JORGENSEN EARLE M CO /DE/
Form 10-K
June 29, 2006

Table of Contents

UNITED STATES 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 March 31, 2006

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 1-7537

EARLE M. JORGENSEN COMPANY
(Exact name of registrant as specified in its charter)

Delaware	**65-1269024**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

10650 Alameda Street
Lynwood, California 90262
(323) 567-1122
(Address of principal executive offices and telephone number)

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 o Accelerated filer o Non-accelerated filer þ

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

As of September 28, 2005, the aggregate market value of the voting stock held by non-affiliates of the predecessor to the registrant was $247,278,884, based on the closing price on the New York Stock Exchange on that date. On March 31, 2006, 50,237,094 shares of common stock, par value $.001 per share, were outstanding. Effective April 3, 2006, pursuant to an Agreement and Plan of Merger dated January 17, 2006, the predecessor to the registrant was merged with and into RSAC Acquisition Corp. (which changed its name to Earle M. Jorgensen Company) and the predecessor s common stock was delisted from the New York Stock Exchange. The registrant is filing with reduced disclosures subject to meeting the conditions of General Instruction (I)(1)(a) and (b).

DOCUMENTS INCORPORATED BY REFERENCE

None

Table of Contents

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K and the documents incorporated in this Annual Report on Form 10-K by reference include both historical and forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future results. When we use words in this document, such as anticipates, intends, plans, believes, estimates, expects, will, should, and similar expressions, we do so to identify forw statements. Such statements are intended to operate as forward looking statements of the kind permitted by the Private Securities Litigation Reform Act of 1995, incorporated in Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). That legislation protects such predictive statements by creating a safe harbor from liability in the event that a particular prediction does not turn out as anticipated.

While we always intend to express our best judgment when we make statements about what we believe will occur in the future, and although we base these statements on assumptions that we believe to be reasonable when made, these forward looking statements are not a guarantee of performance, and you should not place undue reliance on such statements. Forward looking statements are subject to many uncertainties and other variable circumstances, many of which are outside of our control and which could cause our actual results and experience to differ materially from those anticipated in these forward-looking statements. These forward-looking statements are affected by risks, uncertainties and assumptions that we make, including, among other things:

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

- If we were to lose any 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.

- 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. Similar changes in economic conditions could occur in future periods.

- 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.

- Changes in demand for the products that we sell can cause significant fluctuations in both availability and cost of the products. A significant or rapid decline in costs from current levels could have a severe negative impact on our gross profit.

- Foreign currency exchange rates could change, which could affect the price we pay for certain metals and the results of our foreign operations.

- There are risks and uncertainties involved in adopting or implementing new processes or new technologies, such as the improvements of our information management system and the improvements at our Chicago facility which included expanding and upgrading our Kasto automated inventory storage and retrieval system.

- Our business is very competitive and increased competition could reduce our gross profit margins and net income.

- Our substantial indebtedness could impair our financial condition and reduce the funds available for other purposes, and any 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.

- 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 are subject to various environmental and other governmental regulations which may require us to expend significant capital and incur substantial costs.

- We may discover internal control deficiencies in our decentralized operations, which may result in a negative impact on our results of operations.

- Tax audits could result in additional taxes, plus interest and penalties being assessed against us.

- Other economic, business, competitive or regulatory factors may affect our businesses generally as described in our filings with the SEC.

We are also affected by risks, uncertainties and assumptions that are more fully discussed in Item 1A. Risk Factors. You should be aware that any forward-looking statement made by us in this Annual Report on Form 10-K, or elsewhere, speaks only as of the date on which we make it. New risks and uncertainties come up from time to time, and it is impossible for us to predict these events or how they may affect us. We have no duty to, and do not intend to, update or revise the forward-looking statements in this report after the date of this report. In light of these risks and uncertainties, you should keep in mind that any forward-looking statement made in this report or elsewhere might not occur.

INDEX

Table of Contents

PART I

Item 1. Business

Our predecessor (EMJ) was formed on May 3, 1990, when affiliates of Kelso & Companies Inc. acquired control of and combined two leading metals distributors, Earle M. Jorgensen Company (founded in 1921) and Kilsby-Roberts Holding Co. (successor to C.A. Roberts Company, founded in 1916). In connection with the combination of these two companies, our predecessor became a wholly-owned subsidiary of Earle M. Jorgensen Holding Company, Inc. (Holding). On April 20, 2005, EMJ completed its merger and financial restructuring, pursuant to which Holding was merged with and into a wholly-owned subsidiary of EMJ. As part of the financial restructuring, EMJ closed its initial public offering of 17,600,000 shares of common stock which began trading on the New York Stock Exchange on April 15, 2005 under the ticker symbol JOR .

On April 3, 2006, Reliance Steel & Aluminum Co., a California corporation (Reliance) (NYSE:RS), completed its acquisition of EMJ. EMJ was merged with and into (the Merger) RSAC Acquisition Corp., a Delaware corporation formed January 12, 2006 (the Surviving Corporation or the Company), which, as the surviving corporation, will continue to operate as a wholly-owned subsidiary of Reliance, and the Surviving Corporation changed its name to Earle M. Jorgensen Company pursuant to that certain Agreement and Plan of Merger (the Merger Agreement), dated January 17, 2006 by and among Reliance, the Surviving Corporation and EMJ as described in that Form 8-K Current Report filed January 20, 2006.

We are a leading distributor of metal bar and tubular products used by North American manufacturing companies and have been in business for over 80 years. We stock approximately 25,000 different metal products in various quantities from primary producers, including a broad mix of carbon, alloy and stainless steel and aluminum bar, tubular and plate products. We ship these metal products in smaller quantities to over 35,000 customer locations spanning various industries, including machine tools, industrial equipment, transportation, fluid power, oil, gas and energy, fabricated metal, and construction and agricultural equipment. We distribute our broad range of metal products and provide our customers value-added metal processing and inventory management services from our distribution network of 40 strategically located service and processing centers in the United States and Canada.

Our metal processing services consist of cutting to length, burning, sawing, honing, shearing, trepanning, grinding, polishing and performing other similar services on most of the metal products we sell, all to customer specifications. As part of our inventory management services, we schedule deliveries in the quantities and at the times required by just-in-time manufacturing processes employed by a growing number of leading manufacturing companies and provide our customers with an on-time product delivery guarantee.

During the past several years, we have focused our management efforts on automating and reconfiguring our facilities to increase workflow, enhancing our information management systems to improve customer service, and streamlining our management structure, reducing headcount, and decreasing corporate overhead to reduce costs. From fiscal year 1998 to fiscal year 2006, our average total headcount was reduced by over 24% to 1,740 employees. We have continued to make productivity improvements. At March 31, 2006 our headcount was 1,774.

We operate in one reportable segment the metals service center industry through a network of 40 service and processing centers strategically located throughout North America, including five service centers in Canada. For the fiscal year ended March 31, 2006, we generated revenues of $1,789.8 million and reported net income of $76.3 million.

Industry Overview and Competition

Metals service centers function as key intermediaries between the metals producers that desire to sell large volumes to few customers and the end-users that need specific products in smaller quantities. Primary metals producers, which manufacture and sell large volumes of steel, aluminum and specialty metals in standard sizes and configurations, generally sell only to large end-users and metals service centers that do not require processing of the products and who can order in large quantities and tolerate relatively long lead times. We believe that the role of the primary metals producers will not change in the foreseeable future and that these producers will continue to focus on providing efficient and volume-driven production of a limited number of standardized metal products. According to Purchasing Magazine and Purchasing.com (May 4, 2006), the 14 largest U.S. and Canadian metals service centers represented approximately 26% of total estimated industry sales in the U.S. and Canada of $115.0 billion in 2005. In addition, sales to the 100 largest metals service centers in North America increased 15% to $47.0 billion from $41.0 billion in

2004. The industry includes both general-line distributors, like us, that handle a wide range of metal products and specialty distributors that specialize in particular categories of metal products. Most of the companies in the metals distribution industry have a product mix more heavily weighted toward flat products, such as sheet and plate. The bar and tubular products that are our core products tend to be sold in smaller quantities, with shorter lead times and at higher gross margins than flat products, such as sheet and plate. The geographic area covered by a metals service center will vary depending on the competition and the customers served.

1

We believe that a lower price and excellent customer service, including breadth and availability of products, timely and reliable delivery and responsiveness, are critical to the success of a metals service center. We have found that metals end-users are increasingly moving to lean manufacturing models that require metal products to be delivered to them on a just-in time, as-needed basis. This has increased these end-users need for service centers that can meet their delivery requirements by maintaining an extensive inventory of available metal products.

Competitive Strengths

We believe that the following factors contribute to our success in the metals service center industry:

Excellent Product Selection and Service. We are a recognized leader in the metals service center industry, with an excellent reputation for quality and service built over our 80 years of operation. We have an extensive inventory of core products, including one of the most extensive lines of bar and tubular products in North America. Over the last several years, we have further enhanced our reputation by implementing a program for our customers in which we guarantee on-time delivery of our products or they are free. This program, which we believe is unique among our major competitors in North America, has been very successful, with on-time performance of approximately 99% since its inception in 1999. Our broad network of service and processing centers and our proprietary information management systems have been critical to our ability to guarantee our service. Further, we have received numerous quality and service awards from our customers and have consistently demonstrated our commitment to improve our business in order to better satisfy our customers needs, including being among the first in our industry to receive ISO 9001:2000 certifications and providing electronic commerce capabilities.

Excellent Supplier Relationships. We believe we are one of the largest purchasers of steel bars and tubing in North America and one of the leading distribution customers in our core products for each of our major suppliers. These supplier relationships enable us to better meet our customers demands for metals during periods of tight supply.

Broad Network of Strategically Located Facilities and Diverse Customer Base. Our 40 service and processing centers are strategically located throughout North America, generally within one day s delivery time to almost all U.S. manufacturing centers. Our broad service network enables us to provide services to national customers with multiple locations, as well as to smaller single-site customers. We serve more than 35,000 customer locations across a broad range of industries, with no single customer accounting for more than 3% of our revenues in fiscal 2006. Our ten largest customers represented approximately 11.6% of our revenues in fiscal 2006. During fiscal 2006, we handled approximately 9,000 sales transactions per business day at an average sales price of approximately $787 per transaction.

Focus on Information Management Systems. Through our proprietary information management systems, we track and allocate inventory among all of our locations, maintain high levels of customer service through better order and product reference data and monitor our operating results. We track our entire inventory on a real-time basis through our information management systems, which allows our salespeople and operating employees to have visibility into in-process orders and enables us to meet our on-time delivery guarantee. Our in-house information technology team interacts closely with our sales force and operations personnel.

Warehouse Automation. We completed the installation of an automated inventory storage and retrieval system in our largest facility, which is located in Chicago, in fiscal 2004. This fully operational system, which we refer to as the Kasto system, allows us to streamline order filling and improve employee productivity, resulting in reduced material handling and processing costs and increased order fill rates.

Operating and Growth Strategy

Our primary business goals are to increase market share and to improve operating profit and cash flows. Our operating and growth strategies to accomplish these goals consist of the following elements:

Focus on Core Products. We believe our purchasing volumes for our core bar and tubular products enable us to achieve among the lowest available product acquisition costs for these products among metals service centers in North America. We believe we can grow our market share and increase profitability by continuing to focus our marketing efforts on our core products and capitalizing on our procurement advantage. We intend to leverage our strength in our core products to enable us to establish competitive advantages in our local markets as well as to allow us to successfully compete for larger national programs with customers.

Focus on Timely and Reliable Delivery and Value-Added Services. We believe our guarantee to provide on-time delivery service will continue to differentiate us from our competition and enable us to increase our market share. In addition, we seek to increase our margins and grow our market share by complementing our metal product sales efforts with value-added services, such as inventory management and processing activities, including our special stocking programs and cutting and honing operations.

Table of Contents

Expand Satellite Operations. We believe a key aspect of serving our current customers and acquiring new customers is having a physical presence in markets that require our products and services. Accordingly, we have been implementing a strategy to target those geographic areas where we can justify opening a satellite location. These locations are managed locally by warehouse and delivery personnel, stock a limited inventory of core products and require minimal initial and maintenance capital expenditures, resulting in a low-cost opportunity to serve select markets. Each satellite operation is supported by inventory, inside salespeople and the general management of one of our larger service centers. During the past three years, we have opened satellite facilities in Orlando, Florida and northern Ontario, Canada and have relocated our successful Chattanooga, Tennessee satellite facility to a larger new satellite facility in Birmingham, Alabama. We added three new satellite locations in fiscal 2006 including Hartford, Connecticut, Quebec City, Canada and Spokane, Washington. In addition, in April 2006 we began to ship product out of our newly constructed facility in Lafayette, Louisiana. We continue to evaluate additional satellite locations.

Maintain Technology Leadership. We have made and will continue to make investments in technology in order to differentiate our capabilities from those of our competitors. We intend to continue to enhance our information management systems by upgrading software and hardware to improve the connectivity, stability and reliability of these systems, which will help us continue to improve customer service. To further improve our productivity and efficiency, we are (1) expanding the warehouse automation system in our Chicago facility and evaluating the implementation of the warehouse automation systems in certain of our other facilities, (2) creating a centralized data warehouse to facilitate greater access to transactional information, (3) developing new electronic commerce tools for customer and vendor interfaces to offer better compatibility with various systems and (4) implementing IP telephony to reduce costs and allow for greater customer service flexibility.

Products and Suppliers

We have designated certain carbon and alloy, stainless and aluminum products as core product offerings under our bar and tubular product lines. We also offer certain plate and other products. Each of our service centers stocks a broad range of shapes and sizes of each of these products, as dictated by market demand, in an effort to be a market leader in all of the core product lines in its geographic area. We process most of the metal products we sell by cutting to length, burning, sawing, honing, shearing, trepanning, grinding, polishing and performing similar services on them, all to customer specifications. These processing services save our customers time, labor and expense, which helps them better manage their manufacturing costs. As part of our inventory management services, we schedule deliveries in the quantities and at the times required by just-in-time manufacturing processes employed by a growing number of leading manufacturing companies and provide our customers with an on-time product delivery guarantee. Our inventory management services also include special stocking programs and management of inventory levels for items specified by customers based on their forecasts.

Carbon steel bar products (hot-rolled and cold-finished) and carbon plate and sheet are used in a wide range of products and applications, including construction equipment, agricultural equipment, automotive and truck manufacturing and oil exploration. Stainless steel bar and plate are used widely in the chemical, petrochemical, oil refining and biomedical industries where resistance to corrosion is important. Aluminum bar and plate are frequently used in aircraft and aerospace applications where weight is a factor. Different tubular products are appropriate for particular uses based on different characteristics of the tubular materials, including strength, weight, resistance to corrosion and cost. Carbon steel tubing and pipe are used in general manufacturing. Alloy tubing is used frequently in the manufacturing of oil field equipment and farm equipment. Stainless steel tubing and pipe are used in applications requiring a high resistance to corrosion, such as food processing. Aluminum tubing and pipe are used in applications that put a premium on light weight, such as aerospace manufacturing.

Table of Contents

The percentage of revenues generated from sales of material by product group for the fiscal years ended March 31, 2004, 2005 and 2006 is as follows.

	Year Ended March 31,		
	2004	2005	2006
Bars:			
Carbon and Alloy	37.4%	40.7%	39.4%
Stainless	11.7	11.0	11.6
Aluminum	8.1	7.0	7.5
Brass	1.4	1.4	1.6
Total	58.6	60.1	60.1
Tubing:			
Carbon and Alloy	23.6	23.2	23.0
Stainless	2.8	2.2	2.0
Aluminum	2.7	2.1	1.9
Total	29.1	27.5	26.9
Plate:			
Carbon and Alloy	3.2	3.6	3.4
Stainless	1.2	1.0	1.1
Aluminum	2.0	2.1	1.7
Total	6.4	6.7	6.2
Other	5.9	5.7	6.8
	100.0%	100.0%	100.0%

The majority of our procurement activities are conducted by a centralized merchandising office in our Chicago facility. Specialists in major product lines make the majority of inventory purchases on behalf of our service centers. This merchandising group develops and evaluates the working relationships with high-quality suppliers to ensure availability, quality and timely delivery of product. Because of this centralized coordination and the total volume of purchases we make, we are a recognized distributor for many major metals suppliers and believe that we are able to purchase our core products inventory at among the lowest unit cost available to North American metals service centers.

The majority of our inventory purchases are made by purchase order, and we have no significant supply contracts with periods in excess of one year. We are not dependent on any single supplier for any product or for a significant portion of our purchases. In fiscal 2006 no single supplier represented more than 8% of our total purchases. We purchased less than 13% of our inventory from foreign-based suppliers in fiscal 2006.

Customers and Markets

We provide metal products and value-added metal processing and inventory management services to over 35,000 customer locations throughout North America that do business in a wide variety of industries. No customer represented more than 3% of our revenues in fiscal 2006. During fiscal 2006 we processed approximately 9,000 sales transactions per business day, at an average sale price of approximately $787 per transaction. In addition, sales of material out of our stock inventory (referred to as stock sales) represented 91.7%, 93.5% and 93.7% of our revenues from the sale of metal products for fiscal 2004, 2005 and 2006, respectively. We believe our ability to support this high proportion of stock sales is critical in growing market share and maintaining higher gross margins than would otherwise be possible. The balance of revenues represents special customer requirements that we meet by arranging mill-direct sales and by making buy-outs from other distributors of inventory items we do not maintain as stock inventory. These non-stock sales generally have lower gross margins than stock sales, but provide a valuable customer service.

Table of Contents

The following table provides the percentage of sales to domestic customers in the largest industries we serve for the fiscal years ended March 31, 2004, 2005 and 2006.

	Year Ended March 31,		
	2004	2005	2006
General Machining	28.1%	29.3%	29.6%
Industrial Equipment	7.7	8.1	8.4
Transportation	7.5	6.7	6.1
Oil, Gas & Energy	5.8	4.8	6.0
Metals Service Centers & Wholesale Trade	6.1	6.3	5.9
Fluid Power	6.0	6.1	5.9
Fabricated Metal	5.7	6.0	5.2
Construction/Farm Equipment	5.1	5.5	5.3
Screw Machine Products	5.0	5.3	4.8
Power Transmission Equipment	3.7	3.8	3.8
All Other Industries	19.3	18.1	19.0
Total	100.0%	100.0%	100.0%

Most of our sales originate from individual purchase orders, with the pricing set at the time of the sale, and are not subject to ongoing sales contracts. When we enter into a fixed price arrangement, we typically enter into a corresponding supply arrangement with our supplier to cover the commitment to our customer. These corresponding supply arrangements limit the risk of fluctuating prices negatively impacting our margins on these fixed price arrangements and provide the customer with greater certainty as to timely delivery, price stability and continuity of supply, and sometimes satisfy particular processing or inventory management requirements. In addition, these arrangements have resulted in new customer relationships and increased sales volumes, but can have a lower gross margin than our ordinary sales.

Competition

We compete with numerous national, regional and local service centers of various sizes and capabilities. Some of these service centers are general line service centers and some specialize in a narrow range of products (such as stainless bars). We compete based on inventory availability, timely delivery, price, customer service, quality and processing capabilities. We believe that our extensive inventory of core products, excellent customer service, excellent supplier relationships, broad network of facilities, proprietary technology, automated warehouse system and experienced management team enable us to compete effectively in our industry.

Information Management Systems

Our proprietary information management systems enable us to track and allocate inventory among all of our locations, improve customer service through better order and product reference data and monitor operating results. The ability to track our inventory system-wide on a real-time basis allows our salespeople to integrate ordering and scheduling, which enables us to meet our on-time delivery guarantee. Our proprietary systems have been and will continue to be upgraded, developed and implemented to improve efficiencies and customer service.

Intellectual Property and Licenses

EMJ® and E-METALS® are registered trademarks, and our name is a registered service mark, in the United States and in other countries where we do or expect to do business. Other service marks, including hallmarks, logos, taglines or mottos, used to conduct business are or will be registered as necessary to protect our proprietary rights. We also own our Internet domain name, www.emjmetals.com. We consider certain information owned by us to be trade secrets, and we take measures to protect the confidentiality and control the disclosure of such information. We believe that these safeguards adequately protect our proprietary rights. While we consider all of our intellectual property rights as a whole to be important, we do not consider any single right to be essential to our operations.

5

Employees
As of March 31, 2006, EMJ employed 1,774 persons, of whom 1,122 were employed in warehouse operations or shipping, 370 were employed in sales and 282 served in executive, administrative or district office capacities. Three different unions represent approximately 33% of our employees from 14 locations. Our collective bargaining agreements expire on staggered dates between 2006 and 2010. We believe we have a good overall relationship with our employees and do not expect any significant issues to arise in connection with collective bargaining agreements in the near future.

Foreign Operations
Through our wholly-owned subsidiary, Earle M. Jorgensen (Canada) Inc., a Canadian limited liability company, we operate service centers located in Toronto, Montréal, Edmonton, North Bay and Quebec City. Revenues from our Canadian operations totaled $70.0 million in fiscal 2004, $109.5 million in fiscal 2005 and $129.7 million in fiscal 2006.

Health and Safety Regulations
Our operations are governed by many laws and regulations designed to promote workplace safety and to protect the welfare of employees, including the Occupational Safety and Health Act and regulations thereunder. We believe we are in material compliance with these laws and regulations.

Environmental Matters
We are subject to extensive and changing federal, state, local and foreign laws and regulations designed to protect the environment, including those relating to the use, handling, storage, discharge and disposal of hazardous substances and the remediation of environmental contamination. Although we believe we are in material compliance with laws and regulations, we are from time to time involved in administrative and judicial proceedings and inquiries relating to environmental matters.

During fiscal years 2004 and 2005, expenditures totaling approximately $0.2 million per year were made in connection with monitoring and investigation activities at sites with contaminated soil and/or groundwater. During the fiscal year ended March 31, 2006, expenditures totaled approximately $79,000 with an accrual of $0.8 million remaining for future investigation activities related to the Forge (Seattle/Kent, WA) and Clinton Drive (Houston, TX) and other sites, as discussed below. We do not consider any other pending environmental matters material.

Forge (Seattle/Kent, WA). In November 1998, we paid the purchasers of our former Forge facility and an off-site disposal site $2.3 million pursuant to an arbitration award for liabilities related to the remediation of known contamination at the Forge facility. We continue to monitor the disposal site for environmental conditions in accordance with a consent decree issued by the Washington Department of Ecology. Annual costs associated with such monitoring are not significant, and we do not anticipate significant additional expenditures related to this matter. The Forge property is located on the Lower Duwamish Waterway, which has been identified by the United States Environmental Protection Agency (the EPA), as a Superfund Site. Under the federal Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), owners or operators of facilities that have released hazardous substances to the environment may be liable for remediation costs and damages to natural resources caused by such releases. The EPA entered into an Administrative Order on Consent (AOC) with four major property owners with potential liability for cleanup of the Duwamish site that outline tasks required to be completed to further investigate the nature and extent of the contamination and cleanup alternatives. In November 2001, the current owners of the Forge property notified us of a potential claim for indemnification for any liability relating to contamination of the Duwamish site and requested that EMJ participate under a joint defense.

On July 10, 2003, we executed an AOC with the EPA under CERCLA, agreeing to investigate certain areas of the Forge facility to determine whether it has contributed to certain contamination of the Lower Duwamish Waterway. Of the initial estimate of $0.4 million to $0.5 million for the proposed work under the AOC, approximately $0.3 million has been spent as of March 31, 2006, substantially all of which was reimbursed to us by our insurance carrier. We expect the remaining accrued amount of approximately $0.2 million will be incurred during 2006 and 2007 for environmental investigation and remediation costs under the AOC. On April 15, 2003, we signed a funding and participation agreement with the current owners of the Forge property, which requires us to fund 85% of costs to be incurred in connection with the investigation activities to be performed under the AOC.

We are continuing to evaluate this matter and remedies we may have, including insurance recoveries for any monies to be spent as part of the investigation or cleanup of the Duwamish site. Because the Duwamish site is still being investigated and cleanup alternatives and responsibility for cleanup are still being evaluated, we cannot determine what ultimate liability we may have relating to this matter.

Clinton Drive (Houston, TX). In connection with the sale of a surplus facility in Houston, Texas, an environmental investigation of the site detected benzene in the groundwater at the site that we believe came from previously removed diesel/gasoline underground storage tanks. Based on additional sampling and tests, traces of chlorinated solvents were also detected in the groundwater at the site.

Table of Contents

On December 9, 2004, we entered into an agreement with the buyer whereby we performed the following:

- filed a voluntary clean-up application with the Texas Commission for Environmental Quality (TCEQ), that commits us to clean-up the soil and groundwater at the site for the benzene and chlorinated solvents to acceptable levels in accordance with TCEQ requirements;

- funded an escrow account with $0.5 million to be available to complete required clean-up and subsequent monitoring activities; and

- indemnified the buyer for pre-existing environmental issues on the site based on applicable TCEQ industrial/commercial standards.

We have accrued approximately $0.5 million as of March 31, 2006 for the estimated liability from this issue.

Available Information

We file annual, quarterly and current reports and other documents with the SEC under the Exchange Act. The public may read and copy any materials that the Company files 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.emjmetals.com) our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, our Code of Ethics for Senior Financial Officers, and, if applicable, amendments to those reports as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

Item 1A. Risk Factors

You should carefully consider the risks described below. If any of the following circumstances described in these risk factors occurs, our business, financial condition or results of operations could be materially adversely affected.

Risks Relating to Our Business

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

We purchase large quantities of carbon, alloy and stainless steel, aluminum and other metals, which we sell to a variety of end-users. The prices we pay for these metals and the prices we charge for our products may change depending on many factors outside of our control, including general economic conditions (both domestic and international), competition, production levels, import duties and other trade restrictions, currency fluctuations and surcharges imposed by our suppliers. For example, in the past year our suppliers have added various surcharges to the price of metals related to increases in the costs of scrap, energy, raw material and other inputs. These surcharges may or may not continue in the future and could be increased, decreased or eliminated by the suppliers that have imposed them.

Our service centers maintain substantial inventories of metal to accommodate the short lead times and just-in-time 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. Our commitments for metal purchases are generally at prevailing market prices in effect at the time we place our orders or at the time of shipment. During periods of rising prices for metal, we may be negatively impacted by delays between the time of metal price increases and price increases in our products if we are unable to pass these increases 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.

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, Canada or other countries, or the public perception that these may occur, would decrease the demand for our products and adversely affect our pricing. For example, the general slowing of the economy in fiscal 2002 and fiscal 2003 adversely impacted our product sales and pricing. While we experienced significantly improved sales volumes and pricing in fiscal 2005 and fiscal 2006, 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 industrial equipment, oil, gas and energy, construction and agricultural equipment, and transportation industries. 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., Canadian 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, we may not have sufficient inventory to be able to provide sought-after products 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.

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

We compete with a large number of other general-line distributors and specialty distributors in the metals service center industry. Competition is based principally on price, inventory availability, timely delivery, customer service, quality and processing capabilities. Competition in the various markets in which we participate comes from companies of various sizes, some of which have greater financial resources than we do and some of which have more established brand names in the local markets 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 our prices or offer increased services at a higher cost to us, which could reduce our revenues, gross profit and net income.

If our customers, which are primarily North American manufacturing and industrial companies, relocate operations or outsource functions overseas, we would lose their business.

Our customer base is located in the United States and Canada and consists primarily of manufacturing and industrial companies. We do not currently operate facilities outside of North America. Therefore, in the event our customers relocate production operations or outsource particular functions overseas, we would lose their business, which could have an adverse effect on 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.

Because we have no long-term contracts to purchase metals, our primary suppliers of carbon, alloy and 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.

Our business may be adversely affected by our on-time or free delivery guarantee if we are unable to deliver our products on a timely basis.

We provide customers with an on-time or free delivery guarantee. Therefore, significant disruptions to timely deliveries of our products could lead to increased customer credits, harm to our reputation and a loss of market share.

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, and key operating employees. We may not be able to retain these individuals or attract and retain additional qualified personnel when needed. Other than a retention agreement with our chief financial officer, we do not have employment agreements with any of our officers or employees in the United States, 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 common stock in our retirement savings plan, all of which have been replaced by rights to Reliance common stock. These individuals may, therefore, be more likely to leave us if the shares of Reliance 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.

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 a material 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 our information management systems, we track and allocate inventory among all of our locations, 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 outsourced the maintenance and operation of most of our hardware to a third-party service provider that also 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. Moreover, it is possible that an event or disaster at our service provider s facilities could materially and adversely affect our ability to meet our customers needs and the ability of each of our locations to operate efficiently.

Our business could be adversely affected by a disruption to our Chicago facility s operations.

During fiscal 2006, our Chicago facility processed and shipped an average of 2,779 inventory line items per day, or approximately 24% of the line items shipped from all of our facilities during that period. Our Chicago facility serves its regional customers and also supplies products to all of our other service centers. Therefore, any disruption to our operations at this facility could adversely impact the performance of our other service centers and impair our ability to deliver products and services to our customers throughout the United States on a timely basis. Our operations at the Chicago facility could be disrupted in the event of:

- damage to, or inoperability of, its automated warehouse system;
- a hardware or software error, failure or crash;
- a power or telecommunications failure; or
- fire, flood or other natural disaster.

Any disruption could damage our reputation, cause customers to cease purchasing metals from us and cause customers to incur substantial losses. We could be subject to claims or litigation with respect to these losses. Our property and business interruption insurance may not adequately compensate us for all losses we may incur.

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

A key aspect of our growth strategy is the establishment of satellite operations, a physical presence in geographic markets (1) in which we have several significant customers or there are several potential customers that have a demand for our products and services and (2) that is supported by inventory, inside salespeople and the general management of one of our larger service centers. We may not be able to identify suitable locations for these operations or enter into agreements to purchase or lease locations upon satisfactory terms. In addition, we could fail to generate, or suffer a loss of, or a decrease in, purchases by one or more significant customers served by a satellite location, which could prevent us from realizing the expected benefits of such satellite location. Any of these occurrences could impair our ability to grow our business.

Labor disruptions could adversely affect our operations.

We have entered into collective bargaining agreements with union locals at our facilities that expire on staggered dates between 2006 and 2010. A work stoppage at one of our facilities that lasts for a significant period of time could cause us to lose sales or to incur increased costs and could adversely affect our ability to meet customers needs.

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 extensive 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. For example, there are currently remediation and/or investigation activities at certain former facilities where soil and/or groundwater contamination is present, and we have been notified of a potential claim relating to possible off-site contamination of river sediments from one of these facilities, which is our former Forge facility located in Seattle, Washington. At March 31, 2006, we had accrued approximately $0.2 million with respect to the Forge facility for expected environmental investigation and remediation costs in fiscal 2006, and we have also accrued $0.5 million for clean-up and monitoring activities we have agreed to undertake at our former facility at Clinton Drive in Houston, Texas. These amounts may not be sufficient to cover our costs or other costs or liabilities that may arise in the future.

We do not carry specific environmental insurance coverage. 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.

We are currently engaged in discussions with the parties with respect to EPA s letter with respect to the allocation of responsibility for remedial action of a portion of the Duwamish Waterway. Because the Duwamish site is still being investigated and clean up alternatives and responsibility for clean up are still being evaluated, we cannot determine what ultimate liability we may have relating to this matter.

Our operating results have fluctuated, and are expected to continue fluctuating, depending on the season, and such fluctuations may adversely affect our revenues, gross profit and net income.

Many of our customers are in seasonal businesses, including customers in the construction equipment and agricultural 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.

Risks Relating to Our Indebtedness

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

Our annual debt service obligations are primarily limited to interest payments on our 9 $^{3}/_{4}$% senior secured notes, our intercompany credit facility, and our industrial revenue bond and principal payments on our industrial revenue bond and our intercompany credit facility. The principal payments on our outstanding industrial revenue bond are approximately \$0.7 million in fiscal 2007, \$0.7 million in fiscal

Table of Contents

2008 and $1.4 million in the aggregate thereafter through fiscal 2010. 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 9 $^3/_4$% senior secured notes when they mature in fiscal 2013. 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, or the debt instruments of Reliance, 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 ability to refinance our 9 $^3/_4$% senior secured notes or seek additional financing could be impaired.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We currently maintain 40 strategically located service centers, including two plate processing centers and one tubular honing center. Of these service centers, 35 are located in various cities throughout the United States and five are located in Canada. We are headquartered in Lynwood, California. Our facilities generally are capable of being utilized at higher capacities than they are currently being utilized, if necessary. They operate at about 57% of capacity based upon a 24-hour, seven-day week. Most of the Company s leased facilities have initial terms of more than one year and include renewal options. While some of the lease expirations are as early as 2006, continuing through as far as 2012, most include an option to purchase or renew, and we do not believe that we will have difficulty renewing such leases or finding alternative sites. Our 9 $^3/_4$% senior secured notes are secured by a first priority lien (subject to permitted liens) on substantially all of our current and future acquired unencumbered real property.

Set forth below is a table summarizing certain information with respect to our 40 service centers.

Country/City/State	Owned(O) Leased (L)	Size (Sq. Ft.)
United States:		
Birmingham, Alabama (a)	O	80,000
Phoenix, Arizona	O	72,200
Little Rock, Arkansas	L	27,700
Hayward, California	O	91,000
Los Angeles, California (a distribution center and a plate processing center)(b)	O	319,400
Denver, Colorado	L	77,400
Hartford, Connecticut	L	33,400
Orlando, Florida (a)	L	29,700
Chicago, Illinois(c)	O	603,700
Indianapolis, Indiana	O	225,000
Eldridge, Iowa	L	140,500
Boston, Massachusetts	O	63,500
Detroit, Michigan (a)	L	28,700
Minneapolis, Minnesota	O	169,200
Kansas City, Missouri	L	147,000
St. Louis, Missouri	L	108,100
Rochester, New York (a)	L	31,500
Charlotte, North Carolina	O	175,300

Cincinnati, Ohio	L	125,200
Cleveland, Ohio	O	200,200
Cleveland, Ohio	O	137,800
Tulsa, Oklahoma (a distribution center and tubular honing center)	O	148,500
Portland, Oregon	L	33,800
Philadelphia, Pennsylvania	L	27,200
Wrightsville, Pennsylvania	L	124,500
Memphis, Tennessee	L	56,500

11

Country/City/State	Owned(O) Leased (L)	Size (Sq. Ft.)
Dallas, Texas	O	132,800
Houston, Texas	O	95,200
Houston, Texas Trepanning	L	16,500
Lafayette, LA (a)		