

RELIANCE STEEL & ALUMINUM CO

Form 10-Q

November 06, 2009

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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 September 30, 2009

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)

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
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

As of October 31, 2009, 73,549,671 shares of the registrant's common stock, no par value, were outstanding.

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

| | September 30, 2009 | December 31, 2008 |
|---|-----------------------------------|----------------------------------|
| | (Unaudited) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 87,864 | \$ 51,995 |
| Accounts receivable, less allowance for doubtful accounts of \$21,254 at September 30, 2009 and \$22,018 at December 31, 2008 | 588,293 | 851,214 |
| Inventories | 792,119 | 1,284,468 |
| Prepaid expenses and other current assets | 27,367 | 33,782 |
| Income taxes receivable | | 9,980 |
| Deferred income taxes | 80,540 | 70,933 |
| Total current assets | 1,576,183 | 2,302,372 |
| Property, plant and equipment: | | |
| Land | 131,115 | 125,096 |
| Buildings | 530,967 | 506,781 |
| Machinery and equipment | 829,785 | 810,054 |
| Accumulated depreciation | (504,183) | (443,225) |
| | 987,684 | 998,706 |
| Goodwill | 1,079,127 | 1,065,527 |
| Intangible assets, net | 731,694 | 741,681 |
| Cash surrender value of life insurance policies, net | 56,053 | 57,410 |
| Investments in unconsolidated entities | 20,190 | 20,605 |
| Other assets | 13,411 | 9,184 |
| Total assets | \$ 4,464,342 | \$ 5,195,485 |

LIABILITIES AND EQUITY

| | | |
|---|----------------|----------------|
| Current liabilities: | | |
| Accounts payable | \$ 221,774 | \$ 248,312 |
| Accrued expenses | 59,842 | 59,982 |
| Deferred revenue | 48,785 | 82,949 |
| Accrued compensation and retirement costs | 61,459 | 123,707 |
| Accrued insurance costs | 40,006 | 40,700 |
| Income taxes payable | 7,930 | |
| Current maturities of long-term debt | 7,825 | 93,877 |
| Current maturities of capital lease obligations | 655 | 638 |
| Total current liabilities | 448,276 | 650,165 |

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| | | |
|--|--------------|--------------|
| Long-term debt | 1,062,339 | 1,671,732 |
| Capital lease obligations | 3,350 | 3,833 |
| Long-term retirement costs and other long-term liabilities | 109,124 | 94,361 |
| Deferred income taxes | 339,014 | 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 73,489,071 at September 30, 2009 and 73,312,714 at December 31, 2008, stated capital | 577,107 | 563,092 |
| Retained earnings | 1,934,732 | 1,900,360 |
| Accumulated other comprehensive loss | (11,827) | (32,016) |
| Total Reliance shareholders' equity | 2,500,012 | 2,431,436 |
| Noncontrolling interests | 2,227 | 3,632 |
| Total equity | 2,502,239 | 2,435,068 |
| Total liabilities and equity | \$ 4,464,342 | \$ 5,195,485 |

See accompanying notes to unaudited consolidated financial statements.

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

| | Three Months Ended | |
|--|---------------------------|--------------|
| | September 30, | |
| | 2009 | 2008 |
| Net sales | \$ 1,243,373 | \$ 2,572,836 |
| Costs and expenses: | | |
| Cost of sales (exclusive of depreciation and amortization shown below) | 886,904 | 1,948,788 |
| Warehouse, delivery, selling, general and administrative | 251,761 | 327,822 |
| Depreciation and amortization | 30,425 | 27,010 |
| | 1,169,090 | 2,303,620 |
| Operating income | 74,283 | 269,216 |
| Other income (expense): | | |
| Interest | (15,916) | (23,899) |
| Other income (expense), net | 3,144 | (68) |
| Income before income taxes | 61,511 | 245,249 |
| Income tax provision | 19,434 | 92,127 |
| Net income | 42,077 | 153,122 |
| Less: Net income attributable to the noncontrolling interests | 320 | 624 |
| Net income attributable to Reliance | \$ 41,757 | \$ 152,498 |
| Earnings per share: | | |
| Net income per share attributable to Reliance shareholders diluted | \$.57 | \$ 2.07 |
| Weighted average shares outstanding diluted | 73,784,086 | 73,775,991 |
| Net income per share attributable to Reliance shareholders basic | \$.57 | \$ 2.08 |
| Weighted average shares outstanding basic | 73,478,197 | 73,238,881 |
| Cash dividends per share | \$.10 | \$.10 |

See accompanying notes to unaudited consolidated financial statements.

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

| | Nine Months Ended | |
|--|--------------------------|--------------|
| | September 30, | |
| | 2009 | 2008 |
| Net sales | \$ 4,044,886 | \$ 6,576,074 |
| Costs and expenses: | | |
| Cost of sales (exclusive of depreciation and amortization shown below) | 3,051,090 | 4,872,813 |
| Warehouse, delivery, selling, general and administrative | 776,270 | 907,024 |
| Depreciation and amortization | 89,852 | 69,820 |
| | 3,917,212 | 5,849,657 |
| Operating income | 127,674 | 726,417 |
| Other income (expense): | | |
| Interest | (51,930) | (56,673) |
| Other income (expense), net | 6,900 | (954) |
| Income before income taxes | 82,644 | 668,790 |
| Income tax provision | 25,735 | 251,605 |
| Net income | 56,909 | 417,185 |
| Less: Net income attributable to the noncontrolling interests | 821 | 696 |
| Net income attributable to Reliance | \$ 56,088 | \$ 416,489 |
| Earnings per share: | | |
| Net income per share attributable to Reliance shareholders diluted | \$.76 | \$ 5.65 |
| Weighted average shares outstanding diluted | 73,623,714 | 73,686,248 |
| Net income per share attributable to Reliance shareholders basic | \$.76 | \$ 5.70 |
| Weighted average shares outstanding basic | 73,391,043 | 73,038,140 |
| Cash dividends per share | \$.30 | \$.30 |

See accompanying notes to unaudited consolidated financial statements.

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

| | Nine Months Ended | |
|---|--------------------------|-------------|
| | September 30, | |
| | 2009 | 2008 |
| Operating activities: | | |
| Net income | \$ 56,909 | \$ 417,185 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization expense | 89,852 | 69,820 |
| Deferred income tax benefit | (14,120) | (4,057) |
| Loss on sales of property, plant and equipment | 62 | 2,212 |
| Equity in earnings of unconsolidated entities | (705) | (396) |
| Dividends received from unconsolidated entities | 1,120 | |
| Stock based compensation expense | 11,456 | 10,621 |
| Excess tax benefits from stock based compensation | (303) | (9,381) |
| Net (gain) loss from life insurance policies | (5,219) | 1,733 |
| Changes in operating assets and liabilities (excluding effect of businesses acquired): | | |
| Accounts receivable | 266,537 | (230,160) |
| Inventories | 497,000 | (294,160) |
| Prepaid expenses and other assets | 18,464 | 15,388 |
| Accounts payable and other liabilities | (113,849) | 136,582 |
| Net cash provided by operating activities | 807,204 | 115,387 |
| Investing activities: | | |
| Purchases of property, plant and equipment | (55,044) | (119,546) |
| Acquisitions of metals service centers and net asset purchases of metals service centers, net of cash acquired and debt assumed | | (329,402) |
| Tax distributions made related to prior acquisitions | | (1,155) |
| Proceeds from sales of property, plant and equipment | 1,173 | 18,917 |
| Net proceeds from redemptions of life insurance policies | 6,576 | 2,532 |
| Net investment in life insurance policies | | (96) |
| Net cash used in investing activities | (47,295) | (428,750) |
| Financing activities: | | |
| Proceeds from borrowings | 354,755 | 1,633,897 |
| Principal payments on long-term debt and short-term borrowings | (1,051,279) | (1,239,310) |
| Debt issuance costs | (6,841) | (3,313) |
| Dividends paid | (22,019) | (21,899) |
| Payments to noncontrolling interest holders | (1,323) | |
| Excess tax benefits from stock based compensation | 303 | 9,381 |
| Exercise of stock options | 4,059 | 17,081 |
| Issuance of common stock | 258 | 284 |
| Noncontrolling interests purchased | (2,661) | |
| Common stock repurchases | | (114,774) |

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| | | |
|---|-----------|------------|
| Net cash (used in) provided by financing activities | (724,748) | 281,347 |
| Effect of exchange rate changes on cash | 708 | (1,325) |
| Increase (decrease) in cash and cash equivalents | 35,869 | (33,341) |
| Cash and cash equivalents at beginning of period | 51,995 | 77,023 |
| Cash and cash equivalents at end of period | \$ 87,864 | \$ 43,682 |
| Supplemental cash flow information: | | |
| Interest paid during the period | \$ 46,832 | \$ 38,339 |
| Income taxes paid during the period | \$ 28,260 | \$ 184,443 |

See accompanying notes to unaudited consolidated financial statements.

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**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 nine months ended September 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 Guidance

Accounting Guidance Already Adopted

On September 30, 2009, the Company adopted changes issued by the Financial Accounting Standards Board (FASB) to the authoritative hierarchy of Generally Accepted Accounting Principles (GAAP). These changes establish the FASB Accounting Standards Codification (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The FASB will no longer issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead the FASB will issue Accounting Standards Updates. Accounting Standards Updates will not be authoritative in their own right as they will only serve to update the Codification. These changes and the Codification itself do not change GAAP. Other than the manner in which new accounting guidance is referenced, the adoption of these changes had no impact on the Company s financial statements.

Fair Value Accounting On January 1, 2008, the Company adopted changes issued by the FASB to fair value accounting and reporting as it relates to financial assets and financial liabilities that are recognized or disclosed at fair value in the financial statements on at least an annual basis. These changes defined fair value, established a framework for measuring fair value in generally accepted accounting principles and expanded disclosures about fair value measurements. Accordingly, these changes were not applied to goodwill and other intangible assets held by the Company and measured annually for impairment testing purposes only. The adoption of these changes 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.

On January 1, 2009, the Company adopted changes issued by the FASB to fair value accounting and reporting as it relates to non-financial assets and non-financial liabilities that are not recognized or disclosed at fair value in the financial statements on at least an annual basis. The adoption of these changes did not have a material effect on the Company s financial position, results of operations or cash flows.

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

Business Combinations On January 1, 2009, the Company adopted changes issued by the FASB for accounting for business combinations. In accordance with the new guidance, 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. This new guidance 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 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 the new guidance would also apply the provisions of the new guidance. All other new guidance in this area will only impact the Company if it is a party to a business combination after the new guidance has been adopted. The adoption of these changes did not have a material impact on the Company's financial position, results of operations or cash flows.

Consolidation Accounting On January 1, 2009, the Company adopted changes issued by the FASB to consolidation accounting and reporting. These changes establish new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. In accordance with the new guidance, the Company classified noncontrolling interests as equity on its consolidated balance sheets as of September 30, 2009 and December 31, 2008 and presented net income attributable to noncontrolling interests separately on the consolidated statements of operations for the three and nine months ended September 30, 2009 and 2008, respectively.

Other On June 30, 2009 the Company adopted changes issued by the FASB for subsequent events. These changes set 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. The adoption of these changes did not have a material impact on the Company's financial position, results of operations or cash flows.

Accounting Guidance Not Yet Adopted

In December 2008, the FASB issued changes to 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. These changes will apply to the Company's plan asset disclosures for the fiscal year ending December 31, 2009.

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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 certain 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 nine months ended September 30, 2009 were approximately \$1.9 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 a 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 nine months ended September 30, 2009 were approximately \$797.5 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 | 237,010 |
| 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 | 1,633,420 |
| Current and long-term debt | (780,043) |
| Deferred income taxes | (129,025) |
| Other current and long-term liabilities | (400,372) |
| Total liabilities assumed | (1,309,440) |
| Net assets acquired | \$ 323,980 |

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RELIANCE STEEL & ALUMINUM CO.
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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 nine months ended September 30, 2009 were approximately \$7.4 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 their 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 September 30, 2008 (In thousands, except per share amounts) | Nine Months Ended September 30, 2008 (In thousands, except per share amounts) |
|-------------------------------------|---|--|
| Pro forma (unaudited): | | |
| Net sales | \$ 2,811,107 | \$ 7,925,311 |
| Net income attributable to Reliance | \$ 170,337 | \$ 493,099 |
| Earnings per share diluted | \$ 2.31 | \$ 6.69 |
| Earnings per share basic | \$ 2.33 | \$ 6.75 |

4. Goodwill

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

| | (In thousands) |
|--|-----------------------|
| Balance as of December 31, 2008 | \$ 1,065,527 |
| Purchase price allocation adjustments | 9,193 |
| Effect of foreign currency translation | 4,407 |
| Balance as of September 30, 2009 | \$ 1,079,127 |

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

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

5. Intangible Assets, net

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

| | September 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 | \$ (6,510) | \$ 6,853 | \$ (6,363) |
| Loan fees | 23,868 | (9,725) | 19,460 | (8,759) |
| Customer lists/relationships | 343,722 | (52,642) | 339,518 | (34,231) |
| Software - internal use | 8,100 | (2,835) | 8,100 | (2,228) |
| Other | 4,928 | (1,163) | 5,146 | (1,036) |
| | 387,471 | (72,875) | 379,077 | (52,617) |
| Intangible assets not subject to amortization: | | | | |
| Trade names | 417,098 | | 415,221 | |
| | \$ 804,569 | \$ (72,875) | \$ 794,298 | \$ (52,617) |

The Company recognized amortization expense for intangible assets of approximately \$22.6 million and \$12.5 million for the nine months ended September 30, 2009 and 2008, respectively. Based on the current amount of intangibles subject to amortization, the estimated amortization expense for the remaining three months of 2009 and each of the succeeding five years is as follows:

| | (In thousands) |
|------|----------------|
| 2009 | \$ 7,261 |
| 2010 | 29,126 |
| 2011 | 28,653 |
| 2012 | 27,307 |
| 2013 | 25,256 |
| 2014 | 23,155 |

6. Income Taxes

The Company's effective tax rates for the nine months ended September 30, 2009 and 2008 were 31.1% and 37.6%, 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, these same types of permanent items had a much greater favorable impact on the 2009 effective tax rate due to the Company's lower income levels in 2009 compared to 2008.

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

7. Long-Term Debt

Long-term debt consists of the following:

| | September 30, 2009 | December 31, 2008 |
|--|-----------------------------------|----------------------------------|
| | (In thousands) | |
| Unsecured revolving credit facility due November 9, 2012 | \$ 231,818 | \$ |
| Unsecured revolving credit facility due November 9, 2011 | 18,182 | 453,000 |
| Senior unsecured term loan repaid September 28, 2009 | | 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 | 9,124 | 10,427 |
| Total | 1,072,124 | 1,767,677 |
| Less unamortized discount | (1,960) | (2,068) |
| Less amounts due within one year | (7,825) | (93,877) |
| Total long-term debt | \$ 1,062,339 | \$ 1,671,732 |

Unsecured Revolving Credit Facility

The Company's \$1.1 billion unsecured revolving credit facility has fifteen 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 and restrictions were placed on certain uses of cash until June 30, 2010 for acquisitions, dividends, investments, and stock repurchases. Also, with the amendment, the Company extended the maturity date of \$1.02 billion in commitments for extending lenders through November 9, 2012, while the maturity date of \$80.0 million in commitments for 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 September 30, 2009. Interest on borrowings from non-extending lenders is at variable rates based on LIBOR plus 0.55% or the bank prime rate as of September 30, 2009. The revolving credit facility includes a commitment fee on the unused portion, at an annual rate of 0.40% and 0.125% for extending and non-extending lenders, respectively, as of September 30, 2009. The applicable margin over LIBOR rate and base rate borrowings along with commitment fees are subject to adjustment every quarter prospectively based on the Company's leverage ratio.

Weighted average rates on borrowings outstanding on the revolving credit facility were 3.53% and 2.67% at September 30, 2009 and December 31, 2008, respectively. Weighted average interest rates on the revolving credit facility were 3.53% and 3.07% during the three months ended September 30, 2009 and 2008, respectively, and 1.92% and 3.34% during the nine months ended September 30, 2009 and 2008, respectively.

At September 30, 2009, the Company had \$48.6 million of letters of credit outstanding under the revolving credit facility with availability to issue an additional \$76.4 million of letters of credit.

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 September 30, 2009 and December 31, 2008. Various other separate revolving credit facilities with combined credit limit of approximately \$23.0 million are in place for operations in: a) Asia with outstanding balances of \$4.0 million and

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\$1.6 million at September 30, 2009 and December 31, 2008, respectively, and b) the United Kingdom with outstanding balances of \$2.8 million and \$5.8 million at September 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 initially carried interest at variable rates based on LIBOR plus 2.25% and required 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. Concurrent with the Company's amendment of its syndicated credit facility on September 28, 2009, the term loan was paid off and terminated. Weighted average interest rates on the term loan were 2.29% and 5.38% during the three months ended September 30, 2009 and 2008, respectively, and 2.93% and 5.38% during the nine months ended September 30, 2009 and 2008, 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 2.2 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 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 September 30, 2009 was approximately 3.3 times compared to the debt covenant minimum requirement of 2.0 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 and plus or minus any non-operating non-recurring loss or gain, respectively, divided by interest expense). The Company's leverage ratio at September 30, 2009 calculated in accordance with the terms of the revolving credit facility was 31.0% compared to the financial covenant maximum amount of 50% (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). Beginning June 30, 2010, the minimum interest coverage ratio and maximum leverage ratio requirements adjust back to the pre-amendment levels of 3.0 times and 60%, respectively. The minimum net worth requirement at September 30, 2009 was \$913.6 million compared to Reliance shareholders' equity balance of \$2.5 billion at September 30, 2009.

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 also guaranteed the borrowings under the term loan prior to its repayment and termination. The subsidiary guarantors, together with Reliance, are required collectively to account for at least 80% of the Company's consolidated EBITDA (EBITDA is calculated as net income attributable to Reliance plus interest, income tax, depreciation and amortization expense and all other non-cash expenses, plus cash dividends received

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from 50% or less owned companies, plus EBITDA from acquired businesses, less equity in earnings in 50% or less owned companies and plus or minus any non-operating non-recurring loss or gain, respectively) and 80% of consolidated tangible assets. Reliance and the subsidiary guarantors accounted for approximately 99% of our total consolidated EBITDA for the last twelve months and approximately 94% of total consolidated tangible assets as of September 30, 2009. The Company was in compliance with all debt covenants at September 30, 2009.

8. Reliance Shareholders Equity

Common Stock

During the nine months ended September 30, 2009, the Company issued 165,997 shares of common stock in connection with the exercise of stock options for total proceeds of approximately \$4.1 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 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 4.75 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 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 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 September 30, 2009. No shares were repurchased in the nine months ended September 30, 2009. During the nine months ended September 30, 2008, the Company repurchased 2,443,500 shares of its common stock at an average cost of \$46.97 per share. Pursuant to the September 2009 revolving credit facility amendment, restrictions were put in place on share repurchases through June 30, 2010.

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Other Comprehensive Income (Loss)

Other comprehensive income (loss) included the following:

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------------|-------------|--------------------------|-------------|
| | September 30, | | September 30, | |
| | 2009 | 2008 | 2009 | 2008 |
| | (In thousands) | | | |
| Net income | \$ 42,077 | \$ 153,122 | \$ 56,909 | \$ 417,185 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation gain (loss) | 10,689 | (7,414) | 19,848 | (13,985) |
| Unrealized gain (loss) on investments, net of tax | 131 | (502) | 371 | (508) |
| Minimum pension liability, net of tax | 1 | (17) | (30) | (17) |
| Total other comprehensive gain (loss) | 10,821 | (7,933) | 20,189 | (14,510) |
| Comprehensive income attributable to the noncontrolling interests | (320) | (624) | (821) | (696) |
| Comprehensive income attributable to Reliance | \$ 52,578 | \$ 144,565 | \$ 76,277 | \$ 401,979 |

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss included the following:

| | September | December |
|--|-----------------------|-----------------|
| | 30, | 31, |
| | 2009 | 2008 |
| | (In thousands) | |
| Foreign currency translation gain (loss) | \$ 4,626 | \$ (15,222) |
| Unrealized loss on investments, net of tax | (601) | (972) |
| Minimum pension liability, net of tax | (15,852) | (15,822) |
| Total accumulated other comprehensive loss | \$ (11,827) | \$ (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 \$0.4 million and \$9.8 million, respectively, as of September 30, 2009 and \$0.5 million and \$9.8 million, respectively, as of December 31, 2008.

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9. 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 per share:

| | Three Months Ended | | Nine Months Ended | |
|--|---|-------------|--------------------------|-------------|
| | September 30, | | September 30, | |
| | 2009 | 2008 | 2009 | 2008 |
| | (In thousands, except share and per share amounts) | | | |
| Numerator: | | | | |
| Net income attributable to Reliance | \$ 41,757 | \$ 152,498 | \$ 56,088 | \$ 416,489 |
| Denominator: | | | | |
| Denominator for basic earnings per share: | | | | |
| Weighted average shares | 73,478 | 73,239 | 73,391 | 73,038 |
| Effect of dilutive securities: | | | | |
| Stock options | 306 | 537 | 233 | 648 |
| Denominator for dilutive earnings per share: | | | | |
| Adjusted weighted average shares and assumed conversions | 73,784 | 73,776 | 73,624 | 73,686 |
| Net income per share attributable to Reliance | | | | |
| shareholders diluted | \$.57 | \$ 2.07 | \$.76 | \$ 5.65 |
| Net income per share attributable to Reliance | | | | |
| shareholders basic | \$.57 | \$ 2.08 | \$.76 | \$ 5.70 |

The computations of earnings per share for the three and nine months ended September 30, 2009 do not include 3,032,425 and 3,122,897 weighted average shares reserved for issuance upon exercise of stock options, respectively, because their inclusion would have been anti-dilutive. For the three and nine months ended September 30, 2008 the computations of earnings per share exclude 1,436,875 and 1,329,082 weighted average shares reserved for issuance upon exercise of stock options, respectively, because their inclusion would have also 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

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condensed consolidating financial statements. In accordance with SEC rules, prior period amounts were retroactively restated for this change in the guarantors.

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

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---------------|-----------------------------------|---------------------------------------|---------------------|---------------------|
| Assets | | | | | |
| Cash and cash equivalents | \$ 56,795 | \$ 9,452 | \$ 21,617 | \$ | \$ 87,864 |
| Accounts receivable, less allowance for doubtful accounts | 53,010 | 502,457 | 32,826 | | 588,293 |
| Inventories | 24,100 | 711,521 | 56,498 | | 792,119 |
| Intercompany receivables | 7,159 | 11,272 | 331 | (18,762) | |
| Prepaid expenses and other current assets | 77,852 | 26,389 | 3,666 | | 107,907 |
| Total current assets | 218,916 | 1,261,091 | 114,938 | (18,762) | 1,576,183 |
| Investments in subsidiaries | 2,083,909 | 155,039 | 612 | (2,239,560) | |
| Property, plant and equipment | 89,844 | 852,639 | 45,201 | | 987,684 |
| Goodwill | 22,934 | 1,002,613 | 53,580 | | 1,079,127 |
| Intangible assets, net | 14,143 | 662,484 | 55,067 | | 731,694 |
| Intercompany receivables | 1,330,188 | | | (1,330,188) | |
| Other assets | 3,154 | 85,416 | 1,084 | | 89,654 |
| Total assets | \$ 3,763,088 | \$ 4,019,282 | \$ 270,482 | \$ (3,588,510) | \$ 4,464,342 |
| Liabilities & Equity | | | | | |
| Accounts payable | \$ 16,517 | \$ 210,163 | \$ 13,856 | \$ (18,762) | \$ 221,774 |
| Accrued compensation and retirement costs | 9,201 | 48,843 | 3,415 | | 61,459 |
| Other current liabilities | (6,430) | 160,979 | 2,014 | | 156,563 |
| Current maturities of long-term debt | 250 | 725 | 6,850 | | 7,825 |
| Current maturities of capital lease obligations | | 627 | 28 | | 655 |
| Total current liabilities | 19,538 | 421,337 | 26,163 | (18,762) | 448,276 |
| Long-term debt | 1,062,183 | 156 | | | 1,062,339 |
| Intercompany borrowings | | 1,304,627 | 25,561 | (1,330,188) | |
| Deferred taxes and other long-term liabilities | 181,355 | 267,331 | 2,802 | | 451,488 |
| | 2,500,012 | 2,024,373 | 215,187 | (2,239,560) | 2,500,012 |

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| | | | | | |
|------------------------------------|--------------|--------------|------------|----------------|--------------|
| Total Reliance shareholders equity | | | | | |
| Noncontrolling interests | | 1,458 | 769 | | 2,227 |
| Total equity | 2,500,012 | 2,025,831 | 215,956 | (2,239,560) | 2,502,239 |
| Total liabilities and equity | \$ 3,763,088 | \$ 4,019,282 | \$ 270,482 | \$ (3,588,510) | \$ 4,464,342 |

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RELIANCE STEEL & ALUMINUM CO.
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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 |

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| | | | | | |
|------------------------------|--------------|--------------|------------|----------------|--------------|
| 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 |

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

| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---------------|-----------------------------------|--|---------------------|---------------------|
| Net sales | \$ 121,561 | \$ 1,103,210 | \$ 50,436 | \$ (31,834) | \$ 1,243,373 |
| Costs and expenses: | | | | | |
| Cost of sales (exclusive of depreciation and amortization shown below) | 85,999 | 794,481 | 38,279 | (31,855) | 886,904 |
| Warehouse, delivery, selling, general and administrative | 21,113 | 231,651 | 13,064 | (14,067) | 251,761 |
| Depreciation and amortization | 4,289 | 24,969 | 1,167 | | 30,425 |
| | 111,401 | 1,051,101 | 52,510 | (45,922) | 1,169,090 |
| Operating income (loss) | 10,160 | 52,109 | (2,074) | 14,088 | 74,283 |
| Other income (expense): | | | | | |
| Interest | (16,022) | (8,632) | (125) | 8,863 | (15,916) |
| Other income, net | 23,221 | 1,843 | 1,031 | (22,951) | 3,144 |
| Income (loss) before equity in earnings (losses) of subsidiaries and income taxes | 17,359 | 45,320 | (1,168) | | 61,511 |
| Equity in earnings (losses) of subsidiaries | 19,883 | (580) | | (19,303) | |
| Income (loss) before income taxes | 37,242 | 44,740 | (1,168) | (19,303) | 61,511 |
| (Benefit) provision for income taxes | (4,515) | 25,107 | (1,158) | | 19,434 |
| Net income (loss) | 41,757 | 19,633 | (10) | (19,303) | 42,077 |
| Less: Net income attributable to the noncontrolling interests | | 301 | 19 | | 320 |
| Net income (loss) attributable to Reliance | \$ 41,757 | \$ 19,332 | \$ (29) | \$ (19,303) | \$ 41,757 |

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

| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Consolidated |
|--|---------------|-----------------------------------|--|---------------------|---------------------|
|--|---------------|-----------------------------------|--|---------------------|---------------------|

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| | | | | | |
|--|------------|--------------|------------|--------------|--------------|
| Net sales | \$ 235,775 | \$ 2,259,175 | \$ 103,077 | \$ (25,191) | \$ 2,572,836 |
| Costs and expenses: | | | | | |
| Cost of sales (exclusive of depreciation and amortization shown below) | 178,611 | 1,723,796 | 71,594 | (25,213) | 1,948,788 |
| Warehouse, delivery, selling, general and administrative | (51,922) | 394,927 | 19,404 | (34,587) | 327,822 |
| Depreciation and amortization | 2,600 | 23,294 | 1,116 | | 27,010 |
| | 129,289 | 2,142,017 | 92,114 | (59,800) | 2,303,620 |
| Operating income | 106,486 | 117,158 | 10,963 | 34,609 | 269,216 |
| Other income (expense): | | | | | |
| Interest | (24,706) | (5,556) | (350) | 6,713 | (23,899) |
| Other income (expense), net | 46,307 | (3,270) | (1,783) | (41,322) | (68) |
| Income before equity in earnings of subsidiaries and income taxes | 128,087 | 108,332 | 8,830 | | 245,249 |
| Equity in earnings of subsidiaries | 141,443 | 2,443 | | (143,886) | |
| Income before income taxes | 269,530 | 110,775 | 8,830 | (143,886) | 245,249 |
| Provision (benefit) for income taxes | 117,032 | (27,749) | 2,844 | | 92,127 |
| Net income | 152,498 | 138,524 | 5,986 | (143,886) | 153,122 |
| Less: Net income attributable to the noncontrolling interests | | 554 | 70 | | 624 |
| Net income attributable to Reliance | \$ 152,498 | \$ 137,970 | \$ 5,916 | \$ (143,886) | \$ 152,498 |

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

| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Consolidated |
|--|---------------|-----------------------------------|--|---------------------|---------------------|
| Net sales | \$ 381,585 | \$ 3,606,808 | \$ 157,791 | \$ (101,298) | \$ 4,044,886 |
| Costs and expenses: | | | | | |
| Cost of sales (exclusive of depreciation and amortization shown below) | 275,181 | 2,757,160 | 120,109 | (101,360) | 3,051,090 |
| Warehouse, delivery, selling, general and administrative | 70,714 | 714,718 | 39,705 | (48,867) | 776,270 |
| Depreciation and amortization | 9,927 | 76,590 | 3,335 | | 89,852 |
| | 355,822 | 3,548,468 | 163,149 | (150,227) | 3,917,212 |
| Operating income (loss) | 25,763 | 58,340 | (5,358) | 48,929 | 127,674 |
| Other income (expense): | | | | | |
| Interest | (52,819) | (30,854) | (407) | 32,150 | (51,930) |
| Other income, net | 81,480 | 3,701 | 2,798 | (81,079) | 6,900 |
| Income (loss) before equity in losses of subsidiaries and income taxes | 54,424 | 31,187 | (2,967) | | 82,644 |
| Equity in losses of subsidiaries | (12,371) | (2,663) | | 15,034 | |
| Income (loss) before income taxes | 42,053 | 28,524 | (2,967) | 15,034 | 82,644 |
| (Benefit) provision for income taxes | (14,035) | 41,401 | (1,631) | | 25,735 |
| Net income (loss) | 56,088 | (12,877) | (1,336) | 15,034 | 56,909 |
| Less: Net income (loss) attributable to the noncontrolling interests | | 863 | (42) | | 821 |
| Net income (loss) attributable to Reliance | \$ 56,088 | \$ (13,740) | \$ (1,294) | \$ 15,034 | \$ 56,088 |

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

| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Consolidated |
|--|---------------|-----------------------------------|--|---------------------|---------------------|
|--|---------------|-----------------------------------|--|---------------------|---------------------|

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| | | | | | |
|--|------------|--------------|------------|--------------|--------------|
| Net sales | \$ 690,203 | \$ 5,634,183 | \$ 316,127 | \$ (64,439) | \$ 6,576,074 |
| Costs and expenses: | | | | | |
| Cost of sales (exclusive of depreciation and amortization shown below) | 510,070 | 4,202,625 | 224,619 | (64,501) | 4,872,813 |
| Warehouse, delivery, selling, general and administrative | (93,639) | 1,041,163 | 58,496 | (98,996) | 907,024 |
| Depreciation and amortization | 7,480 | 59,035 | 3,305 | | 69,820 |
| | 423,911 | 5,302,823 | 286,420 | (163,497) | 5,849,657 |
| Operating income | 266,292 | 331,360 | 29,707 | 99,058 | 726,417 |
| Other income (expense): | | | | | |
| Interest | (59,357) | (9,891) | (1,433) | 14,008 | (56,673) |
| Other income (expense), net | 117,376 | (2,730) | (2,534) | (113,066) | (954) |
| Income before equity in earnings of subsidiaries and income taxes | 324,311 | 318,739 | 25,740 | | 668,790 |
| Equity in earnings of subsidiaries | 216,571 | 6,519 | | (223,090) | |
| Income before income taxes | 540,882 | 325,258 | 25,740 | (223,090) | 668,790 |
| Provision for income taxes | 124,393 | 118,891 | 8,321 | | 251,605 |
| Net income | 416,489 | 206,367 | 17,419 | (223,090) | 417,185 |
| Less: Net income attributable to the noncontrolling interests | | 554 | 142 | | 696 |
| Net income attributable to Reliance | \$ 416,489 | \$ 205,813 | \$ 17,277 | \$ (223,090) | \$ 416,489 |

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

Condensed Unaudited Consolidating Cash Flow Statement (In thousands)
For the nine months ended September 30, 2009

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|-----------|---------------------------|-------------------------------|--------------|--------------|
| Operating activities: | | | | | |
| Net income (loss) | \$ 56,088 | \$ (12,877) | \$ (1,336) | \$ 15,034 | \$ 56,909 |
| Equity in losses of subsidiaries | 12,371 | 2,663 | | (15,034) | |
| Adjustments to reconcile net income (loss) to cash provided by operating activities | 128 | 732,103 | 18,064 | | 750,295 |
| Cash provided by operating activities | 68,587 | 721,889 | 16,728 | | 807,204 |
| Investing activities: | | | | | |
| Purchases of property, plant and equipment | (3,932) | (45,729) | (5,383) | | (55,044) |
| Net advances from subsidiaries | 689,541 | | | (689,541) | |
| Other investing activities, net | 77 | 7,450 | 222 | | 7,749 |
| Cash provided by (used in) investing activities | 685,686 | (38,279) | (5,161) | (689,541) | (47,295) |
| Financing activities: | | | | | |
| Net repayments of debt | (694,501) | (916) | (1,107) | | (696,524) |
| Dividends paid | (22,019) | | | | (22,019) |
| Net intercompany (repayments) borrowings | | (691,120) | 1,579 | 689,541 | |
| Other financing activities, net | (2,221) | (1,323) | (2,661) | | (6,205) |
| Cash used in financing activities | (718,741) | (693,359) | (2,189) | 689,541 | (724,748) |
| Effect of exchange rate changes on cash and cash equivalents | | | 708 | | 708 |
| Increase (decrease) in cash and cash equivalents | 35,532 | (9,749) | 10,086 | | 35,869 |
| Cash and cash equivalents at beginning of period | 21,263 | 19,201 | 11,531 | | 51,995 |
| Cash and cash equivalents at end of period | \$ 56,795 | \$ 9,452 | \$ 21,617 | \$ | \$ 87,864 |

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

Condensed Unaudited Consolidating Cash Flow Statement (In thousands)
For the nine months ended September 30, 2008

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|--|------------|---------------------------|-------------------------------|--------------|--------------|
| Operating activities: | | | | | |
| Net income | \$ 416,489 | \$ 206,367 | \$ 17,419 | \$ (223,090) | \$ 417,185 |
| Equity in earnings of subsidiaries | (216,571) | (6,519) | | 223,090 | |
| Adjustments to reconcile net income to cash provided by (used in) operating activities | 110,155 | (412,069) | 116 | | (301,798) |
| Cash provided by (used in) operating activities | 310,073 | (212,221) | 17,535 | | 115,387 |
| Investing activities: | | | | | |
| Purchases of property, plant and equipment | (12,387) | (102,325) | (4,834) | | (119,546) |
| Acquisitions of metals service centers and net asset purchases of metals service centers, net of cash acquired | (316,152) | (13,250) | | | (329,402) |
| Net advances to subsidiaries | (267,922) | | | 267,922 | |
| Other investing activities, net | 1,056 | 3,027 | 16,115 | | 20,198 |
| Cash (used in) provided by investing activities | (595,405) | (112,548) | 11,281 | 267,922 | (428,750) |
| Financing activities: | | | | | |
| Net borrowings (repayments) of debt | 396,638 | (1,460) | (591) | | 394,587 |
| Dividends paid | (21,899) | | | | (21,899) |
| Net intercompany borrowings (repayments) | | 299,408 | (31,486) | (267,922) | |
| Other financing activities, net | 23,433 | | | | 23,433 |
| Common stock repurchases | (114,774) | | | | (114,774) |
| Cash provided by (used in) financing activities | 283,398 | 297,948 | (32,077) | (267,922) | 281,347 |
| Effect of exchange rate changes on cash and cash equivalents | | | (1,325) | | (1,325) |
| Decrease in cash and cash equivalents | (1,934) | (26,821) | (4,586) | | (33,341) |
| | 35,369 | 23,527 | 18,127 | | 77,023 |

Cash and cash equivalents at
beginning of period

Cash and cash equivalents at end
of period

| | | | | |
|-----------|------------|-----------|----|-----------|
| \$ 33,435 | \$ (3,294) | \$ 13,541 | \$ | \$ 43,682 |
|-----------|------------|-----------|----|-----------|

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RELIANCE STEEL & ALUMINUM CO.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
2008 Acquisitions

Acquisition of HLN Metal Centre Pte. Ltd.

On September 17, 2008, through our newly-formed Singapore company Reliance Metalcenter Asia Pacific, Pte, Ltd. (RMAP), we acquired certain 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. We entered this market primarily to support existing customers that moved to or expanded their operations in Asia. Net sales of RMAP during the nine months ended September 30, 2009 were approximately \$1.9 million.

Acquisition of PNA Group Holding Corporation

On August 1, 2008, we 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. We 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. We funded the acquisition with proceeds from our new \$500 million senior unsecured term loan and borrowings under our existing \$1.1 billion syndicated 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 nine months ended September 30, 2009 were approximately \$797.5 million and net sales for the two-month period from the acquisition date through September 30, 2008 were approximately \$421.5 million.

Acquisition of Dynamic Metals International LLC

Effective April 1, 2008, through our subsidiary Service Steel Aerospace Corp., we 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. This strategic acquisition expands Reliance's existing Service Steel Aerospace specialty product offerings in the Northeastern area of the U.S. The all cash purchase price was funded with borrowings on our revolving credit facility. Dynamic's net sales for the nine months ended September 30, 2009 were approximately \$7.4 million.

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The following table sets forth certain income statement data for the three- and nine-month periods ended September 30, 2009 and 2008 (dollars are shown in thousands and certain amounts may not calculate due to rounding):

| | Three Months Ended September 30, 2009 | | 2008 | | Nine Months Ended September 30, 2009 | | 2008 | |
|---|--|----------------------|--------------|----------------------|---|----------------------|--------------|----------------------|
| | \$ | % of Net Sales | \$ | % of Net Sales | \$ | % of Net Sales | \$ | % of Net Sales |
| Net Sales | \$ 1,243,373 | 100.0% | \$ 2,572,836 | 100.0% | \$ 4,044,886 | 100.0% | \$ 6,576,074 | 100.0% |
| Cost of Sales (exclusive of depreciation and amortization expense shown below) | 886,904 | 71.3 | 1,948,788 | 75.7 | 3,051,090 | 75.4 | 4,872,813 | 74.1 |
| Gross Profit ⁽¹⁾ | 356,469 | 28.7 | 624,048 | 24.3 | 993,796 | 24.6 | 1,703,261 | 25.9 |
| S,G&A Expenses | 251,761 | 20.2 | 327,822 | 12.7 | 776,270 | 19.2 | 907,024 | 13.8 |
| Depreciation Expense | 21,888 | 1.8 | 20,745 | 0.8 | 67,259 | 1.7 | 57,316 | 0.9 |
| Amortization Expense | 8,537 | 0.7 | 6,265 | 0.2 | 22,593 | 0.6 | 12,504 | 0.2 |
| Operating Income | \$ 74,283 | 6.0% | \$ 269,216 | 10.5% | \$ 127,674 | 3.2% | \$ 726,417 | 11.0% |

(1) Gross Profit, calculated as Net Sales less Cost of Sales, and Gross Profit Margin, calculated as Gross Profit divided by Net Sales, are non-GAAP financial measures as they exclude depreciation and amortization expense associated with

the corresponding sales. The majority of our orders are basic distribution with no processing services performed. For the remainder of our sales orders, we perform first-stage processing which is generally not labor intensive as we are simply cutting the metal to size. Because of this, the amount of related labor and overhead, including depreciation and amortization, are not significant and are excluded from our Cost of Sales. Therefore, our Cost of Sales is primarily comprised of the cost of the material we sell. The Company uses Gross Profit and Gross Profit Margin as shown above as measures of operating performance. Gross Profit and Gross Profit Margin are important operating and

financial measures, as fluctuations in our Gross Profit Margin can have a significant impact on our earnings. Gross Profit and Gross Profit Margin, as presented, are not necessarily comparable with similarly titled measures for other companies.

Net Sales. In the three months ended September 30, 2009, our consolidated net sales decreased 51.7% to \$1.24 billion from our record quarterly sales of \$2.57 billion for the three months ended September 30, 2008. This includes a 26.4% decrease in tons sold and a 34.1% decrease in our average selling price per ton sold. (Tons sold and average selling price per ton sold amounts exclude the toll processing sales of Precision Strip, Inc. and Feralloy Corporation.)

In the nine months ended September 30, 2009, our consolidated net sales decreased 38.5% to \$4.04 billion from our record sales of \$6.58 billion for the nine months ended September 30, 2008. This includes a 12.7% decrease in tons sold and a 28.6% decrease in our average selling price per ton sold. Our sales for the three- and nine-month periods ended September 30, 2009 included \$230.4 million and \$797.5 million, respectively, from PNA that we acquired on August 1, 2008. The three- and nine- month periods ended September 30, 2008 included \$421.5 million in net sales from PNA.

Our average selling prices have declined mainly because of the significant mill price reductions for most products that we sell during 2009 compared to the 2008 periods. Prices for most carbon steel products were rising significantly during the first half of 2008 and reached record levels in July 2008. Subsequently, prices fell rapidly beginning in the 2008 fourth quarter and continued to decline through the first half of 2009. In the 2009 third quarter there were modest increases in mill prices for certain products. Since prices in the 2008 third quarter were at historical highs for most products we sell, the decline in our 2009 third quarter average selling prices from the 2008 third quarter is greater than the decline in the nine-month period. Also, a change in our product mix towards a higher proportion of carbon steel products resulting from the acquisition of PNA contributed to the reduction in our average selling price per ton for the nine-months ended September 30, 2009 compared to the same 2008 period. Carbon steel products, which typically have lower selling prices than other products that we sell, represented 56% of our 2009 nine-month sales, compared to 53% of our sales in the same period in 2008.

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Same-store sales, which exclude the sales of our 2008 acquisitions, were \$1.01 billion in the 2009 third quarter, down 53.0% from the 2008 third quarter, with a 32.9% decrease in our tons sold and a 29.5% decrease in our average selling price per ton sold. Same-store sales were \$3.24 billion in the 2009 nine-month period, down 47.3% from the 2008 nine-month period, with a 35.2% decrease in our tons sold and a 17.5% decrease in our average selling price per ton sold.

The decline in our same-store tons sold was due to the lower demand in all markets that we sell to mainly because of the global economic recession that significantly impacted our business activity beginning in November 2008. According to the Metals Service Center Institute, tons sold for the 2009 nine-month period were down approximately 41% for the metals service center industry in North America compared to the 2008 nine-month period.

Cost of Sales. In the three months ended September 30, 2009, our cost of sales decreased 54.5% to \$886.9 million compared to \$1.95 billion for the three months ended September 30, 2008. In the nine months ended September 30, 2009, our cost of sales decreased 37.4% to \$3.05 billion from \$4.87 billion for the nine months ended September 30, 2008. The decrease in cost of sales in the 2009 periods compared to 2008 is due to decreases in tons sold resulting from the global economic recession along with decreases in mill prices, which impact our cost, that began in the 2008 fourth quarter and continued to decline through the first half of 2009.

Also, our LIFO reserve adjustment, which is included in our cost of sales, resulted in a credit, or income of \$67.5 million in the 2009 third quarter compared to a charge, or expense of \$79.0 million in the 2008 third quarter. Our LIFO reserve adjustment in the 2009 nine-month period resulted in a credit, or income of \$217.5 million compared to a charge, or expense of \$136.5 million in the 2008 nine-month period.

We currently estimate our full year 2009 LIFO adjustment to be a credit, or income, of \$290.0 million mainly due to the significant reductions in carbon steel prices that will be reflected in our 2009 year-end average inventory cost compared to the 2008 year-end, as well as the significant reductions in our inventory quantities from December 31, 2008. Our LIFO reserve at September 30, 2009 and December 31, 2008 was \$170.3 million and \$387.8 million, respectively.

Gross Profit. Total gross profit decreased 42.9% to \$356.5 million for the 2009 third quarter, compared to \$624.0 million in the 2008 third quarter. Our gross profit as a percentage of sales in the 2009 third quarter was 28.7%, compared to 24.3% in the 2008 third quarter. Total gross profit decreased 41.7% to \$993.8 million for the 2009 nine-month period compared to \$1.70 billion in the 2008 nine-month period. Our gross profit as a percentage of sales in the 2009 nine-month period was 24.6% compared to 25.9% in the 2008 nine-month period.

During most of the nine-month period ended September 30, 2009, we were selling higher cost inventory into a declining price market that significantly reduced our gross profit margins. In the 2009 third quarter, we were in an environment of improving prices and we began purchasing more metal from mills at current replacement costs as our inventory levels better matched our shipment levels, resulting in improved 2009 third quarter gross profit margins. Our LIFO reserve adjustment that was income, or a credit to cost of sales in the 2009 periods compared to expense, or a charge, in the 2008 periods also impacted our gross profit margins. See *Cost of Sales* above for discussion of our LIFO reserve adjustments.

Our 2009 gross profit margins were also impacted by our acquisition of PNA on August 1, 2008. The PNA companies have historically operated at lower gross profit levels than the Reliance companies. We expect to improve the margins of the PNA companies to levels more consistent with Reliance's historical levels once demand and pricing stabilize and begin to improve.

Expenses. Our 2009 third quarter warehouse, delivery, selling, general and administrative (S,G&A) expenses decreased \$76.1 million, or 23.2%, from the 2008 third quarter and were 20.2% as a percentage of sales, up from 12.7% in the 2008 third quarter. On a same-store basis, our S,G&A expenses decreased \$71.3 million, or 25.2% compared to the 2008 third quarter. Our 2009 nine-month period S,G&A expenses decreased \$130.8 million, or 14.4%, from the 2008 nine-month period and were 19.2% as a percentage of sales, up from 13.8% in the 2008 nine-month period. On a same-store basis, our S,G&A expenses decreased \$209.1 million, or 24.3% compared to the

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2008 nine-month period. Our expenses as a percent of sales for the three- and nine-month periods ended September 30, 2009 increased substantially because of our lower sales compared to the same periods in 2008.

Our cost structure is highly variable, with about 60% of our expenses personnel-related. In the 2009 nine-month period, we reduced our workforce by approximately 1,600 employees, or 15.6%. In the past twelve months, we have reduced our workforce by approximately 2,400 employees, or 21.2%. In addition to the headcount reductions, we have many employees working reduced hours resulting in additional savings. Further, throughout our workforce, employees have a significant portion of compensation tied to profitability. Because of the lower profitability levels in 2009 our compensation expense has declined. Additionally, our expenses for the 2009 three- and nine-month periods include \$3.5 million and \$14.9 million, respectively, related to potentially uncollectible accounts receivable, increases of \$5.6 million and \$10.1 million from the 2008 three- and nine-month periods, respectively. In the 2009 nine-month period, we wrote-off \$16.3 million of customer receivables as uncollectible. Our full year 2008 write-offs were \$8.1 million. Our allowance for uncollectible accounts at September 30, 2009 was \$21.3 million. Although we anticipate some further receivable write-offs, we believe that our allowance is adequate to absorb any such losses.

Depreciation expense for the 2009 third quarter was \$21.9 million compared to \$20.7 million in the 2008 third quarter. Depreciation expense for the 2009 nine-month period was \$67.3 million compared to \$57.3 million in the 2008 nine-month period. The increase was mostly due to the additional depreciation expense from the PNA acquisition along with depreciation on new assets placed in service throughout 2008 and so far in 2009. Amortization expense increased \$2.3 million or 36.3% in the 2009 third quarter mostly due to the write-off of \$1.6 million of deferred financing costs related to our \$500 million term loan that was paid off in September 2009. The \$10.1 million, or 80.7%, increase in amortization expense in the 2009 nine-month period was primarily due to additional amortization expense from the PNA acquisition.

Operating Income. Our 2009 third quarter operating income was \$74.3 million, resulting in an operating income margin of 6.0%, compared to \$269.2 million, or a 10.5% operating income margin in the same period for 2008. Our 2009 nine-month period operating income was \$127.7 million, resulting in an operating income margin of 3.2%, compared to \$726.4 million, or an 11.0% operating income margin in the same period of 2008. The lower sales amounts combined with our compressed gross profit margins in the 2009 periods have significantly reduced our operating income. However, our operating income in the 2009 third quarter is the strongest level in 2009.

Other Income and Expense. Interest expense for the 2009 third quarter decreased \$8.0 million, or 33.4% compared to the 2008 third quarter. Interest expense for the 2009 nine-month period decreased \$4.7 million, or 8.4% compared to the same period of 2008. The decreases were mainly due to our repayment of over \$1 billion of borrowings on the \$1.1 billion revolving credit facility during the 2008 fourth quarter and through the first nine months of 2009.

Income Tax Rate. Our effective tax rate in the 2009 third quarter was 31.6% compared to our 2008 third quarter rate of 37.6%. Our effective tax rate in the 2009 nine-month period was 31.1% compared to our 2008 nine-month rate of 37.6%. The permanent items impacting our effective tax rate did not change materially in amount in 2009 compared to the 2008 levels. However, the same type of permanent items have a much greater impact on our effective rate in 2009 due to the lower income levels in 2009.

Net Income. Net income attributable to Reliance decreased \$110.7 million, or 72.6%, and \$360.4, or 86.5%, for the three- and nine-months ended September 30, 2009, respectively. The decreases were primarily due to lower sales, gross profit and operating income dollars generated as a result of the global economic recession.

Liquidity and Capital Resources*Operating Activities*

At September 30, 2009, our working capital was \$1.13 billion, down from \$1.65 billion at December 31, 2008. In the 2009 nine-month period, we continued to significantly reduce our working capital and generated \$807.2 million of cash flow from operations, compared to \$115.4 million in the 2008 nine-month period. In the environment of declining demand and pricing that we have been experiencing since November 2008, our working capital needs have decreased significantly. The majority of our \$807.2 million of cash flow generated from operations came from

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working capital reductions. Decreases of \$266.5 million in our accounts receivable balance and \$709.9 million in our FIFO inventory level were the primary contributors to our record cash flows from operations during the 2009 nine-month period.

To manage our working capital, we focus on our days sales outstanding to monitor accounts receivable and on our inventory turnover rate to monitor our inventory levels, as receivables and inventory are the two most significant elements of our working capital. As of September 30, 2009, our days sales outstanding was approximately 43 days compared to 42 days at December 31, 2008. (We calculate our days sales outstanding (DSO) as an average of the most recent two-month period.) Our DSO has trended up as sales have decreased and we have seen some of our customers pay us more slowly. Despite the slight increase in our DSO, our accounts receivable balance has decreased significantly from December 31, 2008 due to lower sales levels in 2009.

Our inventory turn rate during the 2009 nine-month period was about 3.5 times (or 3.4 months on hand), compared to our 2008 rate of 3.9 times (or 3.1 months on hand). Because customer demand decreased so dramatically and continued to fall, we were not able to reduce our inventory balance as quickly as our shipments decreased. Although our inventory turn rates have deteriorated somewhat during 2009, our efforts to better align our inventory quantities on hand with our current demand levels, as well as the impact of lower mill pricing for most of our products during 2009 compared to December 31, 2008 levels, have contributed to the overall decrease of \$709.9 million in our FIFO inventories.

Our inventory turns have also declined somewhat because of our 2008 acquisition of PNA, as PNA historically turned inventory at lower rates than Reliance. We expect those inventory turns to improve as we continue to focus on those businesses, and as business conditions improve.

When commodity prices or demand begin to improve, we expect to finance increases in working capital needs through operating cash flow or with borrowings on our revolving credit facility.

Investing Activities

Capital expenditures were \$55.0 million for the nine months ended September 30, 2009 compared to \$119.5 million during the same period of 2008. Our 2009 capital expenditures are budgeted at approximately \$95 million, which was significantly reduced from the 2008 capital expenditures budget of \$210 million. Because of the global economic recession, we cut back on our actual capital expenditures during the 2008 fourth quarter and reduced our 2009 capital expenditures budget significantly to focus on key growth initiatives to expand or relocate existing facilities and to maintain, add or upgrade equipment.

Financing Activities

Our strong cash flow from operations funded our reductions of outstanding debt of \$696.5 million and dividends to our shareholders of \$22.0 million during the 2009 nine-month period. On October 21, 2009, our Board of Directors declared the 2009 fourth quarter cash dividend of \$.10 per share. We have paid regular quarterly dividends to our shareholders for 49 consecutive years.

In May 2005, our Board of Directors amended and restated our stock repurchase program authorizing the repurchase of up to an additional 12.0 million shares of our common stock, of which 7.9 million shares remain available for repurchase as of September 30, 2009. Repurchased shares are treated as authorized but unissued shares. We did not repurchase any shares of our common stock in the 2009 nine-month period. We repurchased approximately 2.4 million shares of our common stock during the 2008 nine-month period, at an average cost of \$46.97 per share. Since initiating our Stock Repurchase Plan in 1994, we have repurchased approximately 15.2 million shares at an average cost of \$18.41 per share. We believe such purchases, given appropriate circumstances, enhance shareholder value and reflect our confidence in the long-term growth potential of our Company.

Liquidity

Our primary sources of liquidity are generally our internally generated funds from operations and our revolving credit facility. Cash flow provided by operations was a record \$807.2 million in the nine months ended September 30, 2009 compared to \$115.4 million in the nine months ended September 30, 2008.

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Our outstanding debt (including capital lease obligations) at September 30, 2009 was \$1.07 billion, down from \$1.77 billion at December 31, 2008. On August 1, 2008, we increased our borrowings by approximately \$1.1 billion to finance the acquisition of PNA through cash consideration and the related repayment or refinancing of PNA's outstanding indebtedness. We funded this by raising \$500 million from a senior unsecured term loan, which we paid off and terminated in September 2009 with borrowings under our existing credit facility and cash on hand.

On September 28, 2009, we amended our \$1.1 billion credit facility to adjust certain financial covenants. Our interest coverage ratio requirement was reduced to a minimum 2.0 times from 3.0 times and our leverage ratio requirement was reduced to a maximum of 50% from a maximum of 60% until June 30, 2010, at which time these ratios adjust back to the pre-amendment levels. With the amendment, our pricing was adjusted to market rates. Restrictions were placed on certain uses of cash including cash used for acquisitions, dividends, investments and stock repurchases through June 30, 2010. Additionally, with the amendment of our credit facility, we extended the maturity date of the revolving credit facility by one year from November 2011 to November 2012 for \$1.02 billion of commitments. Concurrent with the amendment and extension of our revolving credit facility, we also paid off the remaining balance on our term loan of \$443.8 million with \$193.8 million of cash on hand and \$250 million of borrowings on our revolving credit facility. Over the past twelve months, we have paid down approximately \$1.2 billion of debt with cash flow from operations and increased our cash position to approximately \$87.9 million at September 30, 2009. At September 30, 2009, we had \$250 million in outstanding borrowings on our \$1.1 billion revolving credit facility.

Our net debt-to-total capital ratio was 28.3% at September 30, 2009; down from our 2008 year-end rate of 41.4% (net debt-to-total capital is calculated as total debt, net of cash, divided by Reliance shareholders' equity plus total debt, net of cash). At September 30, 2009, we had availability of \$850.0 million on our revolving credit facility.

On November 20, 2006 we entered into an Indenture (the "Indenture"), for the issuance of \$600 million of unsecured debt securities which are guaranteed by all of our direct and indirect, wholly-owned domestic subsidiaries and any entities that become such subsidiaries during the term of the Indenture (collectively, the "Subsidiary Guarantors"). None of our foreign subsidiaries or our non-wholly-owned domestic subsidiaries is a guarantor. 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 and rank equally with all of our other existing and future unsecured and unsubordinated debt obligations. In April 2007, these notes were exchanged for publicly traded notes registered with the Securities and Exchange Commission.

At September 30, 2009, we also had \$213.0 million of outstanding senior unsecured notes issued in private placements of debt. The outstanding senior notes bear interest at an average fixed rate of 5.7% and have an average remaining life of 2.2 years, maturing from 2010 to 2013. In early January 2009, \$10.0 million of these notes matured and were paid off.

We also have two separate revolving credit facilities for operations in Canada with a combined credit limit of CAD\$35 million. There were no borrowings outstanding on these credit facilities at September 30, 2009 and December 31, 2008. Various other separate revolving credit facilities are in place for our operations in Asia and for our operations in the United Kingdom with total combined outstanding balances of \$6.8 million and \$7.4 million at September 30, 2009 and December 31, 2008, respectively.

Our \$1.1 billion syndicated credit facility and senior notes collectively require that we maintain a minimum net worth and interest coverage ratio, and a maximum leverage ratio and include change of control provisions, among other things. The interest coverage ratio for the last twelve-month period ended September 30, 2009 was approximately 3.3 times compared to the debt covenant minimum requirement of 2.0 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 and plus or minus any non-operating non-recurring loss or gain, respectively, divided by interest expense). The leverage ratio at September 30, 2009 calculated in accordance with the terms of the credit agreement was 31.0% compared to the debt covenant maximum amount of 50% (leverage ratio is calculated as total debt, inclusive of capital lease obligations and outstanding letters of credit, divided by Reliance

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shareholders' equity plus total debt). The minimum net worth requirement at September 30, 2009 was \$913.6 million compared to the Reliance shareholders' equity balance of \$2.5 billion at September 30, 2009.

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 also guaranteed the borrowings under the term loan prior to its repayment and termination. The subsidiary guarantors, together with Reliance, are required collectively to account for at least 80% of the Company's consolidated EBITDA (EBITDA is calculated as net income attributable to Reliance plus interest, income tax, depreciation and amortization expense and all other non-cash expenses, plus cash dividends received from 50% or less owned companies, plus EBITDA from acquired businesses, less equity in earnings in 50% or less owned companies and plus or minus any non-operating non-recurring loss or gain, respectively) and 80% of consolidated tangible assets. Reliance and the subsidiary guarantors accounted for approximately 99% of our total consolidated EBITDA for the last twelve months and approximately 94% of total consolidated tangible assets as of September 30, 2009. We were in compliance with all debt covenants at September 30, 2009.

We have \$146.5 million of debt obligations coming due before our credit facility expires in November 2012. We are comfortable that we will have adequate cash flow and capacity on our revolving credit facility to fund our debt obligations as well as our working capital, capital expenditure, growth and other needs. We expect to continue our acquisition and other growth activities in the future and anticipate that we will be able to fund such activities with borrowings under our revolving credit facility, subject to the restrictions on the use of cash described above.

Off-Balance-Sheet Arrangements

We had no material changes in commitments for capital expenditures, operating lease obligations or purchase obligations as of September 30, 2009, as compared to those disclosed in our table of contractual obligations included in our Annual Report on Form 10-K for the year ended December 31, 2008.

Inflation

Our operations have not been, and we do not expect them to be, materially affected by general inflation. Historically, we have been successful in adjusting prices to our customers to reflect changes in metal prices.

Seasonality

Some of our customers may be in seasonal businesses, especially customers in the construction industry. As a result of our geographic, product and customer diversity, our operations have not shown any material seasonal trends except that revenues in the months of July, November and December traditionally have been lower than in other months because of a reduced number of working days for shipments of our products, resulting from vacation and holiday closures at some of our customers. We cannot assure you that period-to-period fluctuations will not occur in the future. The results of any one or more quarters are therefore not necessarily indicative of annual results.

Goodwill and Other Intangible Assets

Goodwill, which represents the excess of cost over the fair value of net assets acquired, amounted to \$1.08 billion at September 30, 2009, or approximately 24.2% of total assets, or 43.2% of Reliance shareholders' equity. Additionally, other intangible assets, net amounted to \$731.7 million at September 30, 2009, or approximately 16.4% of total assets, or 29.3% of Reliance shareholders' equity. We review the recoverability of goodwill and other intangible assets deemed to have indefinite lives annually or whenever significant events or changes occur which might impair the recovery of recorded amounts. Our most recently completed annual impairment tests of goodwill were performed as of November 1, 2008 and it was determined that the recorded amounts for goodwill are recoverable and that no impairment existed. Our 2009 annual impairment tests of goodwill will be performed as of November 1, 2009 or more frequently, as appropriate. Other intangible assets with finite useful lives continue to be amortized over their useful lives. We review the recoverability of our long-lived assets whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable.

Impairment assessment inherently involves judgment as to assumptions about expected future cash flows and the impact of market conditions on those assumptions. Future events and the current changing market conditions

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may impact our assumptions as to commodity prices, demand and future growth rates or other factors that may result in changes in our estimates of future cash flows. Although we believe the assumptions used in testing for impairment are reasonable, significant changes in any one of our assumptions could produce a significantly different result. Furthermore, continuous declines in the market conditions for our products as well as significant decreases in the price of our common stock could also impact our impairment analysis. However, as of September 30, 2009, we have noted no indications of impairment.

Critical Accounting Policies

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our unaudited Consolidated Financial Statements, which have been prepared in accordance with U.S. generally accepted accounting principles. When we prepare these financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, we evaluate our estimates and judgments, including those related to accounts receivable, inventories, deferred tax assets, goodwill and intangible assets and long-lived assets. We base our estimates and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for our judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

For further information regarding the accounting policies that we believe to be critical accounting policies and that affect our more significant judgments and estimates used in preparing our consolidated financial statements see our Annual Report on Form 10-K for the year ended December 31, 2008. We do not believe that any of the new accounting guidance implemented during 2009 changed our critical accounting policies.

New Accounting Guidance

See Notes to Unaudited Consolidated Financial Statements for disclosure on new accounting guidance issued or implemented.

Item 3. Quantitative And Qualitative Disclosures About Market Risk

In the ordinary course of business, we are exposed to various market risk factors, including fluctuations in interest rates, changes in general economic conditions, domestic and foreign competition, foreign currency exchange rates, metals pricing, demand and availability. There have been no significant changes in our market risk factors since December 31, 2008. Please refer to Item 7A Quantitative and Qualitative Disclosures About Market Risk, contained in our Annual Report on Form 10-K for the year ended December 31, 2008 for further discussion on quantitative and qualitative disclosures about market risk.

Item 4. Controls And Procedures

Under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to and as defined in Rule 13a-15(e) or 15d-15(e) under the Securities Act of 1934, as amended. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that, as of the end of the period covered in this report, the Company's disclosure controls and procedures are effective.

There have been no changes in the Company's internal control over financial reporting during the quarter ended September 30, 2009, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

This Form 10-Q may contain forward-looking statements relating to future financial results. Actual results may differ materially as a result of factors over which Reliance Steel & Aluminum Co. has no control. These risk factors and additional information are included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

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PART II OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2008.

Item 6. Exhibits

- 3.1 Amended and Restated Bylaws¹.
- 4.1 Second Amendment to Amended and Restated Credit Agreement dated as of September 25, 2009 by and among Reliance Steel & Aluminum Co., as Borrower, Bank of America, N.A., as Administrative Agent, and the banks identified as lenders therein².
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.

- 32 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

¹ Incorporated by reference to Exhibit 3.1 of that Current Report on Form 8-K dated October 14, 2009.

² Incorporated by reference to Exhibit 4.1 of that Current Report on Form 8-K dated September 28, 2009.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RELIANCE STEEL & ALUMINUM CO.

Dated: November 6, 2009

By: /s/ David H. Hannah
David H. Hannah
Chairman and Chief Executive Officer

By: /s/ Karla Lewis
Karla Lewis
Executive Vice President and Chief
Financial Officer

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Exhibit Index

| Exhibit No. | Description |
|--------------------|--|
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