

RELIANCE STEEL & ALUMINUM CO
Form 10-Q
August 06, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2010

OR

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

For the transition period from _____ to _____.

Commission file number: 001-13122

RELIANCE STEEL & ALUMINUM CO.

(Exact name of registrant as specified in its charter)

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California
(State or other jurisdiction of
incorporation or organization)

95-1142616
(I.R.S. Employer
Identification No.)

350 South Grand Avenue, Suite 5100

Los Angeles, California 90071

(213) 687-7700

(Address of principal executive offices and telephone number)

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

Indicate by check mark 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 No

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 Accelerated filer Non-accelerated filer Smaller reporting company

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

As of July 30, 2010, 74,266,446 shares of the registrant's common stock, no par value, were outstanding.

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RELIANCE STEEL & ALUMINUM CO.

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Table of Contents**PART I FINANCIAL INFORMATION****RELIANCE STEEL & ALUMINUM CO.****CONSOLIDATED BALANCE SHEETS****(In thousands, except share amounts)**

	June 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 47,403	\$ 43,002
Accounts receivable, less allowance for doubtful accounts of \$17,273 at June 30, 2010 and \$21,269 at December 31, 2009	736,404	533,871
Inventories	896,660	719,915
Prepaid expenses and other current assets	34,836	40,096
Income taxes receivable	7,030	54,020
Total current assets	1,722,333	1,390,904
Property, plant and equipment:		
Land	133,103	131,009
Buildings	567,976	543,590
Machinery and equipment	859,332	829,154
Accumulated depreciation	(577,523)	(522,494)
	982,888	981,259
Goodwill	1,081,319	1,081,324
Intangible assets, net	711,864	726,255
Cash surrender value of life insurance policies, net	87,507	92,860
Investments in unconsolidated entities	15,977	20,880
Other assets	16,632	13,295
Total assets	\$ 4,618,520	\$ 4,306,777
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 291,704	\$ 169,113
Accrued expenses	50,317	55,927
Accrued compensation and retirement costs	71,016	67,012
Accrued insurance costs	38,514	39,134
Current maturities of long-term debt and short-term borrowings	86,966	86,383
Total current liabilities	538,517	417,569
Long-term debt	923,446	849,375
Long-term retirement costs	69,016	69,277
Other long-term liabilities	28,592	26,537
Deferred income taxes	334,062	335,897
Commitments and contingencies		
Equity:		
Preferred stock, no par value:		
Authorized shares 5,000,000		
None issued or outstanding		

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Common stock, no par value:		
Authorized shares	100,000,000	
Issued and outstanding shares	74,258,946 at June 30, 2010 and 73,750,771 at December 31, 2009, stated capital	608,651 587,612
Retained earnings		2,114,688 2,020,343
Accumulated other comprehensive loss		(2,565) (1,523)
Total Reliance shareholders equity		2,720,774 2,606,432
Noncontrolling interests		4,113 1,690
Total equity		2,724,887 2,608,122
Total liabilities and equity		\$ 4,618,520 \$ 4,306,777

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)

	Three Months Ended June 30,	
	2010	2009
Net sales	\$ 1,620,585	\$ 1,242,978
Costs and expenses:		
Cost of sales (exclusive of depreciation and amortization shown below)	1,203,810	960,093
Warehouse, delivery, selling, general and administrative	272,187	247,875
Depreciation and amortization	29,977	29,580
	1,505,974	1,237,548
Operating income	114,611	5,430
Other income (expense):		
Interest	(15,647)	(16,698)
Other (expense) income, net	(2,236)	1,832
Income (loss) before income taxes	96,728	(9,436)
Income tax provision (benefit)	33,923	(3,880)
Net income (loss)	62,805	(5,556)
Less: Net income attributable to noncontrolling interests	1,206	231
Net income (loss) attributable to Reliance	\$ 61,599	\$ (5,787)
Earnings (loss) per share:		
Diluted earnings (loss) per common share attributable to Reliance shareholders	\$ 0.83	\$ (0.08)
Weighted average shares outstanding - diluted	74,517,743	73,376,023
Basic earnings (loss) per common share attributable to Reliance shareholders	\$ 0.83	\$ (0.08)
Weighted average shares outstanding - basic	74,220,164	73,376,023
Cash dividends per share	\$ 0.10	\$ 0.10

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,	
	2010	2009
Net sales	\$ 3,074,660	\$ 2,801,513
Costs and expenses:		
Cost of sales (exclusive of depreciation and amortization shown below)	2,279,772	2,164,186
Warehouse, delivery, selling, general and administrative	541,461	524,509
Depreciation and amortization	59,055	59,427
	2,880,288	2,748,122
Operating income	194,372	53,391
Other income (expense):		
Interest	(30,730)	(36,014)
Other (expense) income, net	(1,109)	3,756
Income before income taxes	162,533	21,133
Income tax provision	54,741	6,301
Net income	107,792	14,832
Less: Net income attributable to noncontrolling interests	1,543	501
Net income attributable to Reliance	\$ 106,249	\$ 14,331
Earnings per share:		
Diluted earnings per common share attributable to Reliance shareholders	\$ 1.43	\$ 0.19
Weighted average shares outstanding - diluted	74,354,767	73,527,944
Basic earnings per common share attributable to Reliance shareholders	\$ 1.43	\$ 0.20
Weighted average shares outstanding - basic	74,042,293	73,346,744
Cash dividends per share	\$ 0.20	\$ 0.20

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,	
	2010	2009
Operating activities:		
Net income	\$ 107,792	\$ 14,832
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization expense	59,055	59,427
Deferred income tax benefit	(1,835)	(2,906)
Loss (gain) on sales of property, plant and equipment	850	(38)
Equity in earnings of unconsolidated entities	(633)	(269)
Dividend received from unconsolidated entity	320	
Stock based compensation expense	8,130	7,447
Excess tax benefit from stock based compensation	(2,904)	(513)
Net loss (gain) from life insurance policies	1,470	(2,450)
Changes in operating assets and liabilities:		
Accounts receivable	(202,906)	291,842
Inventories	(177,363)	470,160
Prepaid expenses and other assets	48,868	(4,793)
Accounts payable and other liabilities	123,705	(151,480)
Net cash (used in) provided by operating activities	(35,451)	681,259
Investing activities:		
Purchases of property, plant and equipment	(39,380)	(40,789)
Proceeds from sales of property, plant and equipment	725	684
Net proceeds from redemption of life insurance policies	3,883	4,394
Net cash used in investing activities	(34,772)	(35,711)
Financing activities:		
Net short-term debt borrowings (repayments)	405	(2,670)
Proceeds from long-term debt borrowings	262,000	102,000
Principal payments on long-term debt	(188,360)	(603,261)
Payments to noncontrolling interest holder	(490)	(588)
Dividends paid	(14,808)	(14,670)
Excess tax benefit from stock based compensation	2,904	513
Exercise of stock options	12,909	3,476
Issuance of common stock		258
Noncontrolling interests purchased		(2,661)
Net cash provided by (used in) financing activities	74,560	(517,603)
Effect of exchange rate changes on cash	64	(527)
Increase in cash and cash equivalents	4,401	127,418
Cash and cash equivalents at beginning of year	43,002	51,995
Cash and cash equivalents at end of period	\$ 47,403	\$ 179,413
Supplemental cash flow information:		
Interest paid during the period	\$ 27,028	\$ 40,731

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Income taxes paid during the period	\$ 15,071	\$ 25,466
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See accompanying notes to unaudited consolidated financial statements.

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, 2010 are not necessarily indicative of the results for the full year ending December 31, 2010. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended December 31, 2009, included in Reliance Steel & Aluminum Co. s (We , 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.

2. Impact of Recently Issued Accounting Guidance*Accounting Guidance Recently Adopted*

On January 1, 2010, the Company adopted changes issued by the Financial Accounting Standards Board (FASB) for accounting for variable interest entities. These changes replaced the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which reporting entity has the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. The changes also require additional disclosures about a reporting entity s involvement in variable interest entities. The adoption of this guidance resulted in the consolidation of one of the Company s joint venture entities, which did not have a material impact on the Company s consolidated results of operations, financial position or cash flows.

3. Goodwill

The change in the carrying amount of goodwill for the six months ended June 30, 2010 is as follows:

	(In thousands)
Balance as of December 31, 2009	\$ 1,081,324
Effect of foreign currency translation	(5)
Balance as of June 30, 2010	\$ 1,081,319

The Company had no accumulated impairment losses related to goodwill as of June 30, 2010.

Table of Contents**RELIANCE STEEL & ALUMINUM CO.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****4. Intangible Assets, net**

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

	June 30, 2010		December 31, 2009	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			
Intangible assets subject to amortization:				
Covenants not to compete	\$ 6,853	\$ (6,650)	\$ 6,853	\$ (6,558)
Loan fees	23,868	(12,327)	23,868	(10,592)
Customer lists/relationships	345,076	(70,721)	345,035	(58,749)
Software - internal use	8,100	(3,443)	8,100	(3,038)
Other	4,951	(1,545)	4,949	(1,297)
	388,848	(94,686)	388,805	(80,234)
Intangible assets not subject to amortization:				
Trade names	417,702		417,684	
	\$ 806,550	\$ (94,686)	\$ 806,489	\$ (80,234)

The Company recognized amortization expense for intangible assets of approximately \$14.5 million and \$14.1 million for the six months ended June 30, 2010 and 2009, respectively. All other changes in intangible assets during the six months ended June 30, 2010 are due to foreign currency translation.

Based on the current amount of intangibles subject to amortization, the estimated amortization expense for the remaining six months of 2010 and each of the succeeding five years is as follows:

	(In thousands)
2010	\$ 14,369
2011	28,524
2012	27,985
2013	25,304
2014	23,305
2015	21,741

5. Income Taxes

The Company's effective tax rates for the six months ended June 30, 2010 and 2009 were 33.7% and 29.8%, respectively. The fluctuations in the Company's effective tax rate are mainly because of varying income levels over these periods. 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 amounts during both periods and relate mainly to company-owned life insurance policies and domestic production activities deductions.

Table of Contents**RELIANCE STEEL & ALUMINUM CO.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****6. Debt**

Debt consists of the following:

	June 30, 2010	December 31, 2009
	(In thousands)	
Unsecured revolving credit facility due November 9, 2012	\$ 189,000	\$ 115,000
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	10,266	9,684
Total debt	1,012,266	937,684
Less unamortized discount	(1,854)	(1,926)
Less amounts due within one year and short-term borrowings	(86,966)	(86,383)
Total long-term debt	\$ 923,446	\$ 849,375

Unsecured Revolving Credit Facility

The Company's \$1.1 billion unsecured revolving credit facility has 16 banks as lenders. On September 28, 2009, the Company amended its syndicated credit agreement to adjust certain financial ratio requirements (primarily related to minimum interest coverage ratio and maximum leverage ratio) until June 30, 2010 at which time these ratios adjust back to the pre-amendment levels. With the amendment, the pricing on the revolving credit facility was adjusted to market rates in effect at that time and restrictions were placed on certain uses of cash until June 30, 2010 for acquisitions, dividends, investments, and stock repurchases. On June 30, 2010, these financial ratio requirements were adjusted back to pre-amendment levels and the restrictions placed on cash were removed. Also, with the amendment, the Company extended the maturity date of \$1.02 billion of commitments with 14 extending lenders through November 9, 2012, while the maturity date for \$80.0 million of commitments with non-extending lenders remains at November 9, 2011. Interest on borrowings from extending lenders is at variable rates based on LIBOR plus 3.50% or the bank prime rate plus 2.50% as of June 30, 2010. Interest on borrowings from non-extending lenders is at variable rates based on LIBOR plus 0.45% or the bank prime rate as of June 30, 2010. The revolving credit facility includes a commitment fee on the unused portion, at an annual rate of 0.40% and 0.10% for extending and non-extending lenders, respectively, as of June 30, 2010. The applicable margin over LIBOR rate and base rate borrowings along with commitment fees are subject to adjustment every quarter based on the Company's leverage ratio.

Weighted average rates on borrowings outstanding on the revolving credit facility were 3.63% and 3.51% as of June 30, 2010 and December 31, 2009, respectively.

As of June 30, 2010, the Company had \$44.8 million of letters of credit outstanding under the revolving credit facility with availability to issue an additional \$80.2 million of letters of credit.

Revolving Credit Facilities Foreign Operations

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The Company also had two separate revolving credit facilities for operations in Canada with a combined credit limit of CAD\$35.0 million as of December 31, 2009. In January 2010, the Canadian credit facilities were combined into one unsecured facility with a reduced credit limit of CAD\$5.0 million. There were no borrowings outstanding on these revolving credit facilities as of June 30, 2010 or December 31, 2009.

Various other separate revolving credit facilities with a combined credit limit of approximately \$22.3 million are in place for operations in: a) Asia with outstanding balances of \$6.5 million and \$6.6 million as of June 30, 2010 and December 31, 2009, respectively, and b) the United Kingdom with outstanding balances of \$2.2 million and \$1.5 million as of June 30, 2010 and December 31, 2009, respectively.

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RELIANCE STEEL & ALUMINUM CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Senior Unsecured Notes - Private Placements

The Company also has \$213.0 million of outstanding senior unsecured notes issued in private placements of debt as of June 30, 2010. At June 30, 2010, the outstanding senior notes bear interest at a weighted average fixed rate of 5.7% and have a weighted average remaining life of 1.4 years, maturing from October 2010 to July 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 that, in the event of a change in control and a downgrade of the Company's credit rating, 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 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. On June 30, 2010, the minimum interest coverage ratio and maximum leverage ratio requirements adjusted from amended levels of 2.0 times and 50%, respectively, back to the pre-amendment levels of 3.0 times and 60%, respectively. The Company's interest coverage ratio for the twelve-month period ended June 30, 2010 was approximately 6.4 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 and plus or minus any non-operating non-recurring loss or gain, respectively, divided by interest expense). The Company's leverage ratio as of June 30, 2010 calculated in accordance with the terms of the revolving credit facility was 28.0% compared to the financial 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 as of June 30, 2010 was \$950.6 million compared to Reliance shareholders' equity balance of \$2.72 billion as of June 30, 2010.

Additionally, all of our wholly-owned domestic subsidiaries, which constitute the substantial majority of our subsidiaries, guarantee the borrowings under the revolving credit facility, the Indenture and the private placement notes. The subsidiary guarantors, together with Reliance, are required collectively to account for at least 80% of the Company's 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 93% of total consolidated tangible assets as of June 30, 2010.

The Company was in compliance with all debt covenants as of June 30, 2010.

7. Equity

Common Stock

During the six months ended June 30, 2010, the Company issued 508,175 shares of common stock in connection with the exercise of stock options for total proceeds of approximately \$12.9 million.

Table of Contents**RELIANCE STEEL & ALUMINUM CO.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****Share Based Compensation**

On May 19, 2010, pursuant to the Amended and Restated Directors' Stock Option Plan, which has been approved by the shareholders, 36,000 options to acquire the Company's common stock were automatically granted to the non-employee members of the Board of Directors with an exercise price equal to the fair market value as of the date of the grant. 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 57.3%; Dividend yield 0.9%; Risk-free interest rate 2.1%; Exercise price \$44.99.

On February 23, 2010, the Company granted 1,003,400 options to acquire its common stock to key employees with an exercise price equal to the fair market value as of the date of the grant. 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 4.8 years; Expected volatility 59.7%; Dividend yield 0.9%; Risk-free interest rate 2.4%; Exercise price - \$42.81.

On July 26, 2010, the Company granted 61,000 shares of restricted stock to certain officers of the Company. The awards include dividend rights and vest 20% on August 1, 2011 and 20% on each August 1 thereafter through 2015. The fair value of the restricted stock granted was \$41.24 per share, determined based on the fair value of the Company's common stock on the grant date. Total unrecognized compensation cost related to these restricted stock awards is approximately \$2.5 million, which is expected to be recognized over a five-year period from the date of the grant.

Share Repurchase Program

Under the Company's current stock repurchase program 7,883,033 shares of common stock remain available for repurchase as of June 30, 2010. No shares were repurchased in 2010 or 2009. Repurchased shares are redeemed and treated as authorized but unissued shares.

Other Comprehensive (Loss) Income

Other comprehensive (loss) income included the following:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
	(In thousands)			
Net income (loss)	\$ 62,805	\$ (5,556)	\$ 107,792	\$ 14,832
Other comprehensive (loss) income:				
Foreign currency translation (loss) gain	(6,103)	14,381	(1,010)	9,159
Unrealized (loss) gain on investments, net of tax	(159)	140	(37)	240
Minimum pension liability, net of tax	2	(12)	5	(31)
Total other comprehensive (loss) income, net of tax	(6,260)	14,509	(1,042)	9,368
Comprehensive income	56,545	8,953	106,750	24,200
Comprehensive income attributable to noncontrolling interests	(1,206)	(231)	(1,543)	(501)
Comprehensive income attributable to Reliance	\$ 55,339	\$ 8,722	\$ 105,207	\$ 23,699

Table of Contents**RELIANCE STEEL & ALUMINUM CO.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)*****Accumulated Other Comprehensive Loss***

Accumulated other comprehensive loss included the following:

	June 30, 2010	December 31, 2009
	(In thousands)	
Foreign currency translation gain	\$ 9,638	\$ 10,648
Unrealized loss on investments, net of tax	(485)	(448)
Minimum pension liability, net of tax	(11,718)	(11,723)
 Total accumulated other comprehensive loss	 \$ (2,565)	 \$ (1,523)

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 taxes of approximately \$0.3 million and \$7.3 million, respectively, as of June 30, 2010 and December 31, 2009.

8. Commitments and Contingencies

The Company is currently involved with certain environmental remediation projects related to activities at manufacturing operations of Earle M. Jorgensen Company (EMJ), a wholly-owned subsidiary of the Company, that were sold many years prior to Reliance's acquisition of EMJ in 2006. Although the potential cleanup costs could be significant, EMJ had insurance policies in place at the time they owned the manufacturing operations that are expected to cover the majority of the related costs. The Company does not expect that these obligations will have a material adverse impact on its financial position, results of operations or cash flows.

9. Earnings Per Share

Basic earnings (loss) per share exclude any dilutive effects of options, warrants and convertible securities. Diluted earnings (loss) per share are calculated including the dilutive effects of options, warrants and convertible securities, if any.

Table of Contents**RELIANCE STEEL & ALUMINUM CO.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)**

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
(In thousands, except share and per share amounts)				
Numerator:				
Net income (loss) attributable to Reliance	\$ 61,599	\$ (5,787)	\$ 106,249	\$ 14,331
Denominator:				
Denominator for basic earnings per share:				
Weighted average shares	74,220	73,376	74,042	73,347
Effect of dilutive securities:				
Stock options	298		313	181
Denominator for diluted earnings per share:				
Adjusted weighted average shares and assumed conversions	74,518	73,376	74,355	73,528
Net income (loss) per share attributable to Reliance shareholders diluted	\$ 0.83	\$ (0.08)	\$ 1.43	\$ 0.19
Net income (loss) per share attributable to Reliance shareholders basic	\$ 0.83	\$ (0.08)	\$ 1.43	\$ 0.20

The computation of earnings per share for the three months ended June 30, 2010 does not include 2,186,425 weighted average shares reserved for issuance upon exercise of stock options because their inclusion would have an anti-dilutive effect. 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 an anti-dilutive effect.

The computations of earnings per share for the six months ended June 30, 2010 and 2009 do not include 2,171,400 and 3,121,332 weighted average shares reserved for issuance upon exercise of stock options, respectively, because their inclusion would have an anti-dilutive effect.

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.

Table of Contents**RELIANCE STEEL & ALUMINUM CO.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****Condensed Unaudited Consolidating Balance Sheet****As of June 30, 2010****(In thousands)**

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Cash and cash equivalents	\$ 14,488	\$ 2,563	\$ 30,352	\$	\$ 47,403
Accounts receivable, less allowance for doubtful accounts	63,036	623,279	50,089		736,404
Inventories	41,851	802,541	52,268		896,660
Intercompany receivables	425	11,830	142	(12,397)	
Income taxes receivable	34,473	(28,652)	1,209		7,030
Prepaid expenses and other current assets	3,893	26,706	4,237		34,836
Total current assets	158,166	1,438,267	138,297	(12,397)	1,722,333
Investments in subsidiaries	1,696,429	183,113		(1,879,542)	
Property, plant and equipment, net	90,353	833,930	58,605		982,888
Goodwill	23,780	1,002,775	54,764		1,081,319
Intangible assets, net	11,542	638,999	61,323		711,864
Intercompany receivables	1,983,662			(1,983,662)	
Other assets	4,171	114,368	1,577		120,116
Total assets	\$ 3,968,103	\$ 4,211,452	\$ 314,566	\$ (3,875,601)	\$ 4,618,520
Liabilities & Equity					
Accounts payable	\$ 27,555	\$ 244,013	\$ 32,533	\$ (12,397)	\$ 291,704
Accrued compensation and retirement costs	9,841	57,236	3,939		71,016
Other current liabilities	43,405	40,967	4,459		88,831
Current maturities of long-term debt and short-term borrowings	78,250		8,716		86,966
Total current liabilities	159,051	342,216	49,647	(12,397)	538,517
Long-term debt	923,293	153			923,446
Intercompany borrowings		1,958,143	25,519	(1,983,662)	
Deferred taxes and other long-term liabilities	164,985	264,030	2,655		431,670
Total Reliance shareholders' equity	2,720,774	1,643,666	235,876	(1,879,542)	2,720,774
Noncontrolling interests		3,244	869		4,113
Total equity	2,720,774	1,646,910	236,745	(1,879,542)	2,724,887
Total liabilities and equity	\$ 3,968,103	\$ 4,211,452	\$ 314,566	\$ (3,875,601)	\$ 4,618,520

Table of Contents**RELIANCE STEEL & ALUMINUM CO.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****Condensed Consolidating Balance Sheet****As of December 31, 2009****(In thousands)**

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations & Reclassifications	Consolidated
Assets					
Cash and cash equivalents	\$ 8,968	\$ 6,890	\$ 27,144	\$	\$ 43,002
Accounts receivable, less allowance for doubtful accounts	48,344	451,234	34,293		533,871
Inventories	27,791	646,343	45,781		719,915
Intercompany receivables	300	15,845	1,940	(18,085)	
Income taxes receivable	52,021		1,999		54,020
Prepaid expenses and other current assets	6,500	30,544	3,052		40,096
Total current assets	143,924	1,150,856	114,209	(18,085)	1,390,904
Investments in subsidiaries	1,642,191	155,039	612	(1,797,842)	
Property, plant and equipment, net	92,706	840,606	47,947		981,259
Goodwill	23,780	1,002,775	54,769		1,081,324
Intangible assets, net	13,276	650,784	62,195		726,255
Intercompany receivables	1,857,443			(1,857,443)	
Other assets	4,282	121,883	870		127,035
Total assets	\$ 3,777,602	\$ 3,921,943	\$ 280,602	\$ (3,673,370)	\$ 4,306,777
Liabilities & Equity					
Accounts payable	\$ 16,853	\$ 156,994	\$ 13,351	\$ (18,085)	\$ 169,113
Accrued compensation and retirement costs	11,557	51,588	3,867		67,012
Other current liabilities	49,109	41,829	4,123		95,061
Current maturities of long-term debt and short-term borrowings	78,250		8,133		86,383
Total current liabilities	155,769	250,411	29,474	(18,085)	417,569
Long-term debt	849,220	155			849,375
Intercompany borrowings		1,832,229	25,214	(1,857,443)	
Deferred taxes and other long-term liabilities	166,181	263,050	2,480		431,711
Total Reliance shareholders' equity	2,606,432	1,575,184	222,658	(1,797,842)	2,606,432
Noncontrolling interests		914	776		1,690
Total equity	2,606,432	1,576,098	223,434	(1,797,842)	2,608,122
Total liabilities and equity	\$ 3,777,602	\$ 3,921,943	\$ 280,602	\$ (3,673,370)	\$ 4,306,777

Table of Contents**RELIANCE STEEL & ALUMINUM CO.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****Condensed Unaudited Consolidating Statement of Operations****For the three months ended June 30, 2010****(In thousands)**

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ 153,478	\$ 1,432,167	\$ 82,518	\$ (47,578)	\$ 1,620,585
Costs and expenses:					
Cost of sales (exclusive of depreciation and amortization shown below)	110,670	1,085,656	55,083	(47,599)	1,203,810
Warehouse, delivery, selling, general and administrative	21,402	249,996	18,274	(17,485)	272,187
Depreciation and amortization	3,216	25,193	1,568		29,977
	135,288	1,360,845	74,925	(65,084)	1,505,974
Operating income	18,190	71,322	7,593	17,506	114,611
Other income (expense):					
Interest	(15,967)	(11,307)	(212)	11,839	(15,647)
Other income (expense), net	28,677	(1,457)	(111)	(29,345)	(2,236)
Income before equity in earnings of subsidiaries and income taxes	30,900	58,558	7,270		96,728
Equity in earnings of subsidiaries	27,621	4,109		(31,730)	
Income before income taxes	58,521	62,667	7,270	(31,730)	96,728
Income tax (benefit) provision	(3,078)	35,839	1,162		33,923
Net income	61,599	26,828	6,108	(31,730)	62,805
Less: Net income attributable to noncontrolling interests		1,141	65		1,206
Net income attributable to Reliance	\$ 61,599	\$ 25,687	\$ 6,043	\$ (31,730)	\$ 61,599

Table of Contents**RELIANCE STEEL & ALUMINUM CO.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****Condensed Unaudited Consolidating Statement of Operations****For the three months ended June 30, 2009****(In thousands)**

	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 before income taxes	(2,656)	(23,980)	(780)	17,980	(9,436)
Income tax provision (benefit)	3,131	(6,739)	(272)		(3,880)
Net loss	(5,787)	(17,241)	(508)	17,980	(5,556)
Less: Net income attributable to noncontrolling interests		225	6		231
Net loss attributable to Reliance	\$ (5,787)	\$ (17,466)	\$ (514)	\$ 17,980	\$ (5,787)

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	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ 293,005	\$ 2,715,201	\$ 155,166	\$ (88,712)	\$ 3,074,660
Costs and expenses:					
Cost of sales (exclusive of depreciation and amortization shown below)	220,494	2,040,106	107,925	(88,753)	2,279,772
Warehouse, delivery, selling, general and administrative	48,535	496,731	34,136	(37,941)	541,461
Depreciation and amortization	6,330	49,884	2,841		59,055
	275,359	2,586,721	144,902	(126,694)	2,880,288
Operating income	17,646	128,480	10,264	37,982	194,372
Other income (expense):					
Interest	(31,277)	(21,785)	(381)	22,713	(30,730)
Other income (expense), net	60,229	(530)	(113)	(60,695)	(1,109)
Income before equity in earnings of subsidiaries and income taxes	46,598	106,165	9,770		162,533
Equity in earnings of subsidiaries	50,127	4,560		(54,687)	
Income before income taxes	96,725	110,725	9,770	(54,687)	162,533
Income tax (benefit) provision	(9,524)	62,661	1,604		54,741
Net income	106,249	48,064	8,166	(54,687)	107,792
Less: Net income attributable to noncontrolling interests		1,450	93		1,543
Net income attributable to Reliance	\$ 106,249	\$ 46,614	\$ 8,073	\$ (54,687)	\$ 106,249

Table of Contents**RELIANCE STEEL & ALUMINUM CO.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****Condensed Unaudited Consolidating Statement of Operations****For the six months ended June 30, 2009****(In thousands)**

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ 260,024	\$ 2,503,598	\$ 107,355	\$ (69,464)	\$ 2,801,513
Costs and expenses:					
Cost of sales (exclusive of depreciation and amortization shown below)	189,182	1,962,679	81,830	(69,505)	2,164,186
Warehouse, delivery, selling, general and administrative	49,601	483,067	26,641	(34,800)	524,509
Depreciation and amortization	5,638	51,621	2,168		59,427
	244,421	2,497,367	110,639	(104,305)	2,748,122
Operating income (loss)	15,603	6,231	(3,284)	34,841	53,391
Other income (expense):					
Interest	(36,797)	(22,222)	(282)	23,287	(36,014)
Other income, net	58,259	1,858	1,767	(58,128)	3,756
Income (loss) before equity in losses of subsidiaries and income taxes	37,065	(14,133)	(1,799)		21,133
Equity in losses of subsidiaries	(11,800)	(2,083)		13,883	
Income (loss) before income taxes	25,265	(16,216)	(1,799)	13,883	21,133
Income tax provision (benefit)	10,934	(4,160)	(473)		6,301
Net income (loss)	14,331	(12,056)	(1,326)	13,883	14,832
Less: Net income (loss) attributable to noncontrolling interests		562	(61)		