RELIANCE STEEL & ALUMINUM CO
Form 10-Q
July 23, 2008

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

(Mark One)

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

For the quarterly period ended June 30, 2008

OR

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

For the transition period from to

Commission file number: 001-13122

RELIANCE STEEL & ALUMINUM CO.

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices and telephone number)

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

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

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

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

As of July 15, 2008, 73,232,697 shares of the registrant s common stock, no par value, were outstanding.

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

	June 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 89,843	$ 77,023
Accounts receivable, less allowance for doubtful accounts of $20,887 at June 30, 2008 and $16,153 at December 31, 2007	946,081	691,462
Inventories	1,106,532	911,315
Prepaid expenses and other current assets	23,915	24,028
Income taxes receivable	¾	17,575
Total current assets	2,166,371	1,721,403
Property, plant and equipment, at cost:		
Land	118,816	115,294
Buildings	450,089	417,677
Machinery and equipment	712,497	669,671
Accumulated depreciation	(409,833)	(378,007)
	871,569	824,635
Goodwill	890,727	886,152
Intangible assets, net	464,312	464,291
Cash surrender value of life insurance policies, net	67,396	73,953
Other assets	12,878	13,043
Total assets	$ 4,473,253	$ 3,983,477
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 486,630	$ 333,986
Accrued expenses	125,982	37,863
Accrued compensation and retirement costs	85,900	95,539
Accrued insurance costs	36,625	36,884
Income taxes payable	26,064	¾
Deferred income taxes	23,143	23,136
Current maturities of long-term debt	45,522	71,815
Current maturities of capital lease obligations	631	641
Total current liabilities	830,497	599,864
Long-term debt	1,105,386	1,008,765
Capital lease obligations	4,179	4,495

Long-term retirement costs and other long-term liabilities	67,129	62,224
Deferred income taxes	199,358	200,181
Minority interest	1,771	1,699
Commitments and contingencies		
Shareholders equity:		
Preferred stock, no par value:		
Authorized shares 5,000,000		
None issued or outstanding	¾	¾
Common stock, no par value:		
Authorized shares 100,000,000		
Issued and outstanding shares 73,230,947 at June 30, 2008 and 74,906,824 at December 31, 2007, stated capital	555,543	646,406
Retained earnings	1,695,722	1,439,598
Accumulated other comprehensive income	13,668	20,245
Total shareholders equity	2,264,933	2,106,249
Total liabilities and shareholders equity	$ 4,473,253	$ 3,983,477

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007
Net sales	$ 2,095,068	$ 1,896,036
Costs and expenses:		
Cost of sales (exclusive of depreciation and amortization shown below)	1,508,134	1,398,539
Warehouse, delivery, selling, general and administrative	297,582	264,549
Depreciation and amortization	21,445	19,210
	1,827,161	1,682,298
Operating income	267,907	213,738
Other income (expense):		
Interest	(16,161)	(19,615)
Other income (expense), net	(499)	2,333
Income from continuing operations before income taxes	251,247	196,456
Provision for income taxes	94,651	73,672
Net income	$ 156,596	$ 122,784
Earnings per share:		
Income from continuing operations diluted	$ 2.12	$ 1.59
Weighted average shares outstanding diluted	73,757,864	77,181,651
Income from continuing operations basic	$ 2.14	$ 1.61
Weighted average shares outstanding basic	73,015,855	76,219,670
Cash dividends per share	$ .10	$ .08

See accompanying notes to unaudited consolidated financial statements.

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

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Net sales	$ 4,003,238	$ 3,737,926
Costs and expenses:		
Cost of sales (exclusive of depreciation and amortization shown below)	2,924,025	2,767,977
Warehouse, delivery, selling, general and administrative	579,274	520,101
Depreciation and amortization	42,810	37,661
	3,546,109	3,325,739
Operating income	457,129	412,187
Other income (expense):		
Interest	(32,774)	(39,725)
Other income (expense), net	(886)	2,707
Income from continuing operations before income taxes	423,469	375,169
Provision for income taxes	159,478	140,689
Net income	$ 263,991	$ 234,480
Earnings per share:		
Income from continuing operations diluted	$ 3.58	$ 3.06
Weighted average shares outstanding diluted	73,651,222	76,691,529
Income from continuing operations basic	$ 3.62	$ 3.08
Weighted average shares outstanding basic	72,936,666	76,041,932
Cash dividends per share	$ .20	$ .16

See accompanying notes to unaudited consolidated financial statements.

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

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Operating activities:		
Net income	$ 263,991	$ 234,480
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	42,810	37,661
Gain on sales of property, plant and equipment	(174)	(1,022)
Provision for deferred income taxes	(2,249)	(5,519)
Minority interest	72	204
Stock based compensation expense	6,771	4,680
Excess tax benefits from stock based compensation	(9,187)	(5,929)
Decrease (increase) in cash surrender value of life insurance policies	453	(77)
Changes in operating assets and liabilities (excluding effect of businesses acquired):		
Accounts receivable	(257,165)	(114,824)
Inventories	(204,991)	(95,029)
Prepaid expenses and other assets	15,489	31,521
Accounts payable and other liabilities	272,561	84,093
Net cash provided by operating activities	128,381	170,239
Investing activities:		
Purchases of property, plant and equipment	(88,305)	(58,645)
Acquisitions of metals service centers and net asset purchases of metals service centers, net of cash acquired	(13,250)	(217,712)
Proceeds from sales of property and equipment	17,902	2,572
Net proceeds from redemption of life insurance policies	2,532	¾
Net investment in life insurance policies	(96)	(262)
Net cash used in investing activities	(81,217)	(274,047)
Financing activities:		
Proceeds from borrowings	339,897	542,850
Principal payments on long-term debt and short-term borrowings	(270,499)	(426,601)
Dividends paid	(14,575)	(12,174)
Excess tax benefits from stock based compensation	9,187	5,929
Exercise of stock options	16,856	10,796
Issuance of common stock	284	281
Common stock repurchases	(114,774)	¾
Net cash (used in) provided by financing activities	(33,624)	121,081
Effect of exchange rate changes on cash	(720)	202
Increase in cash and cash equivalents	12,820	17,475

Cash and cash equivalents at beginning of period	77,023	57,475
Cash and cash equivalents at end of period	$ 89,843	$ 74,950
Supplemental cash flow information:		
Interest paid during the period	$ 28,675	$ 33,861
Income taxes paid during the period	$ 107,464	$ 111,957

See accompanying notes to unaudited consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions of Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation with respect to the interim financial statements have been included. The results of operations for the six months ended June 30, 2008 are not necessarily indicative of the results for the full year ending December 31, 2008. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended December 31, 2007, 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. Certain prior year amounts in the statements of income have been reclassified to conform to the current year presentation.

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 minority interest. All significant intercompany accounts and transactions have been eliminated.

2. Impact of Recently Issued Accounting Principles

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

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, which is the year beginning January 1, 2008 for the Company. The adoption of SFAS No. 159 did not have a material impact on the Company s financial position, results of operations or cash flows.

In March 2007, the Emerging Issues Task Force (EITF) reached a consensus on issue number 06-10, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements,* (EITF 06-10). EITF 06-10 provides guidance to help companies determine whether a liability for the postretirement benefit associated with a collateral assignment split-dollar life insurance arrangement should be

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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recorded in accordance with either SFAS No. 106, *Employers Accounting for Postretirement Benefits Other Than Pensions* (if, in substance, a postretirement benefit plan exists), or Accounting Principles Board Opinion No. 12 (if the arrangement is, in substance, an individual deferred compensation contract). EITF 06-10 also provides guidance on how a company should recognize and measure the asset in a collateral assignment split-dollar life insurance contract. EITF 06-10 is effective for fiscal years beginning after December 15, 2007, or January 1, 2008 for the Company. The Company had a limited number of life insurance polices that were within the scope of this EITF. The adoption of EITF 06-10 had no material impact on the Company s consolidated results of operations, financial position, or cash flows.

In December 2007, the FASB issued SFAS No. 141R (revised 2007), *Business Combinations*, which is a revision of SFAS No. 141, *Business Combinations*. In accordance with the new standard, upon initially obtaining control, the acquiring entity in a business combination must recognize 100% of the fair values of the acquired assets, including goodwill, and assumed liabilities, with only limited exceptions even if the acquirer has not acquired 100% of its target. As a consequence, the current step acquisition model will be eliminated. Also, contingent consideration arrangements will be fair valued at the acquisition date and included on that basis in the purchase price consideration. In addition, all transaction costs will be expensed as incurred. SFAS No. 141R is effective as of the beginning of an entity s first fiscal year beginning after December 15, 2008 which is the year beginning January 1, 2009 for the Company. Adoption is prospective and early adoption is not permitted. The Company is currently evaluating the impact that the adoption of SFAS No. 141R will have on its consolidated financial statements and notes thereto.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51*. SFAS No. 160 establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008 or January 1, 2009 for the Company. The adoption of SFAS No. 160 is not expected to have a material impact on the Company s consolidated financial position, results of operations, and cash flows.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities An Amendment of FASB Statement No. 133*. SFAS No. 161 applies only to financial statement disclosures, and it is not expected to have a material impact on the Company s consolidated financial statements and notes thereto.

3. Acquisitions

Pending Acquisition of PNA Group Holding Corporation

On June 16, 2008 RSAC Management Corp., a California corporation that is a wholly owned subsidiary of Reliance, entered into an agreement with PNA Group Holding Corporation, a Delaware corporation (PNA) and its stockholders, Platinum Equity Capital Partners, L.P. and certain of its affiliates, to acquire the outstanding capital stock of PNA. The estimated purchase price of the acquisition is based on a price of $315,000,000, subject to adjustment, for all of the outstanding shares of PNA and the repayment or refinancing by Reliance of PNA s outstanding indebtedness of up to $750,000,000. There can be no assurance that the Company will acquire PNA in accordance with the terms of the agreement or at all. See Note 11, Subsequent Events, for further discussion regarding this pending acquisition and related financing activities.

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2008 Acquisition

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 currently operates as a subsidiary of Service Steel Aerospace Corp. headquartered in Tacoma, Washington, a wholly-owned subsidiary of the Company. The all cash purchase price was funded with borrowings on the Company s revolving credit facility and cash from operations. Dynamic s net sales for the three months ended June 30, 2008 were approximately $2,800,000.

2007 Acquisitions

Acquisition of Metalweb plc

As of October 1, 2007, the Company acquired all of the outstanding capital stock of Metalweb plc (Metalweb), a metals service center company headquartered in Birmingham, England. Metalweb, established in 2001, specializes in the processing and distribution of primarily aluminum products for non-structural aerospace components and general engineering parts and has three additional service centers located in London, Manchester and Oxford, England. The Company acquired Metalweb through RSAC Management Corp., the Company s wholly-owned subsidiary. Metalweb now operates as a wholly-owned subsidiary of RSAC Management Corp. Metalweb has been re-registered as Metalweb Limited. Metalweb s net sales for the three months ended December 31, 2007 were approximately $12,000,000.

Acquisition of Clayton Metals, Inc.

On July 1, 2007, the Company acquired all of the outstanding capital stock of Clayton Metals, Inc. (Clayton Metals), an Illinois corporation headquartered in Wood Dale, Illinois. Clayton Metals, founded in 1976, specializes primarily in the processing and distribution of aluminum, stainless steel and red metal flat-rolled products, custom extrusions and aluminum circles through its metals service center locations in Wood Dale, Illinois; Cerritos, California; High Point, North Carolina; and Parsippany, New Jersey. Clayton Metals now operates as a wholly-owned subsidiary of RSAC Management Corp. Clayton Metals net sales for the six months ended December 31, 2007 were approximately $54,000,000.

Acquisition of Encore Group

As of February 1, 2007, the Company acquired the net assets and business of the Encore Group of metals service center companies (Encore Metals, Encore Metals (USA), Inc., Encore Coils, and Team Tube in Canada) headquartered in Edmonton, Alberta, Canada. Encore was organized in 2004 in connection with the buyout by management and a private equity fund of certain former Corus CIC and Corus America businesses. Encore specializes in the processing and distribution of alloy and carbon steel bar and tube, as well as stainless steel sheet, plate and bar, through its currently 13 facilities located mainly in Western Canada. The Company acquired the Encore Group assets through RSAC Canada Limited (now Encore Group Limited), the Company s wholly-owned Canadian subsidiary, and RSAC Canada (Tube) ULC (now Team Tube Canada ULC), a subsidiary of RSAC Canada Limited. Encore Group Limited and Encore Metals (USA), Inc. now operate as wholly-owned subsidiaries of Reliance. The net sales of the Encore Group for the eleven months ended December 31, 2007 were approximately $208,000,000. Effective January 1, 2008, the Company sold certain assets and the business of the Encore Coils division for total proceeds of approximately $16,100,000. The net sales of Encore Coils during the year ended December 31, 2007 were approximately $37,000,000. The Company retained one of the Encore Coils operations that is now performing toll processing services. Costs related to the sale and the resulting loss from the sale were not material.

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Acquisition of Crest Steel Corporation

On January 2, 2007, the Company purchased all of the outstanding capital stock of Crest Steel Corporation (Crest), a metals service center company headquartered in Carson, California with facilities in Riverside, California and Phoenix, Arizona. Crest was founded in 1963 and specializes in the processing and distribution of carbon steel products including flat-rolled, plate, bars and structurals. Crest s net sales for the year ended December 31, 2007 were approximately $126,000,000. Crest now operates as a wholly-owned subsidiary of RSAC Management Corp.

Acquisition of Industrial Metals and Surplus, Inc.

Also on January 2, 2007, the Company, through its wholly-owned subsidiary Siskin Steel & Supply Company, Inc. (Siskin), purchased the outstanding capital stock of Industrial Metals and Surplus, Inc. (Industrial Metals), a metals service center company headquartered in Atlanta, Georgia and a related company, Athens Steel, Inc. (Athens Steel), located in Athens, Georgia. Industrial Metals was founded in 1978 and specializes in the processing and distribution of carbon steel structurals, flat-rolled and ornamental iron products. Industrial Metals and Athens Steel now operate as divisions of Siskin. Net sales for Industrial Metals (including Athens Steel) for the year ended December 31, 2007 were approximately $115,000,000.

Purchase price allocations

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

Pro forma financial information

The following unaudited pro forma summary financial results present the consolidated results of operations as if the acquisitions of Clayton Metals, Encore Group, and Metalweb 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, amortization of certain identifiable intangible assets, and a provision for income taxes for the companies that were previously taxed as S-Corporations under Section 1361 of the Internal Revenue Code.

The pro forma results have been presented for comparative purposes only and are not indicative of what would have occurred had these acquisitions been made as of January 1, 2007, or of any potential results which may occur in the future.

	Three Months Ended June 30, 2007 (In thousands, except per share amounts)	Six Months Ended June 30, 2007 (In thousands, except per share amounts)
Pro forma (unaudited):		
Net sales	$ 1,941,636	$ 3,846,861

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4. Goodwill

The changes in the carrying amount of goodwill for the six months ended June 30, 2008 are as follows:

	(In thousands)
Balance as of December 31, 2007	$ 886,152
Acquisitions	4,882
Purchase price allocation adjustments	783
Effect of foreign currency translation	(1,090)
Balance as of June 30, 2008	$ 890,727

5. Intangible Assets, net

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

	June 30, 2008		December 31, 2007	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			
Intangible assets subject to amortization:				
Covenants not to compete	$ 6,853	$ (6,266)	$ 6,803	$ (6,175)
Loan fees	16,147	(7,576)	16,147	(6,808)
Customer lists/relationships	179,340	(23,748)	176,124	(18,967)
Software internal use	8,100	(1,823)	8,100	(1,417)
Other	1,731	(802)	1,748	(657)
	212,171	(40,215)	208,922	(34,024)
Intangible assets not subject to amortization:				
Trade names	292,356		289,393	
	$ 504,527	$ (40,215)	$ 498,315	$ (34,024)

The Company recognized amortization expense for intangible assets of approximately $6,239,000 and $5,063,000 for the six months ended June 30, 2008 and 2007, respectively. Based on the current amount of intangibles subject to amortization, the estimated amortization expense for the remaining six months of 2008 and each of the succeeding five years is as follows:

	(In thousands)
2008	$ 6,285
2009	12,283
2010	11,908
2011	11,487
2012	10,548
2013	10,624

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6. Long-Term Debt

Long-term debt consists of the following:

	June 30, 2008	December 31, 2007
	(In thousands)	
Revolving credit facility due November 9, 2011	$ 292,000	$ 185,000
Senior unsecured notes due January 2, 2009	10,000	10,000
Senior unsecured notes paid January 2, 2008		30,000
Senior unsecured notes due from October 15, 2008 to October 15, 2010	103,000	103,000
Senior unsecured notes due from July 1, 2011 to July 2, 2013	135,000	135,000
Senior unsecured notes due November 15, 2016	349,189	349,140
Senior unsecured notes due November 15, 2036	248,664	248,640
Other notes and revolving credit facilities	13,055	19,800
Total	1,150,908	1,080,580
Less amounts due within one year	(45,522)	(71,815)
Total long-term debt	$ 1,105,386	$ 1,008,765

The Company s $1,100,000,000 unsecured revolving credit facility has fifteen banks as lenders and can be increased to $1,600,000,000 with their approval. Interest is at variable rates based on LIBOR plus 0.55% or the bank prime rate as of June 30, 2008. Weighted average rates on borrowings outstanding on the revolving credit facility were 3.08% and 5.46% at June 30, 2008 and December 31, 2007, respectively. The Company also has two separate revolving credit facilities for operations in Canada with a combined credit limit of CAD 35,000,000. There were no borrowings outstanding on these revolving credit facilities at June 30, 2008 and December 31, 2007. Two other separate revolving credit facilities are in place for operations in China and another one for operations in the United Kingdom with total combined outstanding balances of $9,157,000 and $8,903,000 at June 30, 2008 and December 31, 2007, respectively. At June 30, 2008, the Company had $39,957,000 of letters of credit outstanding under the revolving credit facility with availability to issue an additional $85,043,000 of letters of credit. The revolving credit facility includes a commitment fee on the unused portion, at an annual rate of 0.125% at June 30, 2008.

On November 20, 2006, the Company entered into an Indenture (the Indenture), for the issuance of $600,000,000 of unsecured debt securities which are guaranteed by all of the direct and indirect, wholly-owned domestic subsidiaries of the Company and any entities that become such subsidiaries during the term of the Indenture (collectively, the Subsidiary Guarantors). None of Reliance s foreign subsidiaries or its non-wholly-owned domestic subsidiaries is a guarantor. The total debt issued was comprised of two tranches, (a) $350,000,000 aggregate principal amount of senior unsecured notes bearing interest at the rate of 6.20% per annum, maturing on November 15, 2016 and (b) $250,000,000 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 change of control provisions.

The Company also has $248,000,000 of outstanding senior unsecured notes issued in private placements of debt. The outstanding senior notes bear interest at a weighted average fixed rate of 5.86% and have a weighted average remaining life of 3.0 years, maturing from 2008 to 2013.

The $1,100,000,000 revolving credit facility and the privately placed senior unsecured note agreements 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 Subsidiary Guarantors also guarantee the revolving credit facility and the privately placed senior unsecured notes.

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7. Shareholders Equity

Common Stock

During the six months ended June 30, 2008, the Company issued 762,571 shares of common stock in connection with the exercise of employee stock options for total proceeds of approximately $16,856,000. Also, 5,052 shares of common stock valued at approximately $284,000 were issued to division managers of the Company in March 2008 under the Key Man Incentive Plan as a portion of their bonuses for 2007.

Share Repurchase Program

The Stock Repurchase Plan (Repurchase Plan) was initially established in December 1994 and authorized the Company to purchase shares of its common stock from time to time in the open market or in privately negotiated transactions. In May 2005, the Board amended and restated the Repurchase Plan to authorize the purchase of up to an additional 12,000,000 shares of the Company s common stock and to extend the term of the Repurchase Plan for ten years, to December 31, 2014.

During the six months ended June 30, 2008, the Company repurchased 2,443,500 shares of its common stock at an average cost of $46.97 per share. Since initiating the Stock Repurchase Plan in 1994, the Company has repurchased 15,193,517 shares at an average cost of $18.41 per share. Repurchased shares are redeemed and treated as authorized but unissued shares. The Company currently has authorization to purchase an additional 7,883,033 shares under the Repurchase Plan.

Other Comprehensive Income

Comprehensive income for each of the three- and six-month periods ended June 30, 2008 and 2007, respectively, included the following:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2008	**2007**	**2008**	**2007**
	(In thousands)			
Net income	$ 156,596	$ 122,784	$ 263,991	$ 234,480
Other comprehensive income:				
Foreign currency translation income (loss)	989	12,594	(6,571)	15,009
Unrealized gain (loss) on investments, net of tax	172	66	(6)	66
Total other comprehensive income (loss)	1,161	12,660	(6,577)	15,075
Total comprehensive income	$ 157,757	$ 135,444	$ 257,414	$ 249,555

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Accumulated other comprehensive income included the following:

	June 30, 2008	December 31, 2007
	(In thousands)	
Foreign currency translation adjustments	$ 20,831	$ 27,402
Unrealized gain on investments, net of tax	185	191
Minimum pension liability, net of tax	(7,348)	(7,348)
Total accumulated other comprehensive income	$ 13,668	$ 20,245

Foreign currency translation adjustments are not generally adjusted for income taxes as they relate to indefinite investments in foreign subsidiaries. Unrealized gain on investments and minimum pension liability are net of deferred taxes of ($114,000) and $4,533,000, respectively, as of June 30, 2008 and ($118,000) and $4,533,000, respectively, as of December 31, 2007.

8. Employee Benefits

Defined Benefit and Supplemental Executive Retirement Plans

The Company maintains a Supplemental Executive Retirement Plan (SERP), which is a nonqualified pension plan that provides post-retirement and certain pre-retirement pension benefits to key officers of the Company. Separate SERP plans exist for certain of the Company s subsidiaries, each of which provides post-retirement benefits to certain key employees of that subsidiary. Certain other deferred compensation arrangements exist for key officers or employees at some of the Company s subsidiary companies.

The Company maintains, through various subsidiaries, defined benefit pension plans for certain of its employees. These plans generally provide benefits of stated amounts for each year of service or provide benefits based on the participant s hourly wage rate and/or years of service.

The net periodic pension costs for the SERP and defined benefit plans were as follows:

	SERP Plans		Defined Benefit Plans	
Three Months Ended June 30,	**2008**	**2007**	**2008**	**2007**
		(In thousands)		
Service cost	$ 251	$ 241	$ 202	$ 206
Interest cost	408	392	422	411
Expected return on assets			(539)	(467)
Amortization of prior service cost	49	49	5	5
Amortization of net loss	280	313	11	4
Settlement expense				15
Net periodic pension cost	$ 988	$ 995	$ 101	$ 174

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	SERP Plans		Defined Benefit Plans	
Six Months Ended June 30,	**2008**	**2007**	**2008**	**2007**
	(In thousands)			
Service cost	$ 502	$ 481	$ 404	$ 412
Interest cost	816	784	844	822
Expected return on assets			(1,078)	(935)
Amortization of prior service cost	98	98	10	10
Amortization of net loss	560	625	22	8
Settlement expense				15
Net periodic pension cost	$ 1,976	$ 1,988	$ 202	$ 332

Postretirement Plan

In addition to the Company s defined benefit pension plans, the Company s wholly-owned subsidiary Earle M. Jorgensen Company (EMJ) sponsors a defined benefit health care plan that provides postretirement medical and dental benefits to eligible full time employees and their dependents (the Postretirement Plan).

Components of the net periodic pension expense associated with the Company s Postretirement Plan are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
	(In thousands)			
Service cost	$ 203	$ 123	$ 406	$ 246
Interest cost	176	110	352	220
Amortization of net loss	31	21	62	42
Net periodic pension cost	$ 410	$ 254	$ 820	$ 508

Contributions

The Company previously disclosed in its financial statements for the year ended December 31, 2007, included in its Annual Report on Form 10-K, that it expected to contribute $2,600,000 to its defined benefit plans in 2008. As of June 30, 2008, contributions of approximately $1,263,000 had been made in 2008.

Share Based Compensation

On February 26, 2008, the Company granted 1,132,000 options to acquire its common stock to key employees with an exercise price equal to the fair market value. The stock options vest ratably over a period of four years and expire seven years after the date of grant. The fair value of stock options granted was estimated using the Black-Scholes option-pricing model with the following assumptions: Expected life 4.75 years; Expected volatility 37.8%; Dividend yield 0.7%; Risk-free interest rate 2.9%; Grant date option fair value $19.56.

On May 21, 2008, the Company granted 42,000 options to acquire its common stock to the non-employee members of the Board of Directors with an exercise price equal to the fair market value. The stock options cliff vest after one year and expire ten years after the date of grant. The fair value of stock options granted was estimated using the Black-Scholes option-pricing model with the following assumptions: Expected life 5.5 years; Expected volatility 37.8%; Dividend yield 0.6%; Risk-free interest rate 3.0%; Grant date option fair value $25.54.

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Supplemental Bonus Plan

In 2005, EMJ reached a settlement with the U.S. Department of Labor regarding a change in its methodology for annual valuations of its stock while it was a private company, for the purpose of making contributions in stock to its retirement plan. This resulted in a special additional contribution to the plan in shares of EMJ common stock to be made over a two-year period. In connection with the acquisition of EMJ in April 2006, Reliance assumed the obligation resulting from EMJ s settlement with the U.S. Department of Labor to contribute 258,006 shares of Reliance common stock to EMJ s Supplemental Bonus Plan, a phantom stock bonus plan supplementing the EMJ Retirement Savings Plan. At June 30, 2008, the remaining obligation to the EMJ Supplemental Bonus Plan consisted of the cash equivalent of 156,545 shares of Reliance common stock. This obligation will be satisfied by future cash payments to participants upon their termination.

9. Earnings Per Share

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands, except share and per share amounts)			
Numerator:				
Net income	$ 156,596	$ 122,784	$ 263,991	$ 234,480
Denominator:				
Denominator for basic earnings per:				
Weighted average shares	73,016	76,220	72,937	76,042
Effect of dilutive securities:				
Stock options	742	962	714	650
Denominator for dilutive earnings per share:				
Adjusted weighted average shares and assumed conversions	73,758	77,182	73,651	76,692
Earnings per share from continuing operations diluted	$ 2.12	$ 1.59	$ 3.58	$ 3.06
Earnings per share from continuing operations basic	$ 2.14	$ 1.61	$ 3.62	$ 3.08

The computations of earnings per share for the three months and six months ended June 30, 2008 do not include 1,213,872 and 1,220,748 shares reserved for issuance upon exercise of stock options because their inclusion would have been anti-dilutive. The computations of earnings per share for the three months and six months ended June 30, 2007 do not include 42,000 and 1,062,500 shares reserved for issuance upon exercise of stock options, respectively, because their inclusion would have been anti-dilutive.

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10. Condensed Consolidating Financial Statements

In November 2006, the Company issued senior unsecured notes in the aggregate principal amount of $600,000,000 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.

Condensed Unaudited Consolidating Balance Sheet
As of June 30, 2008
(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Cash and cash equivalents	$ 4,285	$ 67,434	$ 18,124	$	$ 89,843
Accounts receivable, less allowance for doubtful accounts	96,881	788,310	60,890		946,081
Inventories	86,735	933,861	85,936		1,106,532
Intercompany receivables	638	7,190	5,661	(13,489)	
Prepaid expenses and other current assets	11	20,900	3,004		23,915
Total current assets	188,550	1,817,695	173,615	(13,489)	2,166,371
Investments in subsidiaries	3,170,834	87,666		(3,258,500)	
Property, plant and equipment, net	83,541	759,549	28,479		871,569
Goodwill	7,088	830,685	52,954		890,727
Intangible assets, net	5,663	397,762	60,887		464,312
Intercompany receivables		306,066		(306,066)	
Other assets	55	78,221	1,998		80,274
Total assets	$ 3,455,731	$ 4,277,644	$ 317,933	$ (3,578,055)	$ 4,473,253
Liabilities & Shareholders Equity					
Accounts payable	$ 56,739	$ 403,087	$ 40,293	$ (13,489)	$ 486,630
Accrued compensation and retirement costs	4,295	77,051	4,554		85,900
Other current liabilities	16,331	189,206	6,277		211,814
Current maturities of long-term debt	35,200	1,165	9,157		45,522

Current maturities of capital lease obligations		595	36		631
Total current liabilities	112,565	671,104	60,317	(13,489)	830,497
Long-term debt	812,503	292,883			1,105,386
Intercompany borrowings	265,730		40,336	(306,066)	
Deferred taxes and other long-term liabilities		267,370	5,067		272,437
Total shareholders equity	2,264,933	3,046,287	212,213	(3,258,500)	2,264,933
Total liabilities and shareholders equity	$ 3,455,731	$ 4,277,644	$ 317,933	$ (3,578,055)	$ 4,473,253

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Condensed Consolidating Balance Sheet
As of December 31, 2007
(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Cash and cash equivalents	$ 2,379	$ 56,517	$ 18,127	$	$ 77,023
Accounts receivable, less allowance for doubtful accounts	76,015	557,042	58,405		691,462
Inventories	49,366	765,055	96,894		911,315
Intercompany receivables	381	3,993	616	(4,990)	
Prepaid expenses and other current assets	(61)	45,399	(3,735)		41,603
Total current assets	128,080	1,428,006	170,307	(4,990)	1,721,403
Investments in subsidiaries	2,852,110	62,005		(2,914,115)	
Property, plant and equipment, net	82,283	712,782	29,570		824,635
Goodwill	13,392	815,808	56,952		886,152
Intangible assets, net	5,991	398,832	59,468		464,291
Intercompany receivables		142,733		(142,733)	
Other assets	55	85,017	1,924		86,996
Total assets	$ 3,081,911	$ 3,645,183	$ 318,221	$ (3,061,838)	$ 3,983,477
Liabilities & Shareholders Equity					
Accounts payable	$ 34,485	$ 275,044	$ 29,447	$ (4,990)	$ 333,986
Accrued compensation and retirement costs	9,664	81,014	4,861		95,539
Other current liabilities	7,582	85,611	4,690		97,883
Current maturities of long-term debt	55,200	7,713	8,902		71,815
Current maturities of capital lease obligations		583	58		641
Total current liabilities	106,931	449,965	47,958	(4,990)	599,864
Long-term debt	822,431	186,334			1,008,765
Intercompany borrowings	84,689		58,044	(142,733)	
Deferred taxes and other long-term liabilities		263,713	4,886		268,599

Total shareholders equity	2,067,860	2,745,171	207,333	(2,914,115)	2,106,249
Total liabilities and shareholders equity	$ 3,081,911	$ 3,645,183	$ 318,221	$ (3,061,838)	$ 3,983,477

RELIANCE STEEL & ALUMINUM CO.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Condensed Unaudited Consolidating Statement of Income
For the three months ended June 30, 2008
(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ 238,153	$ 1,772,673	$ 104,846	$ (20,604)	$ 2,095,068
Costs and expenses:					
Cost of sales (exclusive of depreciation and amortization shown below)	170,274	1,284,583	73,902	(20,625)	1,508,134
Warehouse, delivery, selling, general and administrative	48,212	236,571	19,324	(6,525)	297,582
Depreciation and amortization	1,758	18,748	939		21,445
	220,244	1,539,902	94,165	(27,150)	1,827,161
Operating income	17,909	232,771	10,681	6,546	267,907
Other income (expense):					
Interest	(14,596)	(4,457)	(405)	3,297	(16,161)
Other income (expense), net	46	8,808	490	(9,843)	(499)
Income before equity in earnings of subsidiaries and income taxes	3,359	237,122	10,766		251,247
Equity in earnings of subsidiaries	160,464	3,062		(163,526)	
Income from continuing operations before income taxes	163,823	240,184	10,766	(163,526)	251,247
Provision for income taxes	7,227	83,994	3,430		94,651
Net income	$ 156,596	$ 156,190	$ 7,336	$ (163,526)	$ 156,596

Condensed Unaudited Consolidating Statement of Income
For the three months ended June 30, 2007
(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ 247,938	$ 1,567,579	$ 97,225	$ (16,706)	$ 1,896,036
Costs and expenses:					
Cost of sales (exclusive of depreciation and amortization shown below)	184,383	1,157,571	73,312	(16,727)	1,398,539

Warehouse, delivery, selling, general and administrative	56,618	212,526	16,960	(21,555)	264,549
Depreciation and amortization	2,067	16,700	443		19,210
	243,068	1,386,797	90,715		