

RELIANCE STEEL & ALUMINUM CO

Form 10-Q

August 09, 2007

Table of Contents

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

(Mark One)

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

For the quarterly period ended June 30, 2007

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of July 31, 2007, 76,291,616 shares of the registrant's common stock, no par value, were outstanding.

**RELIANCE STEEL & ALUMINUM CO.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

PART I FINANCIAL INFORMATION	1
<u>Item 1. Consolidated Balance Sheets at June 30, 2007 (Unaudited) and December 31, 2006</u>	1
<u>Unaudited Consolidated Statements of Income for the Three-Month Periods Ended June 30, 2007 and 2006</u>	2
<u>Unaudited Consolidated Statements of Income for the Six-Month Periods Ended June 30, 2007 and 2006</u>	3
<u>Unaudited Consolidated Statements of Cash Flows for the Six-Month Periods Ended June 30, 2007 and 2006</u>	4
<u>Notes to Consolidated Financial Statements</u>	5
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	30
<u>Item 4. Controls and Procedures</u>	30
<u>PART II OTHER INFORMATION</u>	31
<u>Item 1A. Risk Factors</u>	31
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	31
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	31
<u>Item 6. Exhibits</u>	32
<u>SIGNATURES</u>	33
<u>CERTIFICATIONS</u>	34
<u>Exhibit 31.1</u>	
<u>Exhibit 31.2</u>	
<u>Exhibit 32</u>	

Table of Contents**RELIANCE STEEL & ALUMINUM CO.
CONSOLIDATED BALANCE SHEETS**

(In thousands, except share amounts)

	June 30, 2007	December 31, 2006
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 74,950	\$ 57,475
Accounts receivable, less allowance for doubtful accounts of \$19,720 at June 30, 2007 and \$16,755 at December 31, 2006	837,936	666,273
Inventories	1,100,470	904,318
Prepaid expenses and other current assets	22,157	22,179
Income taxes receivable		25,144
Total current assets	2,035,513	1,675,389
Property, plant and equipment, at cost:		
Land	110,435	108,022
Buildings	407,469	385,851
Machinery and equipment	612,201	565,951
Accumulated depreciation	(348,307)	(317,152)
	781,798	742,672
Goodwill	918,076	784,871
Intangible assets, net	382,836	354,195
Cash surrender value of life insurance policies, net	44,319	41,190
Other assets	14,038	15,856
Total assets	\$ 4,176,580	\$ 3,614,173

LIABILITIES AND SHAREHOLDERS EQUITY

Current liabilities:		
Accounts payable	\$ 455,950	\$ 340,356
Accrued expenses	51,542	36,481
Accrued compensation and retirement costs	80,282	92,905
Accrued insurance costs	36,812	34,475
Income taxes payable	1,918	¾
Deferred income taxes	19,693	23,706
Current maturities of long-term debt	33,840	22,257
Current maturities of capital lease obligations	624	559
Total current liabilities	680,661	550,739
Long-term debt	1,241,716	1,083,095
Capital lease obligations	4,808	4,956

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Long-term retirement costs	54,576	46,111
Deferred income taxes	187,904	181,628
Minority interest	1,450	1,246
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 76,281,228 at June 30, 2007 and 75,702,046 at December 31, 2006, stated capital	717,447	701,690
Retained earnings	1,274,574	1,046,339
Accumulated other comprehensive income /(loss)	13,444	(1,631)
Total shareholders' equity	2,005,465	1,746,398
Total liabilities and shareholders' equity	\$ 4,176,580	\$ 3,614,173

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Three Months Ended	
	June 30,	
	2007	2006
Net sales	\$ 1,896,036	\$ 1,559,222
Other income, net	2,333	376
	1,898,369	1,559,598
Costs and expenses:		
Cost of sales (exclusive of depreciation and amortization shown below)	1,398,539	1,139,349
Warehouse, delivery, selling, general and administrative	264,549	225,352
Depreciation and amortization	19,210	16,800
Interest	19,615	16,933
	1,701,913	1,398,434
Income from continuing operations before income taxes	196,456	161,164
Provision for income taxes	73,672	60,659
Net income	\$ 122,784	\$ 100,505
Earnings per share:		
Income from continuing operations diluted	\$ 1.59	\$ 1.32
Weighted average shares outstanding diluted	77,181,651	75,874,992
Income from continuing operations basic	\$ 1.61	\$ 1.34
Weighted average shares outstanding basic	76,219,670	75,115,438
Cash dividends per share	\$.08	\$.05

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Six Months Ended	
	June 30,	
	2007	2006
Net sales	\$ 3,737,926	\$ 2,547,208
Other income, net	2,707	1,654
	3,740,633	2,548,862
Costs and expenses:		
Cost of sales (exclusive of depreciation and amortization shown below)	2,767,977	1,857,150
Warehouse, delivery, selling, general and administrative	520,101	362,447
Depreciation and amortization	37,661	28,621
Interest	39,725	22,642
	3,365,464	2,270,860
Income from continuing operations before income taxes	375,169	278,002
Provision for income taxes	140,689	105,642
Net income	\$ 234,480	\$ 172,360
Earnings per share:		
Income from continuing operations diluted	\$ 3.06	\$ 2.41
Weighted average shares outstanding diluted	76,691,529	71,431,880
Income from continuing operations basic	\$ 3.08	\$ 2.44
Weighted average shares outstanding basic	76,041,932	70,721,890
Cash dividends per share	\$.16	\$.10

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Six Months Ended	
	June 30,	
	2007	2006
Operating activities:		
Net income	\$ 234,480	\$ 172,360
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	37,661	28,621
Debt premium amortization	¾	(892)
Gain on sales of machinery and equipment	(1,022)	(401)
Deferred income taxes	(5,519)	(1,244)
Minority interest	204	132
Stock based compensation expense	4,680	2,712
Excess tax benefits from stock based compensation	(5,929)	(1,584)
(Increase) /decrease in cash surrender value of life insurance policies	(77)	352
Changes in operating assets and liabilities (excluding effect of businesses acquired):		
Accounts receivable	(114,824)	(118,886)
Inventories	(95,029)	(126,208)
Prepaid expenses and other assets	31,521	(8,372)
Accounts payable and accrued expenses	84,093	(23,757)
Net cash provided by (used in) operating activities	170,239	(77,167)
Investing activities:		
Purchases of property, plant and equipment	(58,645)	(59,694)
Acquisitions of metals service centers and net asset purchases of metals service centers, net of cash acquired	(217,712)	(343,924)
Proceeds from sales of property and equipment	2,572	2,247
Premiums paid on life insurance policies	(262)	(238)
Net cash used in investing activities	(274,047)	(401,609)
Financing activities:		
Proceeds from borrowings	542,850	693,316
Principal payments on long-term debt and short-term borrowings	(426,601)	(235,591)
Payments to former minority shareholders	¾	(1,291)
Dividends paid	(12,174)	(7,081)
Excess tax benefits from stock based compensation	5,929	1,584
Exercise of stock options	10,796	2,533
Issuance of common stock	281	222
Net cash provided by financing activities	121,081	453,692
Effect of exchange rate changes on cash	202	166

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Increase /(decrease) in cash and cash equivalents	17,475	(24,918)
Cash and cash equivalents at beginning of period	57,475	35,022
Cash and cash equivalents at end of period	\$ 74,950	\$ 10,104

Supplemental cash flow information:

Interest paid during the period	\$ 33,861	\$ 27,802
Income taxes paid during the period	\$ 111,957	\$ 95,999

Non-cash investing and financing activities:

Issuance of common stock and stock options in connection with acquisition of metals service center	\$ ¾	\$ 360,453
Issuance of common stock to employee retirement savings plan	\$ ¾	\$ 2,830

See accompanying notes to consolidated financial statements.

Table of Contents

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

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America 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 accounting principles generally accepted in the United States of America 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 three and six months ended June 30, 2007 are not necessarily indicative of the results for the full year ending December 31, 2007. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended December 31, 2006, included in Reliance Steel & Aluminum Co.'s Annual Report on Form 10-K.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 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 July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 (FIN No. 48), *Accounting for Uncertainty in Income Taxes: an interpretation of FASB Statement No. 109*. This interpretation clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*. FIN No. 48 prescribes a recognition threshold and measurement principles for financial statement disclosure of tax positions taken or expected to be taken on a tax return. The Company adopted the provision of this interpretation effective January 1, 2007. The adoption of FIN No. 48 did not have a material impact on the Company's consolidated financial position and results of operations. See Note 6, Income Taxes, for further discussion.

In September 2006, the FASB issued 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. The adoption of SFAS No. 157 is not expected to have a material impact on the Company's financial position, results of operations 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 Company is evaluating the impact that the adoption of SFAS No. 159 will have on its consolidated results of operations and financial condition.

Table of Contents

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

3. Acquisitions

2007 Acquisitions

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 now operates as a wholly-owned subsidiary of RSAC Management Corp. Crest was founded in 1963 and specializes in the processing and distribution of carbon steel products including flat-rolled, plate, bars and structurals.

Acquisition of Industrial Metals and Surplus, Inc.

Also, on January 2, 2007, the Company, through its wholly-owned subsidiary Siskin Steel & Supply Company, Inc., 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., 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 now operates as a wholly-owned subsidiary of Siskin. Athens Steel was merged into Industrial Metals and operates as a division of Industrial Metals. Siskin's Georgia Steel Supply Company division located in Atlanta will be combined with the Industrial Metals operation.

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 managed by HSBC Capital (Canada) Inc. of certain former Corus CIC and Corus America businesses. Encore specializes in the processing and distribution of alloy and carbon bar and tube, as well as stainless steel sheet, plate and bar and carbon steel flat-rolled products, through its 17 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 Metals (USA), Inc. now operates as a wholly-owned subsidiary of Reliance.

The total cost of the acquisitions of Crest, Industrial Metals, and Encore Group of approximately \$217,686,000 was funded with borrowings on the Company's syndicated credit facility. Total debt assumed, net of cash, in connection with these acquisitions was approximately \$51,500,000. The consolidated financial statements reflect the allocations of each acquisition's purchase price, which is preliminary as of June 30, 2007 for Encore Group and Industrial Metals.

2006 Acquisitions

Acquisition of Yarde Metals, Inc.

On August 1, 2006, the Company acquired 100% of the outstanding capital stock of Yarde Metals, Inc. (Yarde Metals), a metals service center company headquartered in Southington, Connecticut for approximately \$100,000,000 plus the assumption of approximately \$101,000,000 of Yarde Metals' outstanding debt, net of cash acquired. Yarde Metals was founded in 1976 and specializes in the processing and distribution of stainless steel and aluminum plate, rod and bar products. Yarde has additional metals service centers in Pelham, New Hampshire; East Hanover, New Jersey; Hauppauge, New York; High Point, North Carolina; Streetsboro, Ohio; and Limerick, Pennsylvania and a sales office in Ft. Lauderdale, Florida. Yarde Metals operates as a wholly-owned subsidiary of RSAC Management Corp.

Table of Contents

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

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

	As of August 1, 2006 (In thousands)
Allocation of the total purchase price to the fair values of assets acquired and liabilities assumed:	
Cash	\$ 10,244
Accounts receivable	53,448
Inventory	79,987
Property, plant and equipment	18,062
Goodwill	47,049
Intangible assets subject to amortization	3,100
Intangible assets not subject to amortization	22,900
Other current and long-term assets	5,743
 Total assets acquired	 240,533
Current and long-term debt	(111,168)
Other current and long-term liabilities	(29,204)
 Total liabilities assumed	 (140,372)
 Net assets acquired/Purchase price	 \$ 100,161

The acquisition of Yarde Metals was funded with borrowings on the Company's syndicated credit facility and a short-term supplemental credit facility.

Acquisition of Earle M. Jorgensen Company

On April 3, 2006, the Company acquired Earle M. Jorgensen Company (EMJ). EMJ, headquartered in Lynwood, California, is one of the largest distributors of metal products in North America with 40 service and processing centers. The Company paid \$6.50 in cash and issued 0.1784 of a share of Reliance common stock for each outstanding share of EMJ common stock. The fraction of the share of Reliance common stock issued in exchange for each share of EMJ common stock as a result of the acquisition was determined by the average daily closing sale price for Reliance common stock reported on the New York Stock Exchange for the 20-day trading period ending with and including the second complete trading day prior to the date that the acquisition became effective (Average Stock Price). The Average Stock Price for that 20-day period exceeded the upper limit of the 15% symmetrical collar established in the merger agreement. In accordance with this formula, Reliance issued 8,962,268 shares of its common stock in exchange for the 50,237,094 shares of outstanding EMJ common stock. The recorded value of the cash and stock consideration, in accordance with purchase accounting rules, was \$13.64 per EMJ share, the stock portion of which was calculated using a Reliance per share price of \$40.00 which was the 3-day average closing price as of the date the Average Stock Price exceeded the upper limit of the collar. The purchase also included the assumption of approximately \$252,900,000 of EMJ outstanding debt, including \$250,000,000 of 9.75% senior secured notes and \$2,900,000 of other debt. In addition, the Company cashed out certain EMJ stock option holders for aggregate consideration of approximately \$29,456,000 and incurred direct acquisition costs of approximately \$12,882,000.

The Company assumed an EMJ stock option plan and converted the outstanding EMJ options to options to acquire 287,886 shares of Reliance common stock on the same terms and conditions as were applicable to such options under the EMJ plan, with adjusted exercise price and number of shares to reflect the difference in the value of the stock. The Company also assumed an obligation resulting from EMJ's settlement with the U.S. Department of

Table of Contents

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

Labor to contribute the equivalent of 258,006 shares of Reliance common stock to EMJ's Retirement Savings Plan. At June 30, 2007 the remaining obligation to contribute cash to a phantom stock plan supplementing the EMJ Retirement Savings Plan consisted of the cash equivalent of 160,655 shares of Reliance common stock. This obligation will be satisfied by future contributions as allowed under the Internal Revenue Code and ERISA requirements. EMJ now operates as a wholly-owned subsidiary of Reliance.

The total cost of the acquisition, including cash and stock consideration, direct acquisition costs and value of vested options assumed, and allocation of the total purchase price to the fair values of the assets acquired and liabilities assumed is as follows:

	As of April 3, 2006 (In thousands)
Cash consideration	\$ 326,546
Value of common stock and vested stock options	360,453
Cash out of certain EMJ stock options	29,456
Direct acquisition costs	12,882
 Total purchase price	 \$ 729,337
 Allocation of the total purchase price to the fair values of assets acquired and liabilities assumed:	
Cash	\$ 46,091
Accounts receivable	191,203
Inventory	344,446
Property, plant and equipment	185,366
Goodwill	351,480
Intangible assets subject to amortization	93,800
Intangible assets not subject to amortization	187,900
Other current and long-term assets	69,023
 Total assets acquired	 1,469,309
 Current and long-term debt	 (274,745)
Deferred income taxes	(157,938)
Other current and long-term liabilities	(307,289)
 Total liabilities assumed	 (739,972)
 Net assets acquired/Purchase price	 \$ 729,337

The cash portion of the acquisition was funded with borrowings on the Company's syndicated credit facility.

Acquisition of Flat Rock Metal Processing L.L.C.

In March 2006, Precision Strip, Inc., a wholly-owned subsidiary of the Company, acquired certain assets and business of Flat Rock Metal Processing L.L.C. (Flat Rock) based in Flat Rock, Michigan. Flat Rock was founded in 2001 and was a privately-held toll processing company with facilities in Perrysburg, Ohio; Eldridge, Iowa; and Portage, Indiana.

The Flat Rock facilities in Perrysburg, Ohio and Eldridge, Iowa began operating as Precision Strip locations immediately after the acquisition date. The Portage, Indiana location became operational in September 2006. In July 2006, Precision Strip made a decision to close the Eldridge, Iowa facility and did so by the end of November 2006. Costs associated with the closure were minimal. Both Perrysburg, Ohio and Portage, Indiana locations process and deliver carbon steel, aluminum and stainless steel products on a toll basis, processing the metal for a fee, without taking ownership of the metal. The purchase was funded with borrowings under the Company's line of credit.

Table of Contents

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

Acquisition of Everest Metals (Suzhou) Co., Ltd.

Also in March 2006, Reliance Pan Pacific Pte., Ltd. (Reliance Pan Pacific) completed its purchase of Everest Metals, a metals service center company based near Shanghai, People s Republic of China. Reliance Pan Pacific is a joint venture company formed in October 2005 that is 70% owned by Reliance and 30% owned by Manufacturing Network Pte. Ltd. (Manufacturing Network), a Singapore based company. Manufacturing Network sold its 100% interest in Everest Metals to Reliance Pan Pacific on March 1, 2006. Everest Metals was formed in 2001 and began processing and distributing primarily aluminum products to the electronics industry in 2002.

Acquisition of the minority interest in American Steel, L.L.C.

In January 2006, the Company purchased the remaining 49.5% of American Steel L.L.C., from American Industries, Inc., the holder of the minority interest. As a result, effective January 3, 2006 the Company includes 100% of American Steel s income in its financial results. American Steel operates as a wholly-owned subsidiary of Reliance.

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 estimated fair values at the date of each acquisition. The Company utilized the services of a third-party valuation specialist to assist in identifying and determining the fair market values and economic lives of acquired tangible and intangible assets. 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 our acquisitions of Crest, EMJ, Encore Group, Industrial Metals, and Yarde Metals had occurred at the beginning of each reporting period, 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, debt premium amortization from recording the EMJ senior notes at fair value, 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 January 1, 2006, or of any potential results which may occur in the future. No pro forma results are required for the three month period ended June 30, 2007 as all acquisitions occurred prior to April 1, 2007.

	Three Months Ended June 30, 2006 (In thousands, except per share amounts)
Pro forma (unaudited):	
Net sales	\$ 1,783,853
Net income	\$ 109,977
Earnings per share diluted	\$ 1.45
Earnings per share basic	\$ 1.46

Table of Contents

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

	Six Months Ended June 30, 2007 (In thousands, except per share amounts)	Six Months Ended June 30, 2006 (In thousands, except per share amounts)
Pro forma (unaudited):		
Net sales	\$ 3,756,371	\$ 3,495,402
Net income	\$ 234,676	\$ 202,970
Earnings per share diluted	\$ 3.06	\$ 2.67
Earnings per share basic	\$ 3.09	\$ 2.70

4. Goodwill

The changes in the carrying amount of goodwill for the six months ended June 30, 2007 are as follows:

	(In thousands)
Balance as of December 31, 2006	\$ 784,871
Acquisitions	123,964
Effect of foreign currency translation	9,241
Balance as of June 30, 2007	\$ 918,076

5. Intangible Assets, net

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

	June 30, 2007		December 31, 2006	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			
Intangible assets subject to amortization:				
Covenants not to compete	\$ 6,503	\$ (6,070)	\$ 6,353	\$ (6,005)
Loan fees	15,985	(6,024)	15,001	(5,237)
Customer list/relationships	121,200	(13,517)	107,200	(9,749)
Software internal use	8,100	(1,012)	8,100	(607)
Other	691	(420)	421	(382)
	152,479	(27,043)	137,075	(21,980)
Intangible assets not subject to amortization:				
Trade names	257,400		239,100	
	\$ 409,879	\$ (27,043)	\$ 376,175	\$ (21,980)

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The Company recognized amortization expense for intangible assets of approximately \$5,063,000 and \$2,985,000 for the six months ended June 30, 2007 and 2006, respectively. Based on the current amount of intangibles subject to amortization, the estimated amortization expense for the remaining six months of 2007 and each of the succeeding five years is as follows:

2007	\$4,718,000
2008	9,080,000
2009	8,408,000
2010	8,334,000
2011	8,013,000
2012	7,163,000

Table of Contents

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

6. Income Taxes

On January 1, 2007, the Company adopted the provisions of FIN No. 48. As a result of the implementation of FIN No. 48, the Company recognized no material adjustment to the liability for unrecognized income tax benefits. At the adoption date of January 1, 2007, the Company had approximately \$5,030,000 of unrecognized tax benefits. At June 30, 2007, the Company had approximately \$4,820,000 of unrecognized tax benefits all of which would impact the effective tax rate if recognized.

Reliance and its subsidiaries file numerous consolidated and separate income tax returns in the United States federal jurisdiction and in many state and foreign jurisdictions. Except for various pre-acquisition periods of newly acquired subsidiaries, the Company is no longer subject to U.S. federal, state and local, or foreign income tax examinations for years before 2002.

The Internal Revenue Service (IRS) is currently examining the Company s 2002 through 2004 federal income tax returns. The IRS has issued significant proposed adjustments related to certain of the Company s inventory costing and LIFO methods. The IRS has also issued a proposed adjustment for a pre-acquisition refund claim filed by one of the Company s subsidiaries. The Company does not accept any of the IRS proposed adjustments and expects to contest them through the IRS administrative proceedings. The Company is also under audit by various state and foreign jurisdictions but does not anticipate any material adjustments from these examinations. Certain of the current proposed adjustments are merely a timing impact or relate to pre-acquisition contingencies and therefore would not have an effect on the Company s effective tax rate. The Company does not anticipate that the proposed IRS adjustments, when resolved, would result in a material charge to its results of operations or financial condition. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of January 1, 2007 and June 30, 2007, there were approximately \$770,000 and \$1,350,000, respectively, of accrued interest and penalties related to uncertain tax positions.

Table of Contents

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

7. Long-Term Debt

Long-term debt consists of the following:

	June 30, 2007	December 31, 2006
	(In thousands)	
Revolving line of credit (\$1,100,000,000 limit) due November 9, 2011, interest at variable rates (based on LIBOR plus 0.55% or the bank's prime rate as of June 30, 2007 and December 31, 2006), weighted average rate of 6.00% and 5.80% during the six months ended June 30, 2007 and 2006, respectively	\$ 392,000	\$ 203,000
Senior unsecured notes due January 2, 2009, weighted average fixed interest rate of 7.37% and 7.33% at June 30, 2007 and December 31, 2006, respectively	10,000	30,000
Senior unsecured notes due January 2, 2008, weighted average fixed interest rate of 7.08% at June 30, 2007 and December 31, 2006	30,000	30,000
Senior unsecured notes due from October 15, 2008 to October 15, 2010, weighted average fixed interest rate of 6.66% at June 30, 2007 and December 31, 2006	103,000	103,000
Senior unsecured notes due from July 1, 2011 to July 2, 2013, weighted average fixed interest rate of 5.14% at June 30, 2007 and December 31, 2006	135,000	135,000
Senior unsecured notes due November 15, 2016, fixed interest rate of 6.20%, comprised of \$350,000,000 of principal balance net of \$907,000 and \$957,000 of unamortized debt discount at June 30, 2007 and December 31, 2006, respectively	349,093	349,043
Senior unsecured notes due November 15, 2036, fixed interest rate of 6.85%, comprised of \$250,000,000 of principal balance net of \$1,384,000 and \$1,407,000 of unamortized debt discount at June 30, 2007 and December 31, 2006, respectively	248,616	248,593
Senior notes due June 1, 2012, fixed rate of 9.75%, comprised of \$250,000 of principal balance and \$17,000 and \$19,000 of unamortized debt premium at June 30, 2007 and December 31, 2006, respectively	267	269
Variable Rate Demand Industrial Development Revenue Bonds, Series 1989 A, due July 1, 2014, with interest payable quarterly; variable interest rate of 3.69% and 3.80% at June 30, 2007 and December 31, 2006, respectively	2,050	2,050
Variable Rate Demand Revenue Bonds, Series 1999, due March 1, 2009, with interest payable quarterly; variable interest rate of 3.93% and 4.11% at June 30, 2007 and December 31, 2006, respectively	900	1,225
Industrial Development Revenue Bonds, payable in annual installments of \$715,000 on December 1 st of each year, fixed interest rate of 5.25%	2,155	2,155
Revolving short-term \$4,000,000 credit facility for operations in China, variable interest rate of 5.86% and 6.00% (based on LIBOR plus 0.50%) at June 30, 2007 and December 31, 2006, respectively	2,475	1,017
Total	1,275,556	1,105,352
Less amounts due within one year	(33,840)	(22,257)

Total long-term debt	\$ 1,241,716	\$ 1,083,095
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On November 9, 2006, the Company amended and restated its syndicated credit agreement to allow for increased borrowings of up to \$1,100,000,000. This five-year, unsecured syndicated credit facility, which replaced the \$700,000,000 and \$100,000,000 existing bank credit lines, has fifteen banks as lenders and can be increased to \$1,600,000,000 with their approval.

Table of Contents

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

The Company also has two separate revolving credit facilities for operations in Canada with a combined credit limit of CDN\$35,000,000. There were no borrowings outstanding on these credit facilities at June 30, 2007 and December 31, 2006.

At June 30, 2007, the Company had \$33,300,000 of letters of credit outstanding under the syndicated credit facility with availability to issue an additional \$91,700,000 of letters of credit. The syndicated credit facility includes a commitment fee on the unused portion, at an annual rate of 0.125% at June 30, 2007.

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. Reliance, at its option, may redeem all or part of the notes of either series at any time prior to their maturity by paying a redemption price equal to the greater of 100% of the aggregate principal amount of the notes to be redeemed or the sum of the present values of the remaining scheduled payments (as defined in the Indenture), plus, in each case, accrued and unpaid interest thereon to, but not including, the redemption date. The proceeds from the notes were used to pay down outstanding borrowings on the \$1,100,000,000 credit facility. In April 2007, these notes were exchanged for publicly traded notes registered with the Securities and Exchange Commission.

The Company also has \$278,000,000 of outstanding senior unsecured notes issued in private placements of debt. The outstanding senior notes bear interest at an average fixed rate of 6.0% and have an average remaining life of 3.6 years, maturing from 2008 to 2013.

The \$1,100,000,000 syndicated credit agreement and the 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.

8. Shareholders' Equity

On May 17, 2006, Reliance's Board of Directors declared a two-for-one stock split in the form of a 100% stock dividend on the Company's common stock. The common stock split was affected by issuing one additional share of common stock for each share held by shareholders of record on July 5, 2006. The additional shares were distributed on July 19, 2006. All share and per share data, including prior period data as appropriate, have been adjusted to reflect this split.

Additionally, during the six months ended June 30, 2007, the Company issued 572,938 shares of common stock in connection with the exercise of employee stock options for total proceeds of approximately \$10,796,000. Also, 6,244 shares of common stock valued at approximately \$280,000 were issued to division managers of the Company in March 2007 under the Key Man Incentive Plan for 2006. The Company has not repurchased any shares of its common stock since 2000.

Table of Contents

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

Statement of Financial Accounting Standards (SFAS) No. 130, *Reporting Comprehensive Income*, defines comprehensive income (loss) as non-stockholder changes in equity. Comprehensive income for each of the three- and six-month periods ended June 30, 2007 and 2006, respectively, included the following:

	Three Months Ended		Six Months Ended June	
	June 30,		30,	
	2007	2006	2007	2006
	(In thousands)			
Net income	\$ 122,784	\$ 100,505	\$ 234,480	\$ 172,360
Other comprehensive income:				
Foreign currency translation income	12,594	1,364	15,009	1,782
Minimum pension liability, net of tax		574		574
Unrealized gain/(loss) on investments, net of tax	66	(41)	66	(3)
Total other comprehensive income	12,660	1,897	15,075	2,353
Total comprehensive income	\$ 135,444	\$ 102,402	\$ 249,555	\$ 174,713

Accumulated other comprehensive income included the following:

	June 30,	December 31,
	2007	2006
	(In thousands)	
Foreign currency translation adjustments	\$ 17,730	\$ 2,721
Unrealized gain on investments, net of tax	311	245
Minimum pension liability, net of tax	(4,597)	(4,597)
Total accumulated other comprehensive income	\$ 13,444	\$ (1,631)

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 taxes of (\$192,000) and \$2,836,000, respectively, as of June 30, 2007 and (\$151,000) and \$2,836,000, respectively, as of December 31, 2006.

9. 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 three of the Company's subsidiaries, each of which provides post-retirement benefits to its respective key employees. Certain other deferred compensation arrangements exist for key officers at some of our 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 years of service.

Table of Contents

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

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

Three Months Ended June 30,	SERP Plans		Defined Benefit Plans	
	2007	2006	2007	2006
Service Cost	\$ 241	\$ 142	\$ 206	\$ 270
Interest Cost	392	283	411	400
Expected return on assets			(467)	(400)
Amortization of prior service cost	49	49	5	37
Amortization of net loss	313	133	4	113
Settlement expense			15	697
Net periodic pension cost	\$ 995	\$ 607	\$ 174	\$ 1,117

Six Months Ended June 30,	SERP Plans		Defined Benefit Plans	
	2007	2006	2007	2006
Service Cost	\$ 481	\$ 283	\$ 412	\$ 367
Interest Cost	784	558	822	521
Expected return on assets			(935)	(515)
Amortization of prior service cost	98	98	10	36
Amortization of net loss	625	257	8	133
Settlement expense			15	829
Net periodic pension cost	\$ 1,988	\$ 1,196	\$ 332	\$ 1,371

Post-retirement Plan

In addition to the Company's defined benefit pension plans as noted above, EMJ sponsors a defined benefit health care plan that provides post-retirement medical and dental benefits to eligible full time employees and their dependents (the Post-retirement Plan). The Post-retirement Plan is fully insured, with retirees paying a percentage of the annual premium. Such premiums are adjusted annually based on age and length of service of active and retired participants. The Post-retirement Plan contains other cost-sharing features such as deductibles and coinsurance. The Company recognizes the cost of future benefits earned by participants during their working careers, as determined using actuarial assumptions. Gains and losses realized from the remeasurement of the plan's benefit obligation are amortized to income over three years.

Components of the net periodic pension expense associated with the Company's Post-retirement Plan are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Service Cost	\$ 123	\$ 100	\$ 246	\$ 100
Interest Cost	110	89	220	89
Expected return on assets				
Amortization of prior service cost				

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Amortization of net loss	21	19	42	19
Net periodic pension cost	\$ 254	\$ 208	\$ 508	\$ 208

15

Table of Contents

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

Contributions

The Company previously disclosed in its financial statements for the year ended December 31, 2006, included in its Annual Report on Form 10-K, that it expected to contribute \$1,515,000 to its defined benefit plans in 2007. As of June 30, 2007, contributions of approximately \$1,139,000 had been made.

Share Based Compensation

On March 2, 2007, the Company granted 1,026,500 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; Volatility 39.6%; Dividend yield 0.7%; Risk-free interest rate 4.5%; Grant date option fair value \$17.11.

On May 16, 2007, 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; Volatility 38.6%; Dividend yield 0.5%; Risk-free interest rate 4.6%; Grant date option fair value \$25.24

Supplemental Bonus Plan

In 2005, prior to Reliance's acquisition, 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. During the six months ended June 30, 2007, EMJ paid out cash of \$341,000 in lieu of 9,377 Reliance shares to terminated employees. At June 30, 2007, the remaining obligation to contribute cash to a phantom stock plan supplementing the EMJ Retirement Savings Plan consisted of the cash equivalent of 160,655 shares of Reliance common stock. This obligation will be satisfied by future cash contributions as allowed under the Internal Revenue Code and ERISA requirements.

Table of Contents

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

10. 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,	
	2007	2006	2007	2006
	(In thousands, except per share amounts)			
Numerator:				
Net income	\$ 122,784	\$ 100,505	\$ 234,480	\$ 172,360
Denominator:				
Denominator for basic earnings per:				
Weighted average shares	76,220	75,115	76,042	70,722
Effect of dilutive securities:				
Stock options	962	760	650	710
Denominator for dilutive earnings per share:				
Adjusted weighted average shares and assumed conversions	77,182	75,875	76,692	71,432
Earnings per share from continuing operations diluted	\$ 1.59	\$ 1.32	\$ 3.06	\$ 2.41
Earnings per share from continuing operations basic	\$ 1.61	\$ 1.34	\$ 3.08	\$ 2.44

The computations of earnings per share for the three 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. There were 42,000 anti-dilutive shares reserved for issuance upon exercise of stock options for the three and six months ended June 30, 2006.

Table of Contents

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

11. 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 combined and 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 loan. 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. Certain prior year amounts have been adjusted to conform to current year presentation.

Condensed Unaudited Consolidating Balance Sheet**As of June 30, 2007****(in thousands)**

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	& Reclassification	Eliminations & Consolidated
Assets					
Cash and cash equivalents	\$ (17,690)	\$ 74,145	\$ 18,495	\$	\$ 74,950
Accounts receivable, less allowance for doubtful accounts	102,428	676,223	59,285		837,936
Inventories	98,796	917,100	84,574		1,100,470
Intercompany receivables	639	6,555	901	(8,095)	
Prepaid expenses and other current assets	371	20,678	1,108		22,157
Total current assets	184,544	1,694,701	164,363	(8,095)	2,035,513
Investments in subsidiaries	2,570,151	36,828		(2,606,979)	
Property, plant and equipment, net	86,913	676,894	17,991		781,798
Goodwill	15,328	804,069	98,679		918,076
Intangible assets, net	6,176	376,644	16		382,836
Intercompany receivables	61,415	1,570		(62,985)	
Other assets	55	56,233	2,069		58,357
Total assets	\$ 2,924,582	\$ 3,646,939	\$ 283,118	\$ (2,678,059)	\$ 4,176,580
Liabilities & Shareholders Equity					
Accounts payable	\$ 48,644	\$ 385,353	\$ 30,048	\$ (8,095)	\$ 455,950
Accrued compensation and retirement costs	4,440	71,735	4,107		80,282
Other current liabilities	14,420	80,757	14,788		109,965
Current maturities of long-term debt	30,200	1,165	2,475		33,840
Current maturities of capital lease obligations		571	53		624
Total current liabilities	97,704	539,581	51,471	(8,095)	680,661
Long-term debt	847,558	394,158			1,241,716

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Intercompany borrowings			62,985	(62,985)	
Deferred taxes and other long-term liabilities		246,808	1,930		248,738
Total shareholders' equity	1,979,320	2,466,392	166,732	(2,606,979)	2,005,465
Total liabilities and shareholders' equity	\$ 2,924,582	\$ 3,646,939	\$ 283,118	\$ (2,678,059)	\$ 4,176,580

18

Table of Contents

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

Condensed Consolidating Balance Sheet
As of December 31, 2006
(in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations & Reclassification	Consolidated
Assets					
Cash and cash equivalents	\$ (8,721)	\$ 56,466	\$ 9,730	\$	\$ 57,475
Accounts receivable, less allowance for doubtful accounts	87,570	545,931	32,585	187	666,273
Inventories	79,901	785,855	38,562		904,318
Intercompany receivables	655	2,781	338	(3,774)	
Prepaid expenses and other current assets		46,504	1,006	(187)	47,323
Total current assets	159,405	1,437,537	82,221	(3,774)	1,675,389
Investments in subsidiaries	2,308,683	31,021		(2,339,704)	
Property, plant and equipment, net	87,365	640,014	15,293		742,672
Goodwill	15,328	766,839	2,704		784,871
Intangible assets, net	5,591	348,581	23		354,195
Intercompany receivables	109,477			(109,477)	
Other assets	526	56,062	922	(464)	57,046
Total assets	\$ 2,686,375	\$ 3,280,054	\$ 101,163	\$ (2,453,419)	\$ 3,614,173
Liabilities & Shareholders Equity					
Accounts payable	\$ 30,885	\$ 291,204	\$ 22,041	\$ (3,774)	\$ 340,356
Accrued compensation and retirement costs	10,199	78,960	3,746		92,905
Other current liabilities	7,598	84,292	2,772		94,662
Current maturities of long-term debt	20,200	1,040	1,017		22,257
Current maturities of capital lease obligations		559			559
Total current liabilities	68,882	456,055	29,576	(3,774)	550,739
Long-term debt	877,487	205,608			1,083,095
Intercompany borrowings		88,154	20,404	(108,558)	
Deferred taxes and other long-term liabilities		232,330	1,611		233,941
Total shareholders equity	1,740,006	2,297,907	49,572	(2,341,087)	1,746,398
Total liabilities and shareholders equity	\$ 2,686,375	\$ 3,280,054	\$ 101,163	\$ (2,453,419)	\$ 3,614,173

Table of Contents

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

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
Other income, net	120	29,304	2,643	(29,734)	2,333
	248,058	1,596,883	99,868	(46,440)	1,898,369
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
Interest	15,153	11,679	941	(8,158)	19,615
	258,221	1,398,476	91,656	(46,440)	1,701,913
Income (loss) before equity in earnings of subsidiaries and income taxes	(10,163)	198,407	8,212		196,456
Equity in earnings of subsidiaries	139,910	923		(140,833)	
Income from continuing operations before income taxes	129,747	199,330	8,212	(140,833)	196,456
Provision for income taxes	6,963	63,587	3,122		73,672
Net income	\$ 122,784	\$ 135,743	\$ 5,090	\$ (140,833)	\$ 122,784

Condensed Unaudited Consolidating Statement of Income
For the three months ended June 30, 2006
(in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ 221,834	\$ 1,284,874	\$ 63,267	\$ (10,753)	\$ 1,559,222
Other income, net	66	24,700	532	(24,922)	376
	221,900	1,309,574	63,799	(35,675)	1,559,598
Costs and expenses:					

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Cost of sales (exclusive of depreciation and amortization shown below)	160,226	941,756	48,140	(10,773)	1,139,349
Warehouse, delivery, selling, general and administrative	56,531	180,977	10,318	(22,474)	225,352
Depreciation and amortization	1,809	14,716	275		16,800
Interest	6,094	13,052	215	(2,428)	16,933
	224,660	1,150,501	58,948	(35,675)	1,398,434
Income (loss) before equity in earnings of subsidiaries and income taxes	(2,760)	159,073	4,851		161,164
Equity in earnings of subsidiaries	114,250	2,039		(116,289)	
Income from continuing operations before income taxes	111,490	161,112	4,851	(116,289)	161,164
Provision for income taxes	10,985	47,650	2,024		60,659
Net income	\$ 100,505	\$ 113,462	\$ 2,827	\$ (116,289)	\$ 100,505

Table of Contents

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

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

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ 486,065	\$ 3,099,846	\$ 181,739	\$ (29,724)	\$ 3,737,926
Other income, net	231	58,413	2,731	(58,668)	2,707
	486,296	3,158,259	184,470	(88,392)	3,740,633
Costs and expenses:					
Cost of sales (exclusive of depreciation and amortization shown below)	362,423	2,297,569	137,751	(29,766)	2,767,977
Warehouse, delivery, selling, general and administrative	112,560	418,935	30,297	(41,691)	520,101
Depreciation and amortization	4,238	32,604	819		37,661
Interest	30,760	24,397	1,503	(16,935)	39,725
	509,981	2,773,505	170,370	(88,392)	3,365,464
Income (loss) before equity in earnings of subsidiaries and income taxes	(23,685)	384,754	14,100		375,169
Equity in earnings of subsidiaries	266,990	1,837		(268,827)	
Income from continuing operations before income taxes	243,305	386,591	14,100	(268,827)	375,169
Provision for income taxes	8,825	127,591	4,273		140,689
Net income	\$ 234,480	\$ 259,000	\$ 9,827	\$ (268,827)	\$ 234,480

Condensed Unaudited Consolidating Statement of Income
For the six months ended June 30, 2006
(in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ 425,188	\$ 2,053,515	\$ 86,837	\$ (18,332)	\$ 2,547,208
Other income, net	743	46,793	428	(46,310)	1,654
	425,931	2,100,308	87,265	(64,642)	2,548,862
Costs and expenses:					

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Cost of sales (exclusive of depreciation and amortization shown below)	307,112	1,502,923	65,490	(18,375)	1,857,150
Warehouse, delivery, selling, general and administrative	107,804	282,444	14,169	(41,970)	362,447
Depreciation and amortization	3,582	24,663	376		28,621
Interest	12,088	14,544	307	(4,297)	22,642
	430,586	1,824,574	80,342	(64,642)	2,270,860
Income (loss) before equity in earnings of subsidiaries and income taxes	(4,655)	275,734	6,923		278,002
Equity in earnings of subsidiaries	193,874	2,675		(196,549)	
Income from continuing operations before income taxes	189,219	278,409	6,923	(196,549)	278,002
Provision for income taxes	16,859	85,848	2,935		105,642
Net income	\$ 172,360	\$ 192,561	\$ 3,988	\$ (196,549)	\$ 172,360

Table of Contents

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

Condensed Unaudited Consolidating Cash Flow Statement
For the six months ended June 30, 2007
(in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating activities:					
Net income	\$ 234,480	\$ 259,000	\$ 9,827	\$ (268,827)	\$ 234,480
Equity in earnings of subsidiaries	(266,990)	(1,837)		268,827	
Adjustments to reconcile net income to cash provided by (used in) operating activities	(6,003)	(55,233)	(3,005)		(64,241)
Cash provided by (used in) operating activities	(38,513)	201,930	6,822		170,239
Investing activities:					
Purchases of property, plant and equipment	(3,462)	(53,952)	(1,231)		(58,645)
Acquisitions of metals service centers and net asset purchases of metals service centers, net of cash acquired		(217,712)			(217,712)
Net advances from subsidiaries	48,062			(48,062)	
Other investing activities, net	112	2,139	59		2,310
Cash provided by (used in) investing activities	44,712	(269,525)	(1,172)	(48,062)	(274,047)
Financing activities:					
Net borrowings (repayments) of long-term debt	(20,000)	175,916	(39,667)		116,249
Dividends paid	(12,174)				(12,174)
Intercompany borrowings (repayments)		(90,642)	42,580	48,062	
Other financing activities	17,006				17,006
Cash provided by (used in) financing activities	(15,168)	85,274	2,913	48,062	121,081
Effect of exchange rate changes on cash and cash equivalents			202		202
Increase (decrease) in cash and cash equivalents	(8,969)	17,679	8,765		17,475
Cash and cash equivalents at beginning of period	(8,721)	56,466	9,730		57,475

Cash and cash equivalents at end of period	\$ (17,690)	\$ 74,145	\$ 18,495	\$ 74,950
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Table of Contents

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

Condensed Unaudited Consolidating Cash Flow Statement
For the six months ended June 30, 2006
(in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating activities:					
Net income	\$ 172,360	\$ 192,561	\$ 3,988	\$ (196,549)	\$ 172,360
Equity in earnings of subsidiaries	(193,874)	(2,675)		196,549	
Adjustments to reconcile net income to cash provided by (used in) operating activities	(36,790)	(221,119)	8,382		(249,527)
Cash provided by (used in) operating activities	(58,304)	(31,233)	12,370		(77,167)
Investing activities:					
Purchases of property, plant and equipment	(16,813)	(40,852)	(2,029)		(59,694)
Acquisitions of metals service centers and net asset purchases of metals service centers, net of cash acquired	(323,245)	(20,679)			(343,924)
Net advances from subsidiaries	419,780			(419,780)	
Other investing activities, net	808	1,201			2,009
Cash provided by (used in) investing activities	80,530	(60,330)	(2,029)	(419,780)	(401,609)
Financing activities:					
Net borrowings (repayments) of long-term debt	(25,000)	481,409	1,316		457,725
Dividends paid	(7,081)				(7,081)
Intercompany borrowings (repayments)		(414,621)	(5,159)	419,780	
Other financing activities	3,048				3,048
Cash provided by (used in) financing activities	(29,033)	66,788	(3,843)	419,780	453,692
Effect of exchange rate changes on cash and cash equivalents			166		166
Increase (decrease) in cash and cash equivalents	(6,807)	(24,775)	6,664		(24,918)
Cash and cash equivalents at beginning of period	(7,912)	35,717	7,217		35,022

Cash and cash equivalents at end of period	\$ (14,719)	\$ 10,942	\$ 13,881	\$ 10,104
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12. Subsequent Event

The Company acquired all of the outstanding capital stock of Clayton Metals, Inc. (Clayton Metals), an Illinois corporation headquartered in Wood Dale, Illinois, effective July 1, 2007. 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 net sales for the twelve months ended December 31, 2006 were approximately \$123,000,000. The Company acquired Clayton Metals through RSAC Management Corp., the Company s wholly-owned subsidiary. The all cash purchase price was funded with borrowings on the Company s syndicated credit facility.

Table of Contents**RELIANCE STEEL & ALUMINUM CO.****Item 2. Management's Discussion And Analysis of Financial Condition And Results of Operations**

The following table sets forth certain income statement data for the three- and six-month periods ended June 30, 2007 and 2006 (dollars are shown in thousands and certain amounts may not calculate due to rounding):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2007	% of	2006	% of	2007	% of	2006	% of
	\$	Net	\$	Net	\$	Net	\$	Net
		Sales		Sales		Sales		Sales
Net sales	\$ 1,896,036	100.0%	\$ 1,559,222	100.0%	\$ 3,737,926	100.0%	\$ 2,547,208	100.0%
Gross profit	497,497	26.2	419,873	26.9	969,949	25.9	690,058	27.1
S,G&A expenses	264,549	14.0	225,352	14.5	520,101	13.9	362,447	14.2
Depreciation expense	16,451	0.9	14,613	0.9	32,598	0.9	25,636	1.0
Operating profit⁽¹⁾	\$ 216,497	11.4%	\$ 179,908	11.5%	\$ 417,250	11.2%	\$ 301,975	11.9%

(1) Excludes other income, amortization expense, interest expense, and income tax expense.

2007 Acquisitions*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, 2006 were approximately \$133 million.

Acquisition of Industrial Metals and Surplus, Inc.

Also, on January 2, 2007, the Company's wholly-owned subsidiary, Siskin Steel & Supply Company, Inc., 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., 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. Siskin's Georgia Steel Supply Company division located in Atlanta will be combined with the Industrial Metals operations. Net sales for Industrial Metals (including Athens Steel) for the year ended December 31, 2006 were approximately \$105 million.

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 managed by HSBC Capital (Canada) Inc. of certain former Corus CIC and Corus America businesses. Encore specializes in the processing and distribution of alloy and carbon bar and tube, as well as stainless steel sheet, plate and bar and carbon steel flat-rolled products, through its 17 facilities located mainly in Western Canada. Encore Group's net sales for the year ended December 31, 2006 were approximately CDN\$259 million.

Table of Contents

The total cost of the acquisitions of Crest, Industrial Metals, and Encore Group of approximately \$217.7 million was funded with borrowings on the Company's syndicated credit facility. Total debt assumed, net of cash, in connection with these acquisitions was approximately \$51.5 million. The consolidated financial statements reflect the allocations of each acquisition's purchase price, which is preliminary as of June 30, 2007 for Encore Group and Industrial Metals.

2006 Acquisitions*Acquisition of Yarde Metals, Inc.*

On August 1, 2006 we acquired Yarde Metals, Inc. (Yarde Metals), a metals service center company headquartered in Southington, Connecticut. We paid \$100 million in cash and assumed approximately \$101 million of net debt for all of the outstanding common stock of Yarde Metals. Yarde Metals was founded in 1976 and specializes in the processing and distribution of stainless steel and aluminum plate, rod and bar products. Yarde Metals has additional metals service centers in Pelham, New Hampshire; East Hanover, New Jersey; Hauppauge, New York; High Point, North Carolina; Streetsboro, Ohio; and Limerick, Pennsylvania and a sales office in Ft. Lauderdale, Florida. Yarde's net sales for the five months ended December 31, 2006 were approximately \$182 million.

Acquisition of Earle M. Jorgensen Company

On April 3, 2006 we acquired Earle M. Jorgensen Company (EMJ), which was our first acquisition of a public company. EMJ, headquartered in Lynwood, California, is one of the largest distributors of metal products in North America with 40 service center facilities. The transaction was valued at approximately \$984 million, including the assumption of EMJ's net debt. We paid \$6.50 in cash and issued 0.1784 of a share of Reliance common stock for each share of EMJ common stock outstanding. This also was the first acquisition where we used our stock as consideration. EMJ's net sales for the nine months ended December 31, 2006 were approximately \$1.45 billion.

Acquisition of Flat Rock Metal Processing L.L.C.

On March 27, 2006, through Precision Strip, Inc. (Precision Strip), a wholly-owned subsidiary, we completed the acquisition of certain assets and business of Flat Rock Metal Processing, L.L.C. (Flat Rock). The Flat Rock toll processing business in Perrysburg, Ohio and Portage, Indiana are operated by Precision Strip.

Acquisition of Everest Metals (Suzhou) Co., Ltd.

In October 2005, we formed Reliance Pan Pacific Pte., Ltd. (RPP) with our joint venture partner Manufacturing Network Pte. Ltd. (MNPL). We own 70% of RPP and MNPL owns the remaining 30%. On March 1, 2006, RPP acquired 100% of the outstanding equity interest in Everest Metals (Suzhou) Co., Ltd. (Everest Metals), a metals service center company near Shanghai, People's Republic of China, from MNPL. Everest Metals was formed in 2001 and began processing and distributing primarily aluminum products to the electronics industry in 2002. Everest's net sales for the ten months ended December 31, 2006 were approximately \$6 million.

Acquisition of the minority interest in American Steel, L.L.C.

In January 2006, we purchased the remaining 49.5% of American Steel, L.L.C. (American Steel), from American Industries, Inc., the holder of the minority interest. As a result, effective January 3, 2006, we include 100% of American Steel's income in our financial results.

Three Months Ended June 30, 2007 Compared to Three Months Ended June 30, 2006

In the three months ended June 30, 2007, our consolidated net sales increased 22% to \$1.90 billion, compared to \$1.56 billion for the three months ended June 30, 2006. This includes an 8.3% increase in our tons sold and a 12.9% increase in our average selling price per ton sold (the tons sold and average selling price per ton sold exclude the amounts related to Precision Strip, a toll processing business). Our 2006 and 2007 acquisitions were the primary factor in our increase in tons.

Table of Contents

Same-store sales, which exclude the sales of our 2006 and 2007 acquisitions, were \$1.12 billion in the 2007 second quarter, up 5.4% from the 2006 second quarter, with a 4.7% decrease in our tons sold and an 11.1% increase in our average selling price per ton sold. The decrease in tons sold was due to a slight reduction in demand in many end markets that we serve compared to the 2006 second quarter when demand was very strong. Our average selling price per ton sold increased mainly because of significant cost increases for stainless products since the 2006 period and cost increases for carbon steel products in the 2007 second quarter.

Our 2007 second quarter gross profit was a record \$497.5 million compared to \$419.9 million in the 2006 second quarter. Our gross profit as a percentage of sales in the 2007 second quarter was 26.2% compared to 26.9% in the 2006 second quarter. Our gross profit margin was lower than the 2006 second quarter mainly because of competitive pressures in the market resulting from high inventory levels in the service center industry. We also saw generally lower margins for our aerospace products due to increased supply availability as compared to the 2006 second quarter when supply was extremely tight, resulting in extremely strong gross profit margins.

In the 2007 second quarter, LIFO expense was \$13.75 million, or \$.11 earnings per diluted share, mainly because of continued cost increases for stainless steel products. In the 2006 second quarter we recorded LIFO expense of \$18.0 million, or \$.15 earnings per diluted share. LIFO expense is included in our cost of sales.

Our 2007 second quarter warehouse, delivery, selling, general and administrative (S,G,&A) expenses were 14.0% as a percentage of sales, slightly down from 14.5% during the 2006 second quarter due to increased selling prices in the 2007 second quarter as well as our continued efforts on cost control. Our increase in expense dollars of \$39.2 million was mainly due to our 2006 and 2007 acquisitions, along with general cost increases.

Depreciation expense in the 2007 second quarter was \$16.5 million compared to \$14.6 million in the 2006 second quarter. The increase was mostly due to the additional depreciation expense from our 2006 and 2007 acquisitions and depreciation on new assets placed in service during the second half of 2006 and throughout 2007.

Operating profit in the 2007 second quarter was \$216.5 million, or 11.4%, compared to \$179.9 million, or 11.5%, in the 2006 second quarter. Our operating profit dollars increased mainly because of our acquisitions.

Interest expense for the 2007 second quarter increased \$2.7 million, or 15.8%, due to additional borrowings made to fund our 2006 and 2007 acquisitions.

Six Months Ended June 30, 2007 Compared to Six Months Ended June 30, 2006

Our 2007 six-month consolidated sales of \$3.74 billion were up 46.7% from the 2006 six-month period. This includes a 25.8% increase in tons sold and a 17.7% increase in our average selling price per ton sold. Our 2006 and 2007 acquisitions contributed to our increased sales in the 2007 six-month period. Our 2006 and 2007 acquisitions, especially EMJ and Yarde Metals, also contributed to the increase in our average selling price per ton sold as our product mix shifted to higher percentages of aluminum, alloy and stainless steel products. Same-store sales were \$2.2 billion in the 2007 six-month period, up 7.7% from the 2006 six-month period, with a 2.0% decrease in our tons sold and a 10.5% increase in our average selling price per ton sold. The continued increases in stainless steel prices also contributed to the increase in our average selling price per ton sold.

Total gross profit increased 40.5% to \$969.9 million for the 2007 six-month period compared to \$690.1 million in the 2006 six-month period. This increase is mainly due to the additional gross profit from our 2006 and 2007 acquisitions. Gross profit as a percentage of sales in the 2007 six-month period was 25.9%, compared to 27.1% in the 2006 six-month period. The decline is mainly due to the competitive pressures discussed above.

Also, in the 2007 six-month period we recorded LIFO expense of \$32.5 million, or \$.26 earnings per diluted share, up from our 2006 six-month LIFO expense of \$23.0 million, or \$.20 earnings per diluted share. The higher expense in 2007 is mainly due to increased costs for stainless steel products in 2007 as compared to 2006 levels. We have reduced our full year LIFO expense estimate to \$65 million from \$75 million, mainly due to recent price declines for stainless steel products.

Table of Contents

In the 2007 six-month period our S,G&A expenses increased \$157.7 million or 43.5% compared to 2006, due mainly to the additional expenses of the companies that we acquired in 2006 and 2007. Our expenses as a percent of sales in the 2007 six-month period were 13.9% compared to 14.2% in the 2006 period. The slight improvement as a percent of sales is mainly due to our increased selling prices in 2007 and our effective expense control.

Depreciation expense for the 2007 six-month period was \$32.6 million compared to \$25.6 million in the 2006 six-month period. The increase was mostly due to the additional depreciation expense from our 2006 and 2007 acquisitions, along with depreciation on new assets placed in service throughout 2006 and the first half of 2007. Amortization expense increased \$2.1 million in the 2007 six-month period primarily due to the additional amortization expense from our 2006 and 2007 acquisitions.

Our 2007 six-month operating profit was \$417.3 million, resulting in an operating profit margin of 11.2%, compared to \$302.0 million, or an 11.9% operating profit margin in the same period of 2006. Our operating profit dollars increased because of our acquisitions. However, our operating profit margin declined mainly due to the somewhat lower gross profit margins in 2007.

Interest expense for the 2007 six-month period increased \$17.1 million or 75.4% due to additional borrowings made to fund our 2006 and 2007 acquisitions.

Our 2007 six-month period effective income tax rate was 37.5% compared to 38.0% in the same six-month period in 2006. The decrease in 2007 is mainly due to our increased international exposure and tax benefits from certain of our 2006 and 2007 acquisitions.

Liquidity and Capital Resources

At June 30, 2007, our working capital was \$1.35 billion, up from \$1.12 billion at December 31, 2006. The overall increase was primarily from the additional working capital of our 2007 acquisitions. Excluding the initial effect of acquisitions, the increase in working capital is mainly due to an increase in our accounts receivable of \$114.8 million and an increase in our inventory of \$95.0 million. This was offset by an increase in accounts payable and accrued expenses of \$84.1 million.

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 our two most significant elements of working capital. As of June 30, 2007, our days sales outstanding were approximately 40 days, a slight improvement from our 2006 year-end rate of 41 days. (We calculate our days sales outstanding as an average of the most recent two-month period.) Our inventory turn rate during the 2007 six-month period was about 4.4 times (or 2.7 months on hand), consistent with our year end 2006 rate. Our 2006 and 2007 inventory turn rates were negatively impacted by our acquisitions of EMJ and Yarde Metals because they carry many products that do not typically turn at rates as high as many of our other products. We are focusing on improving our inventory turn rate from current levels. As demand and pricing for our products increase or decrease, our working capital needs increase or decrease, respectively. We expect to finance increases in our working capital needs through operating cash flow or with borrowings on our syndicated credit facility.

Our primary sources of liquidity are generally from internally generated funds from operations and our revolving line of credit. Cash flow provided by operations was \$170.2 million in the six months ended June 30, 2007 compared to cash used in operations of \$77.2 million in the six months ended June 30, 2006. In 2006 our working capital needs were increasing due to both increased demand and pricing. In 2007 our working capital needs have been more stable which contributed to our strong cash flows along with our increased earnings in the 2007 six-month period.

Our outstanding debt (including capital lease obligations) at June 30, 2007 was \$1.3 billion, up from \$1.1 billion at December 31, 2006, mainly due to the financing of our 2007 acquisitions. At June 30, 2007, we had \$392 million borrowed on our \$1.1 billion revolving line of credit, which includes \$20 million to pay off private placement notes that matured in 2007. Our net debt-to-total capital ratio was 37.6% at June 30, 2007; consistent with our 2006 year-end rate (net debt-to-total capital is calculated as total debt, net of cash, divided by shareholders' equity plus total debt, net of cash). On January 2, 2007 we funded our acquisitions of Crest and Industrial Metals with borrowings on our credit facility. On February 1, 2007, we borrowed additional funds under our credit facility for the purchase of the net assets and business of the Encore Group.

Table of Contents

In the 2007 six months we used our borrowings and operating cash flow to fund our increased working capital needs, capital expenditures of approximately \$58.6 million and acquisitions of approximately \$217.7 million. Our June 30, 2007 financial statements include preliminary purchase price allocations for our 2007 acquisitions of Encore Group and IMS.

At June 30, 2007, we also had \$278 million of outstanding senior unsecured notes issued in private placements of debt and \$600 million of outstanding senior unsecured notes.

The \$278 million of outstanding private placement notes bear interest at an average fixed rate of 6.0% and have an average remaining life of 3.6 years, maturing from 2008 to 2013.

The \$600 million unsecured debt securities are 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. In April 2007, these notes were exchanged for publicly traded notes registered with the Securities and Exchange Commission.

We also have two separate revolving credit facilities for operations in Canada with a combined credit limit of CDN\$35 million. There were no borrowings outstanding on these credit facilities at June 30, 2007 and December 31, 2006.

Our \$1.1 billion syndicated credit facility and our senior unsecured notes 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.

Proceeds from the issuance of common stock upon the exercise of stock options during the 2007 six-month period were \$10.8 million.

On July 2, 2007 we borrowed funds on our credit facility to purchase Clayton Metals. Our pro forma net debt-to-total capital ratio for the borrowing was 38.2%.

Capital expenditures were \$58.6 million for the six months ended June 30, 2007 compared to \$59.7 million during the same prior year period. Our 2007 capital expenditure budget is approximately \$145 million. Our 2007 budget includes several growth initiatives to expand or relocate existing facilities and to add or upgrade equipment. We had no material changes in commitments for capital expenditures, operating lease obligations or purchase obligations as of June 30, 2007, 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, 2006, except the 2007 acquisitions discussed above. We anticipate that funds generated from operations and funds available under our \$1.1 billion credit facility will be sufficient to meet our working capital, capital expenditure and senior debt repayment needs in the near term. We also anticipate that we will be able to fund acquisitions with borrowings under our line of credit. Our credit facility can be increased from \$1.1 billion to \$1.6 billion upon approval of the lenders.

On May 17, 2006 our Board of Directors declared a two-for-one stock split, in the form of a 100% stock dividend on our common stock. The common stock split was effected by issuing one additional share of common stock for each share held by shareholders of record on July 5, 2006. The additional shares were distributed on July 19, 2006. On February 14, 2007, our Board of Directors declared a 33% increase in the regular quarterly cash dividend to \$.08 per share of common stock.

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. Repurchased shares are treated as authorized but unissued shares. As of June 30, 2007, and prior to the additional authorization in May 2005, we had repurchased a total of 11.0 million shares of our common stock under this plan, at an average cost of \$7.47 per share. We have not repurchased any shares of our common stock since 2000. We believe such purchases, given appropriate circumstances, enhance shareholder value and reflect our confidence in the long-term growth potential of our Company.

Table of Contents

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, however, 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. Results of any one or more quarters are therefore not necessarily indicative of annual results.

Goodwill

Goodwill, which represents the excess of cost over the fair value of net assets acquired, amounted to \$918.1 million at June 30, 2007, or approximately 22.0% of total assets, or 45.8% of consolidated shareholders' equity. Pursuant to SFAS No. 142, we review the recoverability of goodwill annually or whenever significant events or changes occur which might impair the recovery of recorded costs. Our annual impairment tests of goodwill were performed as of November 1, 2006 and it was determined that the recorded amounts for goodwill are recoverable and that no impairment existed. We are not aware of any significant events or changes that would affect the recoverability of those amounts as of June 30, 2007.

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 accounting principles generally accepted in the United States of America. 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 December 31, 2006 Annual Report on Form 10-K. We do not believe that any of our acquisitions completed during 2007 or new accounting standards implemented during 2007 changed our critical accounting policies.

New Accounting Pronouncements

See Notes to Consolidated Financial Statements for disclosure on new accounting pronouncements.

Table of Contents

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, and metals pricing and availability. Please refer to Item 7A Quantitative and Qualitative Disclosures About Market Risk, contained in the Company's December 31, 2006 Annual Report on Form 10-K 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 June 30, 2007, 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, 2006.

Table of Contents

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, 2006.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In March 2007, the Company issued 6,244 shares of restricted stock to certain Division Managers as part of their incentive bonus for their 2006 performance, in accordance with the Company's Key-Man Incentive Plan. These shares were valued at an aggregate value of approximately \$280,000, based on the fair market value of our common stock on the date of the grant. The Company received no consideration for these shares. The Company relied on the exemptions from registration provided by Rules 505 and/or 506 of Regulation D.

As a result of an administrative error, in April and May of 2007, three employees of Earle M. Jorgensen Company, a wholly-owned subsidiary of the Company, were allowed to exercise stock options before they became exercisable under the terms of the Earle M. Jorgensen Company Stock Option Plan. These employees, who are not affiliates of the Company, received an aggregate of 1,762 shares at an exercise price of \$24.92 per share, resulting in total proceeds to the Company of \$43,909, which was used to fund working capital needs. Although the shares issuable under the Earle M. Jorgensen Company Stock Option Plan have been registered with the Securities and Exchange Commission, since the shares were issued prior to the vesting date, they may be deemed to be technically not registered. The Company understands that some or all of these shares may have been sold by the employees without a registration statement having been filed.

Item 4. Submission of Matters to a Vote of Security Holders

- (a) The annual meeting of Reliance Steel & Aluminum Co. shareholders was held on May 16, 2007.
- (b) [Need not be answered because (1) proxies for the meeting were solicited pursuant to Regulation 14A under the Securities Exchange Act of 1934, (2) there was no solicitation in opposition to management's nominees as listed in the proxy statement, and (3) all such nominees were elected.]
- (c) The following is a brief description of matters voted upon at the meeting:

Four Class I directors were elected at the annual meeting. Douglas M. Hayes: 66,370,407 shares were voted for election and 332,048 shares were withheld. Franklin R. Johnson: 66,353,289 shares were voted for election and 349,167 shares were withheld. Richard J. Slater: 66,355,634 shares were voted for election and 346,822 shares were withheld. Leslie A. Waite: 66,013,431 shares were voted for election and 689,025 shares were withheld.

Based upon the recommendation of the Audit Committee, Ernst & Young LLP was selected as the Company's independent registered accounting firm to perform the annual audit of the financial statements of the Company and its subsidiaries for 2007. The selection was approved: 65,848,393 shares were voted for the proposal, 832,114 shares were voted against it and 21,949 shares abstained.

Table of Contents

Item 6. Exhibits

- 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.

Table of Contents

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: August 9, 2007

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

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

33