RELIANCE STEEL & ALUMINUM CO
Form 10-Q
August 07, 2009

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2009

OR

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

For the transition period from __________ to __________

Commission file number: 001-13122

RELIANCE STEEL & ALUMINUM CO.

(Exact name of registrant as specified in its charter)

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

350 South Grand Avenue, Suite 5100
Los Angeles, California 90071
(213) 687-7700

(Address of principal executive offices and telephone number)

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes o No o

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

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

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

As of July 31, 2009, 73,476,270 shares of the registrant s common stock, no par value, were outstanding.

RELIANCE STEEL & ALUMINUM CO.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

PART I	**FINANCIAL INFORMATION**	**1**
Item 1.	Consolidated Balance Sheets at June 30, 2009 (Unaudited) and December 31, 2008	1
	Unaudited Consolidated Statements of Operations for the Three Months Ended June 30, 2009 and 2008	2
	Unaudited Consolidated Statements of Operations for the Six Months Ended June 30, 2009 and 2008	3
	Unaudited Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2009 and 2008	4
	Notes to Unaudited Consolidated Financial Statements	5
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	21
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	28
Item 4.	Controls and Procedures	28
PART II	**OTHER INFORMATION**	**29**
Item 1A.	Risk Factors	29
Item 4.	Submission of Matters to a Vote of Security Holders	29
Item 6.	Exhibits	29
SIGNATURES		**30**
CERTIFICATIONS		**31**

EX-31.1
EX-31.2
EX-32

Table of Contents

RELIANCE STEEL & ALUMINUM CO.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	June 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 179,413	$ 51,995
Accounts receivable, less allowance for doubtful accounts of $22,669 at June 30, 2009 and $22,018 at December 31, 2008	561,355	851,214
Inventories	817,154	1,284,468
Prepaid expenses and other current assets	27,995	33,782
Income taxes receivable	21,078	9,980
Deferred income taxes	70,842	70,933
Total current assets	1,677,837	2,302,372
Property, plant and equipment:		
Land	128,515	125,096
Buildings	521,380	506,781
Machinery and equipment	830,931	810,054
Accumulated depreciation	(486,145)	(443,225)
	994,681	998,706
Goodwill	1,075,476	1,065,527
Intangible assets, net	730,280	741,681
Cash surrender value of life insurance policies, net	55,466	57,410
Investments in unconsolidated entities	20,874	20,605
Other assets	9,845	9,184
Total assets	$ 4,564,459	$ 5,195,485
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 203,621	$ 248,312
Accrued expenses	54,597	59,982
Deferred revenue	48,310	82,949
Accrued compensation and retirement costs	55,047	123,707
Accrued insurance costs	41,221	40,700
Current maturities of long-term debt	81,411	93,877
Current maturities of capital lease obligations	647	638

Total current liabilities	484,854	650,165
Long-term debt	1,181,303	1,671,732
Capital lease obligations	3,513	3,833
Long-term retirement costs and other long-term liabilities	103,139	94,361
Deferred income taxes	338,607	340,326
Commitments and contingencies		
Reliance shareholders equity:		
Preferred stock, no par value:		
Authorized shares 5,000,000		
None issued or outstanding		
Common stock, no par value:		
Authorized shares 100,000,000		
Issued and outstanding shares 73,464,297 at June 30, 2009 and 73,312,714 at December 31, 2008, stated capital	572,515	563,092
Retained earnings	1,900,534	1,900,360
Accumulated other comprehensive loss	(22,648)	(32,016)
Total Reliance shareholders equity	2,450,401	2,431,436
Noncontrolling interests	2,642	3,632
Total equity	2,453,043	2,435,068
Total liabilities and equity	$ 4,564,459	$ 5,195,485

See accompanying notes to unaudited consolidated financial statements.

1

Table of Contents

RELIANCE STEEL & ALUMINUM CO.
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share amounts)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008
Net sales	$ 1,242,978	$ 2,095,068
Costs and expenses:		
Cost of sales (exclusive of depreciation and amortization shown below)	960,093	1,508,134
Warehouse, delivery, selling, general and administrative	247,875	297,573
Depreciation and amortization	29,580	21,445
	1,237,548	1,827,152
Operating income	5,430	267,916
Other income (expense):		
Interest	(16,698)	(16,161)
Other income (expense), net	1,832	(499)
(Loss) income from continuing operations before income taxes	(9,436)	251,256
Income tax (benefit) provision	(3,880)	94,651
Net (loss) income	(5,556)	156,605
Less: Net income attributable to the noncontrolling interests	231	9
Net (loss) income attributable to Reliance	$ (5,787)	$ 156,596
(Loss) earnings per share:		
(Loss) income from continuing operations attributable to Reliance diluted	$ (0.08)	$ 2.12
Weighted average shares outstanding diluted	73,376,023	73,757,864
(Loss) income from continuing operations attributable to Reliance basic	$ (0.08)	$ 2.14
Weighted average shares outstanding basic	73,376,023	73,015,855
Cash dividends per share	$ .10	$ .10

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

RELIANCE STEEL & ALUMINUM CO.
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share amounts)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Net sales	$ 2,801,513	$ 4,003,238
Costs and expenses:		
Cost of sales (exclusive of depreciation and amortization shown below)	2,164,186	2,924,025
Warehouse, delivery, selling, general and administrative	524,509	579,202
Depreciation and amortization	59,427	42,810
	2,748,122	3,546,037
Operating income	53,391	457,201
Other income (expense):		
Interest	(36,014)	(32,774)
Other income (expense), net	3,756	(886)
Income from continuing operations before income taxes	21,133	423,541
Income tax provision	6,301	159,478
Net income	14,832	264,063
Less: Net income attributable to the noncontrolling interests	501	72
Net income attributable to Reliance	$ 14,331	$ 263,991
Earnings per share:		
Income from continuing operations attributable to Reliance diluted	$ .19	$ 3.58
Weighted average shares outstanding diluted	73,527,944	73,651,222
Income from continuing operations attributable to Reliance basic	$ .20	$ 3.62
Weighted average shares outstanding basic	73,346,744	72,936,666
Cash dividends per share	$ .20	$ .20

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

RELIANCE STEEL & ALUMINUM CO.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Operating activities:		
Net income	$ 14,832	$ 264,063
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	59,427	42,810
Deferred income tax benefit	(2,906)	(2,249)
Gain on sales of property, plant and equipment	(38)	(174)
Equity in earnings of unconsolidated entities	(269)	
Stock based compensation expense	7,447	6,771
Excess tax benefits from stock based compensation	(513)	(9,187)
Net (gain) loss from life insurance policies	(2,450)	453
Changes in operating assets and liabilities (excluding effect of businesses acquired):		
Accounts receivable	291,842	(257,165)
Inventories	470,160	(204,991)
Prepaid expenses and other assets	(4,793)	15,489
Accounts payable and other liabilities	(151,480)	272,561
Net cash provided by operating activities	681,259	128,381
Investing activities:		
Purchases of property, plant and equipment	(40,789)	(88,305)
Acquisition of metals service center and net asset purchase of metals service center, net of cash acquired		(13,250)
Proceeds from sales of property, plant and equipment	684	17,902
Net proceeds from redemption of life insurance policies	4,394	2,532
Net investment in life insurance policies		(96)
Net cash used in investing activities	(35,711)	(81,217)
Financing activities:		
Proceeds from borrowings	102,058	339,897
Principal payments on long-term debt and short-term borrowings	(605,989)	(270,499)
Dividends paid	(14,670)	(14,575)
Payments to noncontrolling interest holders	(588)	
Excess tax benefits from stock based compensation	513	9,187
Exercise of stock options	3,476	16,856
Issuance of common stock	258	284
Noncontrolling interests purchased	(2,661)	
Common stock repurchases		(114,774)
Net cash used in financing activities	(517,603)	(33,624)

Effect of exchange rate changes on cash	(527)	(720)
Increase in cash and cash equivalents	127,418	12,820
Cash and cash equivalents at beginning of period	51,995	77,023
Cash and cash equivalents at end of period	$ 179,413	$ 89,843
Supplemental cash flow information:		
Interest paid during the period	$ 40,731	$ 28,675
Income taxes paid during the period	$ 25,466	$ 107,464

See accompanying notes to unaudited consolidated financial statements.

4

Table of Contents

RELIANCE STEEL & ALUMINUM CO.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions of Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation with respect to the interim financial statements, have been included. The results of operations for the six months ended June 30, 2009 are not necessarily indicative of the results for the full year ending December 31, 2009. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended December 31, 2008, included in Reliance Steel & Aluminum Co. s (Reliance or the Company) Annual Report on Form 10-K.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and the disclosure of contingent amounts in the Company s consolidated financial statements and the accompanying notes. Actual results could differ from those estimates.

The Company s consolidated financial statements include the assets, liabilities and operating results of majority-owned subsidiaries. The ownership of the other interest holders of consolidated subsidiaries is reflected as noncontrolling interests. The Company s investments in unconsolidated subsidiaries are recorded under the equity method of accounting. All significant intercompany accounts and transactions have been eliminated. The Company has evaluated all subsequent events through the date of the filing of this Form 10-Q.

2. Impact of Recently Issued Accounting Principles

Accounting Principles Already Adopted

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. This Standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, which is the year beginning January 1, 2008 for the Company. In February 2008, the FASB issued FSP FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP FAS 157-2), which permits a one-year deferral of the application of SFAS No. 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company adopted SFAS No. 157 and FSP FAS 157-2 effective January 1, 2008. Accordingly, the provisions of SFAS No. 157 were not applied to goodwill and other intangible assets held by the Company and measured annually for impairment testing purposes only. The adoption of SFAS No. 157 on January 1, 2008 for all other assets and liabilities held by the Company did not have a material effect on the Company s financial statements or notes thereto. The Company adopted SFAS No. 157 for non-financial assets and non-financial liabilities on January 1, 2009, which also did not have a material effect on its financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141R (revised 2007), *Business Combinations*, which is a revision of SFAS No. 141, *Business Combinations*. In accordance with the new standard, upon initially obtaining control, the acquiring entity in a business combination must recognize 100% of the fair values of the acquired assets, including goodwill, and assumed liabilities, with only limited exceptions even if the acquirer has not acquired 100% of its target. As a consequence, the step acquisition model has been eliminated. Also, contingent consideration arrangements will be fair valued at the acquisition date and included on that basis in the purchase price consideration. In addition, all transaction costs will be expensed as incurred. SFAS No. 141(R) is effective on a prospective basis for all business combinations for which the acquisition date is on or after the beginning of the first annual period subsequent to December 15, 2008, or January 1, 2009 for the Company, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. SFAS No. 141(R) amends

RELIANCE STEEL & ALUMINUM CO.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

SFAS No. 109 such that adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of SFAS No. 141(R) would also apply the provisions of FAS 141(R). All other provisions of SFAS No. 141(R) will only impact the Company if it is a party to a business combination after the pronouncement has been adopted. The adoption of this standard did not have a material impact on the Company s financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51*. SFAS No. 160 establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008 or January 1, 2009 for the Company. In accordance with SFAS No. 160, the Company classified noncontrolling interests as equity on its consolidated balance sheets as of June 30, 2009 and December 31, 2008 and presented net income attributable to noncontrolling interests separately on the consolidated statements of income for the three and six months ended June 30, 2009 and 2008, respectively.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*. SFAS No. 165 sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS No. 165 will be effective for interim or annual periods ending after June 15, 2009 and will be applied prospectively. The Company adopted the requirements of this pronouncement for the quarter ended June 30, 2009. The adoption of SFAS No. 165 did not have a material impact on the Company s financial position, results of operations or cash flow.

Accounting Principles Not Yet Adopted

In December 2008, the FASB issued FSP No. FAS 132(R)-1, *Employers Disclosures about Postretirement Benefit Plan Assets*, which requires enhanced disclosures about plan assets in an employer s defined benefit pension or other postretirement plans. These disclosures are intended to provide users of financial statements with a greater understanding of how investment allocation decisions are made, the major categories of plan assets, the inputs and valuation techniques used to measure the fair value of plan assets and significant concentrations of risk within plan assets. FSP No. FAS 132(R)-1 will apply to the Company s plan asset disclosures for the fiscal year ending December 31, 2009.

Table of Contents

RELIANCE STEEL & ALUMINUM CO.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

3. Acquisitions

2008 Acquisitions

Acquisition of HLN Metal Centre Pte. Ltd.

In August 2008, the Company formed Reliance Metalcenter Asia Pacific Pte. Ltd. (RMAP), a Singapore corporation. On September 17, 2008, RMAP acquired the assets, including the inventory, machinery, and equipment, of the Singapore operation of HLN Metal Centre Pte. Ltd. RMAP focuses primarily on supplying metal to the electronics, semiconductor, and solar energy markets. The all cash purchase price was funded with borrowings on the Company s revolving credit facility. Net sales of RMAP during the six months ended June 30, 2009 were approximately $0.9 million.

Acquisition of PNA Group Holding Corporation

On August 1, 2008, the Company acquired all of the outstanding capital stock of PNA Group Holding Corporation, a Delaware corporation (PNA), in accordance with the Stock Purchase Agreement dated June 16, 2008. The Company paid cash consideration of approximately $321.0 million, net of purchase price adjustments, repaid or refinanced debt of PNA or its subsidiaries in the amount of approximately $725.0 million, paid related tender offer and consent solicitation premium payments of approximately $55.0 million, and incurred direct acquisition costs of approximately $3.0 million for a total transaction value of approximately $1.1 billion. The Company funded the acquisition with proceeds from its new $500 million senior unsecured term loan and borrowings under its existing $1.1 billion syndicated unsecured revolving credit facility.

PNA s subsidiaries include the operating entities Delta Steel, Inc., Feralloy Corporation, Infra-Metals Co., Metals Supply Company, Ltd., Precision Flamecutting and Steel, Inc. and Sugar Steel Corporation. Through its subsidiaries, PNA processes and distributes primarily carbon steel plate, bar, structural and flat-rolled products. PNA currently operates 21 steel service centers throughout the United States, as well as four joint ventures with six additional service centers in the United States and Mexico. PNA s net sales for the six months ended June 30, 2009 were approximately $567.1 million.

The allocation of the total purchase price of PNA to the fair values of the assets acquired and liabilities assumed is as follows:

		(In thousands)
Cash	$	9,845
Accounts receivable		336,369
Inventories		584,307
Property, plant and equipment		113,627
Goodwill		235,667
Intangible assets subject to amortization		167,200
Intangible assets not subject to amortization		126,000
Other current and long-term assets		59,062
Total assets acquired		1,632,077
Current and long-term debt		(780,043)
Deferred income taxes		(127,213)
Other current and long-term liabilities		(400,841)
Total liabilities assumed		(1,308,097)
Net assets acquired	$	323,980

7

RELIANCE STEEL & ALUMINUM CO.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Acquisition of Dynamic Metals International LLC

Effective April 1, 2008, the Company, through its subsidiary Service Steel Aerospace Corp., acquired the business of Dynamic Metals International LLC (Dynamic) based in Bristol, Connecticut. Dynamic was founded in 1999 and is a specialty metal distributor. Dynamic has been merged into and currently operates as a division of Service Steel Aerospace Corp. headquartered in Tacoma, Washington. The all cash purchase price was funded with borrowings on the Company s revolving credit facility. Dynamic s net sales for the six months ended June 30, 2009 were approximately $5.2 million.

Purchase price allocations

The acquisitions of all the companies have been accounted for under the purchase method of accounting and, accordingly, the purchase price has been allocated to the assets acquired and liabilities assumed based on the fair values at the date of each acquisition. The accompanying consolidated statements of income include the revenues and expenses of each acquisition since its respective acquisition date.

Pro forma financial information

The following unaudited pro forma summary financial results present the consolidated results of operations as if the acquisition of PNA had occurred at the beginning of the reporting period being presented, after the effect of certain adjustments, including increased depreciation expense resulting from recording fixed assets at fair value, interest expense on the acquisition debt, and amortization of certain identifiable intangible assets. The pro forma summary financial results reflect the acquired companies historical method for inventory valuation which was the first-in, first-out (FIFO) method through the acquisition date. All domestic acquisitions adopted the last-in, first-out (LIFO) method of inventory valuation upon acquisition.

The pro forma results have been presented for comparative purposes only and are not indicative of what would have occurred had the PNA acquisition been made as of January 1, 2008, or of any potential results which may occur in the future.

	Three Months Ended June 30, 2008 (In thousands, except per share amounts)	Six Months Ended June 30, 2008 (In thousands, except per share amounts)
Pro forma (unaudited):		
Net sales	$ 2,735,213	$ 5,117,420
Net income attributable to Reliance	$ 204,982	$ 327,294
Earnings per share diluted	$ 2.78	$ 4.44
Earnings per share basic	$ 2.81	$ 4.49

4. Goodwill

The changes in the carrying amount of goodwill for the six months ended June 30, 2009 are as follows:

	(In thousands)
Balance as of December 31, 2008	$ 1,065,527
Purchase price allocation adjustments	7,850
Effect of foreign currency translation	2,099
Balance as of June 30, 2009	$ 1,075,476

The adjustments recorded in the six month period ended June 30, 2009 pertained to the finalization of the PNA purchase price allocation with respect to income taxes payable and deferred income taxes.

Table of Contents

RELIANCE STEEL & ALUMINUM CO.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

5. Intangible Assets, net

The following table summarizes the Company s intangible assets, net:

	June 30, 2009		December 31, 2008	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			
Intangible assets subject to amortization:				
Covenants not to compete	$ 6,853	$ (6,461)	$ 6,853	$ (6,363)
Loan fees	19,460	(9,992)	19,460	(8,759)
Customer lists/relationships	341,449	(46,446)	339,518	(34,231)
Software internal use	8,100	(2,633)	8,100	(2,228)
Other	4,895	(1,027)	5,146	(1,036)
	380,757	(66,559)	379,077	(52,617)
Intangible assets not subject to amortization:				
Trade names	416,082		415,221	
	$ 796,839	$ (66,559)	$ 794,298	$ (52,617)

The Company recognized amortization expense for intangible assets of approximately $14.1 million and $6.2 million for the six months ended June 30, 2009 and 2008, respectively. Based on the current amount of intangibles subject to amortization, the estimated amortization expense for the remaining six months of 2009 and each of the succeeding five years is as follows:

	(In thousands)
2009	$ 13,884
2010	27,618
2011	27,053
2012	25,246
2013	25,175
2014	23,074

6. Income Taxes

The Company s effective tax rates for the six months ended June 30, 2009 and 2008 were 29.8% and 37.7%, respectively. Permanent items that impacted the Company s effective tax rates as compared to the U.S. federal statutory rate of 35% were not materially different in amount during both periods. However, the same type of permanent items have a much larger favorable impact on the 2009 effective tax rate due to the Company s lower income levels in 2009 compared to 2008.

RELIANCE STEEL & ALUMINUM CO.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

7. Long-Term Debt

Long-term debt consists of the following:

	June 30, 2009	December 31, 2008
	(In thousands)	
Unsecured revolving credit facility due November 9, 2011	$	$ 453,000
Senior unsecured term loan due from September 30, 2009 to November 9, 2011	443,750	481,250
Senior unsecured notes paid January 2, 2009		10,000
Senior unsecured notes due October 15, 2010	78,000	78,000
Senior unsecured notes due from July 1, 2011 to July 2, 2013	135,000	135,000
Senior unsecured notes due November 15, 2016	350,000	350,000
Senior unsecured notes due November 15, 2036	250,000	250,000
Other notes and revolving credit facilities	7,961	10,427
Total	1,264,711	1,767,677
Less unamortized discount	(1,997)	(2,068)
Less amounts due within one year	(81,411)	(93,877)
Total long-term debt	$ 1,181,303	$ 1,671,732

Unsecured Revolving Credit Facility

The Company s $1.1 billion unsecured revolving credit facility has fifteen banks as lenders. Interest is at variable rates based on LIBOR plus 0.55% or the bank prime rate for the period ended June 30, 2009. This margin on LIBOR based borrowings is subject to an adjustment every quarter prospectively based on the Company s leverage ratio. The applicable margin can be a maximum of 1.00% over the LIBOR rate if the Company s leverage ratio is greater than or equal to 55%. The minimum applicable margin is 0.375% if the leverage ratio is less than 25%. Base rate borrowings are not subject to adjustments and are based on the bank s prime rate. Weighted average rates on borrowings outstanding on the revolving credit facility were 2.67% at December 31, 2008. Weighted average interest rates on the revolving credit facility were 3.25% and 3.21% during the three months ended June 30, 2009 and 2008, respectively, and 1.88% and 3.72% during the six months ended June 30, 2009 and 2008, respectively.

At June 30, 2009, the Company had $49.5 million of letters of credit outstanding under the revolving credit facility with availability to issue an additional $75.5 million of letters of credit. The revolving credit facility includes a commitment fee on the unused portion, at an annual rate of 0.125% at June 30, 2009.

Revolving Credit Facilities Foreign Operations

The Company also has two separate revolving credit facilities for operations in Canada with a combined credit limit of CAD$35.0 million. There were no borrowings outstanding on these revolving credit facilities at June 30, 2009 and December 31, 2008. Various other separate revolving credit facilities with a combined credit limit of approximately $23.0 million are in place for operations in: a) Asia with outstanding balances of $1.3 million and $1.6 million at June 30, 2009 and December 31, 2008, respectively, and b) the United Kingdom with outstanding balances of $4.1 million and $5.8 million at June 30, 2009 and December 31, 2008, respectively.

Senior Unsecured Term Loan

In connection with the PNA acquisition, the Company entered into a $500 million senior unsecured term loan on July 31, 2008. The loan carries interest at variable rates based on LIBOR plus 2.0% as of June 30, 2009 and requires quarterly installment payments of principal in the amount of approximately $18.8 million beginning December 31, 2008, with the remaining balance due on November 9, 2011. The LIBOR margins are also subject to quarterly

RELIANCE STEEL & ALUMINUM CO.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

adjustments under this unsecured term loan agreement based on the Company s leverage ratios. The applicable margin can be a maximum of 2.50% over the LIBOR rate if the Company s leverage ratio is greater than or equal to 55%. The minimum applicable margin is 1.50% over the LIBOR rate if the leverage ratio is less than 25%. Base rate borrowings are also subject to quarterly adjustments based on the Company s leverage ratios and can be as high as 1.25% or as low as 0.25% over the bank s prime rate. Weighted average interest rates on the term loan were 2.42% and 3.23% during the three and six months ended June 30, 2009, respectively.

Senior Unsecured Notes Private Placements

The Company also has $213.0 million of outstanding senior unsecured notes issued in private placements of debt. The outstanding senior notes bear interest at a weighted average fixed rate of 5.71% and have a weighted average remaining life of 2.4 years, maturing from 2010 to 2013.

Senior Unsecured Notes Publicly Traded

On November 20, 2006, the Company entered into an Indenture (the Indenture), for the issuance of $600 million of unsecured debt securities. The total debt issued was comprised of two tranches, (a) $350 million aggregate principal amount of senior unsecured notes bearing interest at the rate of 6.20% per annum, maturing on November 15, 2016 and (b) $250 million aggregate principal amount of senior unsecured notes bearing interest at the rate of 6.85% per annum, maturing on November 15, 2036. The notes are senior unsecured obligations of Reliance and rank equally with all other existing and future unsecured and unsubordinated debt obligations of Reliance. The senior unsecured notes include provisions which, in the event of a change in control, require the Company to make an offer to repurchase the notes at a price equal to 101% of their principal amount plus accrued interest.

Covenants

The $1.1 billion revolving credit facility, the $500 million senior unsecured term loan, and the senior unsecured note agreements collectively require the Company to maintain a minimum net worth and interest coverage ratio and a maximum leverage ratio, and include a change of control provision, among other things. The Company s interest coverage ratio for the last twelve-month period ended June 30, 2009 was approximately 5.2 times compared to the debt covenant minimum requirement of 3.0 times (interest coverage ratio is calculated as net income attributable to Reliance plus interest expense and provision for income taxes, less equity in earnings of unconsolidated subsidiaries, divided by interest expense). The Company s leverage ratio at June 30, 2009 calculated in accordance with the terms of the credit agreement was 34.9% compared to the debt covenant maximum amount of 60% (leverage ratio is calculated as total debt, inclusive of capital lease obligations and outstanding letters of credit, divided by Reliance shareholders equity plus total debt). The minimum net worth requirement at June 30, 2009 was $913.6 million compared to Reliance shareholders equity balance of $2.45 billion at June 30, 2009. Although we believe we may be able to satisfy the minimum interest coverage ratio requirement during future periods in 2009, our ability to do so can be affected by events beyond our control such as the continual weak economic environment. As a result, we have entered into discussions with our lead lender to consider an amendment to our credit facility to avoid any potential event of default.

All of our wholly-owned domestic subsidiaries, which constitute the substantial majority of our subsidiaries, guarantee the borrowings under the revolving credit facility, the term loan and the private placement notes. The requirement with respect to the subsidiary guarantors is that they collectively account for at least 80% of consolidated EBITDA and 80% of consolidated tangible assets. Reliance and the subsidiary guarantors accounted for approximately 97% of our total consolidated EBITDA for the last twelve months and approximately 94% of total consolidated tangible assets as of June 30, 2009. The Company was in compliance with all debt covenants at June 30, 2009.

Table of Contents

RELIANCE STEEL & ALUMINUM CO.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

8. Reliance Shareholders Equity

Common Stock

During the six months ended June 30, 2009, the Company issued 141,223 shares of common stock in connection with the exercise of employee stock options for total proceeds of approximately $3.5 million. Also, 10,360 shares of common stock valued at approximately $0.3 million were issued to division managers of the Company in February 2009 under the Key Man Incentive Plan as a portion of their bonuses for 2008.

Stock Based Compensation

On April 27, 2009, the Company granted 941,300 options to acquire its common stock to key employees with an exercise price equal to the fair market value. The stock options vest ratably over a period of four years and expire seven years after the date of grant. The fair value of stock options granted was estimated using the Black-Scholes option-pricing model with the following assumptions: Expected life 4.75 years; Expected volatility 58.6%; Dividend yield 1.2%; Risk-free interest rate 1.9%; Exercise price $33.70.

On May 20, 2009, the Company granted 36,000 options to acquire its common stock to the non-employee members of the Board of Directors with an exercise price equal to the fair market value. The stock options cliff vest after one year and expire ten years after the date of grant. The fair value of stock options granted was estimated using the Black-Scholes option-pricing model with the following assumptions: Expected life 5.5 years; Expected volatility 58.8%; Dividend yield 1.1%; Risk-free interest rate 2.0%; Exercise price $38.00.

Share Repurchase Program

The Company has a Stock Repurchase Plan (Repurchase Plan) under which it is authorized to purchase up to 12,000,000 shares, of which, 7,883,033 shares remain available for repurchase as of June 30, 2009. No shares were repurchased in the six months ended June 30, 2009.

Other Comprehensive Income (Loss)

Other comprehensive income (loss) included the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In thousands)			
Net (loss) income	$ (5,556)	$ 156,605	$ 14,832	$ 264,063
Other comprehensive income (loss):				
Foreign currency translation gain (loss)	14,381	989	9,159	(6,571)
Unrealized gain (loss) on investments, net of tax	140	172	240	(6)
Minimum pension liability, net of tax	(12)		(31)	
Total other comprehensive gain (loss)	14,509	1,161	9,368	(6,577)
Comprehensive income attributable to the noncontrolling interests	(231)	(9)	(501)	(72)
Comprehensive income attributable to Reliance	$ 8,722	$ 157,757	$ 23,699	$ 257,414

Table of Contents

RELIANCE STEEL & ALUMINUM CO.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss included the following:

	June 30, 2009	December 31, 2008
	(In thousands)	
Foreign currency translation adjustments	$ (6,063)	$ (15,222)
Unrealized loss on investments, net of tax	(732)	(972)
Minimum pension liability, net of tax	(15,853)	(15,822)
Total accumulated other comprehensive loss	$ (22,648)	$ (32,016)

Foreign currency translation adjustments are not generally adjusted for income taxes as they relate to indefinite investments in foreign subsidiaries. Unrealized loss on investments and minimum pension liability are net of deferred income tax assets of approximately $0.5 million and $9.8 million as of June 30, 2009 and December 31, 2008, respectively.

9. Earnings (Loss) Per Share

The Company calculates basic and diluted earnings per share as required by SFAS No. 128, *Earnings Per Share.* Basic earnings per share exclude any dilutive effects of options, warrants and convertible securities. Diluted earnings per share are calculated including the dilutive effects of options, warrants and convertible securities, if any.

The following table sets forth the computation of basic and diluted earnings (loss) per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In thousands, except share and per share amounts)			
Numerator:				
Net (loss) income attributable to Reliance	$ (5,787)	$ 156,596	$ 14,331	$ 263,991
Denominator:				
Denominator for basic earnings per share:				
Weighted average shares	73,376	73,016	73,347	72,937
Effect of dilutive securities:				
Stock options		742	181	714
Denominator for dilutive earnings per share:				
Adjusted weighted average shares and assumed conversions	73,376	73,758	73,528	73,651
	$ (0.08)	$ 2.12	$ 0.19	$ 3.58

(Loss) earnings per share from continuing operations attributable to Reliance diluted								
(Loss) earnings per share from continuing operations attributable to Reliance basic	$	(0.08)	$	2.14	$	0.20	$	3.62

13

Table of Contents

RELIANCE STEEL & ALUMINUM CO.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Due to the net loss for the three months ended June 30, 2009, no shares reserved for issuance upon exercise of stock options were included in the computation of diluted loss per share as their inclusion would have been anti-dilutive. For the three months ended June 30, 2008, the computation of earnings per share does not include 1,213,872 weighted average shares reserved for issuance upon exercise of stock options as their inclusion would have been anti-dilutive.

The computation of earnings per share also does not include 3,121,332 and 1,220,748 weighted average shares reserved for issuance upon exercise of stock options for the six months ended June 30, 2009 and 2008, respectively, as their inclusion would have been anti-dilutive.

10. Condensed Consolidating Financial Statements

In November 2006, the Company issued senior unsecured notes in the aggregate principal amount of $600 million at fixed interest rates that are guaranteed by its wholly-owned domestic subsidiaries. The accompanying consolidating financial information has been prepared and presented pursuant to Rule 3-10 of SEC Regulation S-X *Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered.* The guarantees are full and unconditional and joint and several obligations of each of the guarantor subsidiaries. There are no significant restrictions on the ability of the Company to obtain funds from any of the guarantor subsidiaries by dividends or loans. The supplemental consolidating financial information has been presented in lieu of separate financial statements of the guarantors as such separate financial statements are not considered meaningful.

Effective January 1, 2009, RSAC Management Corp., a wholly-owned subsidiary of Reliance, was merged with and into Reliance. The results of RSAC Management Corp. are now reflected as part of the Parent in these condensed consolidating financial statements. In accordance with SEC rules, prior period amounts were retroactively restated for this change in the guarantors.

Table of Contents

RELIANCE STEEL & ALUMINUM CO.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Condensed Unaudited Consolidating Balance Sheet (In thousands)
As of June 30, 2009

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Cash and cash equivalents	$ 156,174	$ 8,261	$ 14,978	$	$ 179,413
Accounts receivable, less allowance for doubtful accounts	50,805	479,839	30,711		561,355
Inventories	20,736	732,249	64,169		817,154
Intercompany receivables	4,887	10,066	208	(15,161)	
Prepaid expenses and other current assets	85,644	28,365	5,906		119,915
Total current assets	318,246	1,258,780	115,972	(15,161)	1,677,837
Investments in subsidiaries	2,088,671	155,039	612	(2,244,322)	
Property, plant and equipment	90,429	864,553	39,699		994,681
Goodwill	9,615	1,014,589	51,272		1,075,476
Intangible assets, net	9,467	668,490	52,323		730,280
Intercompany receivables	1,436,561			(1,436,561)	
Other assets	3,247	81,943	995		86,185
Total assets	$ 3,956,236	$ 4,043,394	$ 260,873	$ (3,696,044)	$ 4,564,459
Liabilities & Equity					
Accounts payable	$ 12,736	$ 192,741	$ 13,305	$ (15,161)	$ 203,621
Accrued compensation and retirement costs	7,437	44,819	2,791		55,047
Other current liabilities	47,924	91,307	4,897		144,128
Current maturities of long-term debt	75,250	725	5,436		81,411
Current maturities of capital lease obligations		621	26		647
Total current liabilities	143,347	330,213	26,455	(15,161)	484,854
Long-term debt	1,181,147	156			1,181,303
Intercompany borrowings		1,412,302	24,259	(1,436,561)	
Deferred taxes and other long-term liabilities	181,341	261,305	2,613		445,259
Total Reliance shareholders equity	2,450,401	2,037,526	206,796	(2,244,322)	2,450,401

Noncontrolling interests		1,892	750		2,642
Total equity	2,450,401	2,039,418	207,546	(2,244,322)	2,453,043
Total liabilities and equity	$ 3,956,236	$ 4,043,394	$ 260,873	$ (3,696,044)	$ 4,564,459

RELIANCE STEEL & ALUMINUM CO.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Condensed Consolidating Balance Sheet (In thousands)
As of December 31, 2008

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Cash and cash equivalents	$ 21,263	$ 19,201	$ 11,531	$	$ 51,995
Accounts receivable, less allowance for doubtful accounts	73,871	731,696	45,647		851,214
Inventories	43,553	1,175,595	65,320		1,284,468
Intercompany receivables	469	21,772	366	(22,607)	
Prepaid expenses and other current assets	80,397	31,047	3,251		114,695
Total current assets	219,553	1,979,311	126,115	(22,607)	2,302,372
Investments in subsidiaries	2,104,631		459	(2,105,090)	
Property, plant and equipment	90,005	876,539	32,162		998,706
Goodwill	9,614	1,009,697	46,216		1,065,527
Intangible assets, net	10,701	680,639	50,341		741,681
Intercompany receivables	2,019,729			(2,019,729)	
Other assets	3,572	82,810	817		87,199
Total assets	$ 4,457,805	$ 4,628,996	$ 256,110	$ (4,147,426)	$ 5,195,485
Liabilities & Equity					
Accounts payable	$ 26,758	$ 226,804	$ 17,357	$ (22,607)	$ 248,312
Accrued compensation and retirement costs	19,477	100,147	4,083		123,707
Other current liabilities	45,093	134,294	4,244		183,631
Current maturities of long-term debt	85,250	1,175	7,452		93,877
Current maturities of capital lease obligations		608	30		638
Total current liabilities	176,578	463,028	33,166	(22,607)	650,165
Long-term debt	1,671,575	157			1,671,732
Intercompany borrowings		1,995,747	23,982	(2,019,729)	
Deferred taxes and other long-term liabilities	178,216	257,878	2,426		438,520
Total Reliance shareholders equity	2,431,436	1,910,269	194,821	(2,105,090)	2,431,436
Noncontrolling interests		1,917	1,715		3,632

Total equity	2,431,436	1,912,186	196,536	(2,105,090)	2,435,068
Total liabilities and equity	$ 4,457,805	$ 4,628,996	$ 256,110	$ (4,147,426)	$ 5,195,485

Table of Contents

RELIANCE STEEL & ALUMINUM CO.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Condensed Unaudited Consolidating Statement of Operations (In thousands)
For the three months ended June 30, 2009

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ 120,539	$ 1,110,583	$ 46,564	$ (34,708)	$ 1,242,978
Costs and expenses:					
Cost of sales (exclusive of depreciation and amortization shown below)	81,786	877,345	35,691	(34,729)	960,093
Warehouse, delivery, selling, general and administrative	30,818	220,549	12,406	(15,898)	247,875
Depreciation and amortization	2,909	25,554	1,117		29,580
	115,513	1,123,448	49,214	(50,627)	1,237,548
Operating income (loss)	5,026	(12,865)	(2,650)	15,919	5,430
Other income (expense):					
Interest	(16,971)	(9,257)	(134)	9,664	(16,698)
Other income (expense), net	25,581	(170)	2,004	(25,583)	1,832
Income (loss) before equity in losses of subsidiaries and income taxes	13,636	(22,292)	(780)		(9,436)
Equity in losses of subsidiaries	(16,292)	(1,688)		17,980	
Loss from continuing operations before income taxes	(2,656)	(23,980)	(780)	17,980	(9,436)
Provision (benefit) for income taxes	3,131	(6,739)	(272)		(3,880)
Net loss	(5,787)	(17,241)	(508)	17,980	(5,556)
Less: Net income attributable to the noncontrolling interests		225	6		231
Net loss attributable to Reliance	$ (5,787)	$ (17,466)	$ (514)	$ 17,980	$ (5,787)

Condensed Unaudited Consolidating Statement of Operations (In thousands)
For the three months ended June 30, 2008

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ 238,153	$ 1,772,673	$ 104,846	$ (20,604)	$ 2,095,068

Costs and expenses:			
Cost of sales (exclusive of depreciation and amortization shown below)	168,600	1,286,257	73,902