RELIANCE STEEL & ALUMINUM CO
Form 10-K
February 29, 2008

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2007

OR

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

For the transition period from __________to__________

Commission file number: 001-13122

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

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

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

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

Title of each class	**Name of each exchange on which registered**
Common Stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes oNo þ

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

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

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o

(Do not check if a smaller reporting company)

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, based on the closing price on the New York Stock Exchange on June 30, 2007 was approximately $3,700,000,000.

As of January 31, 2008, 72,488,824 shares of the registrant s common stock, no par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive Proxy Statement for the Annual Meeting of Shareholders to be held May 21, 2008 (the Proxy Statement) are incorporated by reference into Part III of this report.

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

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

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

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

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

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

The success of our business is affected by general economic conditions and, accordingly, our business was adversely impacted by the economic slowdown or recession in 2001, 2002 and 2003. This could occur in future periods.

We operate in a very competitive industry 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.

Foreign currency exchange rates could change, which could affect the price we pay for certain metals and the results of our foreign operations, which have grown as a percentage of our total operations to 5% of sales in 2007.

The interest rates on our debt could change. The interest rates on our variable rate debt increased steadily during 2006 and 2007. Although interest rates have decreased in early 2008, these rates may increase in the future.

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

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

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

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

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

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

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

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

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 North America. Our network of 28 divisions, 27 operating subsidiaries and two majority-owned joint venture companies operates more than 180 locations in 37 states, Belgium, Canada, China, South Korea and the United Kingdom. Through this network, we provide metals processing services and distribute a full line of more than 100,000 metal products, including alloy, aluminum, brass, copper, carbon steel, titanium, stainless steel and specialty steel products, to more than 125,000 customers in a broad range of industries. Many of our metals service centers process and distribute only specialty metals. In addition to being diversified by products and customers, we are geographically diversified. We deliver products from facilities located across the United States and Canada, and have a growing international presence to support the globalization of our customers.

Our primary business strategy is to enhance our operating results through strategic acquisitions, expansion of our existing operations and improved operating performance at our locations. We 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. Due to several industry dynamics, including the consolidation of carbon steel mills, increased global demand for metal products, and shortages of raw materials, the pricing environment for most products that we sell has been favorable since then. In 2007, we achieved our highest ever levels of net sales of $7.26 billion and net income of $408.0 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. Service centers comprise the largest single customer group for North American mills, buying and reselling about 35% of all the carbon, alloy, stainless and specialty steels, aluminum, copper, brass and bronze, and superalloys produced in the U.S. and Canada each year (*Purchasing* magazine, May 2007).

In May 2007, the magazine *Purchasing* also reported that the North American (U.S. and Canada) metals distribution industry was estimated to have generated record revenues of about $126.5 billion in 2006 (the latest year for which such information is available), up from $115.0 billion in 2005, with the increase being primarily due to increased prices for nonferrous metals.

The metals service center industry is highly fragmented and intensely competitive within localized areas or regions. Many of our competitors operate single stand-alone service centers. According to *Purchasing*, the number of intermediate steel processors and metal center facilities in North America has decreased from approximately 7,000 locations in 1980 to approximately 3,500 locations operated by more than 1,300 companies in 2003. This consolidation trend creates opportunities for us to expand by making acquisitions.

Metals service centers are generally less susceptible to market cycles than producers of the metals, because service centers are usually able to pass on all or a portion of increases in metal costs to their customers. In recent years, consolidation at the carbon steel mill level has led to capacity rationalization that has reduced pricing volatility somewhat and elevated the pricing levels for these products. Stainless steel prices have been very volatile over the last few years mainly because of nickel shortages caused by strikes and fires at certain nickel mines. In addition, increased global demand for metal products has led to increased costs due to the shortage of raw materials used in these products. During 2007, imports of metal products to the U.S. were below recent levels; because metal prices in Europe and Asia were typically higher than in the U.S, metals were diverted to these markets rather than the U.S. The weak

U.S. dollar and strong demand in other parts of the world also contributed to this. We believe that service centers, like Reliance, with the most rapid inventory turnover are generally the least vulnerable to changing metals prices.

Customers purchase from service centers to obtain value-added metals processing, readily available inventory, reliable and timely delivery, flexible minimum order size, and quality control. Many customers deal exclusively with service centers because the quantities of metal products that they purchase are smaller than the minimum orders specified by mills or because those

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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. In the past two years we have expanded our geographic and product base significantly through our acquisitions. We have not diversified outside of our core business and we strive to consistently perform as one of the best in our industry. We currently operate metals service centers under the following trade names:

Trade Name	No. of Locations	Primary Products Processed & Distributed
Reliance Divisions		
Affiliated Metals	*1*	*Plate and flat-rolled aluminum and stainless steel*
Bralco Metals	*6*	*Aluminum, brass, copper and stainless steel*
Central Plains Steel Co.	*1*	*Carbon steel*
Engbar Pipe & Steel Co.	*1*	*Carbon steel bars, pipe and tubing*
MetalCenter	*1*	*Flat-rolled aluminum and stainless steel*
Olympic Metals	*1*	*Aluminum, brass, copper and stainless steel*
Reliance Metalcenter	*9*	*Variety of carbon steel and non-ferrous metal products*
Reliance Steel Company	*2*	*Carbon steel*
Tube Service Co.	*6*	*Specialty tubing*
Allegheny Steel Distributors, Inc.	*1*	*Carbon steel*
Aluminum and Stainless, Inc.	*2*	*Aluminum sheet, plate and bar*
***American Metals Corporation*.**	*3*	*Carbon steel*
***American Steel, L.L.C.*.**	*2*	*Carbon steel*
AMI Metals, Inc.		
AMI Metals	*6*	*Heat-treated aluminum sheet and plate*
AMI Metals Europe S.P.R.L.	*1*	*Heat-treated aluminum sheet and plate*
CCC Steel, Inc.		
CCC Steel	*1*	*Structural steel*
IMS Steel	*1*	*Structural steel*
Chapel Steel Corp.	*5*	*Carbon steel plate*
Chatham Steel Corporation	*5*	*Full-line service centers*
Clayton Metals, Inc.	*4*	*Aluminum and stainless steel flat rolled products and custom extrusions*
Crest Steel Corporation	*2*	*Carbon steel flat-rolled, plate, bar and structurals*
Durrett Sheppard Steel Co., Inc.	*1*	*Carbon steel plate, bar and structurals*

Earle M. Jorgensen Company		
Earle M. Jorgensen	*32*	*Specialty bar and tubing*
Earle M. Jorgensen (Canada) Inc.	*5*	*Specialty bar and tubing*
Steel Bar	*1*	*Carbon steel bars and tubing*
Encore Group Limited		
Encore Coils	*1*	*Toll processing of carbon steel flat-rolled products*
Encore Metals	*4*	*Stainless and alloy bar, plate and tube*
Team Tube Canada ULC	*6*	*Alloy and carbon steel tubing*

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Trade Name	No. of Locations	Primary Products Processed & Distributed
Encore Metals (USA) Inc.	*3*	*Stainless and alloy bar, plate and tube*
Everest Metals (Suzhou) Co., Ltd.	*1*	*Aluminum plate and bar*
Liebovich Bros., Inc.		
Liebovich Steel & Aluminum Company	*3*	*Full-line service centers*
Custom Fab Company	*1*	*Metal fabrication*
Good Metals Company	*1*	*Tool and alloy steels*
Hagerty Steel & Aluminum Company	*1*	*Plate and flat-rolled carbon steel*
Lusk Metals	*1*	*Precision cut aluminum plate and aluminum sheet and extrusions*
Metalweb Limited	*4*	*Aluminum sheet, plate and bar*
Pacific Metal Company	*7*	*Aluminum and coated carbon steel*
PDM Steel Service Centers, Inc.	*7*	*Carbon steel structurals and plate*
Phoenix Corporation		
Phoenix Metals Company	*9*	*Flat-rolled aluminum, stainless steel and coated carbon steel*
Precision Strip, Inc.	*10*	*Toll processing (slitting, leveling, blanking) of aluminum, stainless steel and carbon steel*
Service Steel Aerospace Corp.		
Service Steel Aerospace	*2*	*Stainless and alloy specialty steels*
United Alloys Aircraft Metals	*1*	*Titanium products*
Siskin Steel & Supply Company, Inc.		
Siskin Steel	*4*	*Full-line service centers*
Athens Steel	*1*	*Carbon steel structurals, flat-rolled and ornamental iron*
East Tennessee Steel Supply	*1*	*Carbon steel plate, bar and structurals*
Georgia Steel Supply Company	*1*	*Full-line service center*
Industrial Metals and Surplus	*1*	*Carbon steel structurals, flat-rolled and ornamental iron*
Toma Metals, Inc.	*1*	*Stainless steel sheet and coil*
Valex Corp.		
Valex	*1*	*Electropolished stainless steel tubing and fittings*
Valex China Co., Ltd.	*1*	*Electropolished stainless steel tubing and fittings*
Valex Korea Co., Ltd.	*1*	*Electropolished stainless steel tubing and fittings*
Viking Materials, Inc.	*2*	*Flat-rolled carbon steel*
Yarde Metals, Inc.	*7*	*Stainless steel and aluminum plate, rod and bar*

We serve our customers primarily by providing quick delivery, metals processing and inventory management services. We purchase a variety of metals from primary producers and sell these products in small quantities based on our customers needs. We performed metals processing services, or first-stage processing, on approximately 40% of our sales orders in 2007 before distributing the product to manufacturers and other end-users. For almost half of our 2007 orders, we delivered the metal to our customer within 24 hours from receipt of an order, if the order did not require extensive or customized processing. These services save time, labor, and expense for our customers and reduce their overall manufacturing costs. During 2007, we handled approximately 21,400 transactions per business day, with an average price of approximately $1,350 per transaction. Our net sales were $7.26 billion for the 2007 year. We believe that our focus on small orders with quick turnaround differentiates us from many of the other large metals service center companies and allows us to generate higher profits than those companies.

Historically, we have expanded both through acquisitions and internal growth. Since our initial public offering in September 1994, we have successfully purchased more than 40 businesses. In 2006, we significantly increased the size of our company through acquisitions, primarily as a result of the Earle M. Jorgensen Company and Yarde Metals, Inc. acquisitions. In 2007 we continued our growth with five acquisitions, including further penetration in Canada and an entry into the United Kingdom. From 1984 to September 1994, we acquired 20 businesses. Our internal growth activities in 2006 and 2007 have been at historically high levels for us and have included the opening of new facilities, adding to our processing capabilities and relocating existing operations to larger, more efficient facilities. We continue to evaluate acquisition opportunities and expect to continue to grow our business through acquisitions and internal growth initiatives, particularly those that will diversify our products, customer base and geographic locations.

Acquisitions

Effective October 1, 2007, we acquired all of the outstanding capital stock of Metalweb plc (Metalweb), a metals service center company headquartered in Birmingham, England. Metalweb, established in 2001, specializes in the processing and distribution of primarily aluminum products for non-structural aerospace components and general engineering parts and has three additional service centers located in London, Manchester and Oxford, England. Metalweb s net sales for the three months ended December 31, 2007 were approximately $12 million. Metalweb has been re-registered as Metalweb Limited.

On July 1, 2007, we acquired all of the outstanding capital stock of Clayton Metals, Inc. (Clayton Metals), headquartered in Wood Dale, Illinois. Clayton Metals, founded in 1976, specializes primarily in the processing and distribution of aluminum, stainless steel and red metal flat-rolled products, custom extrusions and aluminum circles through its metals service center locations in Wood Dale, Illinois; Cerritos, California; High Point, North Carolina; and Parsippany, New Jersey. Clayton Metals net sales for the six months ended December 31, 2007 were approximately $54 million.

As of February 1, 2007, we acquired the net assets and business of the Encore Group of metals service center companies (Encore Metals, Encore Metals (USA), Inc., Encore Coils, and Team Tube in Canada) headquartered in Edmonton, Alberta, Canada. Encore was organized in 2004 in connection with the buyout by management and a private equity fund of certain former Corus CIC and Corus America businesses. Encore specializes in the processing and distribution of alloy and carbon bar and tube, as well as stainless steel sheet, plate and bar and carbon steel flat-rolled products, through its facilities located mainly in Western Canada. The net sales of the Encore Group for the eleven months ended December 31, 2007 were approximately $208 million. As discussed below in Recent Developments , on January 1, 2008 we sold certain assets and the business of the Encore Coils division.

On January 2, 2007, we purchased all of the outstanding capital stock of Crest Steel Corporation (Crest), a metals service center company headquartered in Carson, California with facilities in Riverside, California and Phoenix, Arizona. Crest was founded in 1963 and specializes in the processing and distribution of carbon steel products including flat-rolled, plate, bars and structurals. Crest s net sales for the year ended December 31, 2007 were approximately $126 million.

Also on January 2, 2007, our wholly-owned subsidiary, Siskin Steel & Supply Company, Inc. (Siskin), purchased the outstanding capital stock of Industrial Metals and Surplus, Inc. (Industrial Metals), a metals service center company headquartered in Atlanta, Georgia and a related company, Athens Steel, Inc. (Athens Steel), located in Athens, Georgia. Industrial Metals was founded in 1978 and specializes in the processing and distribution of carbon steel structurals, flat-rolled and ornamental iron products. Siskin s Georgia Steel Supply Company division located in Atlanta will be combined with the Industrial Metals operations. Net sales for Industrial Metals (including Athens Steel) for the year ended December 31, 2007 were approximately $115 million. Industrial Metals and Athens Steel now operate as divisions of Siskin.

On August 1, 2006, we acquired Yarde Metals, Inc. (Yarde Metals), a metals service center company headquartered in Southington, Connecticut. We paid $100 million in cash for all of the outstanding common stock of Yarde Metals and assumed approximately $101 million of its net debt. Yarde Metals was founded in 1976 and specializes in the processing and distribution of stainless steel and aluminum plate, rod and bar products. Yarde Metals has additional metals service centers in Pelham, New Hampshire; East Hanover, New Jersey; Hauppauge, New York; High Point, North Carolina; Streetsboro, Ohio; and Limerick, Pennsylvania and a sales office in Ft. Lauderdale, Florida. Yarde Metals net sales for the year ended December 31, 2007 were approximately $477 million.

On April 3, 2006, we completed the acquisition of Earle M. Jorgensen Company (EMJ), which was our first acquisition of a public company. EMJ, headquartered in Lynwood, California, is one of the largest distributors of metal products in North America with 40 service and processing centers selling primarily specialty bar and tube products. The transaction was valued at approximately $984 million, including the assumption of EMJ s net debt. We paid $6.50 in cash and issued .1784 of a share of Reliance common stock for each share of EMJ common stock outstanding. This is currently the only acquisition to date where we have used our stock as consideration. EMJ s net sales for the year ended December 31, 2007 were approximately $2.04 billion.

Recent Developments

As of January 1, 2008, we sold certain assets and the business of the Encore Coils division of Encore Group Limited, that we acquired on February 1, 2007. The Encore Coils division processed and distributed carbon steel flat-rolled products through four facilities located in Western Canada. The Encore Coils business did not fit well for us because we did not have any similar facilities nearby that could help support this relatively small business. We were attracted to Encore Group because of its specialty bar and tube business, as well as its stainless products and exposure to the energy industry. We have retained the Encore Metals and Team Tube divisions that participate in these markets. In addition, one remaining facility of Encore Coils now operates as a toll processing facility.

In December 2007 we announced that our subsidiary Valex Corp. opened a facility in the People s Republic of China. Valex China Co. Ltd. is 100% owned by the Hong Kong joint venture company Valex Holdings Ltd. Valex Corp. owns 88% of Valex Holdings Ltd. The facility is located in the Nanhui district of Shanghai and will produce ultra high purity tubes, fittings, and valves for the semiconductor, LCD and solar industries.

Other Developments

In 2007, our focus on organic growth continued and included the opening of new facilities, building or expanding existing facilities and adding processing equipment with total capital expenditures of $124.1 million. Phoenix Metals Company completed the construction of a new facility for its Charlotte, North Carolina operation and is adding processing equipment to better support its customers in that area. Phoenix Metals Company also leased warehouse space in Russellville, Arkansas to expand into the stainless steel market in that area. Precision Strip has added processing equipment in its Tipp City and Perrysburg, Ohio locations and increased its fleet of trucks and trailers in 2007 to support the growth in the business. Earle M. Jorgensen Company relocated its Portland, Oregon operation to a new, larger more efficient facility in early 2007. Also in 2007 PDM Steel Service Centers, Inc. purchased land in Las Vegas, Nevada to build a new larger facility to open in 2008 and expanded its Spanish Fork, Utah facility. Liebovich Bros, Inc. moved its existing operation near Green Bay, Wisconsin from a leased facility to a newly built larger and more efficient facility in Kaukauna, Wisconsin. Yarde Metals, Inc. expanded its network geographically by leasing space in Baltimore, Maryland to store depot inventory. The current environment supports strong organic growth and we expect to continue to expand our business in 2008 by continuing to build and expand facilities and add processing equipment with a record capital expenditures budget for 2008 of $210 million.

Due to the increased size and growth activities of our company, late in 2006 we recapitalized the Company by issuing $600 million of debt securities and increasing the availability of our credit facility to $1.1 billion to provide for our future growth. We also repurchased approximately $250 million of outstanding 9.75% senior secured notes of EMJ to lower our cost of capital.

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, because those customers require intermittent deliveries over long or irregular periods, or because those customers require specialized processing services. We believe that metals service centers have also enjoyed an increasing share of total metal shipments due to the focus of the capital goods and other manufacturing industries on just-in-time inventory management and materials management outsourcing, and because metal producers have reduced in-house direct sales efforts to small sporadic purchasers in order to enhance their production efficiency. The recent consolidation of carbon steel mills has further reduced the number of potential sources of metal available to customers purchasing small quantities of metal.

We have more than 125,000 metals service center customers in various industries. In 2007, no single customer accounted for more than 1.0% of our sales, and more than approximately 85% of our orders were from repeat customers. Our customers are manufacturers and end-users in the general manufacturing, non-residential construction, transportation (rail, truck trailer and shipbuilding), aerospace, energy, electronics and semiconductor fabrication and related industries. In 2003, many of our suppliers also became our customers as a result of our purchase of Precision Strip, which typically sells processing services, but not metal, to larger customers, such as mills and original equipment manufacturers (OEM s), and in larger annual volumes than we have experienced historically. Precision Strip has also indirectly increased our participation in the auto and appliance end markets with the auto exposure primarily relating to the transplants, or New Domestic companies. Our metals service centers wrote and delivered over 5,375,000 orders during 2007 at an average price of approximately $1,350 per order. Most of our metals service center customers are located within a 200-mile radius of the metals service center serving them. The proximity of our centers to our customers helps us provide just-in-time delivery to our customers. With our fleet of approximately 1,460 trucks (some of which are leased), we are able to service many smaller customers. Moreover, our computerized order entry system and flexible production scheduling enable us to meet customer requirements for short lead times and just-in-time delivery. We believe that our long-term relationships with many of our customers significantly contribute to the success of our business. Providing prompt and efficient services and quality products at reasonable prices are important factors in maintaining these relationships.

In 2006 and 2007, we increased our international presence significantly through the acquisitions of the Canadian service centers of EMJ and Encore Group and Metalweb in the United Kingdom and our subsidiary Valex Corp. opened a facility in China. Approximately 6% of our 2007 net sales or $458.2 million were to international customers (based on the shipping destination), with approximately 72% of these sales or $331.5 million to Canadian customers. Approximately 81% of our Canadian sales or $268.8 million were made by our EMJ Canada and Encore Canada locations.

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. In 2007, demand in most markets that we serve was at reasonably strong levels from a historical basis, but generally below that of 2006. Aerospace, energy and non-residential construction were the strongest of these markets in 2007. We anticipate that demand in the non-residential construction market, which we believe represents approximately one-third of our sales dollars, may slow somewhat in 2008 from 2007 levels. We have very limited exposure to the domestic auto and residential construction markets that were the weakest areas of the U.S. economy in 2007.

Since 2004, pricing for carbon steel products has been at elevated levels compared to historical pricing levels, primarily due to raw material shortages for the mills which has increased their costs, and due to consolidation at the mill level resulting in a more controlled level of domestic capacity and pricing discipline. In addition, during 2007 import levels into the U.S. were very low because the metal was re-routed to Europe and Asia where prices were higher than in the U.S., because of strong demand in those geographic areas and because of the weak U.S. dollar. During 2007, carbon steel prices remained fairly steady trending downward slightly until November and then remained flat through the end of the year. In December, price increases were announced for 2008. Prices for stainless steel products continued to increase from unprecedented levels throughout the first half of 2007 driven by record increases in the nickel surcharges due to shortages of nickel. However, in the months of August, September and October 2007 stainless steel prices dropped sharply (approximately 35% decrease in total during that period), driven by decreases in the nickel surcharge before leveling off somewhat during the fourth quarter of 2007. This sharp decline in stainless steel prices created a challenging environment for pricing of stainless steel products during the second half of 2007 and caused many customers to delay purchases or to purchase limited quantities while prices were declining. This negatively impacted our gross profit margins on sales of stainless steel products. In 2007, pricing of aluminum products, excluding specialty aerospace products, was relatively steady with downward trends in the third quarter. The prices of aerospace-related aluminum products also began to decrease in 2007 from the record levels in late 2006 and early 2007 primarily due to increased metal availability.

California was our largest market for many years, but we have expanded our geographic coverage in recent years and the Midwest region of the United States has become our largest market. Although our sales dollars in each of these regions have increased, the percent of total sales in each region has changed due to our growth. California represented 16% of our 2007 sales, which was a significant decrease from 45% of our 1997 sales. The Midwest region, which we entered in 1999 and is now our largest market, represented 25% of our 2007 sales. Our 2007 acquisitions and organic growth continued our geographic diversification, especially in Canada through Encore Group and in the United Kingdom through Metalweb.

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

	2007	2006	2005
Midwest	25%	23%	20%
Southeast	19%	20%	25%
California	16%	17%	22%
West/Southwest	12%	14%	11%
Pacific Northwest	8%	9%	10%
Mountain	5%	5%	6%
Northeast	6%	4%	1%
Mid-Atlantic	4%	4%	3%
International	5%	4%	2%
Total	100%	100%	100%

Suppliers

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

During 2001 through 2003, many domestic steel mills entered bankruptcy proceedings and certain of those mills temporarily closed a portion of their production capacity. Most of the bankrupt mill facilities were acquired by existing mills. Since then mill consolidation has continued at a rapid pace, resulting in significant market share controlled by a limited number of suppliers. This has improved capacity and pricing discipline at the mills. Steel producers have experienced significant increases in their raw material costs due to shortages caused by increased global demand. These factors have provided a more stable pricing environment since 2004 with prices at relatively high levels. Costs for aluminum and stainless steel products have also been at relatively high levels compared to historical levels in recent years because of the increased global demand and raw material shortages for those products. In addition recent strength in certain end markets such as aerospace and energy have limited the availability of certain products, allowing the producers to increase their prices for these products.

Because of our total volume of purchases and our long-term relationships with our suppliers, we believe that we are generally able to purchase inventory at the best prices offered by the suppliers, given the order size. We believe that we are not dependent on any one of our suppliers for metals. In recent years, when the supply of certain metals was tight, we believe that these relationships provided an advantage to us in our ability to source product and have it available for our customers. Our size and strong relationships with our suppliers is now more important because mill consolidation has somewhat reduced the number of suppliers. Because of the favorable market conditions experienced in the U.S. in recent years new capacity is being built in the U.S. that could make pricing more volatile in future years from current levels. In 2006, China became a net exporter of metals which caused concern about the impact on the U.S. and other markets. We have not seen a significant disruption in the U.S. market because of this; however, continued and increased imports of Chinese and other metals into the U.S. market could negatively impact pricing.

Backlog

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

Products and Processing Services

We provide a wide variety of processing services to meet each customer s specifications and deliver products to fabricators, manufacturers and other end users. We maintain a wide variety of products in inventory. Our product mix has changed mainly as a result of our acquisitions. Flat-rolled carbon steel products are generally the most volatile and competitive products in terms of pricing and accounted for only 9% of our 2007 sales. For orders other than those requiring extensive or specialized

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processing, we often deliver to the customer within 24 hours after receiving the order. Our sales dollars by product type as a percentage of total sales in each of the three years ended December 31 were as follows:

	2007	2006	2005	
	11%	13%	15%	carbon steel plate
	10%	9%	6%	carbon steel bar
	9%	10%	8%	carbon steel tubing
	7%	7%	9%	carbon steel structurals
	4%	5%	8%	galvanized steel sheet and coil
	3%	3%	6%	hot rolled steel sheet and coil
	2%	2%	3%	cold rolled steel sheet and coil
Carbon Steel	46%	49%	55%	
	7%	6%	5%	aluminum bar and tube
	5%	6%	7%	heat-treated aluminum plate
	4%	4%	6%	common alloy aluminum sheet and coil
	2%	1%	1%	common alloy aluminum plate
	1%	1%	1%	heat-treated aluminum sheet and coil
Aluminum	19%	18%	20%	
	9%	8%	5%	stainless steel bar and tube
	6%	6%	7%	stainless steel sheet and coil
	3%	3%	2%	stainless steel plate
	1%	1%	1%	electropolished stainless steel tubing and fittings
Stainless Steel	19%	18%	15%	
	7%	4%	¾	alloy bar and rod
	1%	1%	¾	alloy tube
	1%	1%	¾	alloy plate, sheet and coil
Alloy	9%	6%	¾	
	2%	2%	4%	toll processing of aluminum, carbon steel and stainless steel
	5%	7%	6%	miscellaneous, including brass, copper and titanium
Total	100%	100%	100%	

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

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

After receiving an order, we enter it into our computerized order entry system, select appropriate inventory and schedule the processing to meet the specified delivery date. In 2007, we delivered almost half of our orders within 24 hours. We attempt to maximize the yield from the various metals that we process by combining customer orders to use each product that we purchase to the fullest extent practicable.

Few metals service centers offer the full scope of processing services and metals that we provide. In 2007, we performed processing services for approximately 40% of our sales orders. Our primary processing services are described below:

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

Bending is the forming of metals into various angles.

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

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