RELIANCE STEEL & ALUMINUM CO
Form DEF 14A
April 05, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of

the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:
Preliminary Proxy Statement
Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
Definitive Proxy Statement
Definitive Additional Materials
Soliciting Material Pursuant to §240.14a-12

Reliance Steel & Aluminum Co.
(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):
No fee required.
Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
(1) Title of each class of securities to which transaction applies:

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

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

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(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

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350 South Grand Avenue, Suite 5100

Los Angeles, California 90071

(213) 687-7700

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held May 15, 2019

To the Stockholders of Reliance Steel & Aluminum Co.:

The 2019 Annual Meeting of Stockholders (the “Annual Meeting”) of Reliance Steel & Aluminum Co. (“Reliance” or “Company”) will be held on Wednesday, May 15, 2019, at 10:00 a.m., Pacific Daylight Time, at the Millennium Biltmore Los Angeles, 506 South Grand Avenue, Los Angeles, California 90071, for the following purposes:

1. To elect the nine directors nominated by our Board of Directors to hold office until our next annual meeting and until his or her successor is elected and qualified. The nominees for election to the Board are Sarah J. Anderson, Karen W. Colonias, John G. Figueroa, David H. Hannah, Mark V. Kaminski, Robert A. McEvoy, Gregg J. Mollins, Andrew G. Sharkey, III, and Douglas W. Stotlar. The Board of Directors recommends that stockholders vote FOR the election of each nominee as a director.
2. To consider a non-binding, advisory vote to approve the compensation of the Company’s named executive officers. The Board of Directors recommends that stockholders vote FOR the approval of the compensation of the Company’s named executive officers.
3. To ratify the appointment of KPMG LLP as the Company’s independent registered public accounting firm for 2019. The Board of Directors recommends that stockholders vote FOR the ratification of KPMG LLP as the Company’s independent registered public accounting firm.
4. To transact such other business, if any, as properly comes before the meeting or any adjournment thereof.

These items of business are more fully described in the proxy statement accompanying this Notice of Annual Meeting to Stockholders (the “Notice”).

You are invited to attend the Annual Meeting. If you plan to attend the meeting, please see the instructions contained in the accompanying proxy statement.

Your vote is important. Whether or not you plan to attend the Annual Meeting, it is important that your shares be represented, and we hope you will vote as soon as possible.

Only stockholders of record at the close of business on March 25, 2019 are entitled to notice of, and to vote at, the Annual Meeting or any adjournments thereof. A list of these stockholders is available at the offices of the Company in Los Angeles, California.

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To make it easier, you may vote on the Internet or by telephone. The instructions attached to this Notice describe how to use these convenient services. Even if you give your proxy, you have the right to vote in person if you attend the Annual Meeting.

By Order of the Board of Directors,

William A. Smith II
Senior Vice President, General Counsel

and Corporate Secretary

Los Angeles, California
April 5, 2019

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IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS

This Notice presents only an overview of the more complete proxy materials that are available to you on the Internet, if you have not received them by mail. We encourage you to access and review all of the important information contained in the proxy materials before voting. This proxy statement, an Annual Report to Stockholders, an Annual Report on Form 10-K and a proxy form for voting are available online at www.proxyvote.com by using the 12-digit control number provided to you. To receive a paper or e-mail copy of these documents, free of charge, you must request one. Please request a copy (1) online at www.proxyvote.com; (2) by email to sendmaterial@proxyvote.com; or (3) by telephone at 1-800-579-1639. Please request your copy on or before May 1, 2019 to facilitate timely delivery.

Except as stated otherwise, none of the information on our website, Annual Report and stockholder letter constitute proxy-soliciting material.

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PROXY STATEMENT

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PROXY SUMMARY

This summary highlights information contained elsewhere in this proxy statement and in our Annual Report on Form 10-K for the year ended December 31, 2018. This summary does not contain all of the information that you should consider, and you should read the entire proxy statement carefully before voting.

ANNUAL MEETING

DATE AND TIME:	May 15, 2019; 10:00 a.m. (Pacific Daylight Time)
PLACE:	Millennium Biltmore Los Angeles 506 South Grand Avenue Los Angeles, California 90071
RECORD DATE:	March 25, 2019
ITEMS OF BUSINESS:	1. To elect nine directors nominated by the Board of Directors to serve until the 2020 annual meeting of stockholders and until their successors have been duly elected and qualified. 2. To consider a non-binding, advisory vote to approve the compensation of the Company's named executive officers. 3. To ratify the appointment of KPMG LLP as the Company's independent registered public accounting firm for 2019. 4. To transact such other business, if any, as properly comes before the meeting or any adjournment thereof.
VOTING AND ATTENDANCE AT THE MEETING:	Stockholders of record as of the close of business on the record date are entitled to vote. Each share of common stock is entitled to one vote on each matter to be voted on. Voting may be done over the Internet, by telephone, by completing and mailing the proxy card, or in person at the Annual Meeting. Additional information including information about voting by beneficial holders who hold shares through a bank, broker or financial institution is provided under "Voting Information" on page 7 and "Information Concerning Our Common Stock" on page 9. We hope you will attend the meeting in person. If you do, please bring with you a valid form of government-issued photo identification, such as a valid driver's license or passport, and proof of ownership of our common stock as of the record date. If you are a beneficial holder, you may also vote in person at the meeting but only if you have obtained a legal proxy from your bank, broker or financial institution.

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PROXY STATEMENT

Your vote is very important. Reliance's Board of Directors is requesting that you allow your common stock to be represented and voted at the Annual Meeting by the Company's officers (proxies) named on the proxy card. The proxy statement is first being sent and made available to our stockholders on or about April 5, 2019.

Business Highlights

- Record net sales of $11.53 billion in 2018.
- Record gross profit of $3.28 billion in 2018, increased $493.7 million, or 17.7%, from our second highest gross profit dollars in 2017.
- Record pretax income of $850.6 million in 2018, increased $266.8 million, or 45.7%, from 2017.
- Record earnings per diluted share of $8.75 per share in 2018, compared to $8.34 per diluted share in 2017. Excluding the impact of tax reform, our earnings per share increased $3.27, or 59.2%, from $5.52 in 2017 to $8.79 in 2018.(1)
- Record share repurchases of $484.9 million in 2018.
- $145.3 million of cash dividends in 2018.

Corporate Governance Highlights (see page 53)

- All directors are elected annually by majority of votes cast.
- The Company has an independent, non-executive Chairman of the Board.
- Nine of our eleven directors, and seven of our nine directors nominated by the Board for re-election to the Board at this annual meeting, are independent.
- All of our standing committees of the Board consist solely of independent directors.
- Independent directors meet regularly in executive sessions.
- Director retirement policy (age 75).
- More than 93% Board and committee meeting attendance in 2018.
- Stock ownership and retention requirements applicable to all directors and officers.
- Prohibition of speculative and hedging transactions by all employees and directors.
- Our stockholders have the right to act by written consent.
- Special meetings may be called by stockholders holding shares entitled to cast not less than 10% in voting power of our outstanding stock.
- Our Bylaws provide our stockholders with a meaningful proxy access right.
- Board oversight in executive succession planning.
- No super majority voting requirements to approve mergers or other business combinations.

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(1) Earnings per diluted share, excluding the impact of tax reform, is not a performance measure under U.S. generally accepted accounting principles ("GAAP"). We believe it is appropriate to disclose this performance measure as it helps investors analyze business performance and trends. Earnings per diluted share, excluding the impact of tax reform, should be considered neither in isolation nor as a substitute for reported earnings per diluted share prepared in accordance with GAAP. The provisional estimate of the impact of tax reform and subsequent finalization of that assessment (decreased) increased earnings per diluted share ($0.04) and $2.28 in 2018 and 2017, respectively.

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- No stockholder rights plan or poison pill.
- Reliance has adopted a Code of Conduct that applies to all directors, executive officers and senior management.
- Annual Board and committee self-evaluations.
- Clawback and recoupment policies.

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Key Executive Compensation Practices

WHAT WE DO:

ü Strong pay-for-performance compensation structure with approximately 74% of our former CEO's ("Chief Executive Officer") and 60% of our other NEOs' target total direct compensation tied to performance metrics (see discussion beginning on page 22).

ü Target total direct compensation of our NEOs designed to approximate the market median of our executive compensation peer group when targeted performance levels are achieved (see page 33).

ü Clawback policy for cash and equity compensation (see page 39).

ü Stock ownership and retention requirements applicable to all directors and corporate officers, including our NEOs (see pages 39 and 58).

ü Double trigger provisions for accelerated vesting of restricted stock units upon a change in control (see page 39).

ü All NEO performance-based equity awards are tied to a three-year performance target (see page 35).

ü Broad and deep distribution of equity awards throughout management while managing the dilutive impact and expense associated with those awards (see page 56).

ü Limited perquisites (see page 37).

ü Annual stockholder advisory vote to approve named executive officer compensation (see page 11).

ü Independent compensation committee (see page 31).

ü Independent, non-executive Chairman of the Board enhances the effectiveness of the Board's oversight and governance and compensation practices (see page 57).

ü All variable compensation plans have caps on plan formulas; no unlimited compensation.

WHAT WE DON'T DO:

r No employment agreements, severance agreements, change in control/golden parachute agreements or other similar agreements with any executive officer.

r No repricing or replacement of stock options.

r No tax gross-ups for perquisites, change in control excise taxes or otherwise.

r No dividends on unvested performance-based restricted stock units. Dividends accrue and are paid only upon vesting subsequent to achievement of the applicable performance criteria.

r No hedging of Reliance common stock by directors, officers and employees subject to the quarterly trading blackout under our Insider Trading and Securities Compliance Policy.

r No pledging of Reliance securities by directors, officers and employees subject to the quarterly trading blackout under our Insider Trading and Securities Compliance Policy, except for grandfathered pledging arrangements by one director.

r No incentive plan design or feature which would encourage excessive risk-taking.

r No share recycling.

r No impact of tax reform on payouts under the Company's performance-based awards.

Board Nominees (see page 10)

Name	Occupation	Independent	Committee Memberships AC	CC	NGC	Other Public Company Boards
Sarah J. Anderson	Retired Partner, Ernst & Young LLP	X	C		X	American States Water Company
Karen W. Colonias	President and Chief Executive Officer, Simpson Manufacturing Co., Inc.	X	X	X		Simpson Manufacturing Co., Inc.
John G. Figueroa	Former Chief Executive Officer, Genoa Healthcare	X		C	X	
David H. Hannah	Retired Chairman and Chief Executive Officer, Reliance Steel & Aluminum Co.					Boise Cascade Company
Mark V. Kaminski*	Executive Chairman, Graniterock	X	X			
Robert A. McEvoy	Retired Managing Director, Goldman Sachs	X		X	X	
Gregg J. Mollins	Senior Advisor to the CEO and Former President and Chief Executive Officer, Reliance Steel & Aluminum Co.					
Andrew G. Sharkey, III	Former President and Chief Executive Officer, American Iron and Steel Institute	X		X	X	
Douglas W. Stotlar	Former President and Chief Executive Officer, Con-way Inc.	X	X		C	LSC Communications Inc. and AECOM

AC	Audit Committee
CC	Compensation Committee
NGC	Nominating and Governance Committee
C	Chair
*	Non-executive Chairman of the Board of Directors

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Voting Matters and Recommendations

Proposal	Board Recommendation
1. Election of Directors: The Board and the Nominating and Governance Committee believe that the combination of the various qualifications, skills and experiences of the director nominees will contribute to an effective and well-functioning Board and that, individually and as a whole, the director nominees possess the necessary qualifications to provide effective oversight of and quality advice and counsel to the Company's management. See page 10.	FOR the election of all named nominees
2. Advisory Vote on the Approval of the Compensation of our Named Executive Officers: We manage our business with the long-term objective of creating and maximizing value for our stockholders. Our pay-for-performance philosophy is aligned with and supports this objective. We are asking our stockholders to approve, on an advisory, non-binding basis, the compensation of our named executive officers as disclosed in this proxy statement. See page 11.	FOR
3. Ratification of Independent Registered Public Accounting Firm: The Audit Committee selected KPMG LLP to serve as the Company's independent registered public accounting firm for 2019. KPMG LLP has served in this role since 2008. Stockholders will be asked to ratify and approve this selection at the Annual Meeting. See page 12.	FOR

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VOTING INFORMATION

We are furnishing this proxy statement to the holders of our common stock in connection with the solicitation of proxies on behalf of our Board of Directors for use at the Annual Meeting to be held on Wednesday, May 15, 2019, at 10:00 a.m., Pacific Daylight Time, at the Millennium Biltmore Los Angeles, 506 South Grand Avenue, Los Angeles, California, 90071.

The Board of Directors selected Karla R. Lewis, our Senior Executive Vice President and Chief Financial Officer, and William A. Smith II, our Senior Vice President, General Counsel and Corporate Secretary, to be named as proxyholders to vote the shares of common stock represented by the proxies at the Annual Meeting. Reliance will pay the cost to solicit the proxies. The Board of Directors will solicit proxies by mail, by telephone, and electronically via the Internet. In addition, certain of our officers and agents may solicit proxies by telephone and personal interview (the cost of which will be nominal). We expect that banks, brokerage houses and other custodians, nominees and fiduciaries will forward soliciting material to beneficial owners and obtain authorizations to execute proxies. We will reimburse the reasonable out-of-pocket expenses they incur to forward our proxy materials. We have retained D.F. King & Co., Inc. (“D.F. King”) to assist in the distribution and solicitation of proxies. Based on our agreement with D.F. King, we anticipate paying fees of approximately $10,000, plus-out-of-pocket expenses, for these services. Your bank, broker or financial institution is not able to vote on your behalf for the election of directors or on any compensation issue unless you provide specific instructions by completing and returning a proxy or voting instruction form or by following instructions provided to you by your bank, broker or financial institution to vote your shares which often include instructions on how to vote your shares via telephone or the Internet. Voting your shares is important to ensure that you have a say in the governance of our Company.

We intend only the three matters described in this proxy statement to be presented at the Annual Meeting. We will also transact any other business as may properly come before the meeting or any adjournments thereof.

Unless you instruct us otherwise on the proxy, each proxy will be voted FOR the election of all of the nominees named herein as directors, FOR the approval of the compensation of the Company’s named executive officers, and FOR the ratification of KPMG LLP as our independent registered public accounting firm for 2019.

We intend to make this proxy statement and accompanying material available to each stockholder on the Internet beginning on or about April 5, 2019. An Annual Report, including a letter to the stockholders from the President and Chief Executive Officer and the Senior Executive Vice President and Chief Financial Officer, and an Annual Report on Form 10-K, also will be available electronically. Some stockholders will receive these materials by mail and other stockholders may request copies of these materials at no cost. The Annual Report and stockholder letter are not incorporated in, and are not a part of, this proxy statement and do not constitute proxy-soliciting material.

If you are a stockholder of record and execute a proxy or submit a proxy via the Internet or telephone, the proxy may be revoked at any time before it is voted:

- by filing with our Corporate Secretary either an instrument revoking the proxy or a proxy bearing a later date, duly executed in either case; or
- by voting in person at the meeting. Any written instrument or later dated proxy should be sent or delivered to the Corporate Secretary at the address shown on the first page above and must be received prior to the Annual Meeting.

In addition, prior to the deadline for Internet or telephone voting, you may change your vote using the Internet or telephone method, in which case only your latest Internet or telephone proxy submitted before the deadline will be counted.

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If you hold your shares through a broker, bank, financial institution, or other nominee, then you are a beneficial holder, and you may change your vote by complying with the procedures contained in the voting instructions provided to you by your broker, bank, financial institution or other nominee.

The presence in person or by proxy of the holders of a majority of the shares entitled to vote at the meeting shall constitute a quorum for the transaction of business. Broker non-votes and abstentions are counted for purposes of determining whether a quorum is present. A broker non-vote occurs when a nominee holding shares for a beneficial owner (i.e., in “street name”) does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item and has not received instructions from the beneficial owner. We believe that nominees only have discretionary voting power with respect to the ballot item on the ratification of our independent registered public accounting firm.

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INFORMATION CONCERNING OUR COMMON STOCK

Our only voting securities are shares of common stock, par value $0.001 per share. As of the record date of March 25, 2019, we had a total of 67,234,936 shares of common stock issued and outstanding, all of which may be voted at the Annual Meeting. Only holders of shares of record on our books at the close of business on the record date will be entitled to vote at the Annual Meeting.

The election of directors at the Annual Meeting will be uncontested. As a result, each nominee for election as a director at the Annual Meeting will only be elected if the votes cast “FOR” such nominee exceed the number of votes cast “AGAINST” such nominee, with abstentions and broker non-votes not counted as either votes “FOR” or “AGAINST” that nominee’s election. As required by the Company’s Bylaws, in the event that an incumbent director fails to receive a majority of votes cast in an uncontested election, such incumbent director is required to submit his or her resignation to the Board of Directors within ten calendar days of the date of the certification of the election results. Pursuant to the procedures set forth in the Bylaws, the Nominating and Corporate Governance Committee will make a recommendation to the Board of Directors within ten calendar days as to whether to accept or reject the resignation, or whether other action should be taken. The Board of Directors will then act on the resignation, taking into account the Nominating and Corporate Governance Committee’s recommendation, and the Company will publicly disclose such decision by the Board of Directors with respect to the director nominee. Each of the Nominating and Corporate Governance Committee, in making its recommendation, and the Board of Directors, in making its decision, may consider any factors and other information that they consider appropriate and relevant. A director who tenders his or her resignation is not permitted to participate in the recommendation of the Nominating and Corporate Governance Committee or the decision of the Board of Directors with respect to his or her resignation.

The affirmative vote of a majority of votes present in person or by proxy and entitled to vote on the matter is required to (i) approve, on a non-binding advisory basis, the compensation of the named executive officers; and (ii) ratify the engagement of KPMG LLP as our independent registered public accounting firm for 2019. Accordingly, abstentions will count as votes “AGAINST” such proposals. Broker non-votes will have no effect on Proposal Numbers 1 and 2. Because the ratification of the appointment of KPMG LLP (Proposal No. 3) is considered a “routine” proposal, a broker holding shares as the nominee for a beneficial owner may vote for the proposal without voting instructions and, accordingly, we do not expect there to be any broker non-votes on Proposal No. 3.

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PROPOSAL NO. 1 - ELECTION OF DIRECTORS

It is proposed that nine directors, seven of whom are independent directors, be elected to hold office until the 2020 annual meeting of stockholders and until their successors have been elected and qualified, subject to their earlier death, resignation or removal. Messrs. Mollins and Hannah are not considered independent directors because Mr. Mollins was our Chief Executive Officer until December 2018 and Mr. Hannah was an executive officer until August 2016.

The Nominating and Corporate Governance Committee has recommended to the Board of Directors, and the Board of Directors has approved, and recommends to the stockholders, the individuals named below as nominees for election to the Board:

Sarah J. Anderson	Robert A. McEvoy
Karen W. Colonias	Gregg J. Mollins
John G. Figueroa	Andrew G. Sharkey, III
David H. Hannah	Douglas W. Stotlar
Mark V. Kaminski	

The election of directors at the Annual Meeting will be uncontested. Accordingly, a majority of the votes cast is required for the election of directors at the 2019 Annual Meeting. Neither Reliance nor your bank, broker or financial institution is able to vote on your behalf for the election of directors unless you provide specific instructions by completing and returning a proxy or voting instruction form or you follow instructions provided to you by your bank, broker or financial institution, which often include instructions on how to vote your shares via telephone or the Internet.

Our Board of Directors currently has eleven members. Each of Thomas W. Gimbel and Douglas M. Hayes will retire from the Board of Directors effective at the 2019 Annual Meeting, at which time the size of the Board will be reduced to nine members. We expect each nominee for election as a director will serve if elected. If any nominee is not able to serve, proxies may be voted by the proxyholders for substitute nominees, unless the Board of Directors chooses to reduce the number of directors serving on the Board of Directors.

Certain information with respect to each nominee is set forth in “Management” below. See page 14.

The Board of Directors recommends that stockholders vote FOR the election of each nominee as a director. Unless otherwise indicated on your proxy, the proxyholders will vote your proxy FOR the election of all named nominees.

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PROPOSAL NO. 2 - ADVISORY VOTE ON THE APPROVAL OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS

In accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), we are asking our stockholders to approve, on an advisory, non-binding basis, the compensation of our named executive officers as disclosed in this proxy statement. It is Reliance's current policy to provide our stockholders with an opportunity to approve the compensation of our named executive officers each year at the Annual Meeting. Accordingly, we anticipate that the next such vote will occur at the 2020 Annual Meeting of Stockholders.

In voting on this proposal, the Board of Directors encourages you to consider the detailed discussion of compensation matters in the Compensation Discussion and Analysis section, or CD&A, beginning on page 20.

The Board of Directors recommends that stockholders vote FOR the following resolution:

"RESOLVED, that the stockholders of Reliance Steel & Aluminum Co. approve, on an advisory basis, the compensation paid to Reliance Steel & Aluminum Co.'s named executive officers, as disclosed in the 2019 Proxy Statement pursuant to the Securities and Exchange Commission's compensation disclosure rules, including the CD&A, the Summary Compensation Table and other compensation tables and the accompanying footnotes and narratives and any related material."

Because your vote is advisory, it will not be binding upon the Board. However, the Board values our stockholders' opinions and the Compensation Committee will take into account the outcome of the vote when considering future executive compensation decisions. The affirmative vote of a majority of votes present in person or by proxy and entitled to vote is required to approve this proposal.

Neither Reliance nor your bank, broker or financial institution is able to vote on your behalf to support the Company's executive compensation unless you provide specific instructions by completing and returning a proxy or voting instruction form or you follow instructions provided to you by your bank, broker or financial institution, which often include instructions on how to vote your shares via telephone or the Internet.

The Board of Directors recommends a vote FOR the compensation of the Company's named executive officers. Unless otherwise indicated on your proxy, the proxyholders will vote your proxy FOR the above resolution approving the compensation of our named executive officers.

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PROPOSAL NO. 3 – RATIFICATION OF INDEPENDENT REGISTERED

PUBLIC ACCOUNTING FIRM

KPMG LLP, our independent registered public accounting firm, billed us the fees set forth in the table below for services provided in the last two years.

	Audit Fees	
2018		$ 3,530,000
2017		$ 3,490,000
	Audit-Related Fees	
2018		$ 146,000
2017		$ 141,000
	Tax Fees	
2018		$ 13,000
2017		$ 12,000
	All Other Fees	
2018		$ -
2017		$ -

Audit fees relate to services rendered in connection with the audit of our annual financial statements and internal control over financial reporting, quarterly review of financial statements, audit services provided in connection with statutory and regulatory filings and discussions surrounding the proper application of financial accounting and/or reporting standards.

Audit-related fees are those fees for services provided by the independent registered public accounting firm that are reasonably related to the performance of the audit or review of our financial statements and not included as audit fees. Tax fees are fees and expenses for professional services rendered by KPMG LLP in connection with U.S. and foreign tax compliance and planning, and consultation and advice on tax examinations.

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

The Audit Committee selected KPMG LLP as the Company's independent registered public accounting firm for 2019. KPMG LLP has served as the Company's independent registered public accounting firm since 2008. The Board of Directors ratified this selection.

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The Board of Directors believes there are significant benefits to having an independent registered public accounting firm with extensive history with the Company. These benefits include:

- the high quality of their audit work and accounting advice, as a result of their institutional knowledge of our businesses, global operations, key risks, accounting policies, financial systems and internal control framework;
- audit efficiency and effectiveness, resulting in a lower fee structure due to history and familiarity with our businesses; and
- time and expense avoided by management and staff in onboarding a new independent registered public accounting firm.

At the Annual Meeting, stockholders will be asked to ratify and approve this selection. We are not required to have the stockholders ratify the selection of KPMG LLP as our independent registered public accounting firm. Nevertheless we are presenting the selection of KPMG to our stockholders because we believe it is a good corporate practice. If the stockholders do not ratify the selection, the Audit Committee will reconsider whether or not to retain KPMG LLP, but may still retain the firm. Even if the selection is ratified, the Audit Committee, in its discretion, may change the appointment at any time during the year if it determines that such a change would be in the best interests of the Company and its stockholders.

A representative of KPMG LLP is expected to be present at the Annual Meeting, will have an opportunity to make a statement if he or she desires to do so, and will be available to respond to appropriate questions. The affirmative vote of a majority of shares present in person or by proxy and entitled to vote is required to ratify the selection of KPMG LLP as our independent registered public accounting firm for 2019. Because the ratification of the appointment of KPMG LLP is considered a “routine” proposal, a bank, broker or financial institution holding shares as the nominee for a beneficial owner may vote for the proposal without voting instructions and, accordingly, we do not expect there to be any broker non-votes on this proposal.

The Board of Directors recommends that stockholders vote FOR the ratification of the selection of KPMG LLP as our independent registered public accounting firm for 2019. Unless otherwise indicated on your proxy, the proxyholders will vote FOR the ratification of KPMG LLP as our independent registered public accounting firm for 2019.

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MANAGEMENT

Directors and Executive Officers

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

Name	Age	Position with Reliance
James D. Hoffman	60	President; Chief Executive Officer
Karla R. Lewis	53	Senior Executive Vice President; Chief Financial Officer
William K. Sales, Jr.	62	Executive Vice President, Operations
Jeffrey W. Durham	56	Senior Vice President, Operations
Stephen P. Koch	52	Senior Vice President, Operations
Michael P. Shanley	61	Senior Vice President, Operations
William A. Smith II	51	Senior Vice President, General Counsel and Corporate Secretary
Sarah J. Anderson(1)(3)	68	Director
Karen W. Colonias(1)(2)	61	Director
John G. Figueroa(2)(3)	56	Director
Thomas W. Gimbel(3)(5)	67	Director
David H. Hannah	67	Director
Douglas M. Hayes(1)(2)(3)(5)	75	Director
Mark V. Kaminski(1)(4)	63	Director
Robert A. McEvoy(2)(3)	52	Director
Gregg J. Mollins	64	Director; Senior Advisor to the Chief Executive Officer
Andrew G. Sharkey, III(2)(3)	72	Director
Douglas W. Stotlar(1)(3)	58	Director

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

(3) Member of the Nominating and Governance Committee.

(4) Non-executive Chairman of the Board.

(5) Messrs. Gimbel and Hayes are retiring from the Board and not standing for re-election at the 2019 Annual Meeting. Accordingly, their respective biographies are not presented below.

Directors

Sarah J. Anderson was appointed a director of Reliance in July 2012. Ms. Anderson retired from Ernst & Young LLP in June 2008 after more than 24 years with the firm, including as an assurance and advisory services partner from 1987 to 2008. Ms. Anderson is a certified public accountant (inactive) and is a member of the AICPA and the California Society of CPAs. Ms. Anderson was appointed by the Governor of California to the California Board of Accountancy for two four-year terms, which ended in 2015, and included tenure as president of the board. Ms. Anderson serves on the board of American States Water Company, a NYSE-listed public company, which has three principal business units: water and electric service, utility operations and contracted services, for which Ms. Anderson serves as the chair of the audit committee. Ms. Anderson also served on the board and as audit committee chair of Kaiser Ventures LLC (the reorganized successor to Kaiser Steel Corporation that filed for bankruptcy protection in 1987) until May 2013 when the company's assets were transferred to a liquidating trust. Ms. Anderson serves on the audit committee of the Orange County Community Foundation and as an emeritus director of Pacific Symphony, a non-profit 501(c)(3) organization for which she served four years as chair of the board. Ms. Anderson also serves on the Board of Trustees of South Coast Repertory, a non-profit 501(c)(3) organization, where she is a member of the finance committee and the Vice President of Development. Ms. Anderson serves as Chair of our Audit Committee and as a member of our Nominating and Governance Committee.

Ms. Anderson served as a member of our Compensation Committee

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from January 1, 2016 through December 31, 2016. The Board of Directors has determined that Ms. Anderson is an independent director and that she qualifies as an audit committee financial expert.

Ms. Anderson brings extensive financial and accounting expertise and audit committee experience to our Board of Directors and Audit Committee. Ms. Anderson offers financial experience that enables her to understand and analyze accounting matters and to communicate well with both our internal and external auditors. She keeps abreast of current accounting and financial topics and is able to ask appropriate questions of management and auditors alike. Ms. Anderson has an understanding of tax, audit procedures, financial reporting requirements and risk identification and assessment issues and has knowledge of practices at other public companies in other industries through her work as an auditor and board member of another public company.

Karen W. Colonias was appointed a director of Reliance in October 2016. Ms. Colonias has been the President and Chief Executive Officer of Simpson Manufacturing Company Inc. ("SSD"), a NYSE-listed public company and manufacturer of building materials, since January 2012. Ms. Colonias has also served on SSD's board of directors since 2013. From May 2009 to January 2012, Ms. Colonias served as SSD's Chief Financial Officer, Treasurer and Secretary. Prior to that, Ms. Colonias was Vice President of SSD's global structural product solutions subsidiary, Simpson Strong-Tie Company Inc. and, in that capacity, managed Simpson Strong-Tie's manufacturing facility in Stockton, California from 2004 to 2009. From 1998 to 2009, as SSD's Vice President of Engineering, Ms. Colonias was responsible for Simpson Strong-Tie's research and development efforts. Ms. Colonias joined Simpson Strong-Tie in 1984 as an engineer in the research and development department, where she was responsible for the design and testing of new products and code development. Ms. Colonias serves as a member of our Audit Committee and our Compensation Committee. The Board of Directors has determined that Ms. Colonias is an independent director.

Ms. Colonias is experienced in strategic planning, mergers and acquisitions, facility and plant operations, international business and global finance. Based on her executive experience, including as the Chief Executive Officer of SSD, Ms. Colonias provides valuable insight on the management of the Company and its operations.

John G. Figueroa was appointed a director of Reliance in October 2010. From July 2014 to September 2018, Mr. Figueroa was the chief executive officer of Genoa Healthcare, the leading behavioral health specialty pharmacy in the United States. Mr. Figueroa has served as chairman of the board of directors of Apria Healthcare Group Inc., one of the nation's leading home healthcare companies, since November 2012 and also served as the company's chief executive officer from November 2012 until January 2014. From January 2011 until June 2012, Mr. Figueroa served as a director and the chief executive officer of Omnicare, Inc., which was a public company during that time and a leading provider of pharmaceuticals to seniors. From 2006 to December 2010, Mr. Figueroa served as president of the U.S. Pharmaceutical Group of McKesson Corporation, the largest pharmaceuticals distributor in North America. Mr. Figueroa served in other senior management positions with McKesson Corporation from 1997 to 2006. Mr. Figueroa has served as an officer in the United States Army. Mr. Figueroa serves as Chair of our Compensation Committee and as a member of our Nominating and Governance Committee. The Board of Directors has determined that Mr. Figueroa is an independent director.

Mr. Figueroa has developed an expertise in distribution and supply chain management and operations. In August 2010, when he was president of the U.S. Pharmaceutical Group of McKesson, Mr. Figueroa was named the Supply Chain Executive of the Decade by the Global Supply Chain Leaders Group for making significant contributions to the advancement of supply chain management and maintaining sustainable, responsible business practices in global operations. Mr. Figueroa's expertise allows him to assist management in increasing efficiency in and marketing for our distribution operations. Mr. Figueroa's experience in the healthcare industry and mergers and acquisitions provides a different perspective and increased diversity on the Board of Directors.

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David H. Hannah was appointed a director of Reliance in 1992. Mr. Hannah served as Chief Executive Officer of Reliance from January 1999 to May 2015, Chairman of the Board from October 2007 to May 2015, Executive Chairman of the Board from May 2015 to July 2016, and Chairman Emeritus from July 2016 until his retirement in August 2016. Mr. Hannah served as President of Reliance from November 1995 to January 2002. Prior to that, he was Executive Vice President and Chief Financial Officer from 1992 to 1995, Vice President and Chief Financial Officer from 1990 to 1992 and Vice President and Division Manager of the Company's Los Angeles Reliance Steel Company division from 1989 to 1990. Mr. Hannah served as an officer of the Company from 1981 until his retirement in August 2016. For eight years before joining Reliance in 1981, Mr. Hannah was employed in various professional staff positions by Ernst & Whinney (a predecessor to Ernst & Young LLP, which was our independent registered public accounting firm through 2007).

As the former Chief Executive Officer of the Company, Mr. Hannah has an in-depth knowledge of the Company's operations and its strategic vision. He developed and implemented the Company's merger and acquisition growth strategy that has resulted in over 65 acquisitions since our initial public offering in September 1994. Mr. Hannah's financial background and business management experience enabled him to assess and value potential acquisition target companies. Mr. Hannah is well respected within the metals service center industry. He has proven his ability to raise debt and equity capital for the Company and effectively led our management team for over 15 years. Mr. Hannah previously served as chairman of the board of directors of the Metals Service Center Institute. Since November 2014, Mr. Hannah has served as a director of Boise Cascade Company, a NYSE-listed public company, and serves on its compensation committee and corporate governance and nominating committee.

Mark V. Kaminski was appointed a director of Reliance in November 2004. Mr. Kaminski was elected our non-executive Chairman of the Board in July 2016, after having served as our Lead Director since January 2015. Mr. Kaminski serves as a director, executive chairman and a member of the audit, nominating and governance, and compensation committees of Graniterock, a privately-held company that provides products to the construction industry, and during 2012 served as chief executive officer of Graniterock. Mr. Kaminski was president and chief executive officer and a director of Commonwealth Industries Inc. (now Aleris International, Inc.), a manufacturer of aluminum products, from 1991 until his retirement in June 2004. Mr. Kaminski had served in other capacities with Commonwealth Industries Inc. since 1987. Mr. Kaminski also served as a member of our Compensation Committee and our Nominating and Governance Committee until 2019 and serves as a member of our Audit Committee. From October 2010 to January 2015, Mr. Kaminski was the chairman of the Compensation Committee. From 2006 to 2010 he was Chairman of the Nominating and Governance Committee. The Board of Directors has determined that Mr. Kaminski is an independent director.

Based on his experience as executive chairman of Graniterock and as president and chief executive officer of Commonwealth Industries Inc., where he grew sales from $240 million to $2.5 billion, Mr. Kaminski offers valuable insight in the management of the Company and its growth. During his over 40-year career in the metals and mining industry and as the former chief executive officer of an aluminum producer, he has developed strong contacts with aluminum suppliers and peer companies that are aluminum distributors. Because of his manufacturing background, Mr. Kaminski is also able to provide guidance on improving and maintaining the Company's excellent operational efficiency and safety performance.

Robert A. McEvoy was appointed to the Board of Directors in October 2015. Mr. McEvoy has a wealth of knowledge of the metals industry, mergers and acquisitions, corporate finance, and equity portfolio management. Mr. McEvoy retired from The Goldman Sachs Group, Inc., a multinational investment bank and financial services company, in April 2014 after nine years with the firm. As a managing director at Goldman Sachs, Mr. McEvoy was a portfolio manager focused on the materials and industrials sectors. From 1989 to 2001, Mr. McEvoy held various positions with the investment banking firms of DLJ and Credit Suisse First Boston. Mr. McEvoy serves as a member of our Compensation Committee and Nominating and Governance Committee. The Board of Directors has determined that

Mr. McEvoy is an independent director.

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Mr. McEvoy’s investment banking and equity investment background, including his particular focus on the metals and mining industry and prior investment banking and analyst experience covering Reliance, enables him to assist the Board and the Company with the benefit of his knowledge of our Company, our industry and competitors, capital markets and financing strategies. Mr. McEvoy’s experience as an investor provides the Board and management perspective on the landscape in which Reliance competes for capital. Mr. McEvoy’s investment banking experience offers insight and experience in evaluating merger and acquisition opportunities. Mr. McEvoy’s historical knowledge of Reliance and the global metals industry as a former analyst covering Reliance and other metals companies affords him a unique perspective and understanding of our business.

Gregg J. Mollins was appointed a director of Reliance in September 1997 and also serves as Senior Advisor to the Chief Executive Officer. Mr. Mollins was President and Chief Executive Officer from May 2015 to December 2018. Mr. Mollins became President in 2002 and served as Chief Operating Officer from May 1994 to May 2015. Mr. Mollins was Executive Vice President from November 1995 to January 2002. He also served as Vice President and Chief Operating Officer from 1994 to 1995 and as Vice President from 1992 to 1994. Mr. Mollins joined Reliance in 1986 as Division Manager of the former Santa Clara division, following ten years with certain of our competitors in various sales and sales management positions.

Mr. Mollins has spent his entire career in the metals service center industry and has been exposed to every operational area of the business. As our former President and Chief Executive Officer, he offers in-depth industry expertise and has developed extensive contacts in the metals service center industry and with mills and other suppliers.

Andrew G. Sharkey, III was appointed a director of Reliance in July 2007. Mr. Sharkey served as president and chief executive officer of the American Iron and Steel Institute from 1993 until his retirement in October 2008. From 1978 to 1993, Mr. Sharkey was president, executive vice president and director of education for the Steel Service Center Institute (currently the Metals Service Center Institute), which represents the metals service center industry as well as steel suppliers and mills. Mr. Sharkey serves as a member of our Nominating and Governance Committee and our Compensation Committee. Mr. Sharkey previously served as a member of our Audit Committee and the Chair of our Nominating and Governance Committee. From February 2009 through December 2013, Mr. Sharkey also served as a director and a member of the compensation committee and the governance and nominating committee of General Moly, Inc., a publicly traded company with securities listed on the NYSE American. The Board of Directors has determined that Mr. Sharkey is an independent director.

Mr. Sharkey has a strong knowledge of the metals industry and, as the former president of the Steel Service Center Institute, and as the former president and chief executive officer of the American Iron and Steel Institute has extensive knowledge of steel suppliers and our peer companies and potential acquisition targets that operate in the steel distribution industry, as well as familiarity with the management teams and owners of these companies. Mr. Sharkey understands the factors that impact pricing and demand, as well as market factors that impact mills and how they will ultimately impact metals service centers. Mr. Sharkey’s experience offers a perspective of the global market and insight into steel trade issues.

Douglas W. Stotlar was appointed a director of Reliance in October 2016. Mr. Stotlar served as President, Chief Executive Officer and Director of Con-way Inc., a transportation and logistics company (previously known as CNF Inc.) from April 2005 until October 2015. He served as President and Chief Executive Officer of Con-way Transportation Services Inc., a regional trucking enterprise (“CTS”) and a subsidiary of Con-way Inc., from 2004 until 2005. Mr. Stotlar also served as CTS' Executive Vice President and Chief Operating Officer from 2002 until 2004, and as CTS' Executive Vice President of Operations from 1997 until 2002. He served as Vice President at large and was a member of the executive committee of the American Trucking Association and as a director for the Detroit branch of the Federal Reserve Bank of Chicago from December 2014 until December 2016. Mr. Stotlar currently serves as a director at AECOM, a NYSE-listed public

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company, and LSC Communications, Inc. (“LSC”), also a NYSE-listed public company. Mr. Stotlar serves on the strategy, risk and safety committee and the audit committee of AECOM and on the audit and compensation committees of LSC. Mr. Stotlar serves as a member of our Audit Committee and as the Chair of our Nominating and Governance Committee. Mr. Stotlar previously served as a member of our Compensation Committee. The Board of Directors has determined that Mr. Stotlar is an independent director.

Mr. Stotlar brings substantial knowledge of the logistics industry, which is important in our business. In addition, Mr. Stotlar’s prior experience as a chief executive officer of a public company provides insight on stockholder relations and management matters. In addition, Mr. Stotlar's experience on boards of other public companies positions him well to serve as a member of our Audit Committee and as Chair of our Nominating and Governance Committee.

Executive Officers

James D. Hoffman became President and Chief Executive Officer in January 2019. From March 2016 until his promotion to Chief Executive Officer, Mr. Hoffman served as our Executive Vice President and Chief Operating Officer. Mr. Hoffman served as the Company's Executive Vice President, Operations since May 2015, and as Senior Vice President, Operations since 2008. Mr. Hoffman served as executive vice president and chief operating officer of our subsidiary, Earle M. Jorgensen Company (“EMJ”), from April 2006 to September 2008. Mr. Hoffman was appointed executive vice president of EMJ in 2006, having been a vice president of EMJ since 1996.

Karla R. Lewis became Senior Executive Vice President in May 2015, Executive Vice President in January 2002 and was appointed Assistant Corporate Secretary in 2007. Mrs. Lewis continues as our Chief Financial Officer, having served as Senior Vice President and Chief Financial Officer since February 2000. Mrs. Lewis served as Vice President and Chief Financial Officer from 1999 to 2000 and was Vice President and Controller from 1995 to 1999. Mrs. Lewis served as Corporate Controller from 1992 to 1995. For four years prior to joining Reliance, Mrs. Lewis, a certified public accountant (inactive), was employed by Ernst & Young LLP in various professional staff positions. Mrs. Lewis also serves as a member of the board of directors and treasurer of the Metals Service Center Institute.

William K. Sales, Jr. became Executive Vice President, Operations in May 2015. From 2002 until his promotion to his current position, Mr. Sales served as Senior Vice President, Operations. Mr. Sales joined Reliance as Vice President, Non-Ferrous Operations in September 1997. From 1981 to 1997, Mr. Sales served in various sales and management positions with Kaiser Aluminum & Chemical Corp. (now DCO Management, LLC, a subsidiary of Kaiser Aluminum Corporation), a producer of aluminum products and a supplier of Reliance. Mr. Sales is a member of the board of the Metals Service Center Institute and formerly served as the chair of its aluminum products division council.

Jeffrey W. Durham became Senior Vice President, Operations in January 2019. From 2014 until he joined Reliance, Mr. Durham was Vice President, Merchandising at EMJ. Mr. Durham joined EMJ in 1985 and has held various leadership roles in sales, general management and purchasing, and was also responsible for the opening of EMJ's Malaysia operation.

Stephen P. Koch became Senior Vice President, Operations in April 2010. From July 2007 until he joined Reliance, Mr. Koch was president of Chapel Steel Corp., a subsidiary of Reliance. Prior to that he held the positions of executive vice president of Chapel Steel Corp. from 2005 to June 2007, and vice president of Chapel Steel Corp. from 1995 to 2005 and had previously served as sales manager of Chapel Steel Corp.

Michael P. Shanley was appointed Senior Vice President, Operations in April 2015. Mr. Shanley was president of Liebovich Bros., Inc., a subsidiary of Reliance, since September 2009, having been vice president and general manager of Hagerty Steel and Aluminum, a division of Liebovich Bros., from January 2005 to

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September 2009. Mr. Shanley joined Liebovich Bros. in 1978 and held various sales and management positions prior to 2005.

William A. Smith II was appointed Senior Vice President, General Counsel and Corporate Secretary in May 2015, having served as Vice President, General Counsel and Corporate Secretary since May 2013. From August 2009 to May 2013, Mr. Smith served as senior vice president, chief legal officer and secretary of Metals USA Holdings Corp., a publicly traded metals service center business acquired by Reliance in April 2013. From June 2005 to August 2008, Mr. Smith served as senior vice president, general counsel and secretary of Cross Match Technologies, Inc. and also as director of corporate development from September 2006 to August 2008. Prior to that, he was a partner in the corporate and securities practice group of the international law firm DLA Piper, where he practiced corporate law, including mergers and acquisitions.

Other Corporate Officers

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

Arthur Ajemyan became Vice President, Corporate Controller in May 2014, having been promoted from Corporate Controller, a position which he had held since August 2012. From 2005 to 2012, Mr. Ajemyan held various positions in the accounting and finance department at Reliance, including Group Controller and Director of Financial Reporting. Prior to joining Reliance, Mr. Ajemyan, a certified public accountant, held various professional staff and manager positions at PricewaterhouseCoopers, LLP from 1998 to 2005.

Brenda S. Miyamoto became Vice President, Corporate Initiatives in August 2012, having been promoted from Vice President, Corporate Controller, a position which she had held since May 2007. Prior to that time, Ms. Miyamoto served as Corporate Controller from January 2004 until August 2012 and Group Controller from December 2001 to January 2004. For six years prior to joining Reliance, Ms. Miyamoto, a certified public accountant (inactive), was employed by Ernst & Young LLP in various professional staff and manager positions.

Donald J. Prebola became Vice President, Health, Safety & Human Resources in June 2015, having served as Vice President, Human Resources since August 2011. Mr. Prebola served as Senior Vice President, Operations of our subsidiary, Infra-Metals Co., from 2008 to July 2011. Prior to that he had served as Co-General Manager of Infra-Metals Co. since 1990.

John A. Shatkus became Vice President, Internal Audit in August 2012, having been promoted from Director, Internal Audit, a position which he had held since May 2005. Prior to joining Reliance, Mr. Shatkus was Audit Manager at Sempra Energy and held various management positions at Sempra Energy over a 20-year period, including Regulatory Affairs Manager and Accounting Manager. Mr. Shatkus is a certified public accountant.

Silva Yeghyayan became Vice President, Tax in August 2012, having been promoted from Director, Tax, a position which she had held since October 2005. Ms. Yeghyayan is a certified public accountant and was a tax consultant from April 2004 until joining Reliance in 2005. Ms. Yeghyayan was Senior Tax Manager at Grant Thornton LLP from 2000 to 2004, and held various professional staff and manager positions at Arthur Andersen LLP from 1989 to 2000.

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COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis describes our executive compensation philosophy and program and how it applies to our executive officers, including our named executive officers identified below (whom we sometimes refer to collectively as our "NEOs").

Named Executive Officer	Title
James D. Hoffman(1)	President and Chief Executive Officer
Karla R. Lewis	Senior Executive Vice President and Chief Financial Officer
William K. Sales, Jr.	Executive Vice President, Operations
Michael P. Shanley	Senior Vice President, Operations
Gregg J. Mollins(2)	Former Chief Executive Officer and President

(1) In accordance with the Company's succession plan, Mr. Hoffman was promoted to President and Chief Executive Officer effective January 1, 2019 following the retirement of Mr. Mollins as the Company's Chief Executive Officer and President. During all of 2018, Mr. Hoffman served as Executive Vice President and Chief Operating Officer.

(2) Mr. Mollins served as the Company's President and Chief Executive Officer through the end of 2018, when he transitioned to the non-officer role of Senior Advisor to the CEO effective January 1, 2019.

Executive Summary

Excellent operational execution coupled with continued growth and a positive pricing environment throughout 2018 delivered record net sales, gross profit, pretax income and earnings per diluted share. 2018 financial highlights included:

- Record net sales of $11.53 billion, an 18.7% increase from 2017;
- Record gross profit of $3.28 billion, a 17.7% increase from 2017;
- Our 2018 gross profit margin of 28.4% was near the high end of our estimated sustainable annual range of 27% to 29%;
- Record pretax income of $850.6 million, a 45.7% increase from 2017; and
- Record earnings per diluted share of $8.75 per share. Excluding the impact of tax reform, our earnings per share increased $3.27, or 59.2%, from $5.52 in 2017 to $8.79 in 2018.

Our record earnings, driven by higher average selling prices and shipment levels, along with our strong gross profit margin and effective working capital generated cash flow from operations of $664.6 million. We used our strong operating cash flow to further grow the Company in 2018 by completing three acquisitions and purchasing the remaining 40% noncontrolling interest of our toll processing joint venture in Mexico and investing $239.9 million in capital expenditures, while also returning value to our stockholders with $145.3 million of cash dividends and a record $484.9 million of share repurchases.

We believe the compensation of our NEOs in 2018 was aligned with our performance. Payments to the NEOs under our 2018 Annual Cash Incentive Plan were above target, consistent with management's delivery of industry-leading operating results and record net sales, gross profit, pretax income and earnings per diluted share.

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Executive Compensation Program Design

Our executive compensation program is designed to reward the Company's executive officers for strong operational and financial performance, attract and retain key executive talent, and align compensation with the long-term interests of our stockholders. We structure our executive officers' target total direct compensation to be competitive with the median compensation paid by companies with whom we may compete for executive talent, including those in our executive compensation peer group. We link a majority of our executives' compensation to Company performance to drive our financial and operating performance and increase stockholder value. We believe that this pay-for-performance philosophy has been instrumental to our success.

We manage our business with the long-term objective of creating and maximizing value for our stockholders. Our pay-for-performance philosophy is aligned with and supports this objective.

Consistent with our past practice, the Compensation Committee evaluates performance by reviewing:

- our operating and financial results, including performance against our executive compensation peer group, our industry peer group, and general economic factors that impact our business and industry;
- economic return to stockholders over time, both on an absolute basis and relative to other companies, including the S&P 500, our executive compensation peer group and our industry peers; and
- achievement of the Company's goals and objectives (including management development, safety performance, working capital management, and capital allocation).

The Compensation Committee has linked a majority of our executives' total direct compensation directly to the achievement of specific, pre-established Company performance targets. In 2018, approximately 74% of our former CEO's and 60% of our other NEOs' target total direct compensation was tied to performance targets.

2018 Financial and Operating Highlights

The following table highlights our financial and operating results in 2018 compared to 2017:

	2018		2017		Change
Sales	$ 11.53	billion	$ 9.72	billion	18.7 %
Tons sold in '000s	6,112.6		6,053.4		1.0 %
Average selling price per ton sold	$ 1,885		$ 1,599		17.9 %
Gross profit margin	28.4	%	28.7	%	(0.3) %
Operating income	$ 937.5	million	$ 662.4	million	41.5 %
Net income(1)	$ 633.7	million	$ 613.4	million	3.3 %
Cash flow from operations	$ 664.6	million	$ 399.0	million	66.6 %
Earnings per diluted share(1)	$ 8.75		$ 8.34		4.9 %
Closing market price of stock at December 31	$ 71.17		$ 85.79		(17.0) %
Pretax income margin(2)	7.5	%	6.0	%	1.5 %
Annual return on assets ("ROA")(2)(3)	12.1	%	8.7	%	3.4 %
Dividends paid per share	$ 2.00		$ 1.80		11.1 %

(1) The 2017 amount includes a $207.3 million, or $2.82 per diluted share, income tax benefit as a result of the Tax Cuts and Jobs Act of 2017.

(2) Excludes non-recurring charges and credits, including impairment charges and gains on non-operating asset sales in 2018 and 2017.

(3)

Return on assets is calculated as operating income, excluding various non-recurring charges and credits, for the year divided by the average total assets for the year.

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We continued to execute our balanced capital allocation in 2018 using cash flow from operations to fund our growth activities by making three strategic acquisitions and purchasing the remaining 40% noncontrolling interest of our toll processing joint venture in Mexico, investing in organic growth, and returning value to our stockholders through increased dividend payments and stock repurchases. In February 2018, we increased our quarterly dividend by 11.1% to $0.50 per share from $0.45 per share. We paid a total of $145.3 million in dividends to our stockholders in 2018. In February 2019, the Company increased the quarterly dividend by 10.0% to $0.55 per share. Since 2012, the Company's quarterly dividend has more than tripled from $0.15 to $0.55 per share. We have increased our dividend 26 times since our 1994 IPO and have paid regular quarterly dividends to our stockholders for 59 consecutive years.

During 2018, we repurchased approximately 6.1 million shares of our common stock at an average cost of $79.94 per share, for a record total of $484.9 million. On October 23, 2018, our Board of Directors amended our share repurchase plan, increasing the total authorized number of shares available to be repurchased by 5.0 million and extending the duration of the plan through December 31, 2021. As of December 31, 2018, we had authorization under the plan to purchase approximately 7.0 million shares, or about 11% of our then outstanding shares. The Company expects to continue opportunistically repurchasing shares of its common stock in the future.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K filed with the SEC on February 27, 2019 for a more detailed discussion of our results of operations in 2018 compared to 2017 and our financial condition.

Relationship Between Pay and Performance

A majority of our executive compensation is tied to performance through annual cash incentive awards and long-term equity incentive awards. We believe compensation of our NEOs in 2018 was aligned with operational performance in 2018. Management delivered industry-leading operating results, and the Company achieved multiple records, including record net sales, record annual gross profit dollars, record pretax income dollars and record earnings per diluted share of $8.75. Consistent with the delivery of such industry-leading results, each NEO received payments above target but below the maximum under each of the annual cash incentive plan and performance-based equity awards.

In 2018, our NEOs participated in our annual cash incentive plan which pays out only if the Company achieves certain levels of pretax income margin. Pretax income margin is calculated based on the Company's annual income before income taxes as a percentage of net sales as adjusted for certain non-recurring items. If the Company achieves a pretax income margin within the range of 3.00% and 8.50%, with a target of 5.75%, then mathematical interpolation is applied to determine the actual incentive award. The Company's pretax income margin increased from 6.0% to 7.5%, resulting in each NEO receiving a payment of 245% of their base salary.

Results for the performance-based equity awards granted in 2016 were determined in the first quarter of 2019 based on the three-year performance period ended December 31, 2018. Performance results (based on the Company's return on assets) for the 2016 awards were also above target but below the maximum, resulting in 130% of the target number of awards vesting.

The Compensation Committee, in consultation with Pay Governance (the Compensation Committee's independent executive compensation advisor) and with input from management believes that pretax income margin represents an appropriate metric for measuring the Company's financial performance under the annual cash incentive plan as it aligns with how management and the Board measure the Company's performance. Pretax income margin is typically the most important metric used in the Company's corporate and operational decision-making. Since 2016, pretax income margin has been used as the financial metric for measuring the Company's financial performance under the annual cash incentive plan and the Compensation Committee continues to believe that it is an appropriate metric to align pay opportunities with the Company’s financial

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performance. The Compensation Committee believes that utilizing pretax income margin as the metric for measuring performance under the annual cash incentive plan complements and achieves an appropriate balance with the ROA metric under the long-term equity incentive award program.

The table below demonstrates that based on the Company's historical results relative to its peer group, the pretax income margin goals are (i) reasonably demanding relative to threshold and target and (ii) extremely demanding relative to maximum performance.

Goal		% Time Company Achieved	Rank vs. Proxy Peers (Percentile)
Max:	8.5%	0%	65th
Target:	5.75%	50%	49th
Min:	3%	100%	35th

For 2018, each NEO had a target cash incentive award of 150% of base salary, which would be earned if the Company achieved pretax income margin of 5.75%. However, no NEO would receive a payout under the plan if pretax income margin was less than 3%. The maximum payout under the plan of 300% of base salary would be earned if pretax income margin equaled or exceeded 8.5%, a level of performance not achieved since 2008.

For a discussion of the Company's cash incentive compensation achievement versus the minimum, target and maximum, see "Principal Components of Our Executive Compensation Program - Annual Cash Incentive Awards" (see page 34).

The NEOs' performance-based equity awards are tied to achieving an ROA target. The Compensation Committee has determined that ROA, which is directly influenced by management's decisions, is the most effective metric to measure management's long-term performance. ROA also complements and achieves an appropriate balance with the pretax income margin metric under the annual cash incentive award program. The outstanding 2017, 2018 and 2019 performance-based equity awards will vest when the Company achieves a ROA result within a specified range over the three-year performance period.

The allocation of performance-based and service-based awards is intended to balance performance and retention objectives. In striking the appropriate balance, the Compensation Committee sought to design a policy that incentivizes strong performance while also strengthening the retention aspects of the long-term equity awards since the Company does not maintain employment agreements with its officers. Accordingly, since 2016 at least 74% of our CEO's equity awards and 60% of our other NEOs' equity awards have been tied to performance targets. The remaining awards are service-based. Results for the performance-based equity awards granted in 2016, which vested on December 31, 2018, were determined in the first quarter of 2018 and resulted in 130% of the target number of awards vesting.

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Key Executive Compensation Practices

WHAT WE DO:

ü Strong pay-for-performance compensation structure with approximately 74% of our former CEO’s and 60% of our other NEOs’ target total direct compensation tied to performance metrics (see discussion beginning on page 22).

ü Target total direct compensation of our NEOs designed to approximate the market median of our executive compensation peer group when targeted performance levels are achieved (see page 33).

ü Clawback policy for cash and equity compensation (see page 39).

ü