	74

### PART IV

Item 15.	Exhibits, Financial Statement Schedules and Reports on Form 8-K.....	75
----------	----------------------------------------------------------------------	----

SIGNATURES .....	77
------------------	----

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

This Annual Report on Form 10-K contains forward-looking statements. You should read carefully any statements containing the words “expect,” “believe,” “anticipate,” “project,” “estimate,” “predict,” “intend,” “should,” “could,” “may,” “might,” or similar expressions or the negative of any of these terms.

Forward-looking statements involve known and unknown risks and uncertainties. Various factors, such as the “Risk Factors” listed below and further discussed in detail in Item 1A of this filing 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 interest rates on our debt could change. The interest rates on our variable rate debt increased steadily during 2005, and we anticipate that these rates will continue to increase through 2006.
- Foreign currency exchange rates could change, which could affect the price we pay for certain metals and the results of our foreign operations.
- Our acquisitions might fail to perform as we anticipate. This could result in an impairment charge to write off some or all of the goodwill for that entity.
- 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.
- We service industries that are highly cyclical, and downturns in our customers’ industries could reduce our revenue and profitability.
- Changes in demand for the products we sell can cause significant fluctuations in both availability and cost of the products. A significant or rapid increase or decrease in costs from current levels could have a severe negative impact on our gross profit.
- The success of our business is affected by general economic conditions and, accordingly, our business was adversely impacted by the economic slowdown or recession in 2003, 2002 and 2001. This could occur in future periods.
- Our business is very competitive and increased competition could reduce our gross profit margins and net income.
- As a decentralized business, we depend on both senior management and our operating employees; if we are unable to attract and retain these individuals, our results of operations may decline.
- We may not be able to consummate future acquisitions, and those acquisitions that we do complete may be difficult to integrate into our business.
- We are subject to various environmental and other governmental regulations which may require us to expend significant capital and incur substantial costs.
- If existing shareholders sell their shares, the market price of our common stock could be depressed.
- 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 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 reaction that adversely impacts our stock price.

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.

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

## PART I

### Item 1. Business

We are one of the largest metals service center companies in the United States. Our network of 24 divisions, 21 operating subsidiaries and a 70%-owned company operates more than 100 locations in 32 states, Belgium, China and South Korea. Through this network, we provide metals processing services and distribute a full line of more than 90,000 metal products, including alloy, aluminum, brass, copper, carbon steel, titanium, stainless steel and specialty steel products, to more than 95,000 customers in a broad range of industries. Many of our metals service centers process and distribute only specialty metals. We deliver products from facilities in Alabama, Arizona, California, Colorado, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maryland, Michigan, Minnesota, Missouri, Montana, Nevada, New Hampshire, New Jersey, New Mexico, North Carolina, Ohio, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, Utah, Washington and Wisconsin. One of our subsidiaries has an international location in South Korea that serves the Asian semiconductor markets. Another subsidiary opened a metals service center in Belgium in January 2003 to service the European aerospace market. On March 1, 2006, our 70%-owned joint venture company, based in Singapore, acquired a metals service center company in China that mainly serves the electronics industry in China.

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. This strategy and our proven operating methods have enabled us to outperform most of our competitors in the metals service center industry. We believe that our geographic, customer and product diversification also makes us less vulnerable to regional or industry specific economic volatility. Following the economic recession in 2001, 2002 and 2003, our industry experienced a broad-based significant and unprecedented upturn in 2004 that continued for many of our products throughout 2005. In 2005, we had record net sales of \$3.4 billion and record net income of \$205.4 million.

#### 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. Industry analysts estimate that, historically in the United States, based on tonnage, metals service centers and processors annually purchase and distribute approximately:

- 30% of all carbon industrial steel products produced in the United States;
- 45% of all stainless steel produced in the United States; and
- 36% of all aluminum sold in the mill/distributor shared markets (which excludes that sold for aluminum cans, among other things).

These percentages have not changed significantly in the last five years. In the May 2005 issue, the magazine *Purchasing* reported that the North American metals distribution industry was estimated to have generated revenues of about \$85 billion in 2004 (the latest year for which such information is available), up from \$72 billion in 2000 and \$58 billion in 2003, and that shipments of steel, aluminum, copper metals and superalloys to domestic buyers in 2004 were a record 63.5 million tons.

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 industry sources, 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 1,300 companies in 2003 (*Purchasing*, May 2003). This consolidation trend creates opportunities for us to make 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 2002 and 2003, it was more difficult for our industry to pass through price increases of certain carbon steel products, as the increased costs resulted from supply constraints rather than customer demand, which is more typical. In 2004, these dynamics changed significantly as domestic mill shutdowns and increased global demand limited availability of several carbon steel products. This limited supply, along with somewhat improved U.S. demand, allowed service centers to increase their selling prices and pass these costs on to their customers. In 2005, although supply was not as limited as in 2004 and carbon steel prices declined from 2004 levels, the



consolidation at the carbon steel mill level resulted in a more stable pricing environment for carbon steel products. Demand and pricing for carbon steel products improved near the end of 2005. Aluminum and stainless steel pricing rose throughout 2005, with significant and rapid price and demand increases for aerospace-related products during 2005. We believe that service centers 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 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 2003, we acquired a company that processes metal for a fee without taking ownership of the metal. We have not diversified outside of our core business and we strive to consistently perform as one of the best in our industry. We operate metals service centers under the following trade names:

<u>Trade Name</u>	<u>No. of Locations</u>	<u>Primary Products Processed &amp; Distributed</u>
<b>Reliance Divisions</b>		
<i>Affiliated Metals</i> .....	1	<i>Plate and Flat-Rolled Aluminum and Stainless Steel</i>
<i>Bralco Metals</i> .....	5	<i>Aluminum, Brass, Copper and Stainless Steel</i>
<i>Engbar Pipe &amp; Steel Co.</i> .....	1	<i>Carbon Steel Bars, Pipe and Tubing</i>
<i>MetalCenter</i> .....	1	<i>Flat-Rolled Aluminum and Stainless Steel</i>
<i>Olympic Metals</i> .....	1	<i>Aluminum, Brass, Copper and Stainless Steel</i>
<i>Reliance Metalcenter</i> .....	10	<i>Variety of Carbon Steel and Non-Ferrous Metal Products</i>
<i>Reliance Steel Company</i> .....	2	<i>Carbon Steel</i>
<i>Tube Service Co.</i> .....	6	<i>Specialty Tubing</i>
<b>Allegheny Steel Distributors, Inc.</b> .....	1	<i>Carbon Steel</i>
<b>Aluminum and Stainless, Inc.</b> .....	2	<i>Aluminum Sheet, Plate and Bar</i>
<b>American Metals Corporation</b> .....	3	<i>Carbon Steel</i>
<b>American Steel, L.L.C.</b> .....	2	<i>Carbon Steel</i>
<b>AMI Metals, Inc.</b>		
<i>AMI Metals</i> .....	6	<i>Heat-Treated Aluminum Sheet and Plate</i>
<i>AMI Metals Europe S.P.R.L.</i> .....	1	<i>Heat-Treated Aluminum Sheet and Plate</i>
<b>CCC Steel, Inc.</b>		
<i>CCC Steel</i> .....	1	<i>Structural Steel</i>
<i>IMS Steel</i> .....	1	<i>Structural Steel</i>
<b>Central Plains Steel Co.</b> .....	2	<i>Carbon Steel</i>
<b>Chapel Steel Corp.</b> .....	5	<i>Carbon Steel Plate</i>
<b>Chatham Steel Corporation</b> .....	5	<i>Full-Line Service Centers</i>
<b>Durrett Sheppard Steel Co., Inc.</b> .....	1	<i>Carbon Steel Plate, Bar and Structural</i>
<b>Everest Metals (Suzhou) Co., Ltd.</b> .....	1	<i>Aluminum Plate and Bar</i>
<b>Liebovich Bros., Inc.</b>		
<i>Liebovich Steel &amp; Aluminum Company</i> .....	2	<i>Full-Line Service Centers</i>
<i>Good Metals Company</i> .....	1	<i>Tool and Alloy Steels</i>
<i>Hagerty Steel &amp; Aluminum Company</i> .....	1	<i>Plate and Flat-Rolled Carbon Steel</i>

<i>Liebovich Custom Fabricating Company</i> .....	1	<i>Metal Fabrication</i>
<i>Liebovich/PDM Steel &amp; Aluminum Company</i> .....	1	<i>Carbon Steel Structural and Plate</i>
<b><i>Lusk Metals</i></b> .....	1	<i>Precision Cut Aluminum Plate and Aluminum Sheet and Extrusions</i>
<b><i>Pacific Metal Company</i></b> .....	7	<i>Aluminum and Coated Carbon Steel</i>
<b><i>PDM Steel Service Centers, Inc</i></b> .....	7	<i>Carbon Steel Structural and Plate</i>
<b><i>Phoenix Corporation</i></b>		
<i>Phoenix Metals Company</i> .....	7	<i>Flat-Rolled Aluminum, Stainless Steel and Coated Carbon Steel</i>
<i>Steel Bar</i> .....	1	<i>Carbon Steel Bars and Tubing</i>
<b><i>Precision Strip, Inc.</i></b> .....	8	<i>Toll Processing (Slitting, Leveling, Blanking) of Aluminum, Stainless Steel and Carbon Steel</i>
<b><i>Service Steel Aerospace Corp.</i></b>		
<i>Service Steel Aerospace</i> .....	2	<i>Stainless and Alloy Specialty Steels</i>
<i>United Alloys Aircraft Metals</i> .....	1	<i>Titanium Products</i>
<b><i>Siskin Steel &amp; Supply Company, Inc.</i></b>		
<i>Siskin Steel</i> .....	4	<i>Full-Line Service Centers</i>
<i>East Tennessee Steel Supply</i> .....	1	<i>Carbon Steel Plate, Bar and Structural</i>
<i>Georgia Steel Supply Company</i> .....	1	<i>Full-Line Service Center</i>
<b><i>Toma Metals, Inc.</i></b> .....	1	<i>Stainless Steel Sheet and Coil</i>
<b><i>Valex Corp.</i></b>		
<i>Valex</i> .....	4	<i>Electropolished Stainless Steel Tubing and Fittings</i>
<i>Valex Korea Co., Ltd.</i> .....	1	<i>Electropolished Stainless Steel Tubing and Fittings</i>
<b><i>Viking Materials, Inc.</i></b> .....	2	<i>Flat-Rolled Carbon Steel</i>

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. For about 45% of our sales orders, we perform metals processing services, or first-stage processing, before distributing the product to manufacturers and other end-users, often within 24 hours from receipt of an order, if the order does not require extensive or customized processing. These services save time, labor, and expense for our customers and reduce their overall manufacturing costs. During 2005, we handled approximately 9,700 transactions per business day, with average revenues of approximately \$1,370 per transaction. Our total revenues for 2005 were \$3.4 billion. We believe that our focus on small orders with quick turnaround differentiates us from many of the other large public 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 30 businesses. From 1984 to September 1994, we acquired 20 businesses. We continue to evaluate acquisition opportunities and expect to continue to grow our business through acquisitions and internal growth initiatives.

#### *Acquisitions*

On July 1, 2005, we acquired all of the outstanding capital stock of Chapel Steel Corp. ("Chapel Steel"), a privately held metals service center company founded in 1972 that processes and distributes carbon and alloy steel plate products from five facilities in Pottstown (Philadelphia), Pennsylvania; Bourbonnais (Chicago), Illinois; Houston, Texas; Birmingham, Alabama; and Portland, Oregon. Chapel Steel also warehouses and distributes its products in Cincinnati, Ohio and Hamilton, Ontario, Canada. Chapel Steel is headquartered in Spring House (Philadelphia), Pennsylvania. We paid approximately \$94.2 million in cash for the equity of Chapel Steel and assumed approximately \$16.8 million of Chapel Steel's debt. Chapel Steel's net sales for the six months ended December 31, 2005 were approximately \$131 million.

#### *Pending Merger with Earle M. Jorgensen Company*

In January 2006, we jointly announced with Earle M. Jorgensen Company ("EMJ") that we have entered into a definitive merger agreement pursuant to which we will acquire EMJ for approximately \$13.00 per share in cash and stock, subject to a collar, which establishes the minimum and maximum of our stock to be issued. If the transaction successfully closes, EMJ will

be merged with and into a wholly-owned subsidiary of Reliance. The transaction is valued at approximately \$934 million, including the assumption of EMJ's net debt. EMJ's revenues for their fiscal year ended March 31, 2005 were approximately \$1.6 billion. The consideration to EMJ stockholders will be paid approximately 50% in our common stock and 50% in cash. Under the terms of the merger agreement, EMJ stockholders will have the right to receive consideration of \$6.50 in cash and a number of shares of our common stock equal to about \$6.50, depending on the average price of our stock at closing and the resulting exchange ratio. The exchange ratio will not be more than 0.1207 and not less than 0.0892 shares of Reliance common stock, for each share of EMJ stock outstanding. If the average price of our common stock for the 20 trading days ending on and including the second trading day prior to the closing is between \$53.86 and \$72.86 per share, the value of the Reliance common stock received would be \$6.50 for each EMJ share. The cash portion, which includes the cash out of certain EMJ options and estimated transaction costs, will be financed under Reliance's \$600 million syndicated credit facility that will be increased to \$700 million as of the closing of the transaction. Additionally, the Company will assume EMJ's existing long-term debt.

The proposed merger with EMJ must be approved by EMJ's stockholders. A special meeting of stockholders has been scheduled for March 31, 2006. Reliance has entered into a voting agreement with holders of 50.1% of EMJ's outstanding common stock that provides that such holders will vote for the merger, subject to certain termination rights. These stockholders would also be entitled to certain registration rights for their Reliance shares if the merger is approved.

#### *Pending Acquisition*

In February 2006, we entered into a purchase agreement, through Precision Strip, Inc. ("Precision Strip"), a wholly owned subsidiary, to acquire certain assets and business of Flat Rock Metal Processing, LLC. ("Flat Rock"). Flat Rock is a toll processing company. Precision Strip will operate the Flat Rock businesses in Perrysburg, Ohio and Eldridge, Iowa, pending successful completion of due diligence and closing of the transaction.

#### *Recent Developments*

In October 2005, we formed Reliance Pan Pacific Pte., Ltd. ("RPP") with our joint venture partner Manufacturing Network Pte. Ltd. ("MNPL"). We own 70% of RPP and MNPL owns the remaining 30%. On March 1, 2006, RPP acquired 100% of the outstanding equity interest in Everest Metals (Suzhou) Co., Ltd. ("Everest Metals"), a metals service center company near Shanghai, People's Republic of China. Everest Metals sells aluminum products to the Chinese electronics market and had 2005 sales of approximately \$5.5 million. Everest Metals was previously wholly owned by MNPL.

In January 2006, we purchased the remaining 49.5% of American Steel, L.L.C. From its inception on July 1, 1995 through April 30, 2002, we owned a 50% interest in the Membership Units of American Steel, which operates metals service centers in Portland, Oregon and Kent, Washington and processes and distributes primarily carbon steel products. We retained operating control over the assets and operations of American Steel and American Industries, Inc. owned the other 50% interest. Effective May 1, 2002, we increased our ownership to 50.5% of the outstanding Membership Units of American Steel and began consolidating its financial results. The 2005 net sales of American Steel were approximately \$107 million.

Valex Corp., our 97%-owned subsidiary, is a leading domestic manufacturer of electropolished stainless steel tubing and fittings primarily used in the construction and maintenance of semiconductor manufacturing plants. In 2005, Valex Corp. dissolved its French subsidiary due to reduced European demand. Also in 2005, Valex closed its distribution centers in Santa Clara, California and Portland, Oregon because the semiconductor chip manufacturing industry that Valex serves has experienced a significant shift to Asia. Valex Korea Co., Ltd., a wholly-owned subsidiary of Valex Corp., based near Seoul, increased its sales significantly as a result and is in the process of expanding its facility. Furthermore, in 2005, Valex opened a distribution center in New Hampshire to service a large customer in the New England area.

In 2005, AMI Metals Europe, SPRL, opened a sales office in France and is currently in the process of expanding its warehouse facility in Belgium to better service its increased share of the European aerospace business. In 2006, Liebovich Bros. opened a new location near Green Bay, Wisconsin to further penetrate that geographic area. Phoenix Metals Company opened a new location near Cincinnati, Ohio in 2005 and opened another facility near Philadelphia, Pennsylvania in 2006 as new entries into these geographic regions. Phoenix Metals also purchased a new, larger, more efficient facility in Birmingham, Alabama and is building a new facility for its Charlotte, North Carolina operation to better support its customers in those areas. Allegheny Steel Distributors is in the process of expanding its Indianola, Pennsylvania facility to make room for additional equipment which is being installed to help support its increased business. Also, Siskin Steel & Supply Co. is expanding its Chattanooga, Tennessee warehouse and Precision Strip is expanding its Talladega, Alabama facility.

We formed RSAC Management Corp., a California corporation, in 1999 to operate as a holding company for our subsidiaries and to provide administrative and management services to our metals service centers. 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. Division managers and other 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, or 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.

We have more than 95,000 metals service center customers in various industries. In 2005, no single customer accounted for more than 1% of our sales, and more than 85% of our orders were from repeat customers. Our customers are manufacturers and end-users in the general manufacturing, construction (both commercial and residential), transportation (rail, truck and auto), aerospace, 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 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. Our metals service centers wrote and delivered over 2,450,000 orders during 2005 at an average price of approximately \$1,370. 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. With our fleet of approximately 815 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. Approximately 4% of our sales were to international customers in 2005, with approximately 69% of these sales from our AMI Metals and Vallex international locations serving the European and Asian markets.

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.

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 several industries, we believe that the effect of such changes on us is significantly reduced. However, from 2001 through August 2003, we experienced lower sales levels due to a broad-based economic downturn that affected all industries. We experienced lower demand in each successive year from 2000 until September 2003 when we experienced an improvement in our customer demand, as well as pricing, for most of the products we sell. Customer demand levels continued to increase in 2004. In 2005, demand rose for some of our products (primarily those related to aerospace) and for other products was fairly steady with 2004 levels.

Pricing for carbon steel products increased to record highs in 2004, primarily due to raw material shortages for the mills that increased their costs, and due to reduced supply resulting from the shutdown of some domestic capacity and from increased global demand that reduced the amount of import material available in the U.S. as it was re-routed to strong foreign markets such as China. Pricing for aluminum and stainless steel products also increased steadily throughout the year as demand increased, especially for aerospace products. There were significant and rapid increases for both pricing and demand of aerospace products throughout 2005.

California was our largest market for many years, but we have expanded our geographic coverage in recent years and the Southeast 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 the Company's growth. California represented 21% of our

2005 sales, which was a significant decrease from 45% of our 1997 sales. The Southeast region of the United States represented 25% of our 2005 sales compared to 18% of our 1997 sales, and the Midwest region, which we entered in 1999, represented 20% of our 2005 sales.

### **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., Chaparral Steel Company, IPSCO, Inc., Mittal Steel, Nucor Corporation, Oregon Steel Mills, Steel Dynamics, Inc., United States Steel Corporation and USS-POSCO Industries. Allegheny Technologies Incorporated, International Stainless Steel Co. 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. (formerly Commonwealth Aluminum Corp.) and Kaiser Aluminum Corp.

During 2001 through 2003, many domestic steel mills entered bankruptcy proceedings and certain of those mills temporarily closed a portion of their production capacity. Beginning in 2003 and continuing into 2004, many of the bankrupt mill facilities were acquired and some production was re-started. Mill pricing for steel products stabilized in mid-2003 mainly because of the consolidation that occurred at the mill level that improved capacity and mill-pricing discipline. Beginning in late 2003, steel mills began to experience significant increases in their raw material costs due to shortages caused by increased global demand. In 2004 they instituted surcharges on top of base price increases and consistently implemented significant increases through most of 2004. In 2005, the domestic mills exercised pricing discipline by shutting down excess capacity, when appropriate, which provided a more stable pricing environment than our industry has experienced historically. Costs for aluminum and stainless steel products continued to increase steadily throughout 2004 and 2005. Costs for aerospace products increased significantly in 2005 due to limited supply caused by strong demand, and due to increased raw material costs.

Because of our total volume of purchases and our long-term relationships with our suppliers, we believe that we were 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 and that our relationships with our suppliers are very strong. We have worked closely with our suppliers in order to become an important customer for each major supplier of metals for our core product lines. In 2004, when carbon steel supply 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. However, a significant increase in global steel and aluminum usage together with raw material shortages and supply constraints may cause difficulties for metals service centers, including us, and their customers, to obtain the volume of metal desired. Also, mill consolidation has somewhat reduced the number of suppliers available to us.

### **Backlog**

Because of the just-in-time delivery policy 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.

### **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. For orders other than those requiring extensive or specialized processing, we often deliver to the customer within 24 hours after receiving the order. Our 2005 sales were comprised of the following approximate percentages:

- 15% carbon steel plate
- 10% heat-treated aluminum plate, sheet and coil
- 9% carbon steel structurals
- 9% stainless steel plate, sheet and coil
- 8% carbon steel tubing
- 8% galvanized steel sheet and coil
- 7% common alloy aluminum plate, sheet and coil
- 6% carbon steel bar
- 6% hot rolled steel sheet and coil
- 6% miscellaneous, including brass, copper and titanium
- 4% aluminum bar and tube
- 4% stainless steel bar and tube
- 4% toll processing of aluminum, carbon steel and stainless steel
- 3% cold rolled steel sheet and coil
- 1% electropolished stainless steel tubing and fittings

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 our largest product type (sheet and coil), 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. Few of our customers have the capability of processing 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. More than 50% of our orders specify delivery within 24 hours. We attempt to maximize the yield from the various metals that we process by combining customer orders to use each purchased product to the fullest extent practicable.

Few metals service centers offer the full scope of processing services and metals that we provide. In 2005, approximately 45% of our sales orders required us to perform processing services. 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 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.

### **Marketing**

We have approximately 790 sales personnel located in 38 states, Belgium, China, France and South Korea 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. We consider those sales personnel who travel throughout a specified geographic territory to maintain relationships with our existing customers and develop new customers our outside sales personnel. 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.

### **50.5%-Owned Company**

Beginning July 1, 1995, we owned 50% and had operational control of American Steel, L.L.C., an Oregon limited liability company. American Steel operates metals service centers in Portland, Oregon, and Kent, Washington. Effective May 1, 2002, we increased our ownership interest to 50.5% and amended the Operating Agreement to eliminate all super-majority and unanimous voting rights, among other things. There was no cost involved in this transaction, which was completed to facilitate the renewal of American Steel's credit agreement. American Industries, Inc. owned the other 49.5% of American Steel until we purchased this interest on January 3, 2006. From July 1, 1995 through April 30, 2002, we accounted for our 50% investment in American Steel by the equity method, and included 50% of American Steel's earnings in our net income and earnings per share amounts. Beginning May 1, 2002, we consolidated American Steel's financial results and recorded American Industries' 49.5% ownership as minority interest. Beginning January 3, 2006, we include 100% of American Steel's earnings in our consolidated financial results.

### **Industry and Market Cycles**

We distribute metal products to our customers in a variety of industries, including manufacturing, construction, transportation, aerospace and semiconductor fabrication. Many of the industries our customers compete in 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. During the 2001 and 2002 years and until August 2003, all of the industries that we sell to experienced low demand levels due to the poor economic conditions in the U.S. Demand for our products improved beginning in September 2003 and the improvement continued through most of 2004 and 2005 for some of our products. Our results were significantly impacted by the economic downturn from 2001 through 2003, but reacted positively to the favorable pricing environment in 2004, for all of our products, and 2005, for our aerospace related products, resulting in record profitability levels for each of those years. A significant drop in current pricing levels or demand could result in a negative impact to our financial results. However, if current pricing levels do not change significantly and demand improves, our financial results could be positively impacted.

The semiconductor fabrication industry, aerospace industry and truck trailer and rail car industries have historically experienced cycles that may have an impact on our results if they repeat in the future. The semiconductor fabrication industry is highly cyclical in nature and is subject to changes in demand based on, among other things, general economic conditions and industry capacity. There has been a substantial shift in this market, with many U.S. companies moving their semiconductor fabrication operations to Asia. We are participating in the Asian market through our Valex Korea subsidiary and our recent acquisition of Everest Metals in China.

In 2003, aerospace demand remained fairly consistent with the low levels experienced in 2002, but in 2004 we experienced steady improvement throughout the year. Aerospace demand, as well as pricing, increased rapidly and significantly throughout 2005. We anticipate that aerospace demand will remain strong through 2006.

The heavy truck, truck trailer and rail car industries experienced a substantial slowing in demand beginning in 2000 that continued through 2002, which materially impacted our operations in the Pacific Northwest. We did experience some improvement for short periods during 2003 and saw significant improvements in truck trailer demand throughout 2004 that continued at healthy levels in 2005.

Fluctuations in the cost of our materials also affect the prices we can charge to our customers. By selling a diverse product mix, we are able to somewhat offset fluctuations in our costs of materials. However, during 2001, metals costs of most products reached their lowest levels experienced in over 20 years. This occurred due to overcapacity at the producer level in both domestic and foreign markets, along with the weak demand experienced in 2001. Due to the continued low demand, costs of most metals remained at or near the 2001 levels throughout 2002 and most of 2003. However, costs of carbon steel flat-rolled products increased significantly in the second half of 2002 due to supply constraints, as certain producers reduced capacity and because of government restrictions on foreign imports. These increased costs began to decline slightly near the end of 2002 and early 2003 because of the continued low end-user demand. In the second half of 2003, costs for carbon steel products again increased significantly and rapidly due to improved demand and increased scrap, raw material and energy costs for steel producers. This trend continued through most of 2004, with pricing at all time highs. Increased global demand limited availability of many of these products in the U.S. allowing the significant increases in costs. During the fourth quarter of 2004, increased amounts of import material arrived in the U.S. putting some downward pressure on pricing for carbon steel products. In the first eight months of 2005, there was downward pressure on carbon steel prices which we believe was mainly due to excess inventory in the supply chain. Costs for aluminum and stainless steel products increased in the second half of 2003 and throughout 2004 and 2005 due to supply constraints and improved customer demand. Pricing for aerospace related aluminum, stainless steel and titanium products experienced significant cost increases in 2005 due to improved demand and supply constraints.

We have historically been able to pass increases in metal costs on to our customers as costs typically increase due to strong demand. In 2004, supply limitations for carbon steel products allowed us to pass through significant cost increases well in advance of our receipt of the higher cost material, which resulted in significantly higher gross profit margins in 2004, especially in the 2004 second quarter. Our gross profit margins declined somewhat from 2004 levels in 2005 because of declining costs during the first eight months of 2005. However, due to increased costs announced in August 2005, our gross profit margins improved in the 2005 fourth quarter. Also, due to supply limitations, we were able to increase our selling prices for aerospace products more than our costs increased, raising our 2005 gross profit margins for these products. We cannot guarantee that the margin between our metal costs and selling prices will remain at the levels experienced during 2005, especially if demand declines or does not improve and if costs of domestic metals decline due to increased availability or reduced global demand. If metals costs and related selling prices remain at current levels or increase, we should be able to record increased revenue and gross profit dollars on a consistent volume basis.

### **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. Industry magazines have identified us as the second largest metals service center company in North America (based upon 2004 revenue). According to the May 2005 issue of the magazine Purchasing, the 2004 (most recent year available) revenues for the five largest North American metals service center companies ranged from \$1.9 billion to \$3.3 billion for total revenues of \$12.3 billion, which represents approximately 14% of the estimated \$85 billion of total revenue for the metals service center industry in 2004. Reliance's 2004 sales of \$2.9 billion represented approximately 3% of the estimated \$85 billion industry total. 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, as many of our competitors were facing capital constraints.

### **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.

Nineteen divisions and six subsidiaries of Reliance, at a total of 36 facilities, have maintained ISO 9002 certifications and were recertified for ISO 9001-2000, but we have determined not to obtain the certification for any additional facilities at this time. As of December 15, 2003, ISO 9001-2002 replaced ISO 9002. The ISO 9001-2000 quality standard has added a matrix to record and review customer satisfaction and has reorganized the requirements for the quality standard from 20 elements to 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 and 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.

In addition, our subsidiary Precision Strip maintains ISO/TS 16949:2002 certifications at its eight 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. The International Automotive Sector Group is an international ad hoc working group that monitors interpretation issues related to the standard.

## **Systems**

We have converted our Reliance divisions and certain of our subsidiaries from various software programs to the Stelplan™ manufacturing and distribution information system. Stelplan™ is a registered trademark of Invera, Inc. Stelplan™ is an integrated business application system with functions ranging from order entry to the generation of financial statements. Stelplan™ was developed specifically for the metals service center and processor industry. Stelplan™ 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. The basic functionality of the software is similar to Stelplan™. A common financial reporting system is used company-wide.

## **Government Regulation**

Our metals service centers are subject to many federal, state and local requirements to protect the environment, including hazardous waste disposal and underground storage tank regulations. The only hazardous wastes that we use in our operations are lubricants and cleaning solvents. We frequently examine ways to minimize any impact on the environment and to effect cost savings relating to environmental compliance. 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 have a very strict safety policy, which we believe is one of the best in the industry. We are in material compliance with applicable laws and regulations and 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.

## **Environmental**

We have no material outstanding unresolved issues with environmental regulators, and our products and processes present no environmental concerns. We do not expect any material expenditures to meet environmental requirements. Some of the properties we own or lease are located in industrial areas, however, with histories of heavy industrial use. We may incur some environmental liabilities because of the location of these properties. Any such liabilities would arise from causes other than our operations, but we do not expect that these liabilities would have a material adverse impact on our results of operations, financial condition or liquidity.

## Employees

As of December 31, 2005, we had approximately 5,600 employees. Approximately 694 employees are covered by collective bargaining agreements, which expire at various times over the next four years. We have entered into collective bargaining agreements with 19 union locals at 20 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. In 2005, we experienced a work stoppage by our drivers at one of our locations, but it did not have a material impact on our operations at this location. This contract expired and the drivers at that location are now non-union employees. We have never experienced a significant work stoppage.

## 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. 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.*

***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. 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;
- 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;
- 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, the 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.

***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, 2005, we had aggregate outstanding indebtedness of approximately \$350.8 million. Upon successful completion of the EMJ merger, our indebtedness will increase. This indebtedness could adversely affect us in the following ways:

- our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes may be impaired;
- 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 our debt is, and will continue to be, at variable rates of interest, which may result in higher interest expense in the event of increases in interest rates;
- 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;
- after completion of the EMJ merger, EMJ's noteholders or our lenders could require us to repurchase EMJ's 9.75% notes, which would substantially increase our leverage and limit our access to funds for growth initiatives;
- 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 debt agreements contain, and any agreements to refinance our debt likely would 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. 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 debt service obligations.***

Our annual debt service obligations until June 11, 2010, when our revolving credit facility is expected to mature, will be primarily limited to interest and principal payments on our senior notes (with the principal payable only as and when they mature), on our credit facility, on our industrial revenue bonds and on any debt we assume in connection with the EMJ merger. 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 operations to repay our credit facility when it matures in 2010, or our senior notes when they mature on various dates between 2006 and 2013 or our industrial revenue bonds when they mature in 2009 and 2014 or the EMJ 9.75% notes when they mature or are required to be repurchased. 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. Furthermore, these transactions may not be permitted under the terms of our various debt instruments then in effect. 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 discontinue our operations as planned. Our credit facility is unsecured.

***The costs that we pay for metals may fluctuate due to a number of factors beyond our control, which, on a combined basis, could adversely affect our operating results if we cannot pass on higher metal prices to our customers.***

We purchase large quantities of carbon, alloy, stainless steel, aluminum and other metals, which we sell to a variety of end-users. In 2004 the costs for carbon steel increased significantly and rapidly from historic levels. Although these costs declined somewhat through mid-2005, the costs increased in the fourth quarter of 2005 and overall carbon steel costs remained at historically high levels. Costs for aluminum and stainless steel products, excluding aerospace-related products, rose steadily in 2004 and there were some continued increases in 2005. Costs for aerospace-related products have increased significantly beginning in late 2004 and continued to increase through all of 2005. We attempt to pass these cost increases on to our customers with higher selling prices. 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 maintain substantial inventories of metal to accommodate the short lead times and delivery requirements of our customers. 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. In addition, when metal prices decline, customer demands 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.

***The price of metals is 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 its consumption of metals and metal products. This large and growing demand for metals has significantly affected the metals industry, diverting supply to China and contributing to the recent increase in metal prices. If, in the future, China experiences a downturn in general economic conditions or increases its internal production of metals, its demand for metals produced outside of China could decrease. Such a decrease could cause a reduction in metal prices globally, which could adversely affect our revenues, gross profit and net income. Additionally, significant currency fluctuations in the United States or abroad could negatively impact our cost of metals and the pricing of our products. Recently, the decline in the dollar relative to foreign currencies resulted in increased prices for metals and metal products in the United States as imported metals became relatively more expensive. If, in the future, the dollar increases in value relative to foreign currencies, the domestic 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 our customers' industries could negatively impact our revenues, gross profit and net income.***

The metals service center industry is cyclical, 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 general slowing of the economy in 2001, 2002 and 2003 adversely impacted our product sales and pricing. While we experienced significantly improved pricing and healthy demand levels in 2004 and 2005, by comparison, this trend may not continue. Changing economic conditions could depress or delay demand for our products, which could adversely affect our revenues, gross profit and net income.

We sell many products to industries that are cyclical, such as the construction, semiconductor 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 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 increase sales of products to customers in other industries when one or more of the cyclical industries that we serve is 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 may have greater financial resources than we do and some of which could have more established brand names in the local markets that we serve. Accordingly, these competitors may be better able to withstand 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.

***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. Our ability to meet our customers' needs and provide value-added inventory management services depends on our ability to maintain an uninterrupted supply of 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 and certain tariffs and duties.

***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, 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 strength.

***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 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 other 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 officers or employees, which may mean they may have less of an incentive to stay with us when presented with alternative employment opportunities. In addition, our senior management and key operating employees hold stock options that have vested and hold common stock in our employee stock ownership plan. These individuals may, therefore, be more likely to leave Reliance 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 and employee safety and health regulations, which could subject us to significant liabilities and compliance expenditures.***

We are subject to certain 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. Environmental and employee safety and health 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 and employee safety and health issues. Currently, we have no material outstanding unresolved issues with environmental regulators. Proceedings and investigations with respect to environmental matters and any employee safety and health 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 expenditures and to establish environmental liabilities for costs that arise from causes other than our operations. 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 create material compliance or remedial liabilities and costs which may constrain our operations or make such operations more costly.

***Our operating results have fluctuated, and are expected to continue fluctuating, depending on the season, and such fluctuations may adversely affect our stock price.***

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. In addition, if analysts and investors inaccurately estimate our results of operations in one or more future quarters and our operating results fall below expectations, our stock price may decline.

***Ongoing tax audits may result in additional taxes.***

Reliance and EMJ are undergoing various tax audits. These tax audits could result in additional taxes, plus interest and penalties being assessed against either or both companies.

***The acquisition of EMJ is our largest and first public company acquisition and there may be additional risks of which we are not aware or existing risks may change over time.***

The EMJ acquisition is our largest acquisition and our first acquisition of a public company. There may be additional risks associated with this acquisition that we are not aware of at the present time because we have not previously integrated a business of this size. After the acquisition, customers may choose to diversify their metals suppliers to reduce their dependence on a single supplier of the majority of their metals needs. We may not be able to retain all of the Reliance and EMJ customers, and any loss of customers and the business that they bring to us could have an adverse effect on our operating results.

We have agreed to assume liability for EMJ's various retirement and pension plans. The actual costs for the benefits to be provided to EMJ's employees may exceed those projected, and further actuarial assessments of the extent of those costs may exceed the current assessment. Any adjustments that are required to be made to the recorded liability for these benefits could have an adverse effect on our operating results and financial condition. In addition, we may be required to make cash payments in excess or in addition to those that have been projected, which could have an adverse effect on cash flow. We expect that we will record a significant amount of goodwill related to our acquisition of EMJ. If EMJ does not perform as anticipated, this could result in an impairment charge that could be material.

***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 operation.

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

The unavailability of any of our 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 depends 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 telecommunications 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 information management systems are damaged. It is possible that the backup facilities and other protective measures we take could prove to be inadequate.

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

Florence Neilan, our largest shareholder, owns 12.7% of the outstanding shares of our common stock and may have the ability to significantly influence matters requiring shareholder approval. Upon successful completion of the EMJ merger, certain EMJ stockholders will own a significant percentage of Reliance outstanding common stock. 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.***

Our articles of incorporation and our bylaws could delay, defer or prevent a third party from acquiring us, 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 articles of incorporation and 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 notes contain limitations on our ability to enter into change of control transactions.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties.**

We maintain more than 100 metals service center processing and distribution facilities in 32 states, and in Belgium, China and South Korea, 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. Forty-three of these processing and distribution facilities are leased. In addition, we lease our corporate headquarters in Los Angeles, California. Siskin leases a portion of its facilities in Chattanooga, Tennessee, and Liebovich leases a portion of its facilities in Rockford, Illinois. AMI Metals leases its corporate office space in Brentwood, Tennessee. Chapel Steel leases its sales office in Chicago, Illinois and its corporate office in Lower Gwynedd, Pennsylvania. Our international sales office in France is also leased. The lease terms expire at various times through 2018 and the aggregate monthly rent amount is approximately \$1,050,000. We own all other properties.

In 2005 we began the expansion of our AMI Metals Europe SPRL warehouse in Belgium and our Valex Korea facility in South Korea to meet our growing customer demand in Europe and Asia. We expect to purchase land and build or expand facilities to increase current operating capacity and efficiencies for other operations during 2006. In 2006, we are purchasing certain facilities that were previously leased. The following table sets forth certain information with respect to each facility. Any leased portions of owned facilities are not significant and are included in the square footage information following.

## FACILITIES AND PLANT SIZE

<u>Location</u>	<u>Plant Size (Sq. ft.)</u>
Alabama:	
Birmingham	
<i>(Chapel)</i> .....	98,000*
<i>(Chatham)</i> .....	110,000
<i>(Phoenix Metals)</i> .....	40,000
<i>(Siskin)</i> .....	107,000
Talladega <i>(Precision)</i> .....	184,000
Arizona:	
Phoenix	
<i>(Bralco Metals)</i> .....	46,000
<i>(Reliance Metalcenter)</i> .....	104,000
<i>(Tube Service)</i> .....	23,000
California:	
El Cajon <i>(Tube Service)</i> .....	18,000
Fontana <i>(AMI)</i> .....	103,000
Fresno	
<i>(American Metals)</i> .....	125,000*
<i>(PDM)</i> .....	102,000
Hayward <i>(Lusk Metals)</i> .....	47,000*
La Mirada <i>(Bralco Metals)</i> .....	140,000
Los Angeles	
<i>(Corporate Office)</i> .....	45,000*
<i>(Reliance Steel Company)</i> .....	270,000
Milpitas <i>(Tube Service)</i> .....	58,000
National City <i>(Reliance Metalcenter)</i> .....	74,000
Rancho Dominguez <i>(CCC Steel)</i> .....	316,000
Redding <i>(American Metals)</i> .....	42,000*
Santa Clara <i>(PDM)</i> .....	61,000
Santa Fe Springs	
<i>(MetalCenter)</i> .....	155,000
<i>(Tube Service)</i> .....	66,000
Stockton <i>(PDM)</i> .....	189,000
Union City <i>(Reliance Metalcenter)</i> .....	145,000
Ventura <i>(Valex)</i> .....	87,000
Vernon <i>(United)</i> .....	34,000*
West Sacramento <i>(American Metals)</i> .....	108,000*
Colorado:	
Colorado Springs <i>(Reliance Metalcenter)</i> .....	68,000
Denver	
<i>(Engbar)</i> .....	36,000
<i>(Olympic)</i> .....	20,000*
<i>(Tube Service)</i> .....	21,000*
Florida:	
Orlando <i>(Chatham)</i> .....	127,000
Tampa <i>(Phoenix Metals)</i> .....	83,000
Georgia:	
Atlanta <i>(Georgia Steel)</i> .....	88,000
Norcross <i>(Phoenix Metals)</i> .....	170,000
Savannah <i>(Chatham)</i> .....	178,000
Idaho:	
Boise <i>(Pacific)</i> .....	40,000*
Illinois:	
Bourbonnais <i>(Chapel)</i> .....	120,000*
Franklin Park <i>(Viking)</i> .....	91,000*
Peoria <i>(Hagerty)</i> .....	223,000
Rockford	
<i>(Liebovich)</i> .....	452,000
<i>(Liebovich Custom Fabricating)</i> .....	30,000
Indiana:	
Anderson <i>(Precision)</i> .....	152,000
Rockport <i>(Precision)</i> .....	55,000*
Iowa:	
Cedar Rapids <i>(Liebovich/PDM)</i> .....	52,000
Kansas:	
Kansas City <i>(Central Plains)</i> .....	141,000
Wichita	
<i>(AMI)</i> .....	40,000*
<i>(Bralco Metals)</i> .....	45,000*
<i>(Central Plains)</i> .....	87,000
Kentucky:	



<u>Location</u>	<u>Plant Size (Sq. ft.)</u>
Bowling Green ( <i>Precision</i> ).....	256,000*
Louisiana:	
Lafayette ( <i>A&amp;S</i> ) .....	40,000*
New Orleans ( <i>A&amp;S</i> ) .....	70,000*
Maryland:	
Baltimore ( <i>Durrett</i> ).....	250,000
Michigan:	
Wyoming ( <i>Good Metals</i> ).....	65,000
Minnesota:	
Minneapolis ( <i>Viking</i> ).....	122,000*
Missouri:	
St. Louis ( <i>AMI</i> ).....	46,000*
Montana:	
Billings ( <i>Pacific</i> ).....	12,000*
Nevada:	
Las Vegas ( <i>PDM</i> ) .....	29,000*
Sparks ( <i>PDM</i> ) .....	44,000
New Hampshire:	
Nashua ( <i>Valex</i> ).....	4,500*
New Jersey:	
Swedesboro ( <i>AMI</i> ).....	36,000*
New Mexico:	
Albuquerque	
( <i>Reliance Metalcenter</i> ).....	44,000
( <i>Reliance Steel Company</i> ) .....	34,000
North Carolina:	
Charlotte ( <i>Phoenix Metals</i> ).....	41,000
Durham ( <i>Chatham</i> ).....	110,000
Greensboro ( <i>Steel Bar</i> ).....	43,000*
Ohio:	
Kenton ( <i>Precision</i> ).....	393,000
Massillon ( <i>SSA</i> ) .....	27,000
Middletown ( <i>Precision</i> ).....	458,000
Minster ( <i>Precision</i> ).....	417,000
Monroe ( <i>Phoenix Metals</i> ).....	32,000*
Tipp City ( <i>Precision</i> ).....	291,000
Oregon:	
Eugene ( <i>Pacific</i> ) .....	32,000
Medford ( <i>Pacific</i> ) .....	5,000*
Portland	
( <i>American Steel</i> ) .....	270,000*
( <i>Chapel</i> ).....	52,000*
( <i>Pacific</i> ).....	111,000*
( <i>Reliance Metalcenter</i> ).....	44,000
( <i>Tube Service</i> ).....	17,000*
Pennsylvania:	
Allentown ( <i>Valex</i> ).....	8,000*
Chester Springs ( <i>Phoenix Metals</i> ) .....	43,000*
Indianola ( <i>Allegheny</i> ) .....	53,000
Johnstown ( <i>Toma Metals</i> ) .....	73,000
Pottstown ( <i>Chapel</i> ) .....	122,000*
South Carolina:	
Columbia ( <i>Chatham</i> ) .....	110,000
Spartanburg ( <i>Siskin</i> ) .....	96,000
Tennessee:	
Chattanooga ( <i>Siskin</i> ) .....	415,000
Morristown ( <i>East Tennessee</i> ).....	33,000*
Nashville ( <i>Siskin</i> ) .....	117,000
Spring Hill ( <i>Phoenix Metals</i> ) .....	66,000
Texas:	
Arlington ( <i>Reliance Metalcenter</i> ).....	107,000
Austin ( <i>Valex</i> ) .....	8,000*
Fort Worth ( <i>AMI</i> ) .....	75,000*
Garland ( <i>Bralco Metals</i> ) .....	45,000
Houston:	
( <i>Chapel</i> ).....	104,000*
( <i>Reliance Metalcenter</i> ).....	30,000
San Antonio ( <i>Reliance Metalcenter</i> ) .....	77,000
Utah:	
Salt Lake City	
( <i>Affiliated Metals</i> ).....	86,000
( <i>CCC Steel</i> ) .....	51,000
( <i>Reliance Metalcenter</i> ) .....	105,000

<u>Location</u>	<u>Plant Size (Sq. ft.)</u>
Spanish Fork (PDM) .....	42,000
Washington:	
Auburn (AMI) .....	27,000*
Kent	
(American Steel) .....	168,000*
(Bralco Metals) .....	24,000*
Spokane (Pacific) .....	49,000
Tacoma (SSA) .....	26,000*
Tukwila (Pacific) .....	76,000
Woodland (PDM).....	130,000
Wisconsin:	
Kaukauna (Liebovich) .....	35,000*
International Sales and Distribution Centers	
Gosselies, Belgium (AMI Europe) .....	40,000
Lyon, France (AMI Europe) .....	540*
Suzhou, China (Everest) .....	20,000*
International Manufacturing Facility	
Seoul, South Korea (Valex Korea) .....	41,000

\* Leased. All other facilities owned.

### **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 and Related Stockholder Matters.

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.

	2005		2004	
	High	Low	High	Low
First Quarter .....	\$47.36	\$36.29	\$35.95	\$27.39
Second Quarter .....	\$43.62	\$35.04	\$40.32	\$31.96
Third Quarter .....	\$52.93	\$37.52	\$41.89	\$36.33
Fourth Quarter .....	\$66.64	\$49.15	\$41.90	\$33.72

As of February 15, 2006, there were 247 record holders of our common stock.

We have paid quarterly cash dividends on our common stock for 46 years. In July 2005, the regular quarterly dividend was increased 11% from \$.09 to \$.10 per share of common stock. Since July 2004, our quarterly dividend has been increased 67%. 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.

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 and limit cash dividends based upon our earnings, which may restrict our ability to pay dividends. Since our initial public offering in September 1994 through 2005, we have paid between 5% and 25% of earnings to our shareholders as dividends. In 2003, our dividend payments represented 22% of our earnings due to the low earnings in 2003 as a result of the poor economic conditions. In 2005, our dividend payments represented 6% of earnings.

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

<u>Date of Declaration</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Dividends</u>
10/18/05	12/9/05	1/6/06	\$.10 per share
7/20/05	8/12/05	9/2/05	\$.10 per share
4/20/05	5/13/05	6/3/05	\$.09 per share
2/16/05	3/11/05	4/1/05	\$.09 per share
10/20/04	12/10/04	1/7/05	\$.07 per share
7/14/04	8/6/04	8/27/04	\$.07 per share
4/14/04	5/7/04	5/28/04	\$.06 per share
2/18/04	3/12/04	4/2/04	\$.06 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, 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 directors in the following transactions exempt from registration under Sections 4(2) and 4(6) of the Securities Act:

<u>Number of Shares</u>	<u>Exercise Price</u>	<u>Date of Exercise</u>
7,500	\$17.11	5/15/05
7,500	\$17.11	6/3/04
15,000	\$18.83	3/11/04
15,000	\$18.83	3/3/04
9,000	\$18.83	1/29/04
15,000	\$18.83	1/6/04
7,500	\$18.58	1/6/04

Restricted shares of common stock were also issued under the Key-Man Incentive Plan, which we have maintained since 1965. The recipients of the restricted stock are only 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:

<u>Number of Shares</u>	<u>Market Value</u>	<u>Date of Grant</u>
5,582	\$44.00	2/21/05
7,295	\$32.29	3/1/04

## Item 6. Selected Financial Data.

We have derived the following selected summary consolidated financial and operating data for the five years ended December 31, 2005 from our audited consolidated financial statements. You should read the information below with our Consolidated Financial Statements, including the notes related thereto, and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations."

### SELECTED CONSOLIDATED FINANCIAL DATA

	Year Ended December 31,				
	2005	2004	2003	2002	2001
	(In thousands, except per share data)				
<b>Income Statement Data:</b> <sup>(1)</sup>					
Net sales .....	\$ 3,367,051	\$ 2,943,034	\$ 1,882,933	\$ 1,745,005	\$ 1,656,974
Cost of sales.....	2,449,000	2,110,848	1,372,310	1,268,251	1,194,512
Gross profit.....	918,051	832,186	510,623	476,754	462,462
Operating expenses <sup>(2)</sup> .....	550,411	525,306	430,493	406,479	371,006
Operating profit.....	367,640	306,880	80,130	70,275	91,456
Other income (expense):					
Interest expense .....	(25,222)	(28,690)	(26,745)	(22,605)	(26,738)
Other income, net.....	3,671	4,168	2,837	3,266	3,796
Amortization expense <sup>(3)</sup> .....	(4,125)	(3,208)	(2,304)	(1,355)	(8,641)
Equity earnings of 50%-owned company.....	—	—	—	263	286
Minority interest.....	(8,752)	(9,182)	938	(124)	—
Income before income taxes .....	333,212	269,968	54,856	49,720	60,159
Provision for income taxes.....	(127,775)	(100,240)	(20,846)	(19,553)	(23,823)
Net income .....	\$ 205,437	\$ 169,728	\$ 34,010	\$ 30,167	\$ 36,336
<b>Earnings per Share:</b>					
Income from continuing operations – diluted.....	\$ 6.21	\$ 5.19	\$ 1.07	\$ .95	\$ 1.28
Income from continuing operations – basic .....	\$ 6.24	\$ 5.23	\$ 1.07	\$ .95	\$ 1.28
Weighted average common shares outstanding – diluted .....	33,097	32,675	31,866	31,799	28,470
Weighted average common shares outstanding – basic .....	32,935	32,480	31,853	31,687	28,336
<b>Other Data:</b>					
EBITDA <sup>(4)</sup> .....	\$ 405,065	\$ 343,285	\$ 118,471	\$ 100,871	\$ 119,234
Cash flow from operations.....	272,219	121,768	107,820	90,638	104,038
Capital expenditures.....	53,740	35,982	20,909	18,658	24,539
Cash dividends per share.....	.38	.26	.24	.24	.24
<b>Balance Sheet Data (December 31):</b>					
Working capital .....	\$ 513,529	\$ 458,551	\$ 341,762	\$ 390,201	\$ 379,669
Total assets .....	1,769,070	1,563,331	1,369,424	1,139,758	1,082,502
Long-term debt <sup>(5)</sup> .....	306,790	380,850	469,250	344,080	331,975
Shareholders' equity.....	1,029,865	822,552	647,619	610,435	583,561

<sup>(1)</sup> Does not include financial results of American Steel, L.L.C. for the year ended December 31, 2001 and the period January 1, 2002 to April 30, 2002 because we accounted for our 50% investment by the equity method, and therefore we excluded 50% of American Steel's earnings in our net income and earnings per share amounts. Effective May 1, 2002 we began consolidating American Steel's financial results due to an amendment to the Operating Agreement, which gave us 50.5% of the ownership units and eliminated all super-majority and unanimous voting rights, among other changes. The portion of American Steel's earnings attributable to our 49.5% partner is included in minority interest.

<sup>(2)</sup> Operating expenses include warehouse, delivery, selling, general and administrative expenses and depreciation expense.

<sup>(3)</sup> Amortization expense included the amortization expense related to goodwill in the year ended December 31, 2001.

<sup>(4)</sup> EBITDA is defined as the sum of income before interest expense, income taxes, depreciation expense and amortization of intangibles (including goodwill). We believe that EBITDA is commonly used as a measure of performance for companies in our industry and is frequently used by analysts, investors, lenders and other interested parties to evaluate a company's financial performance and its ability to incur and service debt while providing useful information. EBITDA should not be considered in isolation or as a substitute for consolidated statements of income and cash flows data prepared in accordance with accounting principles generally accepted in the United States and should not be construed as an indication of a company's operating performance or as a measure of liquidity. EBITDA as measured in this Annual Report on Form 10-K is not necessarily comparable with similarly titled measures for other companies.

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
<b>Reconciliation of EBIT and EBITDA:</b>					
Income before provision for income taxes .....	\$ 333,212	\$ 269,968	\$ 54,856	\$ 49,720	\$ 60,159
Interest expense .....	25,222	28,690	26,745	22,605	26,738
EBIT .....	<u>358,434</u>	<u>298,658</u>	<u>81,601</u>	<u>72,325</u>	<u>86,897</u>
Depreciation expense .....	42,506	41,419	34,566	27,191	23,696
Amortization expense.....	4,125	3,208	2,304	1,355	8,641
EBITDA .....	<u>\$ 405,065</u>	<u>\$ 343,285</u>	<u>\$ 118,471</u>	<u>\$ 100,871</u>	<u>\$ 119,234</u>

<sup>(5)</sup> Includes the long-term portion of capital lease obligations as of December 31, 2005. We did not have any capital lease obligations for any other years presented.

## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

#### **Overview**

In 2005, we generated higher revenues, profits and cash flows than our company has ever experienced. We had not expected to beat our 2004 results, as the 2004 year was unlike any other that we had seen for the metals service center industry, with most metals service center companies generating record financial results in 2004. In 2004, we experienced unprecedented high prices that increased rapidly for most carbon steel products, with improved demand from our customers. However, our 2005 results were even stronger than our 2004 results due to our diverse product mix, along with healthy pricing and improved demand for most products that we sell, especially for products sold to the aerospace market.

Demand for most of our products improved in 2005 from 2004 levels, especially in the second half of 2005. Demand for aerospace products increased significantly throughout 2005 and demand for non-residential construction products improved substantially in the second half of 2005. We expect demand for most products to remain strong in 2006.

Pricing for carbon steel products increased significantly and rapidly in 2004. This resulted mainly from supply limitations due to shortages of raw materials at the mill level because of increased global demand for these raw materials, due to lower domestic capacity as some mill capacity was shut down during 2002 and 2003, and due to reduced quantities of import material entering the United States because of higher pricing levels in other parts of the world, especially China. In 2005, carbon steel costs declined during the first eight months of the year, then increased in the fourth quarter of 2005. We believe the pricing pressure in the beginning of the year was related to a surplus of metal in the supply chain. However, costs for carbon steel products remain at high levels compared to historical levels, and the average cost for the 2005 year was higher than for the 2004 year. Aluminum and stainless steel costs increased consistently during most of 2004 due to improved demand and some supply limitations, and continued to increase somewhat in 2005. Aluminum, stainless steel and titanium products used by the aerospace industry are in tight supply and prices for these products increased significantly and rapidly throughout 2005.

Because of the overall healthy demand in 2005, we were typically able to increase our selling prices for most products at a rate equal to or above our cost increases. However, pressures on carbon steel costs and pricing during the first eight months of the year resulted in reduced gross profit margins for these products during that time. The strong demand and tight supply of aerospace products allowed us to increase our selling prices for these products prior to receiving the higher cost metal into our inventory increasing our gross profit margins. Our 2005 gross profit margins were very healthy.

We are proud of our record 2005 financial results that highlighted the importance of our product diversity and the efforts of our managers. In addition to profitability, we focus on working capital management which allows us to generate cash flow to further expand and strengthen our business and reduce debt during most environments. Our 2005 cash flow from operations was our highest ever, reflecting the quality of our earnings. We completed one acquisition in 2005, grew our existing operations, and continued to evaluate opportunities that would allow us to improve our profitability. In January 2006, we reached an agreement to acquire Earle M. Jorgensen Company, our largest acquisition to-date and our first public-company acquisition, which we expect to complete during the 2006 second quarter, pending approval of the EMJ stockholders. We also identified opportunities to expand our existing operations and took actions to allow for this profitable future growth.

We believe the steps that we took during the difficult years of 2001 through 2003 positioned us to take full advantage of the improved economic conditions we experienced in 2004 and 2005. However, as evidenced by our performance during the difficult years, we take the necessary actions to allow us to operate efficiently and profitably even in less favorable economies. We believe this is because of our focus on cost controls and inventory turnover and our product, customer and geographic diversification. Our product and geographic diversification should continue to benefit us in 2006. We are optimistic about business conditions in 2006. Significant declines in demand or pricing for our products, although not expected, could reduce our gross profit margins. Also, if we cannot obtain a sufficient supply of metals for our customers in 2006, or if domestic availability of our products increases significantly in 2006, this could negatively impact our 2006 financial results, especially as compared to our 2005 results.

Customer demand can have a significant impact on our results of operations. When volume increases, our revenue dollars increase, which contributes to increased gross profit dollars. Variable costs may also increase with volume including increases in our warehouse, delivery, selling, general and administrative expenses. Conversely, when volume declines, we typically produce

fewer revenue dollars which can reduce our gross profit dollars. We can reduce certain variable expenses when volumes decline, but we cannot easily reduce our fixed costs.

Pricing for our products can have a more significant impact on our results of operations than customer demand levels. As pricing increases, so do our revenue dollars. Our pricing usually increases when the cost of our materials increases. If prices increase and we maintain the same gross profit percentage, we generate higher levels of gross profit and pre-tax income dollars. Conversely, if pricing declines, we will typically generate lower levels of gross profit and pre-tax income dollars. Because changes in pricing do not require us to adjust our expense structure, the impact on our results of operations is much greater than the effect of volume changes.

Also, when volume or pricing increases, our working capital requirements typically increase, which may require us to increase our outstanding debt. This could increase our interest expense. When our customer demand falls, we can typically generate strong levels of cash flow from operations as our working capital needs decrease.

## **Recent Developments**

In 2005 we completed one acquisition and formed a joint venture company to allow us to expand into China. In the first quarter of 2006, we have acquired the remaining interest in our 50.5%-owned company, reached an agreement for our largest acquisition to-date, announced an agreement to purchase the assets and business of a toll processing company, and acquired our first company in China through the joint venture company we formed in 2005. We also opened facilities in new geographic areas, expanded existing facilities and purchased certain facilities that we previously leased.

On July 1, 2005, we acquired 100% of the outstanding capital stock of Chapel Steel Corp., headquartered in Spring House (Philadelphia), Pennsylvania. We paid approximately \$94.2 million in cash for the equity of Chapel Steel and assumed approximately \$16.8 million of Chapel Steel's debt. Chapel Steel was a privately held metals service center company founded in 1972 that processes and distributes carbon and alloy steel plate products from five facilities in Pottstown (Philadelphia), Pennsylvania; Bourbonnais (Chicago), Illinois; Houston, Texas; Birmingham, Alabama; and Portland, Oregon. Chapel Steel also warehouses and distributes its products in Cincinnati, Ohio and Hamilton, Ontario, Canada. Chapel Steel's net sales for the six months ended December 31, 2005 were approximately \$131 million. Chapel Steel now operates as a wholly-owned subsidiary of Reliance.

On January 3, 2006, we acquired the remaining 49.5% of our subsidiary, American Steel, L.L.C., that we did not already own. American Steel operates metals service centers in Portland, Oregon and Kent, Washington and had 2005 net sales of approximately \$107 million.

On January 17, 2006, we entered into an agreement to acquire Earle M. Jorgensen Company ("EMJ"), a publicly-held metals service center company with forty locations in the U.S. and Canada and fiscal year ended March 31, 2005 net sales of approximately \$1.6 billion. If approved by EMJ's stockholders, we will acquire EMJ for approximately \$13.00 per EMJ share, to be paid approximately 50% in cash and 50% in Reliance stock, subject to the established minimum and maximum amount of stock to be issued. We expect to close this transaction in April 2006, if approved by the EMJ stockholders.

On February 28, 2006, we announced that we have reached an agreement to purchase the assets and business of Flat Rock Metal Processing, L.L.C. Flat Rock is a privately-held, toll processing company. Our subsidiary, Precision Strip, will operate the Flat Rock facilities in Perrysburg, Ohio and Eldridge, Iowa. This transaction is expected to be completed in the 2006 second quarter.

On March 1, 2006, we acquired Everest Metals (Suzhou) Co., Ltd., a metals service center company based near Shanghai, China, through our 70%-owned joint venture company Reliance Pan Pacific Pte., Ltd., that we formed in October of 2005. Everest Metals was previously wholly-owned by our joint venture partner. Everest Metals processes and distributes primarily aluminum products to the electronics industry in China, with 2005 net sales of approximately \$5.5 million.

We also entered into a \$600 million, five-year, unsecured revolving credit facility in June of 2005 that replaced our previous \$335 million revolving credit facility. This increased capacity will allow us to continue to grow our business. If the EMJ acquisition closes, our current \$600 million credit facility will be increased to \$700 million, to support the needs of our combined company.



## Results of Operations

The following table sets forth certain income statement data for each of the three years in the period ended December 31, 2005 (dollars are shown in thousands and certain amounts may not calculate due to rounding):

	2005		2004		2003	
	\$	% of Net Sales	\$	% of Net Sales	\$	% of Net Sales
Net sales.....	\$ 3,367,051	100.0%	\$ 2,943,034	100.0%	\$ 1,882,933	100.0%
Gross profit.....	918,051	27.3	832,186	28.3	510,623	27.1
S,G&A expenses.....	507,905	15.1	483,887	16.4	395,927	21.0
Depreciation expense.....	42,506	1.3	41,419	1.4	34,566	1.8
Operating profit <sup>(1)</sup> .....	\$ 367,640	10.9%	\$ 306,880	10.4%	\$ 80,130	4.3%

<sup>(1)</sup> Excludes other income, amortization expense, minority interest, interest expense and income tax expense.

### Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

*Net Sales.* Our 2005 consolidated net sales were a record \$3.37 billion, an increase of 14.4%, compared to \$2.94 billion in 2004. This increase includes the additional sales from Chapel Steel of \$130.7 million that we acquired in July 2005. Our increased sales include an increase in our tons sold of 1.8% and an increase in our average selling price per ton sold of 12.5% (the tons sold and average selling price per ton sold exclude amounts related to Precision Strip). Same-store sales, which exclude the sales of Chapel Steel, were \$3.24 billion in 2005, up 10% from 2004, with a 3.9% decrease in our tons sold and a 14.4% increase in our average selling price per ton sold.

Our 2005 volume increased due to the additional sales of Chapel Steel, however, on a same-store basis, our 2005 volume is down from 2004 mainly because of the heavy buying that occurred in 2004 when our customers were trying to build inventory ahead of the significant carbon steel price increases. Because carbon steel prices were declining for most of 2005, our customers were not building inventory until late in the 2005 third quarter. We experienced demand improvement beginning late in the 2005 third quarter that continued throughout the fourth quarter. This was due to improved end markets for most products we sell, with non-residential construction and aerospace being significant contributors to the strong end market demand.

Our average selling price per ton sold has been higher in 2005 than in 2004 mainly because of increased costs for most products that we sell and due to a small shift in product mix to a higher percentage of aluminum and stainless steel products as compared to 2004. Although carbon steel costs declined during the first eight months of 2005, the 2005 average cost for the full year remained above the 2004 average. Aluminum and stainless steel costs began increasing in 2004 and continued to increase throughout 2005, with significant and rapid increases in the costs of aerospace products. The improved demand for aerospace products resulted in a slight shift in product mix to higher-priced products that contributed to our increased average selling prices in 2005.

*Gross Profit.* Our total gross profit of \$918.1 million, up 10.3% from 2004, increased mainly because of our higher net sales amount in 2005. Our gross profit as a percentage of sales was 27.3% in 2005, down from 28.3% in 2004. In 2005 our gross profit margins declined mainly because of the pressure on our selling prices for carbon steel products resulting from lower costs, especially compared to 2004 when we experienced high profitability levels for these products because of limited availability and significant cost increases. Gross profit margins for aerospace related products were higher in 2005 because we were able to increase our selling prices ahead of our costs. The acquisition of Chapel Steel lowered our gross profit margin somewhat, as their business is more of a wholesale distribution business that operates at a lower gross profit margin than our consolidated average. Our 2005 same-store gross profit margin was 27.7%. Also, our 2005 LIFO expense was significantly lower than in 2004 primarily due to decreases in carbon steel costs, with the impact somewhat offset by the rising costs of aerospace products. We recorded LIFO expense, which is included in our cost of sales, of \$16.6 million during 2005, compared to \$110.8 million in 2004. Most of our 2005 LIFO expense was due to increased costs for aerospace related aluminum, titanium, and stainless steel products.

*Expenses.* Warehouse, delivery, selling, general and administrative expenses (“S,G&A expenses”) for 2005 increased \$24.0 million, or 5.0% from 2004. The expenses as a percent of sales in 2005 were 15.1% compared to 16.4% in the 2004 period. The dollar increase in S,G&A expenses was mostly due to the inclusion of Chapel Steel beginning in the third quarter, as well as general cost increases. The decrease in our S,G&A expenses as a percentage of sales was due mainly to our increased sales levels and because Chapel Steel’s S,G&A expenses are lower than the Company’s average as a percentage of sales.

Depreciation expense increased \$1.1 million in 2005 because of the additional expense from Chapel Steel and expense on our 2005 fixed asset additions. Amortization expense increased \$0.9 million in 2005 primarily due to the write off of financing costs related to our \$335 million syndicated credit facility that we replaced in June of 2005 and because of the amortization expense from Chapel Steel.

*Operating Profit.* Operating profit, calculated as gross profit less S,G&A expenses and depreciation expense, was \$367.6 million in 2005, resulting in an operating profit margin of 10.9%, compared to 2004 operating profit of \$306.9 million and an operating profit margin of 10.4%. The improvement resulted from our higher sales levels that provided increased operating profit dollars in 2005, along with our healthy gross profit margins and lower S,G&A expenses as a percentage of sales, as discussed above.

*Other Income and Expense.* Interest expense was \$25.2 million in 2005 compared to \$28.7 million in 2004. The decrease was mainly due to lower borrowing levels because of the increased cash flow from operations that we generated in 2005. Our 2005 interest expense includes interest on our borrowings of approximately \$111 million to fund the acquisition of Chapel Steel on July 1, 2005, which we had fully repaid as of December 31, 2005.

Minority interest expense decreased in 2005 compared to 2004 mainly because we purchased the remaining 30.5% interest in Valex Korea from our partner in July 2004. The 2005 minority interest expense represents the net income attributed to the 49.5% of American Steel, L.L.C that we did not own. As further discussed in the Liquidity and Capital Resources section, we purchased the remaining 49.5% interest in American Steel in January 2006.

*Income Tax Rate.* Our effective income tax rate was 38.3% in 2005, up from 37.1% in 2004, mainly due to an increase in our state rate because of shifts in the geographic composition of our 2005 income, resulting mainly from our acquisition of Chapel Steel and the increased profitability from our locations that serve the aerospace market.

### **Year Ended December 31, 2004 Compared to Year Ended December 31, 2003**

*Net Sales.* Our 2004 consolidated net sales were \$2.94 billion, an increase of 56.3%, compared to \$1.88 billion in 2003. This increase includes the additional sales from Precision Strip that we acquired in July 2003. Our increased sales include an increase in our tons sold of 4.3% and an increase in the average selling price per ton sold of 47.6%. The increase in our tons sold was mainly due to somewhat improved customer demand in all markets in 2004 as compared to 2003 levels. We began to experience higher sales volumes in September 2003 that continued through the first nine months of 2004. This included a peak in the March 2004 period, which we believe was due in part to increased buying by our customers to beat announced mill price increases. In the fourth quarter of 2004, we experienced a slight slowdown from earlier in the year, which we believe was mainly due to the typical seasonal slowdown during this period.

The increase in our average selling price per ton sold of 47.6% resulted mainly from significant increases in our costs of carbon steel products along with limited supply during most of 2004. Carbon steel costs increased significantly in the first nine months of 2004, with the most rapid and pronounced increases in the first half of the year. Supply was limited due to raw material shortages at the mill level resulting from increased global demand, especially China, and reduced domestic capacity. This resulted in increased costs from the mills and an environment that allowed us to pass through our increased costs to our customers. In some cases, we were able to pass through the significant cost increases before we received the higher cost metal in our inventory. We did experience some softening of carbon steel prices in the fourth quarter of 2004. Our prices for aluminum and stainless steel products increased consistently during most of 2004 due to reduced supply and improved customer demand, especially for aerospace products.

*Gross Profit.* Our total gross profit of \$832.2 million increased 63.0% from 2003 mainly because of the increased pricing levels of our products in 2004. Our gross profit as a percentage of sales was 28.3% in 2004, up from 27.1% in 2003. The improvement in our gross profit percentage resulted from the improved business conditions discussed above that allowed us to pass through our cost increases to our customers, especially in the first half of 2004 when we were able to increase our selling prices before we received the higher cost metal in our inventory. Due to the increased cost of our metals, our 2004 cost of sales includes \$110.8 million of LIFO expense, compared to \$0.9 million of LIFO expense in 2003. LIFO expense reduces our gross profit.

*Expenses.* S,G&A expenses for 2004 increased \$88.0 million, or 22.2% from 2003. This increase includes a full year of S,G&A expenses of Precision Strip, along with increased expenses to support our higher sales levels, including higher incentives and bonuses due to the record profit levels achieved at many of our operations. Our S,G&A expenses represented 16.4% of sales in 2004, down from 21.0% in 2003. The improvement as a percentage of sales was mainly because of the significant increases in our average selling price per ton sold, which did not require us to change our expense structure.

Depreciation expense increased \$6.9 million in 2004 over 2003 mainly because of the additional expense related to Precision Strip.

*Operating Profit.* Operating profit was \$306.9 million in 2004, resulting in an operating profit margin of 10.4%, compared to 2003 operating profit of \$80.1 million and an operating profit margin of 4.3%. The significant improvement occurred because of the improved business conditions, especially the favorable pricing, discussed above.

*Other Income and Expense.* Interest expense was \$28.7 million in 2004 compared to \$26.7 million in 2003. The increase was mainly due to increased borrowing levels to fund our increased working capital needs in 2004 and to fund the acquisition of Precision Strip on July 1, 2003. Although variable interest rates increased in 2004, we were able to offset the effect of this as the pricing on our borrowings declined due to our improved profitability.

Minority interest expense increased in 2004 compared to 2003 mainly due to the improved operating performance at our 50.5%-owned company, American Steel, that sells primarily carbon steel plate products. Minority interest also includes expense related to Valex Korea during the first seven months of 2004 that was attributable to our 30.5% partner. In July 2004 we purchased the remaining interest in Valex Korea from our partner. Valex Korea's performance benefited from a strong Asian market for semiconductor products in 2004.

*Income Tax Rate.* Our effective income tax rate was 37.1% in 2004, down from 38.0% in 2003, mainly due to shifts in the geographic composition of our 2004 income, lower income tax rates from our foreign operations that were profitable in 2004 and benefits from state and city income tax credits.

## **Liquidity and Capital Resources**

At December 31, 2005, our working capital was \$513.5 million, up from \$458.6 million at December 31, 2004. The overall increase was primarily from the additional working capital of Chapel Steel. Excluding the acquired balances of Chapel Steel, our accounts receivable increased \$15.4 million and our inventory increased \$11.3 million to support our improved sales levels. These amounts were offset by an increase in our accounts payable and accrued expenses of \$38.3 million mainly from our increased costs of inventory.

To manage our working capital, we focus on our days sales outstanding to monitor accounts receivable and on our inventory turnover rate to monitor our inventory levels, as receivables and inventory are our two most significant elements of working capital. Although the amount of our accounts receivable increased in 2005, our accounts receivable days sales outstanding rate at December 31, 2005 was 40 days, improved from our December 31, 2004 rate of 41 days. (We calculate our days sales outstanding as an average of the most recent two-month period.) Our inventory turnover rate improved to about 5.7 times in 2005 from about 5.1 times in 2004 due to improved demand and effective inventory management. As demand and pricing for our products increase or decrease, our working capital needs increase or decrease, respectively. We expect to finance increases in our working capital needs through operating cash flow or with borrowings on our syndicated credit facility.

Our primary sources of liquidity are generally from internally generated funds from operations and our revolving line of credit. Cash flow provided by operations was \$272.2 million in 2005 compared to \$121.8 million in 2004. Our strong cash flow resulted from our high profit levels and our continued effective working capital management. We used this cash flow to acquire Chapel Steel, to pay down debt of approximately \$93.5 million, and to fund our capital expenditures of approximately \$53.7 million in 2005.

To fund the purchase of Chapel Steel and the repayment of its outstanding debt, we borrowed \$111 million on our line of credit on July 1, 2005. As of December 31, 2005, all the borrowings on our line of credit were fully repaid from our cash flow from operations. We had \$15.2 million of letters of credit outstanding under our \$600 million credit facility, with availability to issue an additional \$34.8 million of letters of credit at December 31, 2005. In 2005 we paid down \$46 million of private placement notes upon their maturity with cash flow from operations. Our net debt-to-total capital ratio at December 31, 2005 was 23.8%, down from 33.6% at December 31, 2004. On January 3, 2006, we paid off a \$25 million private placement note upon its maturity and purchased the remaining 49.5% of American Steel for \$12 million with borrowings on our credit facility.

In June 2005, we replaced our \$335 million credit facility with a \$600 million, five-year, unsecured revolving credit facility with fifteen banks. The \$335 million facility was scheduled to mature in October 2006. We wanted to take advantage of the favorable bank market, which allowed us to obtain more favorable pricing on our borrowings, along with providing greater flexibility. We initially approached the market to raise \$400 million, but because of the favorable response, we increased the commitment to \$600 million to support the growth of our business over the next five years.

We also have \$347 million of outstanding senior unsecured notes issued in private placements of debt. The outstanding senior notes bear interest at an average fixed rate of 6.17% and have an average remaining life of 4.2 years, maturing from 2006 to 2013. In 2006, \$49 million of these notes will mature. Our \$600 million syndicated credit facility and our senior notes require that we maintain a minimum net worth and interest coverage ratio, and a maximum leverage ratio and includes restrictions on the amount of cash dividends we may pay.

Both the \$335 million syndicated credit agreement that was replaced in June 2005 and the senior notes became secured on July 1, 2003 concurrent with our acquisition of Precision Strip. The personal property pledged as collateral included, but was not limited to, the outstanding securities of each of our material corporate subsidiaries. The security interest terminated when we met certain conditions, including a required leverage ratio. In the first quarter of 2005 the security interest granted under our syndicated credit facility and our senior note agreements was automatically released as we met the required conditions of the release. The senior note agreements and our new \$600 million credit facility are unsecured.

Upon our acquisition of Chapel Steel, we assumed noncancelable capital leases related to three buildings with terms expiring at various years through 2018. At December 31, 2005, total obligations under these capital leases were \$6.1 million. All three leases were with related parties of Chapel Steel.

Capital expenditures, excluding acquisitions, were \$53.7 million for the 2005 year. Our 2006 capital expenditures are currently budgeted at approximately \$91 million, excluding acquisitions. Our 2006 budget includes several growth initiatives to expand or relocate existing facilities and to purchase certain facilities that are currently leased. Any capital expenditure commitments that existed at December 31, 2005 are included in the below table of contractual obligations. Our capital and operating lease commitments are discussed in Note 11 of the Notes to Consolidated Financial Statements and are also included in the contractual obligations table below. Our capital requirements are primarily for working capital, acquisitions, and capital expenditures for continued improvements in plant capacities and materials handling and processing equipment.

If the pending merger with EMJ is completed, we will be required to make cash payments of approximately \$385 million and issue Reliance common stock valued at approximately \$339 million. The estimated purchase price of the acquisition is based upon a price of about \$13.00 per share of EMJ common stock, payable approximately half in cash and half in Reliance common stock. Each EMJ shareholder will receive \$6.50 in cash and a fraction of a Reliance share for each share of EMJ common stock. The cash portion, which includes the cash out of certain EMJ options and estimated transaction costs, will be financed under our \$600 million syndicated credit facility. Additionally, we will assume approximately \$286 million of EMJ's existing long-term debt, adjusted by any payments or borrowings made by EMJ prior to the closing of the acquisition. In February 2006, we obtained the consent of our bank group to complete the EMJ acquisition and obtained amendments to both our syndicated credit facility and our private placement notes to allow for EMJ's senior secured indentures of \$250 million. In addition, upon closing of the EMJ acquisition, our syndicated credit facility will be increased to \$700 million from \$600 million.

We anticipate that funds generated from operations and funds available under our line of credit will be sufficient to meet our working capital, capital expenditure and senior debt repayment needs for the foreseeable future. We also anticipate that we will be able to fund acquisitions with borrowings under our line of credit, including the EMJ acquisition.

The following table summarizes our contractual cash obligations as of December 31, 2005. Certain of these contractual obligations are reflected on our balance sheet, while others are disclosed as future obligations under accounting principles generally accepted in the United States.

<u>Contractual Obligations</u>	<u>Payments due by Year</u> (in thousands)				
	<u>Total</u>	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>More than 5 years</u>
Long Term Debt Obligations <sup>(1)</sup> .....	\$ 350,800	\$ 49,525	\$ 76,175	\$ 88,950	\$ 136,150
Capital Lease Obligations .....	7,337	780	1,560	1,560	3,437
Operating Lease Obligations .....	63,372	17,112	26,942	12,547	6,771
Purchase Obligations –Other <sup>(2)</sup> .....	49,687	46,513	2,068	272	834
Other Long-Term Liabilities Reflected on the Balance Sheet under GAAP <sup>(3)</sup> .....	20,153	1,816	3,874	4,649	9,814
<b>Total</b> .....	<b>\$ 491,349</b>	<b>\$ 115,746</b>	<b>\$ 110,619</b>	<b>\$ 107,978</b>	<b>\$ 157,006</b>

<sup>(1)</sup> Amounts include principal payments only. See Note 6 of the Consolidated Financial Statements for information regarding interest rates and payment dates.

<sup>(2)</sup> Includes capital expenditure items committed to as of December 31, 2005, including three lease buy-out options at fair market value estimated at \$25 million. Includes non-cancelable purchase or service contracts with a term of one year or greater that existed at December 31, 2005. The majority of our material purchases are completed within 30 to 120 days and therefore are not included in this table. Also includes the amount of the put option to purchase the remaining 49.5% interest in American Steel, L.L.C., for \$12 million per the terms of the Operating Agreement. This purchase was completed on January 3, 2006.

<sup>(3)</sup> Includes the estimated benefit payments or contribution amounts for the Company's defined benefit pension plans and SERP plans for the next ten years. These amounts are limited to the information provided by our actuaries.

Contractual obligations for purchases of goods or services are defined as agreements that are enforceable and legally binding on our Company and that specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Our purchase orders are based on our current needs and are typically fulfilled by our vendors within short time horizons. In addition, some of our purchase orders represent authorizations to purchase rather than binding agreements. We do not have significant agreements for the purchase of goods specifying minimum quantities and set prices that exceed our expected requirements for three months. Therefore, agreements for the purchase of goods and services are not included in the table above.

The expected timing of payments of the obligations above is estimated based on current information. Timing of payments and actual amounts paid may be different, depending on the time of receipt of goods or services, or changes to agreed-upon amounts for some obligations.

In May 2005, our Board of Directors amended and restated our stock repurchase program authorizing up to an additional six million shares of our common stock to be repurchased. Repurchased shares are redeemed and treated as authorized but unissued shares. As of December 31, 2005, and prior to the additional authorization in May 2005, we had repurchased a total of 5.5 million shares of our common stock under this plan, at an average cost of \$14.94 per share. We did not repurchase any shares of our common stock during 2005, 2004 or 2003. We believe such purchases, given appropriate circumstances, enhance shareholder value and reflect our confidence in the long-term growth potential of our company. Proceeds from the issuance of common stock upon the exercise of stock options during 2005 were \$10.8 million.

## **Inflation**

Our operations have not been, and we do not expect them to be, materially affected by general inflation. Historically, we have been successful in adjusting prices to our customers to reflect changes in metal prices.

## Seasonality

Some of our customers may be in seasonal businesses, especially customers in the construction industry. As a result of our geographic, product and customer diversity, however, our operations have not shown any material seasonal trends. Revenues in the months of July, November and December traditionally have been lower than in other months because of a reduced number of working days for shipments of our products, because of vacation and holiday closures at some of our customers. We cannot assure you that period-to-period fluctuations will not occur in the future. Results of any one or more quarters are therefore not necessarily indicative of annual results.

## Goodwill

Goodwill, which represents the excess of cost over the fair value of net assets acquired, amounted to \$384.7 million at December 31, 2005, or approximately 21.7% of total assets or 37.4% of consolidated shareholders' equity. Under Statement of Financial Accounting Standards ("SFAS" or "Statement") No. 142, *Goodwill and Other Intangible Assets*, goodwill deemed to have indefinite lives is no longer amortized but is subject to annual impairment tests in accordance with the Statement. Other intangible assets continue to be amortized over their useful lives. We review the recoverability of goodwill annually or whenever significant events or changes occur which might impair the recovery of recorded costs. We measure possible impairment based on either significant losses of an entity or the ability to recover the balance of the long-lived asset from expected future operating cash flows on an undiscounted basis. If impairment is identified, we would calculate the amount of such impairment based upon the discounted cash flows or the market values as compared to the recorded costs. We have performed tests of goodwill as of November 1, 2004 and 2005, and believe that the recorded amounts for goodwill are recoverable and that no impairment currently exists.

## Critical Accounting Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States. When we prepare these consolidated financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Some of our accounting policies require that we make subjective judgments, including estimates that involve matters that are inherently uncertain. Our most critical accounting estimates include those related to accounts receivable, inventories, income taxes, goodwill and intangible assets and long-lived assets. We base our estimates and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for our judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting estimates, as discussed with our Audit Committee, affect our more significant judgments and estimates used in preparing our consolidated financial statements. (See Note 1 of the Notes to Consolidated Financial Statements for our Summary of Significant Accounting Policies.) There have been no material changes made to the critical accounting estimates during the periods presented in the Consolidated Financial Statements. We also have other policies that we consider key accounting policies, such as for revenue recognition, however these policies do not require us to make subjective estimates or judgments.

### *Accounts Receivable*

We maintain an allowance for doubtful accounts to reflect our estimate of the uncollectibility of accounts receivable based on an evaluation of specific potential customer risks. Assessments are based on legal issues (bankruptcy status), our past collection history, current financial and credit agency reports, and the experience of our credit personnel. Accounts which we determine to be uncollectible are reserved for or written off in the period in which the determination is made. Additional reserves are maintained based on our historical and estimated future bad debt experience. If the financial condition of our customers were to deteriorate beyond our estimates, resulting in an impairment of their ability to make payments, we might be required to increase our allowance for doubtful accounts.

### *Inventories*

We maintain allowances for estimated obsolescence or unmarketable inventory to reflect the difference between the cost of inventory and the estimated market value based on an evaluation of slow moving products and current replacement costs. If actual market conditions are less favorable than those anticipated by management, additional allowances may be required.

### *Income Taxes*

We currently have significant deferred tax assets, which are subject to periodic recoverability assessments. Realizing our deferred tax assets principally depends upon our achieving projected future taxable income. We may change our judgments regarding future profitability due to future market conditions and other factors. We may adjust our deferred tax asset balances if our judgments change.

For information regarding our provision for income taxes as well as information regarding differences between our effective tax rate and statutory rates, see Note 7 of the Notes to Consolidated Financial Statements. Our tax rate may be affected by future acquisitions, changes in the geographic composition of our income from operations, changes in our estimates of credits or deductions including those that may result from the American Jobs Creation Act of 2004, and the resolution of issues arising from tax audits with various tax authorities.

### *Goodwill and Intangible Assets*

In assessing the recoverability of our goodwill and other intangibles we must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. We have performed impairment testing in accordance with SFAS No. 142. We perform an annual review in the fourth quarter of each year, or more frequently if indicators of potential impairment exist, to determine if the carrying value of the recorded goodwill is impaired. Our impairment review process compares the fair value of the reporting unit in which goodwill resides to its carrying value. We estimate the reporting unit's fair value based on a discounted future cash flow approach that requires us to estimate income from operations based on historical results and discount rates based on a weighted average cost of capital of comparable companies. A key assumption made is that, in general, our revenues will grow at 3% to 5% per year, adjusted for the current economic outlook. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for these assets not previously recorded.

### *Long-Lived Assets*

We review the recoverability of our long-lived assets as required by SFAS No. 144 and must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for these assets not previously recorded.

## **Impact of Recently Issued Accounting Standards**

In April 2005, the United States Securities and Exchange Commission ("SEC") approved Statement of Financial Accounting Standards ("SFAS") No. 123R, *Share-Based Payment*, that is effective for us January 1, 2006. Under SFAS No. 123R, we will be required to record compensation expense related to share based payments in our consolidated financial statements. Currently, we are only required to disclose the amount of such expense in the notes to our financial statements. We will apply this Statement to all awards granted on or after January 1, 2006, to unvested options as of January 1, 2006, and to awards modified, repurchased, or cancelled after that date. We expect that the implementation of the provisions of SFAS No. 123R will have an impact consistent with the disclosures in Note 1 in our Notes to Consolidated Financial Statements.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections--A Replacement of APB Opinion No. 20 and FASB Statement No. 3*. SFAS No. 154 requires retrospective application to prior periods' financial statements for changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

In June 2005, the FASB's Emerging Issues Task Force reached a consensus on Issue No. 05-6, *Determining the Amortization Period for Leasehold Improvements* ("EITF 05-6"). The guidance requires that leasehold improvements acquired in a business combination or purchased subsequent to the inception of a lease be amortized over the lesser of the useful life of the assets or a term that includes renewals that are reasonably assured at the date of the business combination or purchase. The guidance is effective for periods beginning after June 29, 2005. The adoption of EITF 05-6 did not have a material impact on our consolidated financial statements.

#### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

In the ordinary course of business, we are exposed to various market risk factors, including changes in general economic conditions, domestic and foreign competition, foreign currency exchange rates, and metals pricing and availability.

##### *Commodity price risk*

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. Decreases in metal prices could adversely affect our revenues, gross profit and net income. Because we primarily purchase and sell in the "spot" market (i.e., without long-term contracts) we are able to react to changes in metals pricing.

##### *Foreign exchange rate risk*

Because we have foreign operations, we are exposed to foreign currency exchange gains and losses. Volatility in these markets could impact our net income. Based on our limited foreign operations we do not consider this risk to be material.

##### *Interest rate risk*

We are exposed to market risk related to our fixed rate long-term debt. Market risk is the potential loss arising from adverse changes in market rates and prices, such as interest rates. Decreases in interest rates may affect the market value of our fixed-rate debt. Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. Based on our debt, we do not consider the exposure to interest rate risk to be material. Our fixed-rate debt obligations are not callable until maturity.



**Item 8. Financial Statements and Supplementary Data.**

**RELIANCE STEEL & ALUMINUM CO.**

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

	<b>Page</b>
Report of Independent Registered Public Accounting Firm .....	35
Consolidated Balance Sheets at December 31, 2005 and 2004 .....	36
Consolidated Statements of Income for the Years Ended December 31, 2005, 2004 and 2003 .....	37
Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2005, 2004 and 2003 .....	38
Consolidated Statements of Cash Flows for the Years Ended December 31, 2005, 2004 and 2003 .....	39
Notes to Consolidated Financial Statements .....	40
Quarterly Results of Operations (Unaudited) .....	59
 <b>FINANCIAL STATEMENT SCHEDULE:</b>	
Schedule II – Valuation and Qualifying Accounts .....	60

All other schedules are omitted because either they are not applicable, not required or the information required is included in the Consolidated Financial Statements, including the notes thereto.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors  
Reliance Steel & Aluminum Co.

We have audited the accompanying consolidated balance sheets of Reliance Steel & Aluminum Co. and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2005. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Reliance Steel & Aluminum Co. and subsidiaries at December 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Reliance Steel & Aluminum Co.'s internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 10, 2006 expressed an unqualified opinion thereon.

**/s/ ERNST & YOUNG LLP**

Los Angeles, California  
March 10, 2006

**RELIANCE STEEL & ALUMINUM CO.**

**CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share amounts)

ASSETS	December 31,	
	2005	2004
	<u>2005</u>	<u>2004</u>
Current assets:		
Cash and cash equivalents .....	\$ 35,022	\$ 11,659
Accounts receivable, less allowance for doubtful accounts of \$10,511 and \$8,699 at December 31, 2005 and 2004, respectively .....	369,931	329,991
Inventories .....	387,385	349,779
Prepaid expenses and other current assets .....	19,009	17,216
Deferred income taxes .....	36,001	24,584
Total current assets .....	<u>847,348</u>	<u>733,229</u>
Property, plant and equipment, at cost:		
Land .....	60,207	57,982
Buildings .....	281,986	261,228
Machinery and equipment .....	403,403	370,229
Accumulated depreciation .....	<u>(265,877)</u>	<u>(230,626)</u>
	479,719	458,813
Goodwill .....	384,730	341,780
Other assets (including intangibles not subject to amortization) .....	57,273	29,509
Total assets .....	<u>\$ 1,769,070</u>	<u>\$ 1,563,331</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

Current liabilities:		
Accounts payable .....	\$ 188,584	\$ 140,323
Accrued expenses .....	19,234	17,561
Accrued compensation and retirement costs .....	52,354	49,959
Accrued insurance costs .....	23,372	20,297
Deferred income taxes .....	214	138
Current maturities of long-term debt .....	49,525	46,400
Current maturities of capital lease obligations .....	536	—
Total current liabilities .....	<u>333,819</u>	<u>274,678</u>
Long-term debt .....	301,275	380,850
Capital lease obligations .....	5,515	—
Long-term retirement costs .....	15,660	14,102
Deferred income taxes .....	65,808	55,613
Minority interest .....	17,128	15,536
Commitments and contingencies .....	—	—
Shareholders' equity:		
Preferred stock, no par value:		
Authorized shares — 5,000,000		
None issued or outstanding .....	—	—
Common stock, no par value:		
Authorized shares — 100,000,000		
Issued and outstanding shares — 33,108,999 and 32,669,967 at December 31, 2005 and 2004, respectively, stated capital .....	325,010	313,953
Retained earnings .....	704,530	508,147
Accumulated other comprehensive income .....	325	452
Total shareholders' equity .....	<u>1,029,865</u>	<u>822,552</u>
Total liabilities and shareholders' equity .....	<u>\$ 1,769,070</u>	<u>\$ 1,563,331</u>

See accompanying notes to consolidated financial statements.

**RELIANCE STEEL & ALUMINUM CO.**

**CONSOLIDATED STATEMENTS OF INCOME**  
(In thousands, except share and per share amounts)

	<b>Year Ended December 31,</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
Net sales .....	\$ 3,367,051	\$ 2,943,034	\$ 1,882,933
Other income, net .....	3,671	4,168	2,837
	<u>3,370,722</u>	<u>2,947,202</u>	<u>1,885,770</u>
Costs and expenses:			
Cost of sales (exclusive of depreciation and amortization shown below) .....	2,449,000	2,110,848	1,372,310
Warehouse, delivery, selling, general and administrative .....	507,905	483,887	395,927
Depreciation and amortization .....	46,631	44,627	36,870
Interest .....	25,222	28,690	26,745
	<u>3,028,758</u>	<u>2,668,052</u>	<u>1,831,852</u>
Income before minority interest and income taxes .....	341,964	279,150	53,918
Minority interest .....	(8,752)	(9,182)	938
Income from continuing operations before income taxes .....	333,212	269,968	54,856
Provision for income taxes .....	127,775	100,240	20,846
Net income.....	<u>\$ 205,437</u>	<u>\$ 169,728</u>	<u>\$ 34,010</u>
Earnings per share:			
Income from continuing operations – diluted .....	<u>\$ 6.21</u>	<u>\$ 5.19</u>	<u>\$ 1.07</u>
Weighted average shares outstanding – diluted .....	<u>33,097,362</u>	<u>32,675,379</u>	<u>31,866,334</u>
Income from continuing operations – basic .....	<u>\$ 6.24</u>	<u>\$ 5.23</u>	<u>\$ 1.07</u>
Weighted average shares outstanding – basic ..	<u>32,935,034</u>	<u>32,480,101</u>	<u>31,852,842</u>
Cash dividends per share .....	<u>\$ .38</u>	<u>\$ .26</u>	<u>\$ .24</u>

See accompanying notes to consolidated financial statements.

RELIANCE STEEL & ALUMINUM CO.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
(In thousands, except share and per share amounts)

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount			
Balance at January 1, 2003 .....	31,752,087	\$ 294,503	\$ 317,189	\$ (1,257)	\$ 610,435
Net income for the year .....	—	—	34,010	—	34,010
Other comprehensive income (loss):					
Foreign currency translation gain .....	—	—	—	491	491
Unrealized gain on investments .....	—	—	—	212	212
Minimum pension liability .....	—	—	—	(376)	(376)
Comprehensive income .....					34,337
Stock options exercised .....	459,375	8,866	1,406	—	10,272
Stock issued under incentive bonus plan .....	14,410	218	—	—	218
Cash dividends — \$.24 per share .....	—	—	(7,643)	—	(7,643)
Balance at December 31, 2003 .....	32,225,872	303,587	344,962	(930)	647,619
Net income for the year .....	—	—	169,728	—	169,728
Other comprehensive income (loss):					
Foreign currency translation gain .....	—	—	—	1,476	1,476
Unrealized loss on investments .....	—	—	—	(166)	(166)
Minimum pension liability .....	—	—	—	72	72
Comprehensive income .....					171,110
Stock options exercised .....	436,800	10,130	1,905	—	12,035
Stock issued under incentive bonus plan .....	7,295	236	—	—	236
Cash dividends — \$.26 per share .....	—	—	(8,448)	—	(8,448)
Balance at December 31, 2004 .....	32,669,967	313,953	508,147	452	822,552
Net income for the year .....	—	—	205,437	—	205,437
Other comprehensive income (loss):					
Foreign currency translation gain .....	—	—	—	1	1
Unrealized gain on investments .....	—	—	—	40	40
Minimum pension liability .....	—	—	—	(168)	(168)
Comprehensive income .....					205,310
Stock options exercised .....	433,450	10,811	3,476	—	14,287
Stock issued under incentive bonus plan .....	5,582	246	—	—	246
Cash dividends — \$.38 per share .....	—	—	(12,530)	—	(12,530)
Balance at December 31, 2005 .....	33,108,999	\$ 325,010	\$ 704,530	\$ 325	\$ 1,029,865

See accompanying notes to consolidated financial statements.

**RELIANCE STEEL & ALUMINUM CO.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)

	Year Ended December 31,		
	2005	2004	2003
<b>Operating activities:</b>			
Net income .....	\$ 205,437	\$ 169,728	\$ 34,010
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization .....	46,631	44,627	36,870
Deferred income taxes .....	(1,059)	2,726	8,120
Gain on sales of property and equipment .....	—	(660)	(701)
Minority interest .....	8,752	9,182	(938)
Tax benefit of stock options exercised.....	3,476	1,905	1,406
Changes in operating assets and liabilities:			
Accounts receivable .....	(15,391)	(108,198)	(11,641)
Inventories.....	(11,345)	(61,699)	19,995
Prepaid expenses and other assets .....	(2,624)	(3,584)	(4,517)
Accounts payable and accrued expenses .....	38,342	67,741	25,216
Net cash provided by operating activities .....	272,219	121,768	107,820
<b>Investing activities:</b>			
Purchases of property, plant and equipment, net .....	(53,740)	(35,982)	(20,909)
Proceeds from sales of property and equipment ...	1,485	3,281	3,020
Acquisitions of metals service centers, net of cash acquired .....	(94,377)	—	(245,850)
Purchase of minority interest in foreign subsidiary .....	—	(473)	—
Tax reimbursements made related to prior acquisition.....	—	(16,475)	—
Net cash used in investing activities .....	(146,632)	(49,649)	(263,739)
<b>Financing activities:</b>			
Proceeds from borrowings .....	393,000	209,000	299,785
Principal payments on long-term debt and short-term borrowings .....	(486,511)	(273,400)	(152,540)
Payments to minority shareholders .....	(7,159)	(1,709)	(378)
Dividends paid .....	(12,530)	(8,448)	(7,643)
Issuance of common stock .....	246	236	218
Exercise of stock options .....	10,811	10,130	8,866
Net cash (used in) provided by financing activities .....	(102,143)	(64,191)	148,308
Effect of exchange rate changes on cash .....	(81)	1,565	472
Increase (decrease) in cash and cash equivalents.....	23,363	9,493	(7,139)
Cash and cash equivalents at beginning of year .....	11,659	2,166	9,305
Cash and cash equivalents at end of year .....	\$ 35,022	\$ 11,659	\$ 2,166
<b>Supplemental cash flow information:</b>			
Interest paid during the period .....	\$ 25,309	\$ 28,525	\$ 23,391
Income taxes paid during the period .....	\$ 118,909	\$ 100,589	\$ 10,346

See accompanying notes to consolidated financial statements.

## RELIANCE STEEL & ALUMINUM CO.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2005

#### 1. Summary of Significant Accounting Policies

##### *Principles of Consolidation*

The accompanying consolidated financial statements include the accounts of Reliance Steel & Aluminum Co. and its subsidiaries, which include Allegheny Steel Distributors, Inc., Aluminum and Stainless, Inc., American Metals Corporation, American Steel, L.L.C. (50.5%-owned until January 3, 2006 when it became wholly-owned), AMI Metals, Inc., CCC Steel, Inc., Central Plains Steel Co., Chapel Steel Corp., Chatham Steel Corporation, Durrett Sheppard Steel Co., Inc., Liebovich Bros., Inc., Lusk Metals, Pacific Metal Company, PDM Steel Service Centers, Inc., Phoenix Corporation, Precision Strip, Inc., Reliance Pan Pacific Pte., Ltd. (70%-owned), RSAC Management Corp., Service Steel Aerospace Corp., Siskin Steel & Supply Company, Inc., Toma Metals, Inc., Valex Corp. (97%-owned) and Viking Materials, Inc., on a consolidated basis ("Reliance" or "the Company"). All subsidiaries of Reliance, other than American Steel, L.L.C., are held by RSAC Management Corp. All significant intercompany transactions have been eliminated in consolidation. The Company consolidates its 50.5% investment in American Steel, L.L.C. and its 70% investment in Reliance Pan Pacific Pte., Ltd. Effective January 3, 2006, the Company purchased the remaining 49.5% interest in American Steel, L.L.C. During 2004, Valex Corp. purchased an additional interest in Valex Korea Co., Ltd. from their former minority partner and accounts for their 99% investment in Valex Korea on a consolidated basis. Through July 2004, Valex Corp. reported the 30.5% interest owned by its former partner as minority interest. Certain reclassifications have been made to the prior year financial statements to conform to the 2005 presentation.

##### *Business*

In 2005, the Company operated a metals service center network of more than 100 locations (including American Steel, L.L.C.) in 31 states, Belgium, France and South Korea which provided value-added metals processing services and distributed a full line of more than 95,000 metal products.

##### *Accounting Estimates*

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

##### *Accounts Receivable and Concentrations of Credit Risk*

Concentrations of credit risk with respect to trade receivables are limited due to the geographically diverse customer base and various industries into which the Company's products are sold. Trade receivables are typically non-interest bearing and are initially recorded at cost. Sales to the Company's recurring customers are generally made on open account terms while sales to occasional customers may be made on a C.O.D. basis when collectibility is not assured. Past due status of customer accounts is determined based on how recently payments have been received in relation to payment terms granted. Credit is generally extended based upon an evaluation of each customer's financial condition, with terms consistent in the industry and no collateral required. Losses from credit sales are provided for in the financial statements and consistently have been within the allowance provided. The allowance is an estimate of the uncollectibility of accounts receivable based on an evaluation of specific customer risks along with additional reserves based on historical and estimated future bad debt experience. Amounts are written off against the allowance in the period the Company determines that the receivable is uncollectible. As a result of the above factors, the Company does not consider itself to have any significant concentrations of credit risk.

##### *Inventory*

A significant portion of our inventory is valued using the last-in, first-out (LIFO) method. Under this method, older costs are included in inventory, which may be higher or lower than current costs. This method of valuation is subject to year-to-year fluctuations in cost of material sold, which is influenced by the inflation or deflation existing within the metals industry as well as fluctuations in our product mix and on-hand inventory levels.

RELIANCE STEEL & ALUMINUM CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)  
December 31, 2005

*Fair Values of Financial Instruments*

Fair values of cash and cash equivalents, trade accounts receivable and the current portion of long-term debt approximate cost due to the short period of time to maturity. Fair values of long-term debt, which have been determined based on borrowing rates currently available to the Company, or to other companies with comparable credit ratings, for loans with similar terms or maturity, approximate the carrying amounts in the consolidated financial statements.

*Cash Equivalents*

The Company considers all highly liquid instruments with an original maturity of three months or less when purchased to be cash equivalents. The Company maintains cash and cash equivalents with high-credit, quality financial institutions. The Company, by policy, limits the amount of credit exposure to any one financial institution. At times, cash balances held at financial institutions were in excess of federally-insured limits.

*Long-Lived Assets*

In accordance with the Financial Accounting Standards Board (“FASB”) Statement of Financial Accounting Standards (“SFAS”) No. 141, *Business Combinations* and SFAS No. 142, *Goodwill and Other Intangible Assets*, the Company no longer amortizes goodwill which is deemed to have an indefinite life but is subject to annual impairment tests. Other intangible assets continue to be amortized over their useful lives. Indefinite-lived intangible assets are not subject to amortization.

For purposes of performing annual impairment tests, the Company identified reporting units in accordance with the guidance provided within SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*. As of November 1, 2005 and 2004, the dates of our annual impairment testing, the Company identified 38 reporting units. Each reporting unit constitutes a business under the definition provided by EITF 98-3, *Determining Whether a Non-Monetary Transaction Involves Receipt of Productive Assets or of a Business*. The Company assigns goodwill at the business unit/reporting unit level at the time of acquisition, where applicable, as each business unit operates independently from the other business units and is evaluated at the business unit level for financial performance.

The Company tests for impairment of goodwill by calculating the fair value of a reporting unit using the discounted cash flow method. Under this method, the fair market 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. Year five of these projections is considered the terminal year. 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. An annual assessment was performed and the Company determined that no impairment existed at November 1, 2005 or November 1, 2004.

Property, plant and equipment is recorded at cost and the provision for depreciation of these assets is generally computed on the straight-line method at rates designed to distribute the cost of assets over the useful lives, estimated as follows:

Buildings.....	31½ years
Machinery and equipment .....	3-20 years

The Company reviews the recoverability of its long-lived assets as required by SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The estimated future cash flows are based upon, among other things, assumptions about future operating performance, and may differ from actual cash flows. Long-lived assets evaluated for impairment are grouped with other assets to the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. If the sum of the projected undiscounted cash flows (excluding interest) is less than the carrying value of the assets, the assets will be written down to the estimated fair value in the period in which the determination is made. The Company has determined that no impairment of long-lived assets exists as of December 31, 2005 or 2004.



**RELIANCE STEEL & ALUMINUM CO.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**  
**December 31, 2005**

*Revenue Recognition*

The Company recognizes revenue from product or processing sales upon concluding that all of the fundamental criteria for product revenue recognition have been met. Such criteria are usually met at the time title to the product passes to the customer, typically upon delivery, or at the time services are performed for its toll processing services. Shipping and handling charges are included as revenue in net sales. Costs incurred in connection with shipping and handling the Company's products which are related to third-party carriers are not material and are typically included in cost of sales. Costs incurred in connection with shipping and handling the Company's products that are performed by Company personnel are typically included in operating expenses. For the years ended December 31, 2005, 2004 and 2003, shipping and handling costs included in "Warehouse, delivery, selling, general and administrative expenses" were approximately \$75,868,000, \$71,615,000, and \$64,038,000, respectively.

*Segment Information*

The Company has one reportable business segment – metals service centers. The acquisition made during 2005 did not result in new segments.

Although a variety of products or services are sold at each of the Company's various locations, in total, sales were comprised of the following in each of the three years ended December 31:

	<b>2005</b>	<b>2004</b>	<b>2003</b>
Carbon steel.....	55%	59%	54%
Aluminum.....	20	18	24
Stainless steel .....	15	14	14
Toll processing .....	4	4	3
Other .....	6	5	5
Total.....	100%	100%	100%

*Stock-Based Compensation*

The Company grants stock options with an exercise price equal to the fair value of the stock at the date of grant. The Company elected to continue to account for stock-based compensation plans using the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion ("APB") No. 25, *Accounting for Stock Issued to Employees* and related interpretations through December 31, 2005. Under APB No. 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock at the date of grant, no compensation expense is recognized.

**RELIANCE STEEL & ALUMINUM CO.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**  
**December 31, 2005**

In accordance with SFAS No. 148, *Accounting for Stock-Based Compensation — Transition and Disclosure*, the Company is required to disclose the compensation expense as if the Company had elected to recognize compensation cost based on the fair value of the options granted at the grant date as prescribed by SFAS No. 148. Under SFAS No. 148, net income and earnings per share would have been reduced to the pro forma amounts shown below:

	<b>Year Ended December 31,</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
	<b>(in thousands, except per share amounts)</b>		
Reported net income .....	\$ 205,437	\$ 169,728	\$ 34,010
Stock-based employee compensation cost, net of tax .....	2,954	1,149	820
Pro forma net income .....	<u>\$ 202,483</u>	<u>\$ 168,579</u>	<u>\$ 33,190</u>
Earnings per share from continuing operations:			
Basic – reported .....	<u>\$ 6.24</u>	<u>\$ 5.23</u>	<u>\$ 1.07</u>
Basic – pro forma .....	<u>\$ 6.15</u>	<u>\$ 5.19</u>	<u>\$ 1.04</u>
Diluted – reported .....	<u>\$ 6.21</u>	<u>\$ 5.19</u>	<u>\$ 1.07</u>
Diluted – pro forma .....	<u>\$ 6.12</u>	<u>\$ 5.16</u>	<u>\$ 1.04</u>

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model using the following weighted average assumptions:

	<b>2005</b>	<b>2004</b>	<b>2003</b>
Risk free interest rate .....	4.25%	3.25%	3.13%
Expected life in years .....	4	4	4
Expected volatility .....	.27	.28	.29
Expected dividend yield .....	.80%	.72%	1.10%

*Environmental Remediation Costs*

The Company accrues for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Accruals for estimated losses from environmental remediation obligations generally are recognized no later than completion of the remediation feasibility study. Such accruals are adjusted as further information develops or circumstances change. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed probable. The Company's management is not aware of any environmental remediation obligations which would materially affect the operations, financial position or cash flows of the Company.

*Foreign Currencies*

The currency effects of translating the financial statements of those foreign subsidiaries of the Company which operate in local currency environments are included in the "Accumulated Other Comprehensive Income (Loss)" component of shareholders' equity. Gains and losses resulting from foreign currency transactions are included in results of operations and were not material in each of the three years in the period ended December 31, 2005.

*Impact of Recently Issued Accounting Standards*

In April 2005, the United States Securities and Exchange Commission ("SEC") approved a new rule that delayed the effective date of SFAS No. 123R, *Share-Based Payment*. SFAS No. 123R requires companies to record compensation expense related to share-based payments in their financial statements, among other things. Except for this deferral of the effective date, the guidance in SFAS No. 123R is unchanged. Under the SEC's rule, SFAS No. 123R is now effective for the Company for annual, rather than interim, periods that begin after June 15, 2005. The Company will apply this Statement to all awards granted on or after January 1, 2006, to unvested options as of January 1, 2006, and to awards modified, repurchased, or cancelled after

## RELIANCE STEEL & ALUMINUM CO.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued) December 31, 2005

that date. We expect that the implementation of the provisions of SFAS No. 123R will have an impact consistent with our disclosures under SFAS No. 148 in Note 1.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections--A Replacement of APB Opinion No. 20 and FASB Statement No. 3*. SFAS No. 154 requires retrospective application to prior periods' financial statements for changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

In June 2005, the FASB's Emerging Issues Task Force reached a consensus on Issue No. 05-6, *Determining the Amortization Period for Leasehold Improvements* ("EITF 05-6"). The guidance requires that leasehold improvements acquired in a business combination or purchased subsequent to the inception of a lease be amortized over the lesser of the useful life of the assets or a term that includes renewals that are reasonably assured at the date of the business combination or purchase. The guidance is effective for periods beginning after June 29, 2005. The adoption of EITF 05-6 did not have a material impact on our consolidated financial statements.

#### 2. Investments in Joint Venture Companies

From inception on July 1, 1995 through April 30, 2002, the Company owned a 50% interest in the Membership Units of American Steel, L.L.C. ("American Steel"), which operates metals service centers in Portland, Oregon and Kent (Seattle), Washington, and processes and distributes primarily carbon steel products. American Industries, Inc. ("Industries") owned the other 50% interest in American Steel. The Operating Agreement ("Agreement") gave the Company operating control over the assets and operations of American Steel. However, due to the existence of super-majority veto rights in favor of Industries prior to May 1, 2002, the Company accounted for this investment under the equity method and recorded its share of earnings based upon the terms of the Agreement.

Effective May 1, 2002, the Agreement was amended and one additional membership unit was issued to the Company, giving the Company 50.5% of the outstanding membership units. As part of the amendment, all super-majority and unanimous voting rights included in the Agreement were eliminated, among other changes. The Agreement, as amended, provided that the Company may purchase the remaining 49.5% of American Steel during a term of 90 days following the earlier of the death of the owner of Industries or April 1, 2006 and was required to purchase the remaining 49.5% of American Steel if Industries so elected during a term of 90 days following the earlier of the death of the owner of Industries or January 1, 2006. Due to this change in ownership structure, the Company began consolidating American Steel's financial results as of May 1, 2002. In January 2006, in accordance with the Agreement, the Company purchased the remaining 49.5% interest in American Steel L.L.C for \$12,000,000.

In October 2005, the Company, with its partner Manufacturing Network Pte. Ltd. ("MNPL"), a Singapore company, formed Reliance Pan Pacific Pte., Ltd. ("RPP"). RPP, a Singapore company, is 70%-owned by the Company and 30%-owned by MNPL. RPP had no activity in 2005.

#### 3. Acquisitions

##### *2005 Acquisition*

On July 1, 2005, the Company acquired 100% of the outstanding capital stock of Chapel Steel Corp. ("Chapel Steel"), headquartered in Spring House (Philadelphia), Pennsylvania. The Company paid approximately \$94,200,000 in cash for the equity of Chapel Steel and assumed approximately \$16,800,000 of Chapel Steel's debt.

Chapel Steel is a privately held metals service center company founded in 1972 that processes and distributes carbon and alloy steel plate products from five facilities in Pottstown (Philadelphia), PA; Bourbonnais (Chicago), IL; Houston, TX; Birmingham, AL; and Portland, OR. Chapel Steel also warehouses and distributes its products in Cincinnati, OH and Hamilton, Ontario, Canada. Chapel Steel now operates as a wholly-owned subsidiary of RSAC Management Corp., a wholly owned subsidiary of Reliance.

**RELIANCE STEEL & ALUMINUM CO.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**  
**December 31, 2005**

The acquisition was funded on July 1, 2005 with borrowings on the Company's existing \$600,000,000 syndicated credit facility. A portion of the purchase price, \$5,000,000, was paid into an escrow account that will be released to the sellers after satisfaction of certain indemnification obligations by the sellers. The following table summarizes the allocation of the total purchase price to the fair values of the assets acquired and liabilities assumed of Chapel Steel at the date of the acquisition:

	<u>At July 1, 2005</u> (in thousands)
Cash .....	\$ 21
Accounts receivable .....	24,549
Inventory .....	26,261
Property, plant and equipment .....	11,076
Goodwill .....	42,949
Intangible assets subject to amortization .....	10,700
Intangible assets not subject to amortization .....	19,000
Other current and long-term assets .....	1,293
Total assets acquired .....	<u>135,849</u>
Capital lease obligations.....	(6,332)
Borrowings on line of credit.....	(16,780)
Other current liabilities .....	<u>(18,342)</u>
Total liabilities assumed .....	<u>(41,454)</u>
Net assets acquired.....	<u>\$ 94,395</u>

The operating results of Chapel Steel are included in the Company's consolidated results of operations from the date of acquisition. The following unaudited pro forma summary financial results present the consolidated results of operations as if the acquisition had occurred at the beginning of the year of acquisition and the year immediately preceding, after the effect of certain adjustments, including increased depreciation expense resulting from recording fixed assets at fair value, interest expense on the acquisition debt, amortization of certain identifiable intangible assets, and a provision for income taxes, as Chapel Steel was previously taxed as an S-Corporation under Section 1361 of the Internal Revenue Code. These adjustments are discussed in detail in the Company's filing on Form 8-K/A filed with the Securities and Exchange Commission on September 16, 2005. The pro forma results have been presented for comparative purposes only and are not indicative of what would have occurred had the acquisition been made as of January 1, 2005 or 2004, or of any potential results which may occur in the future.

	<u>Year Ended December 31,</u>	
	<u>2005</u>	<u>2004</u>
	<u>(In thousands, except per share amounts)</u>	
Pro forma (unaudited):		
Net sales.....	\$ 3,503,759	\$ 3,216,503
Net income.....	\$ 212,600	\$ 202,842
Earnings per share – diluted.....	\$ 6.42	\$ 6.21
Earnings per share – basic.....	\$ 6.46	\$ 6.25

*2003 Acquisition*

On July 1, 2003 the Company acquired all of the outstanding stock of Precision Strip, Inc., a privately-held metals processing company founded in 1977, and its related entity, Precision Strip Transport, Inc. (collectively "Precision Strip") for \$220,000,000 in cash, plus the assumption of approximately \$25,600,000 of debt. Precision Strip's activities consist primarily of slitting and blanking carbon steel, stainless steel and aluminum flat-rolled products on a "toll" basis, that is, processing the metal for a fee, without taking ownership of the metal. The business has facilities in Minster, Kenton, Middletown and Tipp City, Ohio; Anderson and Rockport, Indiana; Bowling Green, Kentucky; and Talladega, Alabama. Precision Strip's customers include carbon steel, stainless steel and aluminum mills, as well as companies in the automotive, appliance, metal furniture and capital goods industries. Precision Strip now operates as a wholly-owned subsidiary of Reliance, with Precision Strip Transport, Inc. operating as a wholly-owned subsidiary of Precision Strip, Inc. This acquisition strengthened our presence in certain geographic and customer end markets and increased our value-add processing capabilities.

The acquisition of Precision Strip was funded on July 1, 2003 with borrowings on the Company's \$335,000,000 syndicated bank line of credit and with a new private placement of \$135,000,000 of senior secured notes. Private placement notes of

**RELIANCE STEEL & ALUMINUM CO.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**  
**December 31, 2005**

\$60,000,000 will mature in 2011 and bear interest at a rate of 4.87% and notes totaling \$75,000,000 will mature in 2013 and bear interest at a rate of 5.35%. See Note 6 for further discussion. In April 2004, \$16,475,000 was paid to the Precision Strip sellers as reimbursement for income tax payments related to Reliance's election of Section 338(h)(10) treatment. This amount was in addition to the original purchase price. A portion of the purchase price, \$11,000,000, that the Company had paid into an escrow account was released to the sellers in January 2005, as specified in the acquisition agreement, after satisfaction of certain indemnification obligations by the sellers.

The following table summarizes the allocation of the total purchase price to the fair values of the assets acquired and liabilities assumed of Precision Strip at the date of the acquisition, adjusted for the additional payment to the sellers in April 2004.

	<u>At July 1, 2003</u> <u>(in thousands)</u>
Cash .....	\$ 70
Accounts receivable .....	19,961
Property, plant and equipment .....	176,658
Goodwill .....	60,477
Intangible assets subject to amortization.....	6,200
Intangible assets not subject to amortization .....	6,300
Other assets .....	2,799
Total assets acquired .....	<u>272,465</u>
Current liabilities .....	<u>(8,090)</u>
Total liabilities assumed .....	<u>(35,691)</u>
Net assets acquired.....	<u>\$ 236,774</u>

Both the Chapel Steel and Precision Strip acquisitions were accounted for by the purchase method of accounting and, accordingly, the purchase price has been allocated to the assets acquired and the liabilities assumed based on the estimated fair value at the date of the acquisition. The Company utilized the services of a valuation specialist to assist in identifying and determining the fair market values and economic lives of intangible assets of acquired companies.

As part of the purchase price allocation of Chapel Steel and Precision Strip, \$19,000,000 and \$6,300,000, respectively, were allocated to the trade names acquired that are not subject to amortization. The Company determined that the trade name acquired in connection with both acquisitions had indefinite lives since their economic lives are expected to approximate the life of each company acquired. Additionally, the Company recorded other identifiable intangible assets related to customer relationships for Chapel Steel and Precision Strip of \$10,700,000 and \$6,200,000, respectively, with weighted average lives of 8.5 and 6.1 years, respectively. The entire goodwill amount from both acquisitions is expected to be deducted for tax purposes in future years.

**4. Intangible Assets**

At December 31, 2005 and 2004, net intangible assets of approximately \$44,386,000 and \$16,671,000, respectively, are included in other assets, and consist of the following:

	<u>2005</u>		<u>2004</u>	
	<u>Gross</u> <u>Carrying</u> <u>Amount</u>	<u>Accumulated</u> <u>Amortization</u>	<u>Gross</u> <u>Carrying</u> <u>Amount</u>	<u>Accumulated</u> <u>Amortization</u>
	(in thousands)			
Covenants not to compete .....	\$ 6,053	\$ (5,912)	\$ 5,953	\$ (5,717)
Loan fees .....	7,689	(4,938)	5,550	(3,126)
Customer list/relationships.....	17,900	(4,794)	7,300	(2,728)
Trade names .....	28,300	—	9,300	—
Other .....	429	(341)	429	(290)
	<u>\$ 60,371</u>	<u>\$ (15,985)</u>	<u>\$ 28,532</u>	<u>\$ (11,861)</u>

**RELIANCE STEEL & ALUMINUM CO.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**  
**December 31, 2005**

Amortization expense for intangible assets amounted to approximately \$4,125,000, \$3,208,000 and \$2,304,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

The following is a summary of estimated aggregate amortization expense for each of the next five years (in thousands):

2006 .....	\$	3,005
2007 .....		2,925
2008 .....		2,524
2009 .....		1,923
2010 .....		1,692

**5. Inventories**

Inventories of the Company have primarily been stated on the last-in, first-out (“LIFO”) method, which is not in excess of market. The Company uses the LIFO method of inventory valuation because it results in better matching of costs and revenues. At December 31, 2005 and 2004, cost on the first-in, first-out (“FIFO”) method exceeds the LIFO value of inventories by \$142,484,000 and \$125,893,000, respectively. Inventories of \$97,634,000 and \$89,905,000 at December 31, 2005 and 2004, respectively, were stated on the FIFO method, which is not in excess of market.

**6. Long-Term Debt**

Long-term debt consists of the following:

	<u>December 31,</u> <u>2005</u>	<u>December 31,</u> <u>2004</u>
	(In thousands)	
Revolving line of credit (\$335,000,000 limit) originally due October 24, 2006, terminated June 13, 2005, interest at variable rates, weighted average rate of 3.66% during the period from January 1, 2005 through June 13, 2005 (3.09% during 2004) .....	\$ —	\$ 30,000
Revolving line of credit (\$600,000,000 limit) due June 11, 2010, interest at variable rates, weighted average rate of 4.27% during the period from June 13, 2005 through December 31, 2005 .....	—	—
Senior unsecured notes due from January 2, 2007 to January 2, 2009, average fixed interest rate of 7.33% .....	30,000	53,000
Senior unsecured notes due from January 2, 2006 to January 2, 2008, average fixed interest rate of 7.06% .....	55,000	55,000
Senior unsecured notes due from October 15, 2006 to October 15, 2010, average fixed interest rate of 6.60% .....	127,000	150,000
Senior unsecured notes due from July 1, 2011 to July 2, 2013, average fixed interest rate of 5.14% .....	135,000	135,000
Variable Rate Demand Industrial Development Revenue Bonds, Series 1989 A, due July 1, 2014, with interest payable quarterly; average interest rate of 2.45% during 2005 (1.25% during 2004) .....	2,250	2,450
Variable Rate Demand Revenue Bonds, Series 1999, due March 1, 2009, with interest payable quarterly; average interest rate of 2.68% during 2005 (1.50% during 2004) .....	1,550	1,800
Total .....	<u>350,800</u>	<u>427,250</u>
Less amounts due within one year .....	<u>(49,525)</u>	<u>(46,400)</u>
Total long-term debt .....	<u>\$ 301,275</u>	<u>\$ 380,850</u>

The Company, in October 2001, entered into a five-year syndicated credit agreement, as amended, with ten banks for an unsecured revolving line of credit with a borrowing limit of \$335,000,000. On June 13, 2005, the Company entered into a new \$600,000,000, five year, unsecured syndicated credit agreement with fifteen banks as lenders that replaced the Company’s previous \$335,000,000 credit facility. At December 31, 2005, the Company had \$15,245,000 of letters of credit outstanding under the syndicated credit facility with availability to issue an additional \$34,755,000 of letters of credit. The syndicated credit facility includes a commitment fee on the unused portion, currently at an annual rate of 0.100%.

**RELIANCE STEEL & ALUMINUM CO.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**  
**December 31, 2005**

The Company has \$347,000,000 of outstanding senior unsecured notes issued in private placements of debt. The outstanding senior notes bear interest at an average fixed rate of 6.17% and have an average remaining life of 4.2 years, maturing from 2006 to 2013.

Both the \$335,000,000 syndicated credit agreement, that was replaced, and the senior notes became secured on July 1, 2003 concurrent with the Company's acquisition of Precision Strip. The personal property pledged as collateral included, but was not limited to, the outstanding securities of each of the Company's material corporate subsidiaries. The security interest was to terminate when the Company met certain conditions, including a required leverage ratio. In the first quarter of 2005 the security interest granted under our \$335,000,000 syndicated credit facility and our senior note agreements was automatically released as the Company met the required conditions of the release. The senior note agreements and the \$600,000,000 credit facility are unsecured.

The \$600,000,000 syndicated credit agreement and senior note agreements require the Company to maintain a minimum net worth and interest coverage ratio, a maximum leverage ratio, and include certain restrictions on the amount of cash dividends the Company may pay, among other things.

The following is a summary of aggregate maturities of long-term debt for each of the next five years (in thousands):

2006 .....	\$	49,525
2007 .....		20,525
2008 .....		55,650
2009 .....		10,700
2010 .....		78,250
Thereafter .....		136,150
		\$ 350,800

**7. Income Taxes**

Deferred income taxes are computed using the liability method and reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial statement purposes and the amounts used for income tax purposes. The provision for income taxes reflects the taxes to be paid for the period and the change during the period in the deferred tax assets and liabilities. The Company is subject to audits by various tax authorities which may result in adjustments to income tax amounts previously reported by the Company. Due to the uncertainty of the timing of potential audits and adjustments that may result from these audits, no estimate of a possible range of loss may be made by the Company as of December 31, 2005. As of December 31, 2005, the Company had available state and city net operating loss carryforwards of \$787,000 to offset future income taxes expiring in years 2006 through 2025.

Significant components of the Company's deferred tax assets and liabilities are as follows:

	<b>December 31,</b>	
	<b>2005</b>	<b>2004</b>
	<b>(in thousands)</b>	
Deferred tax assets:		
Accrued expenses not currently deductible for tax .....	\$ 18,519	\$ 13,724
Inventory costs capitalized for tax purposes .....	8,027	4,837
Bad debt .....	3,861	3,126
LIFO inventory .....	1,697	869
Other .....	3,897	2,028
Total deferred tax assets .....	36,001	24,584
Deferred tax liabilities:		
Tax over book depreciation .....	(38,256)	(34,299)
Goodwill .....	(27,635)	(21,314)
Other .....	(131)	(138)
Total deferred tax liabilities .....	(66,022)	(55,751)
Net deferred tax liabilities .....	\$ (30,021)	\$ (31,167)

**RELIANCE STEEL & ALUMINUM CO.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**  
**December 31, 2005**

Significant components of the provision for income taxes attributable to continuing operations are as follows:

	Year Ended December 31,		
	2005	2004	2003
	(in thousands)		
Current:			
Federal .....	\$ 109,432	\$ 85,544	\$ 9,361
State .....	16,156	11,929	3,365
	125,588	97,473	12,726
Deferred:			
Federal .....	2,858	3,167	6,291
State .....	(671)	(400)	1,829
	2,187	2,767	8,120
	\$ 127,775	\$ 100,240	\$ 20,846

The reconciliation of income tax at the U.S. federal statutory tax rates to income tax expense is as follows:

	Year Ended December 31,		
	2005	2004	2003
Income tax at U.S. federal statutory tax rate .....	35.0%	35.0%	35.0%
State income tax, net of federal tax effect .....	3.2	2.9	4.0
Other .....	0.1	(0.8)	(1.0)
Effective tax rate .....	38.3%	37.1%	38.0%

At December 31, 2005, unremitted earnings of subsidiaries outside of the United States were approximately \$10,500,000, on which no United States taxes had been provided. The Company's intention is to reinvest these earnings or to repatriate the earnings only when possible to do so at minimal additional tax cost. It is not practicable to estimate the amount of additional taxes that might be payable upon repatriation of foreign earnings. Valex Korea qualifies for a tax holiday in Korea which consists of a seven-year full exemption from corporate income tax followed by a 50% exemption for the succeeding three years. The exemption is limited to the amount of the Company's initial investment in Valex Korea. The tax holiday began the first year the subsidiary generated taxable income after utilization of any carryforward losses, which was in 2003. The dollar effect of the tax savings from the tax holiday were \$973,000, or \$0.03 per diluted share, in 2005, \$1,248,000, or \$0.04 per diluted share in 2004, and \$139,000 or less than \$0.01 per diluted share in 2003.

The American Jobs Creation Act of 2004 (the Jobs Act) introduced a number of changes to the income tax laws which may affect the Company in future years. A special one-time tax deduction was created relating to the repatriation of certain foreign earnings to the United States, provided certain conditions are met. The Company did not repatriate any earnings that were subject to this deduction. The Jobs Act also provides for a deduction for income from qualified domestic production activities, which will be phased in from 2005 through 2010. The Company will continue to evaluate what, if any, benefits may result from this deduction but does not anticipate that the benefit, if any, will be significant for 2005.

## **8. Stock Option Plans**

In 1994, the Board of Directors of the Company adopted an Incentive and Non-Qualified Stock Option Plan ("the 1994 Plan"). In May 2001, the shareholders approved an amendment to the 1994 Plan which increased the number of shares with respect to which options may be granted to 2,500,000 shares. The 1994 Plan expired by its terms on December 31, 2003. There are 524,000 options granted and outstanding under the 1994 Plan as of December 31, 2005. The 1994 Plan provided for granting of stock options that were either "incentive stock options" within the meaning of Section 422A of the Internal Revenue Code of 1986 (the "Code") or "non-qualified stock options," which do not satisfy the provisions of Section 422A of the Code. Options were required to be granted at an option price per share not less than the fair market value of common stock on the date of grant, except that the exercise price of incentive stock options granted to any employee who owns (or, under pertinent Code provisions, is deemed to own) more than 10% of the outstanding common stock of the Company, must equal at least 110% of fair market



**RELIANCE STEEL & ALUMINUM CO.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**  
**December 31, 2005**

value on the date of grant. Stock options could not be granted longer than 10 years from the date of the 1994 Plan. All options granted have five-year terms and vest at the rate of 25% per year, commencing one year from the date of grant. Transactions under the 1994 Plan are as follows:

<u>Stock Options</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding at January 1, 2003.....	1,227,850	\$22.64
Granted .....	718,000	\$25.08
Exercised .....	(423,375)	\$19.35
Expired .....	(149,000)	\$23.53
Outstanding at December 31, 2003 .....	1,373,475	\$24.83
Exercised .....	(367,800)	\$24.05
Expired .....	(31,725)	\$24.69
Outstanding at December 31, 2004 .....	973,950	\$25.13
Exercised .....	(425,950)	\$25.08
Expired .....	(24,000)	\$24.94
Outstanding at December 31, 2005 .....	524,000	\$25.19

In May 2004, the Board of Directors of the Company adopted, and the shareholders approved, an Incentive and Non-Qualified Stock Option Plan (the “2004 Plan”). This 2004 Plan reserved 3,000,000 shares of the Company’s Common Stock for issuance upon exercise of stock options granted under the 2004 Plan. There are 2,007,500 shares available for issuance with 992,500 options granted and outstanding under the 2004 Plan as of December 31, 2005. The 2004 Plan provides for granting of stock options that may be either “incentive stock options” within the meaning of Section 422A of the Code or “non-qualified stock options,” which do not satisfy the provisions of Section 422A of the Code. Options are required to be granted at an option price per share not less than the fair market value of common stock on the date of grant, except that the exercise price of incentive stock options granted to any employee who owns (or, under pertinent Code provisions, is deemed to own) more than 10% of the outstanding common stock of the Company, must equal at least 110% of fair market value on the date of grant. Stock options may not be granted longer than 10 years from the date of the 2004 Plan. All options granted have five-year terms and vest at the rate of 25% per year, commencing one year from the date of grant. Transactions under the 2004 Plan are as follows:

<u>Stock Options</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding at January 1, 2005.....	—	\$ —
Granted .....	992,500	\$ 49.15
Exercised .....	—	\$ —
Expired.....	—	\$ —
Outstanding at December 31, 2005.....	992,500	\$ 49.15

In May 1998, the shareholders approved the adoption of a Directors Stock Option Plan for non-employee directors (the “Directors Plan”), which provides for automatic grants of options to non-employee directors. In February 1999, the Directors Plan was amended to allow the Board of Directors of the Company (the “Board”) authority to grant additional options to acquire the Company’s common stock to non-employee directors. In May 2004 the Directors Plan was amended so that any unexpired stock options granted under the Directors Plan to a non-employee director that retires from the Board of Directors at or after the age of 75, become immediately vested and exercisable, and the director, if he or she so desires, must exercise those options within ninety (90) days after such retirement or the options shall expire automatically. In May 2005, after approval of the Company’s shareholders, the Directors Plan was further amended and restated providing that options to acquire 3,000 shares of Common Stock would be automatically granted to each non-employee director each year and would become 100% exercisable after one year. Once exercisable, the options would remain exercisable until that date which is ten years after the date of grant. In addition, the amendment increased the number of shares available for future grants of options from the 187,000 shares reserved as of May 2005 to 250,000 shares. Options under the Directors Plan are non-qualified stock options, with an exercise price at fair market value at the date of grant. All options granted prior to May 2005 expire five years from the date of grant. None of these stock options become exercisable until one year after the date of grant, unless specifically approved by the Board. In each of the following four years, 25% of the options become exercisable on a cumulative basis. As of December 31, 2005, there were 179,500 options available for issuance under the Directors Plan.

**RELIANCE STEEL & ALUMINUM CO.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**  
**December 31, 2005**

Transactions under the Directors Plan are as follows:

<u>Stock Options</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding at January 1, 2003.....	157,500	\$ 20.87
Granted .....	37,500	\$ 17.11
Exercised .....	(36,000)	\$ 18.67
Expired.....	(45,000)	\$ 24.59
Outstanding at December 31, 2003.....	114,000	\$ 18.86
Granted .....	22,500	\$ 32.12
Exercised .....	(69,000)	\$ 18.62
Expired.....	(15,000)	\$ 18.83
Outstanding at December 31, 2004.....	52,500	\$ 24.87
Granted .....	18,000	\$ 36.62
Exercised .....	(7,500)	\$ 17.11
Expired.....	—	\$ —
Outstanding at December 31, 2005.....	<u>63,000</u>	<u>\$ 29.15</u>

The following tabulation summarizes certain information concerning outstanding and exercisable options at December 31, 2005:

<u>Range of Exercise Price</u>	<u>Outstanding at December 31, 2005</u>	<u>Options Outstanding</u>		<u>Options Exercisable</u>	
		<u>Weighted Average Remaining Contractual Life In Years</u>	<u>Weighted Average Exercise Price</u>	<u>Exercisable at December 31, 2005</u>	<u>Average Exercise Price of Options Exercisable</u>
\$17 - \$23	15,000	2.4	\$17.11	7,500	\$17.11
\$24 - \$30	531,500	2.4	\$25.20	125,000	\$25.28
\$31 - \$35	22,500	3.3	\$32.12	5,625	\$32.12
\$36 - \$50	1,010,500	4.9	\$48.93	—	\$ —
<u>\$17 - \$50</u>	<u>1,579,500</u>	<u>4.0</u>	<u>\$40.40</u>	<u>138,125</u>	<u>\$25.11</u>

**9. Employee Benefits**

The Company has an employee stock ownership plan (“the ESOP”) and trust that has been approved by the Internal Revenue Service as a qualified plan. The ESOP is a noncontributory plan that covers certain salaried and hourly employees of the Company. The amount of the annual contribution is at the discretion of the Board, except that the minimum amount must be sufficient to enable the ESOP trust to meet its current obligations.

Effective in 1998, the Reliance Steel & Aluminum Co. Master 401(k) Plan (the “Master Plan”) was established which combined several of the various 401(k) and profit-sharing plans of the Company and its subsidiaries into one plan. Salaried and certain hourly employees of the Company and its participating subsidiaries are covered under the Master Plan. The Master Plan allows each subsidiary’s Board to determine independently the annual matching percentage and maximum compensation limits or annual profit-sharing contribution. Eligibility occurs after three months of service, and the Company contribution vests at 25% per year, commencing one year after the employee enters the Master Plan. Other 401(k) and profit-sharing plans exist as certain subsidiaries have not yet combined their plans into the Master Plan as of December 31, 2005.

Effective January 1996, the Company adopted a Supplemental Executive Retirement Plan (“SERP”), which is a nonqualified pension plan that provides post-retirement pension benefits to key officers of the Company. The SERP is administered by the Compensation and Stock Option Committee of the Board. Benefits are based upon the employees’ earnings. Life insurance policies were purchased for most individuals covered by the SERP and are funded by the Company. A separate SERP plan exists for one of the companies acquired during 1998 and for the Company’s 50.5%-owned company, each of which provides post-retirement pension benefits to its respective key employees. The SERP plans do not maintain their own plan assets, therefore plan assets and related disclosures have been omitted. However, the Company does maintain on its balance sheet assets to fund the SERP plans with values of \$12,379,000 and \$12,240,000 at December 31, 2005 and 2004, respectively.

**RELIANCE STEEL & ALUMINUM CO.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**  
**December 31, 2005**

The net periodic pension costs for the SERP plans were as follows:

	Year Ended December 31,		
	2005	2004	2003
	(in thousands)		
Service cost .....	\$ 414	\$ 393	\$ 399
Interest cost .....	863	796	868
Recognized losses .....	159	113	233
Prior service cost recognized .....	196	196	196
	<u>\$ 1,632</u>	<u>\$ 1,498</u>	<u>\$ 1,696</u>

The following is a summary of the status of the funding of the SERP plans:

	Year Ended December 31,		
	2005	2004	2003
	(in thousands)		
<b>Change in benefit obligation</b>			
Benefit obligation at beginning of year .....	\$ 14,124	\$ 15,322	\$ 13,366
Service cost .....	414	393	399
Interest cost .....	863	796	868
Actuarial losses (gains) .....	1,137	(1,730)	1,224
Benefits paid.....	(699)	(657)	(535)
Benefit obligation at end of year.....	<u>\$ 15,839</u>	<u>\$ 14,124</u>	<u>\$ 15,322</u>
<b>Funded status</b>			
Funded status of the plan .....	\$ (15,839)	\$ (14,124)	\$ (15,322)
Unrecognized net actuarial losses.....	3,278	2,300	4,143
Unamortized prior service cost .....	587	782	978
Net amount recognized .....	<u>\$ (11,974)</u>	<u>\$ (11,042)</u>	<u>\$ (10,201)</u>
<b>Amounts recognized in the statement of financial position</b>			
Accrued benefit liability.....	\$ (13,049)	\$ (12,092)	\$ (11,796)
Accumulated other comprehensive loss .....	1,075	1,050	1,595
Net amount recognized .....	<u>\$ (11,974)</u>	<u>\$ (11,042)</u>	<u>\$ (10,201)</u>

The accumulated benefit obligation for all SERP plans was \$11,064,000 and \$11,113,000 at December 31, 2005 and 2004, respectively.

	Year Ended December 31,	
	2005	2004
	(in thousands)	
<b>Additional Information</b>		
Increase (decrease) in minimum liability included in other comprehensive income.....	\$ 25	\$ (545)

In determining the actuarial present value of projected benefit obligations for the Company's SERP plans, the assumptions were as follows:

	2005	2004	2003
<b>Weighted average assumptions</b>			
Discount rate .....	6.00%	6.00%	6.00%
Rate of compensation increase.....	3.0% - 6.0%	3.0% - 6.0%	3.0% - 6.0%

Through the purchase of the net assets of the steel service centers division of Pitt-Des Moines, Inc. on July 2, 2001, the Company, through its subsidiary PDM Steel Service Centers, Inc., maintains defined benefit pension plans for certain of its employees. The Company also maintains a defined benefit pension plan for the employees of its subsidiary Durrett Sheppard Steel Co., Inc. These plans generally provide benefits of stated amounts for each year of service or provide benefits based on the participant's hourly wage rate and years of service. The plans permit the sponsor, at any time, to amend or terminate the plans subject to union approval, if applicable. The PDM Merit Shop Defined Benefit Pension Plan ("Merit Plan"), a non-union plan,

**RELIANCE STEEL & ALUMINUM CO.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**  
**December 31, 2005**

was frozen effective December 31, 2003 and subsequently terminated effective December 31, 2004. All existing participants in the Merit Plan became 100% vested in their accrued benefits as of the termination date. No gain or loss has been recognized as a result of the termination. Distributions to participants will be made in 2006. The affected participants under the Merit Plan are eligible to participate in the Company's Master Plan.

The net periodic pension costs for the defined benefit pension plans covering certain employees were as follows:

	<b>Year Ended December 31,</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
	<b>(in thousands)</b>		
Service cost .....	\$ 371	\$ 318	\$ 431
Interest cost .....	491	423	455
Expected return on plan assets .....	(545)	(500)	(371)
Curtailment/settlement gain recognized .....	—	—	(599)
Prior service cost recognized .....	(5)	(5)	(5)
Amortization of loss .....	55	2	44
	<u>\$ 367</u>	<u>\$ 238</u>	<u>\$ (45)</u>

The following is a summary of the status of the funding of the defined benefit plans:

	<b>Year Ended December 31,</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
	<b>(in thousands)</b>		
<b>Change in benefit obligation</b>			
Benefit obligation at beginning of year .....	\$ 8,366	\$ 6,844	\$ 6,814
Service cost .....	371	318	431
Interest cost .....	491	423	455
Actuarial losses (gains) .....	904	886	(138)
Benefits paid .....	(343)	(268)	(231)
Plan amendments .....	—	—	76
Curtailments or settlements .....	—	—	(802)
Discount rate changes .....	—	163	239
Benefit obligation at end of year .....	<u>\$ 9,789</u>	<u>\$ 8,366</u>	<u>\$ 6,844</u>

	<b>Year Ended December 31,</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
	<b>(in thousands)</b>		
<b>Change in plan assets</b>			
Fair value of plan assets .....	\$ 6,866	\$ 6,071	\$ 4,668
Actual return on plan assets .....	527	546	1,346
Employer contributions .....	601	527	302
Benefits paid .....	(358)	(278)	(245)
Fair value of plan assets at end of year .....	<u>\$ 7,636</u>	<u>\$ 6,866</u>	<u>\$ 6,071</u>

<b>Funded status</b>			
Funded status of the plan .....	\$ (2,153)	\$ (1,500)	\$ (773)
Unrecognized net actuarial losses .....	2,270	1,389	378
Unamortized prior service cost .....	39	33	27
Net amount recognized .....	<u>\$ 156</u>	<u>\$ (78)</u>	<u>\$ (368)</u>

<b>Amounts recognized in the statement of financial position</b>			
Accrued benefit liability .....	\$ (1,413)	\$ (1,397)	\$ (907)
Prepaid benefit cost .....	527	528	528
Intangible asset .....	8	8	9
Accumulated other comprehensive income .....	1,034	783	2
Net amount recognized .....	<u>\$ 156</u>	<u>\$ (78)</u>	<u>\$ (368)</u>

The accumulated benefit obligation for all defined benefit pension plans was \$8,513,000 and \$7,464,000 at December 31, 2005 and 2004, respectively.

**RELIANCE STEEL & ALUMINUM CO.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**  
**December 31, 2005**

	<u>Year Ended December 31,</u>	
	<u>2005</u>	<u>2004</u>
	(in thousands)	
<b>Information for pension plans with an accumulated benefit obligation in excess of plan assets</b>		
Accumulated benefit obligation.....	\$ 7,033	\$ 3,399
Fair value of plan assets.....	6,106	2,447
<b>Additional information</b>		
Increase in minimum liability included in other comprehensive income.....	\$ 251	\$ 13

In determining the actuarial present value of projected benefit obligations for the Company's defined benefit plans, the assumptions were as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>Weighted average assumptions to determine benefit obligations</b>			
Discount rate .....	5.2% - 6.0%	5.3% - 6.0%	6.25%
Expected long-term rate of return on plan assets.....	7.5% - 8.5%	7.5% - 8.5%	7.5% - 8.5%
Rate of compensation increase.....	4.0%	4.0%	4.0% - 4.5%
<b>Weighted average assumptions to determine net cost</b>			
Discount rate .....	5.3% - 6.25%	5.6% - 6.0%	6.25% - 6.75%
Expected long-term rate of return on plan assets.....	7.5% - 8.5%	7.5% - 8.5%	7.5% - 8.5%
Rate of compensation increase.....	4.0%	4.0%	4.0% - 4.5%

The weighted-average asset allocations of the Company's defined benefit plans at December 31, 2005 and 2004, by asset category, are as follows:

	<u>2005</u>	<u>2004</u>
<b>Plan Assets</b>		
Equity securities .....	69%	68%
Debt securities .....	25	25
Other .....	6	7
Total .....	<u>100%</u>	<u>100%</u>

The above asset allocations are in line with the Company's target asset allocation ranges which are as follows: equity securities 50% to 80%, debt securities 20% to 60%, and other assets of 0% to 10%. The Company establishes its estimated long-term return on plan assets considering various factors including the targeted asset allocation percentages, historic returns and expected future returns. In 2006, the assets of the terminated defined benefit plan were transferred to more liquid assets, pending distribution. The Company uses a measurement date of December 31 for the majority of its SERP and defined benefit plans. Employer contributions to the SERP and defined benefit plans during 2006 are expected to be \$779,000 and \$993,000, respectively.

The following is a summary of benefit payments, which reflect expected future employee service and the termination of the PDM Merit Plan, as appropriate, expected to be paid in the periods indicated (in thousands):

	<u>SERP Plans</u>	<u>Defined Benefit Plans</u>
2006 .....	\$ 779	\$ 3,386
2007 .....	779	143
2008 .....	792	233
2009 .....	844	280
2010 .....	894	288
2011 – 2014 .....	5,703	2,184

**RELIANCE STEEL & ALUMINUM CO.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**  
**December 31, 2005**

The Company participates in various multi-employer pension plans covering certain employees not covered under the Company's benefit plans pursuant to agreements between the Company and collective bargaining units, who are members of such plans. In 2005, 2004 and 2003, the Company made contributions to multi-employer defined benefit plans related to collective bargaining agreements in the amounts of \$2,274,000, \$2,204,000 and \$2, 212,000, respectively.

The Company's contribution expense for Company-sponsored retirement plans was as follows:

	Year Ended December 31,		
	2005	2004	2003
Master Plan.....	\$ 7,035	\$ 6,241	\$ 4,528
Employee Stock Ownership Plan.....	1,000	1,000	800
Supplemental Executive Retirement Plans.....	1,632	1,498	1,696
Defined Benefit Plans .....	367	238	(45)
	\$ 10,034	\$ 8,977	\$ 6,979

The Company has a "Key-Man Incentive Plan" (the "Incentive Plan") for division managers and officers, which is administered by the Compensation and Stock Option Committee of the Board. For 2005 and 2004, this incentive compensation bonus was payable 75% in cash and 25% in the Company's common stock, with the exception of the bonus to officers, which may be paid 100% in cash at the discretion of the individual. The Company accrued \$6,863,000 and \$4,057,000 under the Incentive Plan as of December 31, 2005 and 2004, respectively. In March 2005 and 2004, the Company issued 5,582 and 7,295 shares of common stock to employees under the incentive bonus plan for the years ended December 31, 2004 and 2003, respectively. The Company had 87,098 shares of common stock available for issuance under the Incentive Plan as of December 31, 2005.

**10. Shareholders' Equity**

*Common Stock*

The Company is authorized to issue 100,000,000 shares of common stock, no par value per share. The Company pays a regular quarterly cash dividend on its common stock, currently at \$0.10 per share. The holders of Reliance common stock are entitled to one vote per share on each matter submitted to a vote of shareholders.

*Share Repurchase Program*

In August 1998, the Board approved the purchase of up to an additional 3,750,000 shares of the Company's outstanding common stock through its Stock Repurchase Plan ("Repurchase Plan"), for a total of up to 6,000,000 shares. The Repurchase Plan was initially established in December 1994 and authorized the Company to purchase shares of its common stock from time to time in the open market or in privately-negotiated transactions. In May 2005, the Board amended and restated the Repurchase Plan to authorize the purchase of up to an additional 6,000,000 shares of the Company's common stock and to extend the term of the Repurchase Plan for ten years, to December 31, 2014. Repurchased shares are redeemed and treated as authorized but unissued shares. As of December 31, 2005, and prior to the additional authorization in May 2005, the Company had repurchased a total of 5,538,275 shares of its common stock under the Repurchase Plan, at an average cost of \$14.94 per share. The Company did not repurchase any shares in 2005, 2004 or 2003.

*Preferred Stock*

The Company is authorized to issue 5,000,000 shares of preferred stock, no par value per share. No shares of the Company's preferred stock are issued and outstanding. The Company's restated articles of incorporation provide that shares of preferred stock may be issued from time to time in one or more series by the Board. The Board can fix the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications and terms and conditions of redemption of each series of preferred stock. The rights of preferred shareholders may supersede the rights of common shareholders.

**RELIANCE STEEL & ALUMINUM CO.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**  
**December 31, 2005**

*Accumulated Other Comprehensive Income*

SFAS No. 130, *Reporting Comprehensive Income*, defines comprehensive income (loss) as non-stockholder changes in equity. Accumulated other comprehensive income (loss) included the following:

	<b>December 31,</b>	
	<b>2005</b>	<b>2004</b>
	(in thousands)	
Foreign currency translation adjustments.....	\$ 1,500	\$ 1,499
Unrealized gain on investments.....	129	88
Minimum pension liability .....	(1,304)	(1,135)
	<u>\$ 325</u>	<u>\$ 452</u>

Foreign currency translation adjustments are not generally adjusted for income taxes as they relate to indefinite investments in foreign subsidiaries. The adjustments to unrealized gain on investments and minimum pension liability are net of deferred income taxes of (\$79,000) and \$804,000, respectively, as of December 31, 2005 and (\$54,000) and \$692,000, respectively, as of December 31, 2004.

*Registration Statement for the Pending Merger*

In connection with the pending acquisition of Earle M. Jorgensen Company as discussed in Note 13, the Company filed a registration statement on SEC Form S-4 that became effective on March 1, 2006. The registration statement on Form S-4 enables the Company to issue up to 6,248,423 shares of its common stock in connection with this transaction. To date, no securities have been issued pursuant to this registration statement.

**11. Commitments and Contingencies**

The Company leases land, buildings and equipment under noncancelable operating leases expiring in various years through 2018. Several of the leases have renewal options providing for additional lease periods. Future minimum payments, by year and in the aggregate, under the noncancelable leases with initial or remaining terms of one year or more, consisted of the following at December 31, 2005 (in thousands):

	<b>Operating Leases</b>	<b>Capital Leases</b>
2006 .....	\$ 17,112	\$ 780
2007 .....	16,045	780
2008 .....	10,897	780
2009 .....	7,289	780
2010 .....	5,258	780
Thereafter.....	6,771	3,437
	<u>\$ 63,372</u>	<u>\$ 7,337</u>
Less, interest .....		(1,286)
Capital lease obligations.....		6,051
Less, current portion.....		(536)
Long-term capital lease obligations .....		<u>\$ 5,515</u>

Total rental expense amounted to \$22,145,000, \$21,625,000 and \$20,474,000 for 2005, 2004 and 2003, respectively.

**RELIANCE STEEL & ALUMINUM CO.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**  
**December 31, 2005**

Included in the amounts above for operating leases are lease payments to various related parties, who are not executive officers of the Company, in the amount of \$3,766,000, \$3,812,000 and \$4,447,000 for 2005, 2004 and 2003, respectively. These related party leases are for buildings related to certain of the companies we have acquired and expire in various years through 2018.

Also, in connection with the Chapel Steel acquisition, the Company acquired noncancelable capital leases related to three buildings with terms expiring in various years through 2016. At December 31, 2005, total obligations under these capital leases were \$6,051,000. The carrying value and accumulated depreciation of those leases at December 31, 2005 were \$8,100,000 and \$409,000, respectively. All three capital leases are with related parties who are not executive officers of the Company.

At December 31, 2005, approximately 12% of the Company's total employees were covered by collective bargaining agreements, which expire at various times over the next five years. Approximately 4% of the Company's employees were covered by collective bargaining agreements that expire during 2006.

The Company is subject to legal proceedings and claims and examinations by the IRS and other taxing authorities which arise in the ordinary course of its business. Although occasional adverse decisions or settlements may occur, an estimate of potential loss, if any, cannot be reasonably estimated. However, the Company believes that the final disposition of such matters will not have a material adverse effect on the financial position, results of operations or cash flow of the Company.

**12. Earnings Per Share**

The Company calculates basic and diluted earnings per share as required by SFAS No. 128, *Earnings Per Share*. Basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is calculated including the dilutive effects of warrants, options and convertible securities, if any. The following table sets forth the computation of basic and diluted earnings per share:

	Year Ended December 31,		
	2005	2004	2003
(in thousands, except per share amounts)			
Numerator:			
Net income .....	\$ 205,437	\$ 169,728	\$ 34,010
Denominator:			
Denominator for basic earnings per share – weighted average shares .....	32,935	32,480	31,853
Effect of dilutive securities:			
Stock options .....	162	195	13
Denominator for dilutive earnings per share: Adjusted weighted average shares and assumed conversions .....	33,097	32,675	31,866
Earnings per share from continuing operations – diluted.....	\$ 6.21	\$ 5.19	\$ 1.07
Earnings per share from continuing operations – basic.....	\$ 6.24	\$ 5.23	\$ 1.07

The computations of earnings per share for the years ended December 31, 2005 and 2003 do not include 992,500 and 1,336,625 shares reserved for issuance upon exercise of stock options, respectively, because their inclusion would have been anti-dilutive. There were no anti-dilutive shares reserved for issuance upon exercise of stock options for the year ended December 31, 2004.



**RELIANCE STEEL & ALUMINUM CO.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**  
**December 31, 2005**

**13. Subsequent Events**

In January 2006, the Company entered into a merger agreement to acquire the outstanding stock of Earle M. Jorgensen Company (“EMJ”) for approximately \$13.00 per share in cash and stock, subject to a collar. The consideration to EMJ stockholders will be paid approximately 50% in cash and 50% in the Company’s common stock, subject to a minimum and maximum number of shares of Reliance stock. Under the terms of the merger agreement, EMJ stockholders will have the right to receive consideration of \$6.50 in cash and between 0.0892 and 0.1207 of a share of the Company’s common stock, depending on the average trading price per share of the Company’s common stock on the New York Stock Exchange for the 20 trading days ending on and including the second trading day prior to completion of the merger. If the average price of the Company’s common stock prior to the closing is between \$53.86 and \$72.86 per share, the value of the Reliance common stock received would be \$6.50 per EMJ share.

The cash portion of approximately \$385,000,000, which includes the cash out of certain EMJ options and estimated transaction costs, will be financed under the Company’s \$600,000,000 syndicated credit facility. Additionally, the Company will assume EMJ’s existing long-term debt, including \$250,000,000 of senior secured indentures. The Company obtained amendments to its \$600,000,000 credit facility and its senior unsecured notes in February 2006 that allow the Company to assume the EMJ indentures, among other things. The amendment to the credit facility also provides for an increase in the maximum amount available to \$700,000,000, to be effective upon completion of the EMJ acquisition. The Company expects to finalize the merger in early April 2006.

Additionally, effective January 3, 2006, the Company purchased the remaining 49.5% minority interest in American Steel L.L.C. for \$12,000,000. On March 1, 2006, the Company acquired Everest Metals (Suzhou) Co., Ltd., a metals service center company in China, through its 70%-owned joint venture company, Reliance Pan Pacific Pte., Ltd.

**RELIANCE STEEL & ALUMINUM CO.**

**QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)**

The following is a summary of the quarterly results of operations for the years ended December 31, 2005, 2004 and 2003:

	<u>March 31,</u>	<u>June 30,</u>	<u>September 30,</u>	<u>December 31,</u>
	<u>(in thousands, except per share amounts)</u>			
2005:				
Net sales .....	\$ 811,907	\$ 816,342	\$ 870,124	\$ 868,678
Cost of sales.....	\$ 595,971	\$ 594,107	\$ 641,396	\$ 617,526
Gross profit.....	\$ 215,936	\$ 222,235	\$ 228,728	\$ 251,152
Net income.....	\$ 46,363	\$ 49,049	\$ 49,437	\$ 60,588
Earnings per share from continuing operations – diluted .....	\$ 1.41	\$ 1.48	\$ 1.49	\$ 1.81
Earnings per share from continuing operations – basic .....	\$ 1.41	\$ 1.49	\$ 1.50	\$ 1.83
2004:				
Net sales .....	\$ 655,765	\$ 760,780	\$ 783,670	\$ 742,819
Cost of sales.....	\$ 468,335	\$ 532,313	\$ 568,748	\$ 541,452
Gross profit.....	\$ 187,430	\$ 228,467	\$ 214,922	\$ 201,367
Net income.....	\$ 29,839	\$ 52,797	\$ 44,140	\$ 42,952
Earnings per share from continuing operations – diluted .....	\$ .92	\$ 1.62	\$ 1.35	\$ 1.31
Earnings per share from continuing operations – basic .....	\$ .92	\$ 1.63	\$ 1.36	\$ 1.32
2003:				
Net sales .....	\$ 450,823	\$ 456,329	\$ 490,587	\$ 485,194
Cost of sales.....	\$ 331,420	\$ 336,957	\$ 351,625	\$ 352,308
Gross profit.....	\$ 119,403	\$ 119,372	\$ 138,962	\$ 132,886
Net income.....	\$ 5,579	\$ 6,392	\$ 12,353	\$ 9,686
Earnings per share from continuing operations – diluted .....	\$ .18	\$ .20	\$ .39	\$ .30
Earnings per share from continuing operations – basic .....	\$ .18	\$ .20	\$ .39	\$ .30

Quarterly and year-to-date computations of per share amounts are made independently. Therefore, the sum of per share amounts for the quarters may not agree with per share amounts for the year shown elsewhere in the Annual Report on Form 10-K.

**RELIANCE STEEL & ALUMINUM CO.**

**SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS  
(In thousands)**

<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Additions</u>		<u>Deductions</u>	<u>Balance at End of Period</u>
		<u>Charged to Costs and Expenses</u>	<u>Charged to Other Accounts</u>		
Year Ended December 31, 2003					
Allowance for doubtful accounts .....	\$5,158	\$4,373	\$600	\$5,415 <sup>(1)</sup>	\$4,716
Year Ended December 31, 2004					
Allowance for doubtful accounts .....	\$4,716	\$9,078	\$266	\$5,361 <sup>(1)</sup>	\$8,699
Year Ended December 31, 2005					
Allowance for doubtful accounts .....	\$8,699	\$5,173	\$ 556	\$3,917 <sup>(1)</sup>	\$10,511

<sup>(1)</sup> Uncollectible accounts written off, net of recoveries.

**RELIANCE STEEL & ALUMINUM CO.**

**SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS  
(In thousands)**

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

There have been no changes in or disagreements with the Company's accountants on any accounting or financial disclosure issues.

**Item 9A. Controls and Procedures.**

**Disclosure Controls and Procedures**

We maintain disclosure controls and procedures, which are designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer, or CEO, and chief financial officer, or CFO, as appropriate to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of the Company's management, including our CEO and CFO, an evaluation was performed on the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this annual report. Based on that evaluation, our management, including our CEO and CFO, concluded that our disclosure controls and procedures were effective as of December 31, 2005.

An evaluation was also performed under the supervision and with the participation of our management, including our CEO and CFO, of any change in our internal controls over financial reporting that occurred during our last fiscal quarter and that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting. That evaluation did not identify any change in our internal controls over financial reporting that occurred during our latest fiscal quarter and that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

**Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as this term is defined in Exchange Act Rule 13a-15(f). All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control – Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2005.

On July 1, 2005, the Company acquired Chapel Steel Corp. Due to the timing of the acquisition, Chapel Steel Corp. was not included in management's 2005 assessment of and report on internal control over financial reporting.

Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 has been audited by Ernst & Young, LLP, an independent registered public accounting firm, as stated in their report which is included herein.

**Item 9B. Other Information.**

None.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING**

The Board of Directors and Shareholders of Reliance Steel & Aluminum Co.

We have audited management's assessment, included in Management's Report on Internal Control Over Financial Reporting, that Reliance Steel & Aluminum Co. maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Reliance Steel & Aluminum Co.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

As indicated in the accompanying Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Chapel Steel Corp., which is included in the 2005 consolidated financial statements of Reliance Steel & Aluminum Co. and constituted 8.0% and 9.9% of total assets and net assets, respectively, as of December 31, 2005 and 3.9% and 3.6% of net sales and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of Reliance Steel & Aluminum Co. also did not include an evaluation of the internal control over financial reporting of Chapel Steel Corp.

In our opinion, management's assessment that Reliance Steel & Aluminum Co. maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Reliance Steel & Aluminum Co. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Reliance Steel & Aluminum Co. and its subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2005, and our report dated March 10, 2006 expressed an unqualified opinion thereon.

**/s/ ERNST & YOUNG LLP**

Los Angeles, California  
March 10, 2006

## PART III

### Item 10. Directors and Executive Officers of the Registrant.

The following table sets forth certain information regarding our directors and executive officers:

<u>Name</u>	<u>Age</u>	<u>Position with Reliance</u>
David H. Hannah <sup>(1)</sup> .....	54	Chief Executive Officer; Director
Gregg J. Mollins <sup>(1)</sup> .....	51	President; Chief Operating Officer; Director
Karla R. Lewis .....	40	Executive Vice President; Chief Financial Officer
James P. MacBeth .....	58	Senior Vice President, Carbon Steel Operations
William K. Sales, Jr .....	48	Senior Vice President, Non-Ferrous Operations
Joe D. Crider <sup>(1) (4) (5)</sup> .....	76	Non-Executive Chairman of the Board; Director
Thomas W. Gimbel <sup>(1) (5)</sup> .....	54	Director
Douglas M. Hayes <sup>(2) (3) (4)</sup> .....	62	Director
Franklin R. Johnson <sup>(2) (3) (5)</sup> .....	69	Director
Mark V. Kaminski <sup>(1) (4) (5)</sup> .....	50	Director
Richard J. Slater <sup>(2) (5)</sup> .....	59	Director
Leslie A. Waite <sup>(2) (3) (4)</sup> .....	60	Director

<sup>(1)</sup> Term of office as a director expiring in 2006.

<sup>(2)</sup> Term of office as a director expiring in 2007.

<sup>(3)</sup> Member of the Audit Committee.

<sup>(4)</sup> Member of the Compensation and Stock Option Committee.

<sup>(5)</sup> Member of the Nominating and Governance Committee.

#### **Directors**

*Joe D. Crider* became the Chairman of the Board of Reliance in February 1997. Mr. Crider was the Chief Executive Officer of Reliance from May 1994 until his retirement in January 1999. Before becoming the Chief Executive Officer, Mr. Crider had been President and Chief Operating Officer and a director since 1987 and served in other capacities at the Company since 1975. Mr. Crider serves as a member of our Compensation and Stock Option Committee and as a member of our Nominating and Governance Committee. The Board of Directors has determined that Mr. Crider is an independent director.

*Thomas W. Gimbel* was appointed a director of Reliance in January 1999. Since 1984, Mr. Gimbel has been the President of Advanced Systems Group, which is an independent computer consulting firm servicing database requirements for diverse businesses of various sizes. From 1975 to 1984, Mr. Gimbel was employed by Dun & Bradstreet. Mr. Gimbel serves as a member of our Nominating and Governance Committee. The Board of Directors has determined that Mr. Gimbel is an independent director.

*David H. Hannah* was appointed a director of Reliance in 1992 and became the Chief Executive Officer of Reliance in January 1999. Mr. Hannah served as President of Reliance from November 1995 to January 2002. Prior to that, he was Executive Vice President and Chief Financial Officer from 1992 to 1995, Vice President and Chief Financial Officer from 1990 to 1992 and Vice President and Division Manager of the Los Angeles Reliance Steel Company division of Reliance from 1989 to 1990. Mr. Hannah has served as an officer of the Company since 1981. For eight years before joining Reliance, Mr. Hannah, a certified public accountant, was employed by Ernst & Whinney (a predecessor to Ernst & Young LLP, our independent registered public accounting firm) in various professional staff positions.

*Douglas M. Hayes* became a director of Reliance in September 1997. Mr. Hayes retired from Donaldson, Lufkin & Jenrette Securities Corporation ("DLJ"), where he was Managing Director of Investment Banking from 1986 to May 1997, after which he established his own investment firm, Hayes Capital Corporation, located in Los Angeles, California. DLJ was an underwriter in our 1997 public equity offering and was also the underwriter in our initial public offering in 1994. Mr. Hayes serves as a member of our Audit Committee and our Compensation and Stock Option Committee. Mr. Hayes is also a director of Circor International, Inc., a public company, the securities of which are traded on the New York Stock Exchange, and for which Mr. Hayes serves as chairman of the nominating and governance committee and as a member of the compensation committee, and Mr. Hayes serves as a director of Sands Regent, a public company, the securities of which are traded on NASDAQ, and for

which he serves as chairman of its audit committee. The Board of Directors has determined that Mr. Hayes is an independent director.

*Franklin R. Johnson* was appointed a director of Reliance in February 2002. Mr. Johnson is a certified public accountant, having been the managing partner of the entertainment practice of Price Waterhouse until he retired in June 1997. Mr. Johnson was the chief financial officer of Rysler Entertainment, a producer and distributor of films and television shows from June 1997 to June 1999 and, since July 1999, he has served as a business consultant, a litigation consultant and an expert witness, none of which services has been provided to Reliance. Mr. Johnson serves as the Chairman and a member of our Audit Committee and as a member of our Nominating and Governance Committee. Mr. Johnson is also a director of Special Value Opportunities Fund, a public fund for institutional investors organized by Tennenbaum Capital Partners, for which Mr. Johnson is chairman of its audit committee. Mr. Johnson serves as the chairman of the board and president of the United States Tennis Association, a non-profit corporation, and is on the compensation and investment committees. Mr. Johnson also serves as a director and as chairman of the audit committee of the UCLA Foundation, also a non-profit entity. The Board of Directors has determined that Mr. Johnson is an independent director and that he qualifies as the financial expert of the Audit Committee.

*Mark V. Kaminski* was appointed a director as of November 1, 2004. Mr. Kaminski was chief executive officer and a director of Commonwealth Industries, Inc. (now Aleris International, Inc.) from 1991 to June 2004, when he retired. Mr. Kaminski had served in other capacities with Commonwealth Industries Inc. since 1987. Commonwealth Industries Inc. has been a supplier of metals to Reliance, but the purchases in any year do not exceed five percent of either the gross revenues or the total consolidated assets of the Company or of Commonwealth. Mr. Kaminski is also a director of the Matthew Kelly Foundation, Cincinnati, Ohio, a non-profit organization. Mr. Kaminski serves as a member and Chairman of our Nominating and Governance Committee and as a member of the Compensation and Stock Option Committee. The Board of Directors has determined that Mr. Kaminski is an independent director.

*Gregg J. Mollins* was appointed a director of Reliance in September 1997 and became President of Reliance in January 2002. Mr. Mollins has served as Chief Operating Officer since May 1994. Mr. Mollins was Executive Vice President from November 1995 to January 2002, was Vice President and Chief Operating Officer from 1994 to 1995 and was Vice President from 1992 to 1994. Prior to that time he had been with Reliance for six years as Division Manager of the Santa Clara division. For ten years before joining Reliance in 1986, Mr. Mollins was employed by certain of our competitors in various sales and sales management positions.

*Richard J. Slater* is the president and a director of ORBIS L.L.C., an investment and advisory firm, and is an advisor to the chairman and chief executive officer of Jacobs Engineering Group, Inc., a New York Stock Exchange listed company that provides global technical professional services. Mr. Slater served in various positions with Jacobs Engineering Group from 1980 to 2003, most recently as Executive Vice President of Worldwide Operations. Mr. Slater serves as a member of our Nominating and Governance Committee. The Board of Directors has determined that Mr. Slater is an independent director.

*Leslie A. Waite* has been a director of Reliance since 1977. Mr. Waite is an investment advisor and, since April 2003, has been Managing Director and Senior Portfolio Manager of Valenzuela Capital Partners. Prior to that, he had been the president and chief portfolio manager of Waite & Associates since its formation in 1977. Mr. Waite is a member of our Audit Committee and serves as a member and Chairman of our Compensation and Stock Option Committee. The Board of Directors has determined that Mr. Waite is an independent director.

### ***Executive Officers***

In addition to Messrs. Hannah and Mollins, the following are executive officers of Reliance:

*Karla R. Lewis* became Executive Vice President of Reliance in January 2002 and continues as our Chief Financial Officer. Mrs. Lewis had been Senior Vice President and Chief Financial Officer of Reliance since February 2000. Mrs. Lewis served as Vice President and Chief Financial Officer of Reliance from 1999 to 2000 and was Vice President and Controller from 1995 to 1999. Mrs. Lewis served as Corporate Controller from 1992 to 1995. For four years prior to joining Reliance, Mrs. Lewis, a certified public accountant, was employed by Ernst & Young (our independent registered public accounting firm) in various professional staff positions.

*James P. MacBeth* became Senior Vice President, Carbon Steel Operations in January 2002, having been promoted from Vice President, Carbon Steel Operations, a position which he had held since July 1998. Prior to that time, Mr. MacBeth served as Division Manager of our Los Angeles Reliance Steel Company division from September 1995 to June 1998. From December 1991 to September 1995, Mr. MacBeth was Vice President and Division Manager of Feralloy Reliance Company, L.P., a joint

venture owned 50% by Reliance. Prior to December 1991, Mr. MacBeth held various sales and management positions since joining Reliance in 1969.

*William K. Sales, Jr.* became Senior Vice President, Non-Ferrous Operations in January 2002, having joined Reliance as Vice President, Non-Ferrous Operations in September 1997. From 1981 to 1997, Mr. Sales served in various sales and management positions with Kaiser Aluminum & Chemical Corp., a producer of aluminum products and a supplier of Reliance.

#### Significant Employees

In addition, the following Reliance officers are expected to make significant contributions to our operations:

*Donna Newton*, 52, became Vice President, Human Resources in January 2001. Ms. Newton joined Reliance as Director of Employee Benefits and Human Resources in February 1999. Prior to that time, she was director of sales and service for the Los Angeles office of Aetna U.S. Healthcare and also held various management positions at Aetna over a 20-year period.

*Kay Rustand*, 58, joined Reliance as Vice President and General Counsel in January 2001. Prior to that time, Ms. Rustand was a partner at the law firm of Arter & Hadden LLP (our former counsel) in Los Angeles, California, for more than 10 years, specializing in corporate and securities law. Following law school, Ms. Rustand served as a law clerk for the Honorable Herbert Y. C. Choy, of the U. S. Court of Appeals, 9<sup>th</sup> Circuit.

#### *Code of Ethics*

Reliance has adopted a Code of Conduct, which includes a code of ethics, that applies to all executive officers and senior management, including the Chief Executive Officer and the Executive Vice President and Chief Financial Officer. Reliance has also adopted a Director Code of Conduct that applies to all directors, whether management or non-management, independent or not. These Codes of Conduct are posted on our website at [www.rsac.com](http://www.rsac.com) or a copy will be provided to you at no charge if you request one in writing to the attention of the Secretary of the Company. We have also established a confidential hotline to allow persons to report, without fear of retaliation, any inappropriate acts or omissions relating to our financial statements and accounting policies and practices.

#### *Director Independence*

Other than Messrs. Hannah and Mollins, who are officers and employees of the Company, the Board has determined that no director has any material relationship with the Company nor is any such director affiliated with any entity or person who has a material relationship with the Company. Mr. Crider is a former chief executive officer of the Company, but he has been retired for more than five years. Mr. Johnson is a former partner of Price Waterhouse, the predecessor to the Company's internal auditor, but he has been retired for more than five years, which was before the Company retained PricewaterhouseCoopers. The Board has determined that, in light of the length of time that Messrs. Crider and Johnson have been retired, their prior relationships are not material to the determination of independence. Prior to his retirement, Mr. Kaminski served as chief executive officer and a director of Commonwealth Industries Inc., which has been a supplier of metals to Reliance. Since Reliance's purchases from Commonwealth Industries Inc. in any year do not exceed five percent of either the gross revenues or the total consolidated assets of Reliance or of Commonwealth, the Board has determined that this prior relationship would not interfere with Mr. Kaminski's ability to exercise his independent judgment. Accordingly, the Board has determined that all of the directors other than Messrs. Hannah and Mollins qualify as independent directors under New York Stock Exchange Rule 303A. In making this determination, the Board reviewed and considered information provided by the directors and the Company with regard to each director's business and personal activities as they may relate to the Company and to the Company's management.

Reliance has provided our Annual Written Affirmation and Annual CEO Certification to the New York Stock Exchange.

#### *Section 16(a) Beneficial Ownership Reporting Compliance*

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires that our officers and directors and any person who directly or indirectly is the beneficial owner of more than 10% of our Common Stock must file reports of beneficial ownership and any changes in such ownership. The three forms used for reports are: the Form 3, which is an initial statement of beneficial ownership of such securities; the Form 4, which reports changes in beneficial ownership, and the Form 5, which is an annual statement to report changes that have not previously been reported. Each of these forms must be filed at specified times.

Based solely on our review of such forms and written representations made by certain of such reporting persons, Reliance believes that during the year ended December 31, 2005, all persons have complied with the requirements of Section 16(a).



## Item 11. Executive Compensation.

The following table summarizes certain information concerning the compensation that we paid for the years 2005, 2004 and 2003 to our chief executive officer and each of the other four most highly compensated executive officers whose aggregate salary and bonus exceeded \$100,000 for services rendered in all capacities to Reliance during 2005:

**Summary Compensation Table**

Name and Principal Position	Year	Annual Compensation			Long Term Compensation		All Other Compensation <sup>(3)</sup>
		Salary	Bonus <sup>(1)</sup>	Other <sup>(2)</sup>	Restricted Stock Awards	Securities Underlying Options/ SARs(#)	
David H. Hannah Chief Executive Officer	2005	\$560,000	\$1,691,842	\$1,012,700	—	100,000	\$11,481
	2004	525,000	931,112	227,400	—	—	11,331
	2003	500,000	575,297	370,800	—	30,000	10,615
Gregg J. Mollins President and Chief Operating Officer	2005	\$425,000	\$1,284,029	\$513,300	—	75,000	\$11,481
	2004	400,000	708,508	636,650	—	—	11,331
	2003	375,000	476,737	326,700	—	30,000	10,615
Karla R. Lewis Executive Vice President and Chief Financial Officer	2005	\$300,000	\$906,425	\$752,900	—	75,000	\$11,481
	2004	250,000	442,883	—	—	—	11,331
	2003	230,000	292,466	408,600	—	30,000	10,615
James P. MacBeth Senior Vice President Carbon Steel Operations	2005	\$275,000	\$830,904	\$465,000	—	50,000	\$11,481
	2004	225,000	342,362	—	—	—	11,331
	2003	200,000	224,341	371,621	—	25,000	10,615
William K. Sales, Jr. Senior Vice President Non-Ferrous Operations	2005	\$275,000	\$830,904	\$465,000	—	50,000	\$11,481
	2004	225,000	342,362	—	—	—	11,331
	2003	200,000	224,341	345,056	—	25,000	10,615

<sup>(1)</sup> The amounts shown were paid under our Key-Man Incentive Plan and also include holiday bonuses.

<sup>(2)</sup> The amounts represent the difference between the exercise price and fair market value at date of exercise of non-qualified stock options. See "Aggregated Options/SAR Exercises in Last Fiscal Year and FY-End Option/SAR Values".

<sup>(3)</sup> The amounts represent allocations to the accounts of each of the named executive officers of contributions made to our ESOP and the amount that represents our matching contribution to our 401(k) savings plan.

During the fiscal years ended December 31, 2005 and 2003, non-qualified stock options for 350,000 and 140,000 shares, respectively, of our Common Stock were granted to the executive officers named in the previous table. No shares were granted in 2004. The following table sets forth information for the executive officers named above with regard to stock options granted during the year ended December 31, 2005:

**Options and Stock Appreciation Rights  
Granted During Last Fiscal Year**

Name	Number of Shares	Percent of Total Employee Options Granted	Per Share Exercise Price	Expiration Date	Potential Realizable Value At Assumed Annual Rates of Stock Price Appreciation for Option Term	
					5%	10%
David H. Hannah .....	100,000	10.1%	\$49.15	10/18/10	\$1,357,924	\$3,000,657
Gregg J. Mollins .....	75,000	7.6%	\$49.15	10/18/10	\$1,018,443	\$2,250,492
Karla R. Lewis .....	75,000	7.6%	\$49.15	10/18/10	\$1,018,443	\$2,250,492
James P. MacBeth .....	50,000	5.0%	\$49.15	10/18/10	\$ 678,962	\$1,500,328
William K. Sales, Jr. ....	50,000	5.0%	\$49.15	10/18/10	\$ 678,962	\$1,500,328

The following table sets forth information for the executive officers named above with regard to the aggregate stock options exercised during the year ended December 31, 2005, and the stock options held as of December 31, 2005:

**Aggregated Options/SAR Exercises in Last Fiscal Year  
and FY-End Option/SAR Values**

<u>Name</u>	<u>Shares Acquired on Exercise(#)</u>	<u>Value Realized(\$)<sup>(1)</sup></u>	<u>Number of Securities Underlying Unexercised Options/ SARs at FY-End(#) Exercisable/Unexercisable</u>	<u>Value of Unexercised In-the-Money Options/SARs at FY-End(\$)<sup>(1)</sup> Exercisable/Unexercisable</u>
David H. Hannah.....	52,500	\$1,012,700	7,500 /120,000	\$270,300 / \$1,915,200
Gregg J. Mollins.....	27,500	\$513,300	7,500 / 95,000	\$270,300 / \$1,615,950
Karla R. Lewis .....	40,000	\$752,900	20,000 / 95,000	\$718,200 / \$1,615,950
James P. MacBeth .....	25,000	\$465,000	12,500 / 67,500	\$450,500 / \$1,226,600
William K. Sales, Jr. ....	25,000	\$465,000	12,500 / 67,500	\$450,500 / \$1,226,600

<sup>(1)</sup>The value of the shares as of December 31, 2005 was based on the composite closing price on the New York Stock Exchange for that date or at the date of exercise.

*Stock Option Plans*

In 1994, the Reliance Board of Directors adopted an Incentive and Non-Qualified Stock Option Plan (the "1994 Plan"), which was approved by the shareholders in May 1994. In May 2001, the shareholders approved an amendment to the 1994 Plan to increase the number of authorized shares under the 1994 Plan to allow options to be granted for a maximum of 2,500,000 shares. As of December 31, 2005, there were 524,000 options to acquire shares of Common Stock outstanding under the 1994 Plan. The 1994 Plan provided for granting of stock options that may be either "Incentive Stock Options" within the meaning of Section 422A of the Internal Revenue Code of 1986 (the "Code") or "Non-Qualified Stock Options" which do not satisfy the provisions of Section 422A of the Code. Incentive Stock Options are required to be issued at an option exercise price per share equal to at least the fair market value of a share of Common Stock on the date of grant, except that the exercise price of options granted to any employee who owns (or, under pertinent Code provisions, is deemed to own) more than 10% of the outstanding Common Stock must equal at least 110% of fair market value on the date of grant. Non-Qualified Stock Options must be issued at an option exercise price equal to at least fair market value on the date of grant. The Compensation and Stock Option Committee established the terms and conditions for the exercise of stock options, which are set forth in the instrument evidencing the stock option. Stock options may be exercised with either cash or shares of our Common Stock or other form of payment authorized by the Compensation and Stock Option Committee. Stock options expire five years from the date of the grant. The 1994 Plan expired by its terms as of December 31, 2003, but the outstanding options remain exercisable in accordance with their terms.

In 2003, we issued options to acquire an aggregate of 718,000 shares of our Common Stock at \$25.08 per share to key employees, of which 140,000 options were issued to named executive officers. In 2003, options to acquire 423,375 shares of our Common Stock were exercised at prices ranging from \$18.83 to \$25.60 per share, 177,750 of which were exercised by the named executive officers. In 2004, options to acquire 367,800 shares were exercised at prices ranging from \$18.83 to \$25.60 per share, 85,000 of which were exercised by the named executive officers. In 2005, options to acquire 425,950 shares of our Common Stock were exercised at prices ranging from \$22.00 to \$25.60 per share, 170,000 of which were exercised by the named executive officers.

In 2004, the Reliance Board of Directors adopted an Incentive and Non-Qualified Stock Option Plan, which was approved by the shareholders in May 2004 (the "2004 Plan"). The Board reserved 3,000,000 shares of our Common Stock for issuance under the 2004 Plan. As of December 31, 2005, there were 992,500 options to acquire shares of Common Stock outstanding under the 2004 Plan. The 2004 Plan provides for granting of stock options that may be either "Incentive Stock Options" within the meaning of Section 422A of the Code or "Non-Qualified Stock Options" which do not satisfy the provisions of Section 422A of the Code. Incentive Stock Options are required to be issued at an option exercise price per share equal to at least the fair market value of a share of Common Stock on the date of grant, except that the exercise price of options granted to any employee who owns (or, under pertinent Code provisions, is deemed to own) more than 10% of the outstanding Common Stock must equal at least 110% of fair market value on the date of grant. Non-Qualified Stock Options must be issued at an option exercise price equal to at least fair market value on the date of grant. The Compensation and Stock Option Committee establishes the terms and conditions for the exercise of stock options, which are set forth in the instrument evidencing the stock option. Stock options

may be exercised with cash or such other form of payment as may be authorized by the Compensation and Stock Option Committee. Stock options may not be granted more than ten years from the date of the 2004 Plan and expire five years from the date of the grant. The 2004 Plan expires by its terms as of December 31, 2013.

In October 2005, under the 2004 Plan, we issued options to acquire an aggregate of 992,500 shares of our Common Stock at \$49.15 per share to key employees, of which 350,000 were issued to named executive officers.

In May 1998, the shareholders approved the Directors Stock Option Plan for non-employee directors. There were 300,000 shares of our Common Stock reserved for issuance under the Directors Plan initially. In February 1999, the Directors Plan was amended to authorize the Board of Directors of Reliance to grant additional options to acquire our Common Stock to non-employee directors. In May 2004, the Directors Plan was amended to accelerate the vesting of a non-employee director's unexpired stock options in the event that such an individual retires from the Board of Directors at or after the age of 75, so that any unexpired stock options granted under the Directors Plan become immediately vested and exercisable, and the director, if he or she so desires, must exercise those options within ninety (90) days after such retirement or the options shall expire automatically. Options under the Directors Plan are non-qualified stock options, with an exercise price equal to fair market value at the date of grant. All options granted prior to May 2005 expire five years from the date of grant. None of the stock options become exercisable until one year after the date of the grant, unless specifically approved by the Board of Directors. In each of the following four years, 25% of the options become exercisable on a cumulative basis. In May 2005 the Directors Plan was further amended to provide for automatic annual grants of options to acquire 3,000 shares of Common Stock to each non-employee director. These options become 100% exercisable after one year. Once exercisable, the options remain exercisable until that date which is ten years after the date of grant. In addition, the amendment increased the number of shares available for future grants of options from the 187,000 shares reserved as of May 2005 to 250,000 shares. As of December 31, 2005, there were 63,000 options to acquire shares of Common Stock outstanding under the Directors Plan and 179,500 authorized shares available under the Directors Plan for future grants.

In May 2003, options to purchase 37,500 shares of our Common Stock at \$17.11 per share were automatically granted under the Directors Plan. In 2004 options to acquire 22,500 shares of our Common Stock at prices ranging from \$30.81 to \$34.32 per share were automatically granted under the Directors Plan. In May 2005, options to acquire 18,000 shares of our Common Stock at \$36.62 per share were automatically granted under the Directors Plan. In 2003, options to acquire 36,000 shares of our Common Stock were exercised at prices ranging from \$18.04 to \$18.83 per share. In 2004, options to acquire 69,000 shares of our Common Stock were exercised at prices ranging from \$17.11 to \$18.83 per share. In 2005, options to acquire 7,500 shares of our common Stock were exercised at a price of \$17.11 per share.

#### **401(k) Savings Plan**

Various 401(k) and profit sharing plans are maintained by Reliance and its subsidiaries. Effective in 1998, the Reliance Steel & Aluminum Co. Master 401(k) Plan (the "Master Plan") was established, which combined several of the various 401(k) and profit sharing plans of Reliance and its subsidiaries into one plan. Salaried and certain hourly employees of Reliance and its participating subsidiaries are covered under the Master Plan. The Master Plan will continue to allow each subsidiary's Board to determine independently the annual matching percentage and maximum compensation limits or annual profit sharing contribution. Eligibility occurs after three months of service, and the Reliance contribution vests at 25% per year, commencing one year after the employee enters the Master Plan. Reliance's contributions to the Master Plan for the years ended December 31, 2005, 2004 and 2003 were \$7,035,000, \$6,241,000 and \$4,528,000, respectively. Other 401(k) and profit sharing plans and defined benefit pension plans exist as certain subsidiaries have not yet combined their plans into the Master Plan as of December 31, 2005. One of these defined benefit pension plans was terminated effective December 31, 2004 and distributions to participants will be made in 2006.

Reliance also participates in various multi-employer pension plans covering certain employees not covered under our benefit plans pursuant to agreements between Reliance and collective bargaining units who are members of such plans.

#### *Supplemental Executive Retirement Plan*

In 1996, Reliance adopted a Supplemental Executive Retirement Plan ("SERP"), which provides post-retirement benefits to key officers of Reliance. Under the SERP, benefit payments equal 50% of the average of the participant's highest five years of the last ten years of total cash compensation, less benefits from other retirement plans that we sponsor, including the 401(k) Plan and ESOP. The SERP was amended in 1999 to provide for a pre-retirement death benefit. Separate SERP's existed for two of the companies we acquired, which continue to provide post-retirement benefits to certain key employees of each company who were eligible to participate in the plans at the time we acquired the companies. Reliance expenses were \$1,632,000, \$1,498,000

and \$1,696,000 for the plans for the years ended December 31, 2005, 2004, and 2003, respectively, based on calculations made by our actuaries.

The estimated present value of annual benefits payable by the SERP, net of amounts received under other retirement plans that we sponsor, at the normal retirement age of 65 for each of the executive officers named above is as follows:

<u>Name</u>	<u>Estimated Annual Benefits Payable Upon Retirement</u>
David H. Hannah .....	\$487,385
Gregg J. Mollins .....	\$402,406
Karla R. Lewis .....	\$242,521
James P. MacBeth .....	\$208,858
William K. Sales, Jr. ....	\$230,870

*Incentive Plan*

We have maintained a Key-Man Incentive Plan for our division managers and corporate officers since 1965, with subsequent amendments. Most recently, we modified the Key-Man Incentive Plan in January 1999, to more accurately reflect the conditions of Reliance and the industry, and to allocate the incentive bonus pool in accordance with the contributions of the eligible personnel. The initial incentive bonus pool is calculated to equal 20% of the amount by which our net income for that year exceeds the rate of return on a one-year Treasury bill multiplied by our net worth at the beginning of the year. That pool is then adjusted by additional calculations, including the accrual of the calculated incentives. Our corporate officers and certain division managers are eligible to participate in the pool and our division managers are ranked according to certain criteria and awarded points based on their rankings. The incentive compensation bonus is payable 75% in cash and 25% in our Common Stock, except that Corporate officers have the option of having this bonus paid 100% in cash. The Company has reserved 87,098 shares of Common Stock for issuance as restricted stock under this Plan as of December 31, 2005. Officers of the subsidiaries are not currently eligible to participate under the Key-Man Incentive Plan.

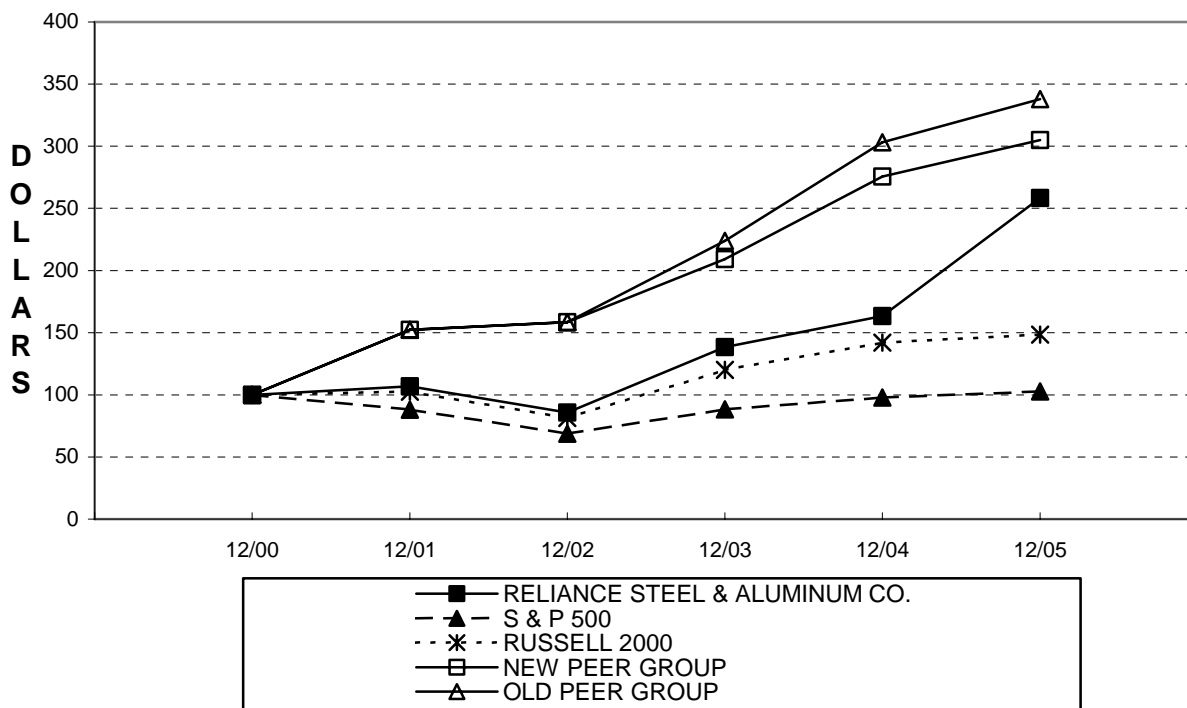
*Employee Stock Ownership Plan*

In 1974, Reliance adopted an Employee Stock Ownership Plan ("ESOP") that was approved by the Internal Revenue Service as a qualified plan and that allows eligible employees to receive our Common Stock. Union Bank of California is the ESOP trustee. All non-union employees, including officers, are eligible to participate in the ESOP as of January 1 after one and one-half year's of service with Reliance. An employee who is eligible to participate is fully vested in the shares of our Common Stock allocated to his/her ESOP account. Allocation is based on the participant's compensation each year, including bonuses, as compared to the total compensation of all participants, subject to the maximum amounts established by the Internal Revenue Service. Each year, Reliance contributes to the ESOP an amount determined by the Board of Directors, but no less than that amount necessary to cover the obligations of the ESOP, including any trustee's fees. Our cash contributions were \$1,000,000 in each of 2005 and 2004, and \$800,000 in 2003. The cash contributions are then used to purchase shares of our Common Stock on the open market. The shares are retained by the ESOP until a participant retires or otherwise terminates his/her employment with Reliance. Employees of the subsidiaries, except for RSAC Management Corp., are not eligible to participate under our ESOP.

## Performance Graph

The following graph compares the performance of our Common Stock with that of the S&P 500, the Russell 2000 and two peer groups that we selected for the five-year period from December 31, 2000 through December 31, 2005. The comparison of total return assumes that a fixed investment of \$100 was invested on December 31, 2000 in our Common Stock and assumes the reinvestment of dividends. Since there is no nationally-recognized industry index consisting of metals service center companies to be used as a peer group index, Reliance constructed its own peer group. The peer group originally consisted of Steel Technologies Inc., Olympic Steel Inc. and Gibraltar Steel Corporation, all of which have securities listed for trading on NASDAQ; A.M. Castle & Co., which has securities listed for trading on the American Stock Exchange; and Ryerson Inc. and Worthington Industries, Inc. which have securities listed for trading on the New York Stock Exchange, as of December 31, 2005, and Metals USA, Inc. (collectively, "Old Peer Group"). This year we have added Earle M. Jorgensen Company to the peer group, which has securities listed for trading on the New York Stock Exchange and removed Metals USA, Inc. from the peer group because it is no longer a public company (Old Peer Group together with Earle M. Jorgensen and excluding Metals USA, "New Peer Group"). We believe that these changes better reflect our competitive market. We show the comparison for both groups below. The returns of each member of the peer groups are weighted according to that member's stock market capitalization as of the period measured. The stock price performance shown on the graph below is not necessarily indicative of future price performance.

**Comparison of Five Year Cumulative Total Return\***  
**Among Reliance Steel & Aluminum Co., The S&P 500 Index,**  
**The Russell 2000 Index and Two Peer Groups**



	Cumulative Total Return					
	12/00	12/01	12/02	12/03	12/04	12/05
Reliance Steel & Aluminum Co.	100	107	86	138	163	258
Old Peer Group	100	152	158	224	303	338
New Peer Group	100	152	158	209	276	305
S&P 500	100	88	69	88	98	103
Russell 2000	100	102	81	120	142	148

\* \$100 Invested on December 31, 2000 in stock or index – including reinvestment of dividends. Fiscal year ending December 31.

## Item 12. Security Ownership of Certain Beneficial Owners and Management.

The following table sets forth certain information as of January 31, 2006, with respect to the beneficial ownership of our Common Stock by (i) each person known to Reliance who owns beneficially or of record more than five percent (5%) of the Common Stock of Reliance, (ii) each director and each executive officer named in the Summary Compensation Table and (iii) all directors and executive officers as a group:

<u>Name and Address of Beneficial Owner<sup>(1)</sup></u>	<u>Amount and Nature of Beneficial Ownership<sup>(2)</sup></u>	<u>Percentage of Outstanding Shares Owned</u>
Florence A. Neilan .....	4,198,090	12.67%
2888 Bayshore Dr., Apt. A-12 Newport Beach, CA 92663		
Barclays Global Investors, NA .....	2,625,135 <sup>(3)</sup>	7.92%
45 Fremont Street San Francisco, CA 94105		
Franklin Resources, Inc. ....	1,767,800 <sup>(4)</sup>	5.34%
One Franklin Parkway San Mateo, CA 94403		
Dimensional Fund Advisors Inc. ....	1,737,577 <sup>(5)</sup>	5.24%
1299 Ocean Avenue, 11 <sup>th</sup> Floor Santa Monica, CA 90401		
Joe D. Crider .....	101,875 <sup>(6)</sup>	*
400 A Mariposa Sierra Madre, CA 91024		
Thomas W. Gimbel .....	342,118 <sup>(7)</sup>	1.03%
P.O. Box 50270 Pasadena, CA 91115		
David H. Hannah .....	122,788 <sup>(8)</sup>	*
Douglas M. Hayes .....	8,000 <sup>(9)</sup>	*
2545 Roscomare Rd. Los Angeles, CA 90077		
Franklin R. Johnson .....	6,625 <sup>(10)</sup>	*
350 South Grand Avenue, Suite 4800 Los Angeles, CA 90071		
Mark V. Kaminski .....	4,906 <sup>(11)</sup>	*
3521 Winterberry Circle Louisville, KY 40207		
Gregg J. Mollins .....	75,571 <sup>(12)</sup>	*
Richard J. Slater .....	—	*
1235 Hillcrest Avenue Pasadena, CA 91106		
Leslie A. Waite .....	74,406 <sup>(13)</sup>	*
55 South Lake Street, Suite 750 Pasadena, CA 91101		
Karla R. Lewis .....	59,968 <sup>(14)</sup>	*
James P. MacBeth .....	44,848 <sup>(15)</sup>	*
William K. Sales, Jr. ....	24,379 <sup>(16)</sup>	*
All directors and executive officers as a group (12 persons) .....	865,484 <sup>(17)</sup>	2.60%

\* Less than 1%.

<sup>(1)</sup> Unless otherwise indicated, the address of each beneficial owner is 350 South Grand Avenue, Suite 5100, Los Angeles, California 90071.

<sup>(2)</sup> Reliance has been advised that the named shareholders have the sole power to vote and to dispose of the shares set forth after their names, except as noted.

<sup>(3)</sup> A Schedule 13G was filed in January 2006 on behalf of Barclays Global Investors, NA, Barclays Global Fund Advisors, Barclays Global Investors, LTD and Barclays Global Investors Japan Trust and Banking Company Limited; all of which banks disclaim beneficial ownership of the shares and which report that the securities are held in trust accounts and beneficially owned by one of more beneficiaries of those accounts. Of the reported shares, 1,914,480 shares are owned by Barclays Global Fund Investors, NA and 710,655 shares are owned by Barclays Global Fund Advisors.

- (4) A Schedule 13G was filed in February 2006 on behalf of Franklin Resources, Inc., parent holding company; Charles B. Johnson, principal shareholder of parent holding company; and Rupert H. Johnson, Jr., principal shareholder of parent holding company; all of which disclaim beneficial ownership of the shares and which report that the securities are beneficially owned by one or more open or closed-end investment companies or other managed accounts which are advised by direct and indirect investment advisory subsidiaries of Franklin Resources, Inc.
- (5) A Schedule 13G was filed in February 2006 on behalf of Dimensional Fund Advisors Inc., which reports that it is a registered investment advisor that furnishes investment advice to four investment companies and serves as investment manager to certain other commingled group trusts and separate accounts. Dimensional Fund Advisors Inc. disclaims beneficial ownership of the shares and reports that the securities are owned by advisory clients of Dimensional Fund Advisors Inc., no one of which owns more than 5% of the class.
- (6) Includes 1,875 shares issuable upon the exercise of options held by Mr. Crider with an exercise price of \$30.81 per share. All shares are held by Mr. Crider as a Co-Trustee of the Crider Family Trust with his wife.
- (7) Includes 3,750 shares issuable upon the exercise of options held by Mr. Gimbel, with an exercise price of \$31.24 per share. Includes 13,750 shares that are owned jointly with Mr. Gimbel's wife. Excludes 10,600 shares that are held in trusts, for which Mr. Gimbel is the Trustee, for the benefit of Mr. Gimbel's children, as to which he disclaims beneficial ownership.
- (8) Includes 12,500 shares issuable upon the exercise of options held by Mr. Hannah, with exercise prices of \$25.08 to \$25.60 per share. All of the shares are owned jointly with Mr. Hannah's wife. Excludes 13,447 shares with respect to which Mr. Hannah has a vested right and shared voting power pursuant to our Employee Stock Ownership Plan ("ESOP").
- (9) Includes 3,750 shares issuable upon the exercise of options held by Mr. Hayes, with an exercise price of \$17.11 per share.
- (10) Includes 5,625 shares issuable upon the exercise of options held by Mr. Johnson, with an exercise price of \$26.39 per share.
- (11) Includes 1,875 shares issuable upon the exercise of options held by Mr. Kaminski with an exercise price of \$34.32 per share
- (12) Includes 12,500 shares issuable upon the exercise of options held by Mr. Mollins with exercise prices of \$25.08 to \$25.60 per share. All of the shares are owned jointly with Mr. Mollins' wife. Excludes 5,762 shares with respect to which Mr. Mollins has a vested right and shared voting power pursuant to our ESOP.
- (13) Includes 3,750 shares issuable upon the exercise of options held by Mr. Waite, with an exercise price of \$17.11 per share.
- (14) Includes 25,000 shares issuable upon the exercise of options held by Mrs. Lewis, with exercise prices of \$25.08 to \$25.60 per share. Excludes 2,315 shares with respect to which Mrs. Lewis has a vested right and shared voting power pursuant to our ESOP.
- (15) Includes 17,500 shares issuable upon the exercise of options held by Mr. MacBeth, with exercise prices of \$25.08 to \$25.60 per share. Excludes 5,271 shares with respect to which Mr. MacBeth has a vested right and shared voting power pursuant to our ESOP.
- (16) Includes 17,500 shares issuable upon the exercise of options held by Mr. Sales, with exercise prices of \$25.08 to \$25.60 per share. Excludes 804 shares with respect to which Mr. Sales has a vested right and shared voting power pursuant to our ESOP.
- (17) See notes 6 through 16.

The following table sets forth certain information regarding the 1994 Plan, the 2004 Plan and the Directors Plan as of December 31, 2005:

#### Equity Compensation Table

<u>Plan Category</u>	<u>Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights</u>	<u>Weighted Average Exercise Price of Outstanding Options, Warrants and Rights</u>	<u>Number of Securities Remaining Available for Future Issuance</u>
Equity compensation plans approved by security holders .....	1,579,500	\$40.40	2,187,000
Equity compensation plans not approved by security holders .....	—	—	—
Total	<u>1,579,500</u>	<u>\$40.40</u>	<u>2,187,000</u>

The Company also issues restricted stock to key employees under its Key-Man Incentive Plan. There are 87,098 shares of the Company's Common Stock currently reserved for issuance as restricted stock under the Company's Key-Man Incentive Plan. See "Incentive Plan" in Item 11.

### **Item 13. Certain Relationships and Related Transactions.**

In addition to a provision authorizing the indemnification of directors, our Restated Articles of Incorporation limit or eliminate the personal liability of directors for monetary damages to Reliance or its shareholders for the breach of fiduciary duty as a director in accordance with California corporate law. This provision does not limit or eliminate the liability of a director for the following: (i) for acts or omissions that involve intentional misconduct or a knowing and culpable violation of law; (ii) for acts or omissions that a director believes to be contrary to the best interests of the corporation or its shareholders, or that involve the absence of good faith on the part of the director; (iii) for any transaction from which a director derived an improper personal benefit; (iv) for acts or omissions that show a reckless disregard of the director's duty to the corporation or its shareholders in circumstances in which the director was aware, or should have been aware, in the ordinary course of performing a director's duties, of a risk of serious injury to the corporation or its shareholders; (v) for acts or omissions that constitute an unexcused pattern of inattention that amounts to an abdication of the director's duty to the corporation or its shareholders; (vi) for transactions between the corporation and a director, or between corporations having interrelated directors; and (vii) for improper distributions and stock dividends, loans and guaranties. The provisions of the Indemnification Agreements described below will be available to directors in the event of claims made against a director for certain types of liability which are not eliminated in the Restated Articles of Incorporation.

Our Bylaws require Reliance to indemnify officers, directors, employees and agents to the fullest extent permissible by California Corporations Code Section 317 against expenses, judgments, fines, settlements or other amounts actually and reasonably incurred by that person as a result of being made or threatened to be made a party to a proceeding. Reliance has entered into indemnification agreements with all of its present directors and all of its officers, to indemnify these persons against certain liabilities. The form of these Indemnification Agreements was approved by the Board of Directors and shareholders of Reliance in March 1988, and the shareholders also authorized the Board of Directors to enter into Indemnification Agreements with all existing and future directors at the time they are so elected and to determine, from time to time, whether similar Indemnification Agreements should be entered into with other individual officers who are not directors. The Indemnification Agreements provide for indemnification in cases where indemnification might not otherwise be available in the absence of the Indemnification Agreements under our Restated Articles of Incorporation.

Each Indemnification Agreement provides that Reliance will indemnify the indemnitee and hold him or her harmless, to the fullest extent permitted by law, from all amounts which he or she pays or is obligated to pay as a result of claims against him or her arising out of his or her service to Reliance, including derivative claims by or in the right of Reliance. Reliance has agreed to indemnify against the amounts of all damages, judgments, sums paid in settlement (if approved by Reliance, which approval will not be unreasonably withheld), counsel fees, costs of proceedings or appeals, and fines and penalties (other than fines and penalties for which indemnification is not permitted by applicable law) within the scope of the indemnification.

In addition, Reliance has purchased directors and officers liability insurance for the benefit of its directors and officers.



#### Item 14. Principal Accountant Fees and Services.

Ernst & Young LLP has acted as our independent auditors for more than sixty-five years. The Audit Committee and the Board of Directors selected, and our shareholders approved, Ernst & Young LLP to serve as the independent registered public accounting firm for the Company to perform the annual audit of our 2005 financial statements. We paid our independent registered public accounting firm the amounts set forth in the tables below for services provided in the last two years. Audit fees are the aggregate fees for services of the independent registered public accounting firm for audits of our annual financial statements, the audit of management's assessment of internal control over financial reporting and the independent registered accounting firm's own audit of our internal control over financial reporting, including testing and compliance with Section 404 of the *Sarbanes-Oxley Act*, and review of our quarterly financial statements included in our Forms 10-Q, and services that are normally provided by the independent registered public accounting firm in connection with statutory and regulatory filings or engagements for those fiscal years. This category also includes advice on accounting matters that arose during, or as a result of, the audit or review of interim financial statements, statutory audits required by non-U.S. jurisdictions and the preparation of an annual "management letter" on internal control matters. Audit-related fees are those fees for services provided by the independent registered public accounting firm that are reasonably related to the performance of the audit or review of our financial statements and not included as audit fees. Our audit-related fees were paid for accounting consultations, benefit plan audits, due diligence reviews in connection with potential acquisition targets, certain of which were completed, and reviews of our various regulatory filings. We paid tax fees for tax advice, planning and compliance, principally in connection with the preparation of our tax returns, and assistance related to our election of Section 338(h)(10) treatment for certain of our acquisitions and assistance with certain governmental tax audits.

<i>Audit Fees</i>	
2005.....	\$ 1,923,000
2004.....	\$ 1,891,000

<i>Audit-Related Fees</i>	
2005.....	\$ 125,000
2004.....	\$ 128,000

<i>Tax Fees</i>	
2005.....	\$ 667,000
2004.....	\$ 714,000

<i>All Other Fees</i>	
2005.....	\$ -0-
2004.....	\$ -0-

The Audit Committee approved all of these fees. The Audit Committee has adopted a Pre-Approval Policy that requires that the Audit Committee approve in advance the engagement letter and all audit fees set forth in such letter for the independent auditor. In addition, the Audit Committee will review proposed audit, audit-related, tax and other services that management desires the independent registered accounting firm to perform to ensure that such services and the proposed fees related to the services will not impair the independent registered public accounting firm's independence and that such services and fees are consistent with the rules established by the Securities and Exchange Commission. Each quarter the Chief Financial Officer of the Company reports to the Audit Committee what services have been performed and what fees incurred. The Audit Committee has delegated to the Chairman of the Audit Committee the authority to add to, amend or modify the list of services to be provided or the amount of fees to be paid; provided that the Chairman will report any action taken to the Audit Committee at its next scheduled meeting and provided further that the fees involved are reasonably expected to be less than \$100,000.

## PART IV

### Item 15. Exhibits, Financial Statement Schedules.

(a) The following documents are filed as part of this report:

(1) Financial Statements (included in Item 8).

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets at December 31, 2005 and 2004

Consolidated Statements of Income for the Years Ended December 31, 2005, 2004 and 2003

Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2005, 2004 and 2003

Consolidated Statements of Cash Flows for the Years Ended December 31, 2005, 2004 and 2003

Notes to Consolidated Statements

Quarterly Results of Operations (Unaudited) for the Years Ended December 31, 2005, 2004 and 2003

(2) Financial Statement Schedules

Schedule II – Valuation and Qualifying Accounts

All other schedules have been omitted since the required information is not significant or is included in the Consolidated Financial Statements or notes thereto or is not applicable.

(3) Exhibits

- 2.01 Agreement and Plan of Merger dated as of January 17, 2006, among Reliance Steel & Aluminum Co., RSAC Acquisition Corp. and Earle M. Jorgensen Company<sup>(1)</sup>
- 3.01 Registrant's Restated Articles of Incorporation<sup>(2)</sup>
- 3.02 Registrant's Amended and Restated Bylaws<sup>(2)</sup>
- 3.03 Amendment to Registrant's Restated Articles of Incorporation dated May 20, 1998<sup>(3)</sup>
- 4.01 Registration Rights Agreement dated as of January 17, 2006, among Reliance Steel & Aluminum Co. and each of the stockholders of Earle M. Jorgensen Company named therein<sup>(1)</sup>
- 10.01 Registrant's 1994 Incentive and Non-Qualified Stock Option Plan and the Forms of Agreements related thereto, as amended<sup>(2)</sup>
- 10.02 Registrant's Form of Indemnification Agreement for officers and directors<sup>(2)</sup>
- 10.03 Incentive Bonus Plan<sup>(2)</sup>
- 10.04 Registrant's Supplemental Executive Retirement Plan dated January 1, 1996<sup>(4)</sup>
- 10.05 Registrant's Directors Stock Option Plan dated May 20, 1998<sup>(3)</sup>
- 10.06 Credit Agreement dated October 24, 2001<sup>(5)</sup>
- 10.07 Amendment No. One to Credit Agreement dated October 24, 2001<sup>(6)</sup>
- 10.08 Amendment No. Two to Credit Agreement dated October 24, 2001<sup>(7)</sup>
- 10.09 Amendment No. Three to Credit Agreement dated October 24, 2001<sup>(8)</sup>
- 10.10 Amendment No. Four to Credit Agreement dated October 24, 2001<sup>(9)</sup>
- 10.11 Form of Note Purchase Agreement dated as of July 1, 2003 by and between the Registrant and each of the Purchasers listed on the Schedule thereto<sup>(8)</sup>
- 10.12 Registrant's 2004 Incentive and Non-Qualified Stock Option Plan<sup>(10)</sup>
- 10.13 Amendment No. 2 to Registrant's Directors Stock Option Plan<sup>(10)</sup>
- 10.14 Registrant's Amended and Restated Directors Stock Option Plan<sup>(11)</sup>
- 10.15 Credit Agreement dated June 13, 2005<sup>(12)</sup>

- 10.16 Omnibus Amendment to Note Purchase Agreements<sup>(12)</sup>
- 10.17 Voting Agreement dated as of January 17, 2006 among Reliance Steel & Aluminum Co. and each of the stockholders of Earle M. Jorgensen Company named therein<sup>(1)</sup>
- 14.01 Registrant's Code of Conduct
  - 21 Subsidiaries of Registrant
  - 23 Consent of Ernst & Young LLP
  - 24 Power of Attorney<sup>(13)</sup>
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
- 32 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

- 
- (1) Incorporated by reference from Exhibits 2.1, 4.1 and 10.1 to Registrant's Registration Statement on Form S-4, as amended, originally filed on February 7, 2006 as Commission File No. 333-13625.
  - (2) Incorporated by reference from Exhibits 3.01, 3.02, 10.01, 10.02, 10.03 and 10.06, respectively, to Registrant's Registration Statement on Form S-1, as amended, originally filed on May 25, 1994 as Commission File No. 33-79318.
  - (3) Incorporated by reference from Appendix A and Appendix B to Registrant's Proxy Statement for Annual Meeting of Shareholders held May 20, 1998.
  - (4) Incorporated by reference from Exhibit 10.06 to Registrant's Form 10-K, for the year ended December 31, 1996.
  - (5) Incorporated by reference from Exhibit 10.10 to Registrant's Form 10-Q, for the quarter ended September 30, 2001.
  - (6) Incorporated by reference from Exhibit 10.11 to Registrant's Form 10-K, for the year ended December 31, 2002.
  - (7) Incorporated by reference from Exhibit 10.1 to Registrant's Form 8-K, filed on February 20, 2003.
  - (8) Incorporated by reference from Exhibit 2.2 to Registrant's Form 8-K, filed on July 15, 2003.
  - (9) Incorporated by reference from Exhibit 10.1 to Registrant's Form 8-K, filed on December 16, 2004.
  - (10) Incorporated by reference from Appendix A and Appendix B to Registrant's Proxy Statement for Annual Meeting of Shareholders held May 19, 2004.
  - (11) Incorporated by reference from Appendix A to Registrant's Proxy Statement for Annual Meeting of Shareholders held May 18, 2005.
  - (12) Incorporated by reference from Exhibit 10.1 and 10.2 to Registrant's Form 8-K, dated June 13, 2005.
  - (13) Set forth on page 77 of this report.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Los Angeles, State of California, on this 14<sup>th</sup> day of March, 2006.

### RELIANCE STEEL & ALUMINUM CO.

By: /s/ David H. Hannah  
David H. Hannah  
Chief Executive Officer

## POWER OF ATTORNEY

The officers and directors of Reliance Steel & Aluminum Co. whose signatures appear below hereby constitute and appoint David H. Hannah and Gregg J. Mollins, or either of them, to act severally as attorneys-in-fact and agents, with power of substitution and resubstitution, for each of them in any and all capacities, to sign any amendments to this report and to file the same, with exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that said attorneys-in-fact, or substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons in the capacities and on the dates indicated.

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
<u>/s/ DAVID H. HANNAH</u> David H. Hannah	Chief Executive Officer (Principal Executive Officer); Director	March 14, 2006
<u>/s/ GREGG J. MOLLINS</u> Gregg J. Mollins	President and Chief Operating Officer; Director	March 14, 2006
<u>/s/ KARLA LEWIS</u> Karla Lewis	Executive Vice President and Chief Financial Officer (Principal Financial Officer; Principal Accounting Officer)	March 14, 2006
<u>/s/ JOE D. CRIDER</u> Joe D. Crider	Chairman of the Board; Director	March 14, 2006
<u>/s/ THOMAS W. GIMBEL</u> Thomas W. Gimbel	Director	March 14, 2006
<u>/s/ DOUGLAS M. HAYES</u> Douglas M. Hayes	Director	March 14, 2006
<u>/s/ MARK V. KAMINSKI</u> Mark V. Kaminski	Director	March 14, 2006
<u>/s/ FRANKLIN R. JOHNSON</u> Franklin R. Johnson	Director	March 14, 2006
<u>/s/ RICHARD J. SLATER</u> Richard J. Slater	Director	March 14, 2006
<u>/s/ LESLIE A. WAITE</u> Leslie A. Waite	Director	March 14, 2006

## EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>	<u>Sequentially Numbered Page</u>
2.01	Agreement and Plan of Merger dated as of January 17, 2006, among Reliance Steel & Aluminum Co., RSAC Acquisition Corp. and Earle M. Jorgensen Company <sup>(1)</sup>	
3.01	Registrant's Restated Articles of Incorporation <sup>(2)</sup>	
3.02	Registrant's Amended and Restated Bylaws <sup>(2)</sup>	
3.03	Amendment to Registrant's Restated Articles of Incorporation dated May 20, 1998 <sup>(3)</sup>	
4.01	Registration Rights Agreement dated as of January 17, 2006, among Reliance Steel & Aluminum Co. and each of the stockholders of Earle M. Jorgensen Company named therein <sup>(1)</sup>	
10.01	Registrant's 1994 Incentive and Non-Qualified Stock Option Plan and the Forms of Agreements related thereto, as amended <sup>(2)</sup>	
10.02	Registrant's Form of Indemnification Agreement for officers and directors <sup>(2)</sup>	
10.03	Incentive Bonus Plan <sup>(2)</sup>	
10.04	Registrant's Supplemental Executive Retirement Plan dated January 1, 1996 <sup>(4)</sup>	
10.05	Registrant's Directors Stock Option Plan dated May 20, 1998 <sup>(3)</sup>	
10.06	Credit Agreement dated October 24, 2001 <sup>(5)</sup>	
10.07	Amendment No. One to Credit Agreement dated October 24, 2001 <sup>(6)</sup>	
10.08	Amendment No. Two to Credit Agreement dated October 24, 2001 <sup>(7)</sup>	
10.09	Amendment No. Three to Credit Agreement dated October 24, 2001 <sup>(8)</sup>	
10.10	Amendment No. Four to Credit Agreement dated October 24, 2001 <sup>(9)</sup>	
10.11	Form of Note Purchase Agreement dated as of July 1, 2003 by and between the Registrant and each of the Purchasers listed on the Schedule thereto <sup>(8)</sup>	
10.12	Registrant's 2004 Incentive and Non-Qualified Stock Option Plan <sup>(10)</sup>	
10.13	Amendment No. 2 to Registrant's Directors Stock Option Plan <sup>(10)</sup>	
10.14	Registrant's Amended and Restated Directors Stock Option Plan <sup>(11)</sup>	
10.15	Credit Agreement dated June 13, 2005 <sup>(12)</sup>	
10.16	Omnibus Amendment to Note Purchase Agreements <sup>(12)</sup>	
10.17	Voting Agreement dated as of January 17, 2006 among Reliance Steel & Aluminum Co. and each of the stockholders of Earle M. Jorgensen Company named therein <sup>(1)</sup>	
14.01	Registrant's Code of Conduct	
21	Subsidiaries of Registrant	
23	Consent of Ernst & Young LLP	
24	Power of Attorney <sup>(13)</sup>	
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended	
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended	
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	

<sup>(1)</sup> Incorporated by reference from Exhibits 2.1, 4.1 and 10.1 to Registrant's Registration Statement on Form S-4, as amended, originally filed on February 7, 2006 as Commission File No. 333-13625.

<sup>(2)</sup> Incorporated by reference from Exhibits 3.01, 3.02, 10.01, 10.02, 10.03 and 10.06, respectively, to Registrant's Registration Statement on Form S-1, as amended, originally filed on May 25, 1994 as Commission File No. 33-79318.

<sup>(3)</sup> Incorporated by reference from Appendix A and Appendix B to Registrant's Proxy Statement for Annual Meeting of Shareholders held May 20, 1998.

<sup>(4)</sup> Incorporated by reference from Exhibit 10.06 to Registrant's Form 10-K, for the year ended December 31, 1996.

<sup>(5)</sup> Incorporated by reference from Exhibit 10.10 to Registrant's Form 10-Q, for the quarter ended September 30, 2001.

- (6) Incorporated by reference from Exhibit 10.11 to Registrant's Form 10-K, for the year ended December 31, 2002.
- (7) Incorporated by reference from Exhibit 10.1 to Registrant's Form 8-K, filed on February 20, 2003.
- (8) Incorporated by reference from Exhibit 2.2 to Registrant's Form 8-K, filed on July 15, 2003.
- (9) Incorporated by reference from Exhibit 10.1 to Registrant's Form 8-K, filed on December 16, 2004.
- (10) Incorporated by reference from Appendix A and Appendix B to Registrant's Proxy Statement for Annual Meeting of Shareholders held May 19, 2004.
- (11) Incorporated by reference from Appendix A to Registrant's Proxy Statement for Annual Meeting of Shareholders held May 18, 2005.
- (12) Incorporated by reference from Exhibit 10.1 and 10.2 to Registrant's Form 8-K, dated June 13, 2005.
- (13) Set forth on page 77 of this report.

**RELIANCE STEEL & ALUMINUM CO.**

**CODE OF CONDUCT**

This Code of Conduct applies to Reliance Steel & Aluminum Co. and any of its subsidiaries or affiliated companies. The use of the term "the Company" or "Reliance" refers to Reliance Steel & Aluminum Co., its subsidiaries and any of its affiliated companies.

The Company reserves the right to change, amend, or eliminate the Code of Conduct or any provision in it without prior notice to any employee. The Code of Conduct does not alter the at-will employment relationship between an employee and the Company.

---

**I. Conflict of Interest**

- No employee may benefit personally from the Company's dealings with others.
- No employee shall engage in any other business whether as an employee, consultant, owner or other participant without the express written consent of a designated member of Reliance corporate senior management, except for passive investments by the employee which do not conflict with the employee's obligations toward the Company or interfere with the performance of the employee's job duties.
- No employee shall enter into, on behalf of the Company, any contract, agreement, or other business arrangement with any close family member or with any corporation, partnership, association, or other entity in which the employee or a close family member has any substantial financial interest, without the express written consent of the Reliance corporate senior management. For purposes of this Code of Conduct, a close family member includes an employee's spouse, domestic partner, anyone commonly regarded as a "significant other", or any employee's biological or adopted child, parent, sibling, or grandparent, and also includes any other person who lives in the same household.

---

**II. Use of Company Resources**

- No Company employee may give or accept a bribe. All payments for services shall be reasonable in relationship to the nature of the services provided.
- No Company employee will offer gifts to business contacts if the act of giving the gift is prohibited by law or prohibited by the contact's own company policies.
- Gifts should never be given for the purpose of improperly influencing the recipient.
- No Company employee shall accept a gift from a Company vendor or supplier of greater than nominal value.
- Company property should be safeguarded as if it were the employee's own.

---

**III. Fraud, Dishonesty or Criminal Conduct**

- Fraud, dishonesty, criminal conduct or any violent activity is prohibited by the Company.
  - If fraud, dishonesty, criminal conduct or any other activity not condoned by the Company is detected or suspected of any Company employee, or anyone doing business with the Company, it should be reported to the Company's designated member of Reliance corporate senior management. The Company prohibits retribution of any kind against persons who report suspected wrongdoing in good faith.
-

#### **IV. Safeguarding Non-Public Information**

- Confidential information about the Company or its suppliers or customers or other companies should never be shared with anyone outside the Company without the prior written approval of Company management.
- It is illegal for former Reliance Steel & Aluminum Co. employees to use information about the Company or its suppliers or customers obtained while a Reliance employee, or to take confidential Company-owned records with them when they leave Reliance.

#### **V. Securities Transactions**

- No employee may trade securities of Reliance or any other company if the employee knows any non-public information about Reliance or the company whose securities are being traded that a reasonable person might consider important in deciding whether to buy, sell, or hold such company's securities. This conduct is commonly referred to as "insider trading."
- Any questions regarding the Company's policy on insider trading should be referred to the Chief\_Executive Officer or Chief Financial Officer of the Company.
- Legal penalties for trading on or communicating material non-public information are severe. These penalties apply to both the individuals involved in the insider trading and to their employers. A person can be subject to penalties even if he or she did not personally benefit from the violation. Penalties include fines, jail sentences, and disgorgement of profits.
- The term "insider" may include not only officers, directors, and employees, but also spouses, children and children's spouses who reside with the officer, director or employee. In some circumstances persons living in the same household as an officer, director, or employee, or anyone for whom the officer, director, or employee is financially responsible may also be considered an insider.
- Material information is generally defined as information for which there is a substantial likelihood that a reasonable investor would consider it important in making his or her investment decisions. Material information is also information that can reasonably be expected to have an effect on the price of a company's securities. Material information includes, but is not limited to, dividend changes, earnings estimates, changes in previously-released earnings estimates, significant merger or acquisition proposals, major litigation, and extraordinary developments.

#### **VI. Trade Practices**

- All employees are expected to comply fully with all statutes and regulations applicable to Reliance businesses, including anti-trust laws, unfair trade practice laws, nondiscrimination statutes and Reliance trade practice policies. No employee shall discuss competitively sensitive information with a competitor, agree to fix prices, divide markets, boycott customers or vendors or engage in other anti-competitive practices.

#### **VII. Employment Practices**

- Reliance forbids employment discrimination or harassment based on race, color, sex, national origin, religion, age, disability, veteran status, sexual orientation or marital status.
- All employees have an obligation to become familiar with and to comply with the Company's non-discrimination policy.
- All employees, especially management, should understand that they have an obligation to report any improper discrimination or harassment to corporate senior management, even if they are not the target of such discrimination or harassment.
- Managers and even employees can be held personally liable for engaging in unlawful discrimination or harassment.
- The Company will not indemnify or provide a defense to any employee or manager who it believes has engaged in unlawful discrimination or harassment in the event that he or she is named as a defendant in any charge or complaint of discrimination or harassment.
- The Company strictly prohibits falsifying or withholding relevant information on any personnel or employment record or application, on any financial, safety, or other Company record, or on any record that is required by law to be maintained.



## **VIII. Interactions with Outside People and Organizations**

- All media inquiries regarding Reliance should be referred to or discussed with the Reliance Chief Executive Officer or the Reliance Chief Financial Officer.

## **IX. Internal Controls**

- Every Reliance employee must follow management rules, which are designed to provide reasonable assurance to shareholders and regulators that Reliance's businesses are being operated effectively and efficiently under applicable laws and regulations and that financial statements prepared by the Company are accurate.

## **X. Privacy**

- Confidential personnel or medical information about Company employees should not be disclosed to persons outside the Company without the employee's written permission or as is required by law. Managers and supervisors should also treat such information as confidential within the Company and should disclose it to other Reliance employees only if there is a need to know.
- The Company's computers, telephones, voice mail system, e-mail system, other electronic equipment and systems, physical files, lockers, desks and other furniture are the property of the Company. Employees have no right of privacy as to any materials, communications, information, or files maintained in or on the Company's property or transmitted or stored through the Company's computer, voice mail, e-mail, or telephone systems.

## **XI. Intellectual Property**

- Intellectual property that is designed, created, developed or modified while performing work-related duties is the Company's property, not the employee's.
- Company employees may not copy software provided to Reliance by vendors unless Reliance is licensed to make copies and the employee has received written permission from the Reliance Chief Information Officer or Director of Technology, or Reliance corporate senior management.

## **XII. Safety**

- Maintaining a safe working environment is of the utmost importance and is the responsibility of everyone. All employees and managers have an obligation to familiarize themselves with and to comply with the Company's posted safety rules and directives and its Corporate Policy & Procedures Manual.
- In some circumstances managers can be held criminally responsible for injuries caused by their failure to observe proper safety procedures.

## **XIII. Environmental Responsibility**

- Company employees should conduct their Reliance business in compliance with all applicable environmental laws and regulations. Reliance encourages employees to recycle and to conserve energy and other resources.

I have read the Code of Conduct and the Guidelines related to it, and, to the extent that I have had any questions, I have had an opportunity to review them with corporate senior management. I believe I understand fully how the Code relates to my position(s). Moreover, my activities and conduct in the performance of my duties are, to the best of my knowledge, in compliance with the Code.

With respect to Statement No. I ("Conflict of Interest"), I am aware of no possible conflicts and do not have any existing or proposed outside business interests or affiliations except as shown below (use additional sheets as necessary).

Date

Signature

Print Name and Title

Reliance Steel & Aluminum Co. Division or Subsidiary

A. Ownership Interests

Any existing or proposed ownership, including ownership by a member of your immediate family, domestic partner, or significant other, of a significant ownership interest in any business enterprise. IF NONE, SO STATE. Otherwise, give name and nature of business, percentage of ownership and indicate whether existing or proposed. Educational, charitable and other nonprofit entities need not be shown.

*A significant ownership interest is deemed to exist if the interest held equals or exceeds one-tenth of 1 percent of any publicly owned company or 1 percent of any other business, including partnerships.*

---

---

---

B. Business Affiliations

Any existing or proposed position held by you or a member of your immediate family as director, officer, employee or agent of or partner in any business enterprise other than Reliance affiliated companies, including those already listed in response to the previous question. IF NONE, SO STATE. Otherwise, give name of enterprise, nature of business, and position(s) held and indicate whether compensation is or is to be received and whether the position is existing or proposed. Educational, charitable and other nonprofit entities need not be shown.

---

---

---

C. Conflicts Other than Ownership Interests and Business Affiliations

IF NONE, SO STATE.

---

Date

Signature

Print Name and Title

Reliance Steel & Aluminum Co. Division or Subsidiary

**SUBSIDIARIES OF REGISTRANT**

Allegheny Steel Distributors, Inc., a Pennsylvania corporation  
Aluminum and Stainless, Inc., a Louisiana corporation  
American Metals Corporation, a California corporation  
American Steel, L.L.C., an Oregon limited liability company  
AMI Metals, Inc., a Tennessee corporation  
CCC Steel, Inc., a Delaware corporation  
Central Plains Steel Co., a Kansas corporation  
Chapel Steel Corp., a Pennsylvania corporation  
Chatham Steel Corporation, a Georgia corporation  
Durrett Sheppard Steel Co., Inc., a California corporation  
Liebovich Bros., Inc., an Illinois corporation  
Lusk Metals, a California corporation  
Pacific Metal Company, an Oregon corporation  
PDM Steel Service Centers, Inc., a California corporation  
Phoenix Corporation, a Georgia corporation  
Precision Strip, Inc., an Ohio corporation  
Reliance Pan Pacific Pte., Ltd., a Singapore corporation  
RSAC Management Corp., a California corporation  
Service Steel Aerospace Corp., a Delaware corporation  
Siskin Steel & Supply Company, Inc., a Tennessee corporation  
Toma Metals, Inc., a Pennsylvania corporation  
Valex Corp., a California corporation  
Viking Materials, Inc., a Minnesota corporation

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statement (Amendment No. 1 to Form S-4 No. 333-131615) of Reliance Steel & Aluminum Co. and related proxy statement and prospectus of Earle M. Jorgensen Company and to the incorporation by reference in the Registration Statement (Form S-8) pertaining to the Reliance Steel & Aluminum Co. 1994 Incentive and Non-Qualified Stock Option Plan, as amended, of our reports dated March 10, 2006 with respect to the consolidated financial statements and schedule of Reliance Steel & Aluminum Co., Reliance Steel & Aluminum Co. management's assessment of the effectiveness of internal controls over financial reporting, and the effectiveness of internal control over financial reporting of Reliance Steel & Aluminum Co., included in this Annual Report (Form 10-K) for the year ended December 31, 2005.

**/s/ ERNST & YOUNG LLP**

Los Angeles, California  
March 10, 2006

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, David H. Hannah, hereby certify that:

1. I have reviewed this annual report on Form 10-K of Reliance Steel & Aluminum Co., a California corporation (the "Company"), for the year ended December 31, 2005;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 14, 2006

/s/ David H. Hannah  
David H. Hannah  
Chief Executive Officer

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Karla R. Lewis, hereby certify that:

1. I have reviewed this annual report on Form 10-K of Reliance Steel & Aluminum Co., a California corporation (the "Company"), for the year ended December 31, 2005;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 14, 2006

/s/ Karla R. Lewis  
Karla R. Lewis  
Executive Vice President and  
Chief Financial Officer

**Certification**  
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**  
**(Subsections (a) and (b) of Section 1350, Chapter 63 of title 18, United States Code)**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of title 18, United States Code) (the "Act"), each of the undersigned officers of Reliance Steel & Aluminum Co., a California corporation (the "Company"), does hereby certify that:

The Annual Report on Form 10-K for the year ended December 31, 2005 (the "Annual Report") of the Company fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 780(d)) and information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/David H. Hannah  
David H. Hannah  
Chief Executive Officer

/s/Karla R. Lewis  
Karla R. Lewis  
Executive Vice President and  
Chief Financial Officer

Dated: March 14, 2006

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.



# Corporate Information

## Transfer Agent & Registrar

Computershare Trust  
Company, N.A.  
Providence, RI

## Independent Auditors

Ernst & Young LLP  
Los Angeles, CA

## Corporate Headquarters

350 South Grand Avenue  
Suite 5100  
Los Angeles, CA 90071  
213/687-7700

## Annual Meeting

10:00 a.m.  
Wednesday, May 17, 2006  
City Club on Bunker Hill  
333 South Grand Avenue  
54th Floor, Wells Fargo Center  
Los Angeles, CA 90071  
All shareholders are invited  
to attend.

## Form 10-K

A copy of the Form 10-K, filed  
with the Securities and Exchange  
Commission, is available upon  
request to:

## Karla R. Lewis

Executive Vice President and  
Chief Financial Officer  
Reliance Steel & Aluminum Co.  
350 South Grand Avenue  
Suite 5100  
Los Angeles, CA 90071

## Securities Listing

Reliance Steel & Aluminum Co.'s  
Common Stock is traded on the  
New York Stock Exchange under  
the symbol "RS."



## Market Price of Common Stock

The high and low prices for the  
Company's Common Stock in  
2005 were \$66.64 and \$35.04. The  
following table reflects the range  
of high and low selling prices of  
the Company's Common Stock by  
quarter for 2005. This information  
is based on the closing composite  
selling prices reported by the New  
York Stock Exchange.

2005	High	Low
1Q	\$47.36	\$36.29
2Q	43.62	35.04
3Q	52.93	37.52
4Q	66.64	49.15

## Shareholders of Record and Dividend Policy

As of February 15, 2006,  
there were approximately 247  
shareholders of record. Reliance  
Steel & Aluminum Co. paid  
quarterly dividends of \$.09 per  
common share in the first and  
second quarters of 2005 and  
\$.10 per common share in the  
third and fourth quarters of 2005.  
*(See Note 6 for dividend restrictions.)*

## Investor Relations Contact

Kim P. Feazle  
Investor Relations  
713/610-9937  
213/576-2428  
kfeazle@rsac.com  
investor@rsac.com



Reliance Steel & Aluminum Co.  
350 South Grand Avenue  
Suite 5100  
Los Angeles, California 90071  
213/687-7700  
[www.rsac.com](http://www.rsac.com)