RELIANCE STEEL & ALUMINUM CO
Form 10-Q
August 09, 2006

Table of Contents

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

(Mark One)

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

For the quarterly period ended June 30, 2006
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 x No o

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 x Accelerated filer o Non-accelerated filer o

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

As of July 31, 2006, 75,450,946 shares of the registrant s common stock, no par value, were outstanding.

Table of Contents

RELIANCE STEEL & ALUMINUM CO.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

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

	June 30, 2006 (Unaudited)	December 31, 2005
Current assets:		
Cash and cash equivalents	$ 10,104	$ 35,022
Accounts receivable, less allowance for doubtful accounts of $17,717 at June 30, 2006 and $10,511 at December 31, 2005	683,566	369,931
Inventories	861,125	387,385
Prepaid expenses and other current assets	22,015	19,009
Deferred income taxes	35,656	36,001
Total current assets	1,612,466	847,348
Property, plant and equipment, at cost:		
Land	106,237	60,207
Buildings	371,561	281,986
Machinery and equipment	520,817	403,403
Accumulated depreciation	(288,718)	(265,877)
	709,897	479,719
Goodwill	723,450	384,730
Intangible assets	325,237	44,384
Cash surrender value of life insurance policies, net	55,836	7,299
Deferred income taxes	9,363	¾
Other assets	24,445	5,590
Total assets	$ 3,460,694	$ 1,769,070

LIABILITIES AND SHAREHOLDERS EQUITY

	June 30, 2006	December 31, 2005
Current liabilities:		
Accounts payable	$ 377,250	$ 184,443
Accrued expenses	56,016	19,234
Accrued compensation and retirement costs	67,432	52,354
Accrued insurance costs	33,770	23,372
Income taxes payable	17,059	4,141
Deferred income taxes	3,835	214
Current maturities of long-term debt	46,556	49,525
Current maturities of capital lease obligations	547	536
Total current liabilities	602,465	333,819
Long-term debt	1,036,088	301,275

Capital lease obligations	5,238	5,515
Long-term retirement costs	35,851	15,660
Deferred income taxes	212,149	65,808
Minority interest	1,072	17,128
Commitments and contingencies	¾	¾
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 75,437,196 at June 30, 2006 and 66,217,998 at December 31, 2005, stated capital	693,760	325,010
Retained earnings	871,393	704,530
Accumulated other comprehensive income	2,678	325
Total shareholders equity	1,567,831	1,029,865
Total liabilities and shareholders equity	$ 3,460,694	$ 1,769,070

All share information, except for authorized shares, has been adjusted to reflect the two-for-one stock split effected in the form of a 100% stock dividend that was declared on May 17, 2006 and distributed on July 19, 2006 to shareholders of record on July 5, 2006.

See accompanying notes to consolidated financial statements.

1

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, 2006	Three Months Ended June 30, 2005
Net sales	$ 1,559,222	$ 816,342
Other income, net	376	699
	1,559,598	817,041
Costs and expenses:		
Cost of sales (exclusive of depreciation and amortization shown below)	1,139,349	594,107
Warehouse, delivery, selling, general and administrative	225,267	123,571
Depreciation and amortization	16,800	12,107
Interest	16,933	6,206
	1,398,349	735,991
Income before minority interest and income taxes	161,249	81,050
Minority interest	(85)	(1,940)
Income from continuing operations before income taxes	161,164	79,110
Provision for income taxes	60,659	30,061
Net income	$ 100,505	$ 49,049
Earnings per share:		
Income from continuing operations diluted	$ 1.32	$ .74
Weighted average shares outstanding diluted	75,874,992	66,172,204
Income from continuing operations basic	$ 1.34	$ .75
Weighted average shares outstanding basic	75,115,438	65,831,694
Cash dividends per share	$ .050	$ .045

All share information has been adjusted to reflect the two-for-one stock split effected in the form of a 100% stock dividend that was declared on May 17, 2006 and distributed on July 19, 2006 to shareholders of record on July 5, 2006.

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, 2006	Six Months Ended June 30, 2005
Net sales	$ 2,547,208	$ 1,628,249
Other income, net	1,654	1,364
	2,548,862	1,629,613
Costs and expenses:		
Cost of sales (exclusive of depreciation and amortization shown below)	1,857,150	1,190,078
Warehouse, delivery, selling, general and administrative	362,315	245,353
Depreciation and amortization	28,261	23,269
Interest	22,642	12,507
	2,270,728	1,471,207
Income before minority interest and income taxes	278,134	158,406
Minority interest	(132)	(4,516)
Income from continuing operations before income taxes	278,002	153,890
Provision for income taxes	105,642	58,478
Net income	$ 172,360	$ 95,412
Earnings per share:		
Income from continuing operations diluted	$ 2.41	$ 1.44
Weighted average shares outstanding diluted	71,431,880	66,047,104
Income from continuing operations basic	$ 2.44	$ 1.45
Weighted average shares outstanding basic	70,721,890	65,697,980
Cash dividends per share	$ .10	$ .09

All share information has been adjusted to reflect the two-for-one stock split effected in the form of a 100% stock dividend that was declared on May 17, 2006 and distributed on July 19, 2006 to shareholders of record on July 5, 2006.

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, 2006	Six Months Ended June 30, 2005
Operating activities:		
Net income	$ 172,360	$ 95,412
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	28,621	23,269
Debt premium amortization	(892)	¾
(Gain)/Loss on sales of machinery and equipment	(401)	2
Deferred income taxes	(1,244)	(14)
Minority interest	132	4,516
Stock based compensation expense	2,712	¾
Tax benefit of stock options exercised	¾	1,509
Excess tax benefits from stock based compensation	(1,584)	¾
Increase in cash surrender value of life insurance policies.	(6,293)	(56)
Changes in operating assets and liabilities:		
Accounts receivable	(118,886)	(32,039)
Inventories	(126,208)	(19,886)
Prepaid expenses and other assets	(8,372)	(541)
Accounts payable and accrued expenses	(17,112)	11,129
Net cash (used in) provided by operating activities	(77,167)	83,301
Investing activities:		
Purchases of property, plant and equipment, net	(59,694)	(21,060)
Acquisitions of metals service centers and net asset purchases of metals service centers, net of cash acquired	(343,924)	¾
Proceeds from sales of property and equipment	2,247	1,129
Premiums paid on life insurance policies	(238)	¾
Net cash used in investing activities	(401,609)	(19,931)
Financing activities:		
Proceeds from borrowings	693,316	187,000
Principal payments on long-term debt and short-term borrowings.	(235,591)	(240,250)
Payments to minority shareholders	(1,291)	(6,170)
Dividends paid	(7,081)	(5,923)
Excess tax benefits from stock based compensation	1,584	¾
Exercise of stock options	2,533	6,203
Issuance of common stock	222	246
Net cash provided by (used in) financing activities	453,692	(58,894)
Effect of exchange rate changes on cash	166	75

(Decrease)/Increase in cash and cash equivalents	(24,918)	4,551
Cash and cash equivalents at beginning of period	35,022	11,659
Cash and cash equivalents at end of period	$ 10,104	$ 16,210
Supplemental cash flow information:		
Interest paid during the period	$ 27,802	$ 12,372
Income taxes paid during the period	$ 95,999	$ 57,994
Non-cash investing and financing activities:		
Issuance of common stock and stock options in connection with acquisition of metals service center	$ 360,453	$ ¾
Issuance of common stock to employee retirement savings plan	$ 2,830	$ ¾

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 in the period ended June 30, 2006 are not necessarily indicative of the results for the full year ending December 31, 2006. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended December 31, 2005, included in the Reliance Steel & Aluminum Co. 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 April 2005, the United States Securities and Exchange Commission (SEC) approved a new rule that delayed the effective date of Statement of Financial Accounting Standards (SFAS) No. 123R, *Share-Based Payment*. Except for this deferral of the effective date, the guidance in SFAS No. 123R was unchanged. Under the SEC s rule, SFAS No. 123R became effective for the Company for annual, rather than interim, periods that began after June 15, 2005. The Company began applying this Statement to all awards granted on or after January 1, 2006 and to awards modified, repurchased, vested or cancelled after that date. The implementation of this standard is further discussed in Note 8, Stock Option Plans.

Also, in November 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 123R-3 (FSP 123R-3), *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards*. FSP 123R-3 provides an elective alternative transition method for calculating the pool of excess tax benefits available to absorb tax deficiencies recognized subsequent to the adoption of FAS 123R. Companies may take up to one year from the effective date of FSP 123R-3 to evaluate the available transition alternatives and make a one-time election as to which method to adopt. The Company is currently in the process of evaluating the alternative methods.

On July 13, 2006, the 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 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. This interpretation is effective for fiscal years beginning after December 15, 2006. The Company is assessing the impact the adoption of FIN No. 48 will have on the Company s consolidated financial position and results of operations.

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

3. Acquisitions

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 .0892 (.1784 post-split) 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 merger 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 merger 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 4,481,134 (8,962,268 post-split) 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 was $13.64 per EMJ share and was calculated using a Reliance per share price of $80.00 ($40.00 post-split) which was the 3-day average closing price as of the date that the Average Stock Price exceeded the upper limit of the collar. The purchase also included the assumption of approximately $253,000,000 of EMJ outstanding debt, including $250,000,000 of 9 3/4% senior 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 $12,708,000.

The Company assumed an EMJ stock option plan and has converted the outstanding EMJ options to options to acquire 143,943 (287,886 post-split) 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 Labor to contribute 129,003 (258,006 post-split) shares of Reliance common stock to EMJ s Retirement Savings Plan. On June 28, 2006 the Company issued 39,144 (78,288 post-split) shares of Reliance common stock to the EMJ Retirement Savings Plan and EMJ paid out cash of $312,000 in lieu of 3,678 (7,356 post-split) Reliance shares to terminated employees. At June 30, 2006 the remaining obligation consisted of 86,181 (172,362 post-split) shares of Reliance common stock. This obligation will be satisfied by future contributions of shares, as allowed under the Internal Revenue Code and ERISA requirements.

The cash portion of the acquisition was funded with borrowings on the Company s existing syndicated credit facility. The purchase price allocation for this acquisition has not been finalized, pending the completion of valuations of acquired tangible and intangible assets by third-party valuation specialists.

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 active facilities in Perrysburg, Ohio and Eldridge, Iowa. The Flat Rock facility in Perrysburg, Ohio now operates as a Precision Strip location that processes and delivers carbon steel, aluminum and stainless steel products on a toll basis, processing the metal for a fee, without taking ownership of the metal. In July 2006, Precision Strip made a decision to close the Eldridge, Iowa facility. Costs associated with the closure are minimal. 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. completed its purchase of Everest Metals (Suzhou) Co., Ltd. (Everest Metals), a metals service center company based near Shanghai, 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., 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. (American Steel), 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.

Acquisition of Chapel Steel Corp.

On July 1, 2005, the Company acquired 100% of the outstanding capital stock of Chapel Steel Corp. (Chapel Steel), headquartered in Spring House (Philadelphia), Pennsylvania. The Company paid $94,200,000 in cash for the equity of Chapel Steel and assumed approximately $16,800,000 of Chapel Steel s debt.

Chapel Steel is a privately held metals service center company founded in 1972 that processes and distributes carbon and alloy steel plate products from five facilities in Pottstown (Philadelphia), Pennsylvania; Bourbonnais (Chicago), Illinois; Houston, Texas; Birmingham, Alabama; and Portland, Oregon. Chapel Steel also warehouses and distributes its products in Cincinnati, Ohio and Hamilton, Ontario, Canada. Chapel Steel now operates as a wholly-owned subsidiary of RSAC Management Corp., a wholly-owned subsidiary of Reliance. The acquisition was funded on July 1, 2005 with borrowings on the Company s syndicated credit facility.

Pro forma financial information

The acquisitions of EMJ, Flat Rock, Everest Metals, American Steel and Chapel Steel 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 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. The consolidated financial statements reflect the allocations of each acquisition s purchase price, which is preliminary as of June 30, 2006 for EMJ.

The following unaudited pro forma summary financial results present the consolidated results of operations as if our significant acquisitions, EMJ and Chapel Steel, 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 EMJ notes at fair value, and a provision for income taxes for Chapel Steel as it was previously taxed as an S-Corporation 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 the EMJ or Chapel Steel acquisitions been made as of January 1, 2005 or January 1, 2006, or of any potential results which may occur in the future.

Table of Contents

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

Earnings per share amounts have been adjusted to reflect the two-for-one stock split effected in the form of a 100% stock dividend that was declared on May 17, 2006 and distributed on July 19, 2006 to shareholders of record on July 5, 2006.

	Three Months Ended June 30, 2005 (In thousands, except per share amounts)	Six Months Ended June 30, 2005 (In thousands, except per share amounts)
Pro forma (unaudited):		
Net sales	$ 1,326,676	$ 2,665,230
Net income	$ 68,922	$ 128,721
Earnings per share diluted	$ .92	$ 1.72
Earnings per share basic	$ .92	$ 1.72

	Six Months Ended June 30, 2006 (In thousands, except per share amounts)
Pro forma (unaudited):	
Net sales	$ 3,051,278
Net income	$ 188,544
Earnings per share diluted	$ 2.48
Earnings per share basic	$ 2.50

4. Goodwill

The changes in the carrying amount of goodwill for the six months ended June 30, 2006 are as follows:

	(In thousands)
Balance as of January 1, 2006	$ 384,730
Acquisitions	338,720
Balance as of June 30, 2006	$ 723,450

Table of Contents

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

5. Intangible Assets, net

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

	June 30, 2006		December 31, 2005	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			
Covenants not to compete	$ 6,153	$ (5,943)	$ 6,053	$ (5,912)
Loan fees	8,799	(5,425)	7,689	(4,938)
Customer list/relationships	104,300	(6,812)	17,900	(4,794)
Trade names	216,200		28,300	
Software internal use	8,100	(203)		
Other	429	(361)	429	(343)
	$ 343,981	$ (18,744)	$ 60,371	$ (15,987)

The Company recognized amortization expense for intangible assets of approximately $2,985,000 and $2,469,000 for the six months ended June 30, 2006 and 2005, respectively. Based on the current amount of intangibles subject to amortization, the estimated amortization expense for the remaining six months of 2006 and each of the succeeding five years is as follows:

2006	$ 3,892,000
2007	7,669,000
2008	7,134,000
2009	6,506,000
2010	6,100,000
2011	5,723,000

Table of Contents

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

6. Long-Term Debt

Long-term debt consists of the following:

	June 30, 2006	December 31, 2005
	(In thousands)	
Revolving line of credit ($700,000,000 limit) due June 11, 2010, interest at variable rates, weighted average rate of 5.80% during the six months ended June 30, 2006	$ 482,000	$
Senior unsecured notes due from January 2, 2007 to January 2, 2009, weighted average fixed interest rate of 7.33% at June 30, 2006 and December 31, 2005	30,000	30,000
Senior unsecured notes due January 2, 2008, weighted average fixed interest rate of 7.08% and 7.06% at June 30, 2006 and December 31, 2005, respectively	30,000	55,000
Senior unsecured notes due from October 15, 2006 to October 15, 2010, weighted average fixed interest rate of 6.60% at June 30, 2006 and December 31, 2005	127,000	127,000
Senior unsecured notes due from July 1, 2011 to July 2, 2013, weighted average fixed interest rate of 5.14% at June 30, 2006 and December 31, 2005	135,000	135,000
Senior unsecured notes due June 1, 2012, fixed interest rate of 9.75%, comprised of $249,995,000 of principal balance and $20,988,000 of unamortized debt premium	270,983	
Variable Rate Demand Industrial Development Revenue Bonds, Series 1989 A, due July 1, 2014, with interest payable quarterly; weighted average interest rate of 3.32% at June 30, 2006 (3.55% at December 31, 2005)	2,250	2,250
Variable Rate Demand Revenue Bonds, Series 1999, due March 1, 2009, with interest payable quarterly; weighted average interest rate of 3.51% at June 30, 2006 (3.73% at December 31, 2005)	1,225	1,550
Industrial Development Revenue Bonds, payable in annual installments of $715,000 on December 1st of each year, fixed interest of 5.25%	2,870	
Revolving Canadian credit facility (CDN$22,000,000 credit limit), interest at variable rates, 6.00% at June 30, 2006		

Revolving short to participate in any of our then existing retirement plans, pension, insurance, health, disability or other benefit plans or programs. The agreements provide for an automobile allowance of $1,500 per month for each of Mr. Wachtel, Wunderlich and Williams.

In November 2011, Mr. Williams was appointed as president, a position held until that time by Mr. Wachtel.

Tax Deductibility of Executive Compensation

Section 162(m) of the Internal Revenue Code of 1996, as amended, generally disallows a tax deduction to public companies for compensation over $1 million paid to the chief executive officer and certain other most highly compensated executive officers (excluding the chief financial officer), unless the compensation is considered performance based. The compensation to named executive officers in fiscal 2011 and 2010 did not exceed the $1 million limit, and we expect executive compensation for 2012 also will qualify for deductibility.

Although deductibility of compensation is preferred, tax deductibility is not a primary objective of our compensation programs. We believe that achieving our compensation objectives set forth above is more important than the benefit of tax deductibility and we reserve the right to maintain flexibility in how we compensate our executive officers that may result in limiting the deductibility of amounts of compensation from time to time.

Outstanding Equity Awards

The following table sets forth certain information with respect to outstanding equity awards at December 31, 2011 with respect to the named executive officers.

Outstanding Equity Awards at Fiscal Year-End - 2011

	Option Awards (1)				
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable		Option Exercise Price	Option Expiration Date
Harry M. Wachtel	-	500,000	(2)	$ .76	2/14/2017

William I. Wunderlich	-		300,000	(2)	$ .76	2/14/2017
Michael P. Williams	600,000	(3)	-		$ 1.12	6/06/2012
Michael P. Williams	266,667	(4)	133,333	(4)	$ .29	3/16/2015
Michael P. Williams	-		450,000	(5)	$ .78	12/15/2017

12

(1) All options are subject to accelerated vesting in the event of death, disability or upon the event of a "change in control," and in connection with certain terminations of employment as described above under the heading "Employment Agreements and Severance Benefits."

(2) Vests in five equal annual installments from February 15, 2012 through February 15, 2016.

(3) Vested in installments from June 6, 2007 through December 31, 2011.

(4) Exercisable portion vested and unexercisable portion vests in three equal annual installments from March 16, 2010 through March 16, 2012.

(5) Vests in five equal annual installments from December 15, 2012 through December 15, 2016.

COMPENSATION OF DIRECTORS

Beginning in the fourth quarter of 2010, we pay annual director's fees of $12,500 to each of Messrs. Robertson and Einselen and $18,750 to Mr. Patterson as chairman of the audit and compensation committees. Directors are reimbursed for the costs relating to attending Board and committee meetings. In addition, in February 2011 Messrs. Patterson, Robertson and Einselen were each granted an option to purchase 200,000 Common Shares at $0.76 per share, 115% of the fair market value on the date of grant. Further, in December 2011, Mr. Patterson was granted an additional option to purchase 250,000 Common Shares at $0.78 per share, 115% of the fair market value on the date of grant, in conjunction with his appointment as chairman of our strategic initiatives committee. No options have been granted to directors in 2012.

The following table provides compensation information for the year ended December 31, 2011 for each of the independent members of the Board.

Director Compensation - 2011

Name (3)	Year	Fees Earned or Paid in Cash	Option Awards (1) (2)	Total
Peter C. Einselen	2011	$ 12,500	$ 14,081	$26,581
Mark K. Patterson	2011	$ 18,750	$ 30,724	$49,474
Thomas C. Robertson	2011	$ 12,500	$ 14,081	$26,581

(1)

Reflects the grant-date fair value of the stock option awards granted during the year in accordance with FASB ASC Topic 718, Accounting for Stock Compensation. The assumptions underlying the valuation of equity awards are set forth in Note 7 of our financial statements, included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

(2) On February 14, 2011, each of Mr. Robertson, Mr. Einselen and Mr. Patterson was granted an option to purchase 200,000 shares of our common stock. On December 15, 2011, Mr. Patterson was granted an option to purchase 250,000 shares of our common stock. These options vest and become exercisable as to 20% of the underlying shares on each of the first five anniversaries of the date of grant, subject to accelerated vesting in the event of death, disability or a change in control. The options expire six years after the date of grant subject to earlier expiration in the event of termination of the director's service.

(3) At December 31, 2011: (i) Mr. Robertson held options to acquire an aggregate of 600,000 shares at exercise prices ranging from $0.32 to $1.17 per share (400,000 then exerecisable); (ii) Mr. Einselen held options to acquire an aggregate of 622,500 shares at exercise prices ranging from $0.20 to $1.17 per share (422,500 then exercisable); and (iii) Mr. Patterson held options to acquire an aggregate of 550,000 shares with exercise prices ranging from $0.56 to $0.78 per share (33,333 then exercisable).

13

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table, together with the accompanying footnotes, sets forth information regarding stock ownership of all persons known by us to own beneficially 5% or more of our Common Shares, all directors, named executive officers (and other executive officers) and all directors and executive officers as a group. The number of Common Shares beneficially owned is as of the Record Date, except as otherwise indicated in footnotes. Percentages of beneficial ownership are calculated based on the number of Common Shares outstanding on the Record Date.

We determined beneficial ownership in accordance with rules promulgated by the SEC pursuant to which a person is deemed to be a beneficial owner of securities that can be acquired by such person within 60 days from the Record Date upon the exercise of options and warrants or conversion of convertible securities. Each beneficial owner's percentage ownership is determined by assuming that options, warrants and convertible securities that are held by such person (but not held by any other person) and that are exercisable or convertible within 60 days from the Record Date have been exercised or converted. Except as otherwise indicated, we believe that the persons or entities named in the following table have sole voting and investment power with respect to all Common Shares as beneficially owned by them, subject to community property laws where applicable. All information with respect to beneficial ownership has been furnished to us by the respective stockholder.

Name of Beneficial Owner (1)	Shares of Common Stock Beneficially Owned		Percentage Of Ownership	
(i) Directors and Executive Officers				
Harry Wachtel	6,286,503	(2)	18.4	%
Thomas C. Robertson	672,431	(3)	1.9	%
Peter C. Einselen	768,931	(4)	2.2	%
Mark K. Patterson	106,667	(5)	*	
Mark Weiss	911,503	(6)	2.7	%
William I. Wunderlich	1,382,342	(7)	4.0	%
Michael P. Williams	403,000	(8)	1.2	%
All executive officers and directors as a group (7 persons)	9,272,532	(9)	25.9	%
(ii) 5% Stockholders				
James T. Martin	5,620,000	(10)	16.5	%
Kinderhook Partners, LP	6,278,312	(10)	18.4	%
Baker Street Capital L.P./Khrom Capital Management, LLC and affiliates	4,542,653	(11)	13.3	%

* Less than one percent.

(1) Unless otherwise indicated below, each director, executive officer and each 5% stockholder has sole voting and investment power with respect to all shares beneficially owned. The address for Mr. Wachtel is c/o AutoInfo, Inc., 6413 Congress Avenue, Suite 260, Boca Raton, FL 33487. The address for Dr. Martin is c/o Bermuda Trust Company, Compass Point Road, 9 Bermudian Road, Hamilton HM11, Bermuda. The address for Kinderhook Partners, LP is One Executive Drive, Suite 160, Fort Lee, NJ 07024. The address for Baker Street Capital L.P. and its affiliates is 12400 Wilshire Blvd., Suite 940, Los Angeles, CA 90025. The address of Khrom Capital Management, LLC and its affiliates is 41 Madison Avenue, 31st Floor, New York, New York 10010.

(2) Includes 1,258,845 shares with respect to which Mr. Wachtel has been granted voting rights pursuant to voting proxy agreements and 100,000 shares issuable upon the exercise of vested stock options.

(3) Includes 440,000 shares issuable upon the exercise of vested stock options.

(4) Includes 462,500 shares issuable upon the exercise of vested stock options.

14

(5) Includes 106,667 shares issuable upon the exercise of vested stock options.

(6) Includes 851,503 with respect to which Mr. Weiss has granted voting rights to Mr. Wachtel pursuant to a voting proxy agreement. Mr. Weiss retains full control over the disposition of these shares. Includes 60,000 shares issuable upon the exercise of vested stock options.

(7) Includes 407,342 with respect to which Mr. Wunderlich has granted voting rights to Mr. Wachtel pursuant to a voting proxy agreement. Mr. Wunderlich retains full control over the disposition of these shares. Includes 60,000 shares issuable upon the exercise of vested stock options.

(8) Includes 400,000 shares issuable upon the exercise of vested stock options.

(9) Includes 2,195,833 shares issuable upon exercise of options or warrants owned by members of this group and exercisable at the Record Date or within 60 days thereafter.

(10) The information with respect to this stockholder is derived from the stockholders most recent Exchange Act filing with the SEC.

(11) A Schedule 13D has been filed with the SEC jointly by Baker Street Capital L.P., a Delaware company (“BSC LP”), Baker Street Capital Management, LLC, a California limited liability company (“Baker Street Capital Management”), Vadim Perelman, Khrom Capital Management, LLC, a New York limited liability company (“Khrom Capital”), Khrom Investments Fund, LP, a Delaware limited partnership (“Khrom Investments”), and Eric Khrom. Baker Street Capital Management is the general partner of BSC LP. Vadim Perelman is the managing member of Baker Street Capital Management. By virtue of his position with Baker Street Capital Management, Mr. Perelman has the power to vote and dispose of the shares owned by BSC LP. Khrom Capital serves as the manager of certain separately managed accounts (the “Khrom Capital Accounts”) and the general partner of Khrom Investments. Eric Khrom is the managing member of Khrom Capital. By virtue of his position with Khrom Capital, Mr. Khrom has the power to vote and dispose of the shares owned by Khrom Investments and held in the Khrom Capital Accounts.

As of June 7, 2012 (the reporting date in the latest filed amendment to the Schedule 13D), BSC LP reported that it beneficially owned 3,094,884 Common Shares (constituting 9.1% of the outstanding class as of the Record Date). The Schedule 13D stated that, in its capacity as the general partner of BSC LP, Baker Street Capital may be deemed to beneficially own the 3,094,884 Common Shares owned by BSC LP, and that Mr. Perelman, as the managing member of Baker Street Capital which in turn is the general partner of BSC LP, may be deemed to beneficially own the 3,094,884 Common Shares owned by BSC LP. The Schedule 13D stated that Mr. Perelman has sole voting and dispositive power with respect to the 3,094,884 Common Shares owned by BSC LP by virtue of his authority to vote and dispose of such shares. Baker Street Capital and Mr. Perelman disclaim beneficial ownership of the Common Shares held by BSC LP, except to the extent of their pecuniary interest therein.

As of June 7, 2012, Khrom Investments reported that it beneficially owned 1,366,119 Common Shares and Khrom Capital reported that it beneficially owned 1,447,769 Common Shares in its capacity as the general partner of Khrom Investments and the manager of the Khrom Capital Accounts (Khrom Capital Accounts reportedly held 81,650 Common Shares). The Schedule 13D stated that Mr. Khrom, as the managing member of Khrom Capital which in turn is the general partner of Khrom Investments and the manager of the Khrom Capital Accounts, may be deemed to beneficially own the 1,447,769 Common Shares owned by Khrom Investments and held in the Khrom Capital Accounts. The Schedule 13D stated that Mr. Khrom has sole voting and dispositive power with respect to the 1,447,769 Common Shares owned by Khrom Investments and held in the Khrom Capital Accounts by virtue of his authority to vote and dispose of such shares. Khrom Capital and Mr. Khrom disclaim beneficial ownership of the Common Shares held by Khrom Investments and in the Khrom Capital Accounts, except to the extent of their pecuniary interest therein.

The Schedule 13D stated that each reporting person, as a member of a “group” with the other reporting persons for purposes of Section 13(d)(3) of the Exchange Act, may be deemed to be the beneficial owner of the Common Shares directly owned by the other reporting persons, although each reporting person disclaimed beneficial ownership of such Common Shares except to the extent of his or its pecuniary interest therein.

15

Certain relationships and related transactions

William Wunderlich, our executive vice president and chief financial officer, is the brother-in-law of Mark Weiss, who serves as a national account executive and director of AutoInfo.

Related-party transactions between a director or executive officer and AutoInfo must be reviewed and approved by the audit committee or the Board, with any interested director recusing himself or herself from the vote on the matter. A director or executive officer with a potential conflict of interest is required to promptly disclose the potential conflict to directors or executive officers who are in a position to appropriately represent the interests of AutoInfo and ensure that any transaction is properly reviewed and approved.

Section 16(a) beneficial ownership reporting compliance

Section 16(a) of the Exchange Act requires our officers and directors, and persons who own more than ten percent of a registered class of our equity securities, to file reports of ownership and changes in ownership with the SEC. Officers, directors and greater than ten-percent stockholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file. Based solely on our review of the copies of such forms furnished to us, or written representations that no Forms 5 were required, we believe that all Section 16(a) filing requirements applicable to our officers and directors were complied with during the fiscal year ended December 31, 2011.

MISCELLANEOUS

Other Matters

We know of no business that will be presented for consideration at the Annual Meeting other than that stated in the Notice of Annual Meeting.

Stockholder Proposals

Stockholders interested in presenting a proposal for consideration at the annual meeting of stockholders in 2013 must follow the procedures found in Rule 14a-8 under the Exchange Act and our bylaws. To be eligible for inclusion in our 2013 proxy materials, all qualified proposals must be received by our Secretary no later than July 12, 2013. A stockholder proposal submitted forty-five (45) or more days before the scheduled date of any annual meeting may be presented at the annual meeting if such proposal complies with our bylaws, but will not be included in our proxy materials. If a stockholder proposal is submitted less than 45 days before an annual meeting, the Proxyholders will have discretionary authority to vote on the proposal. A stockholder's notice of an intention to make a proposal should be submitted to the Secretary and set forth the following: (i) as to each person whom the stockholder proposes to nominate for election to the Board, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to the Exchange Act including, without limitation, such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected; (ii) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting and, if such business includes a proposal or nomination to amend our bylaws, the language of the proposed amendment; (iii) the name and address of the stockholder making the proposal or nomination and any other stockholders known by such stockholder to be supporting such proposal; (iv) the class and number of shares of stock owned by the stockholder on the date of such stockholder's notice and by any other stockholders known by such stockholder to be supporting such proposal or nomination on the date of such stockholder's notice; and (v) any financial interest of the stockholder in such proposal or nomination.

Solicitation of Proxies

We will bear the cost of this Proxy solicitation and any additional material relating to the meeting which may be furnished by us to the stockholders. In addition, solicitation by telephone, telegraph or other means may be made personally, without additional compensation, by our officers, directors and regular employees. We also will request brokers, dealers, banks and voting trustees and their nominees holding shares of record but not beneficially to forward Proxy soliciting material to beneficial owners of such shares, and upon request, will reimburse them for their expenses in so doing.

Householding

The SEC's rules permit companies and intermediaries such as brokers to satisfy delivery requirements for proxy statements and annual reports with respect to two or more stockholders sharing the same address by delivering a single proxy statement and annual report addressed to those stockholders. This process, which is commonly referred to as "householding," potentially provides extra convenience for stockholders and cost savings for companies. Some brokers household proxy materials and annual reports, delivering a single proxy statement and annual report to multiple stockholders sharing an address, although each stockholder will receive a separate proxy card. Once you have received notice from your broker that they will be householding materials to your address, householding will continue until you are notified otherwise or until you revoke your consent. If at any time you no longer wish to participate in householding and would prefer to receive a separate proxy statement and annual report, please notify your broker. If you would like to receive a separate copy of this year's Proxy Statement or Annual Report from us directly, please contact us by writing to our Secretary, William Wunderlich, at our principal executive offices or calling him at (561) 988-9456.

Availability of Proxy Materials

We will provide without charge to each person being solicited by this Proxy Statement, on the written request of any such person, a copy of our Annual Report on Form 10-K for the year ended December 31, 2011, including the financial statements and financial statement schedules included therein. All such requests should be directed to our Secretary, William Wunderlich, at our principal executive offices.

IMPORTANT NOTICE

ATTENDANCE AT ANNUAL MEETING

For security reasons, all stockholders of record desiring to attend the Annual Meeting in person must so indicate by checking the box on the accompanying proxy card.

All stockholders whose shares are held in street name in a brokerage or other account should contact such broker or custodian of such account to obtain instructions to receive security clearance. In the interest of security, anyone not complying with the foregoing procedures will not be admitted to the meeting. No exceptions will be made.

Important Notice Regarding Internet Availability of Proxy Materials for the Annual Meeting to Be Held on November 9, 2012:

The Proxy Materials for the Annual Meeting, including the Annual Report and the Proxy Statement are available at http://suntecktransport.com.

EVERY STOCKHOLDER, WHETHER OR NOT HE OR SHE EXPECTS TO ATTEND THE ANNUAL MEETING IN PERSON, IS URGED TO EXECUTE THE PROXY AND RETURN IT PROMPTLY IN THE ENCLOSED BUSINESS REPLY ENVELOPE.

BY ORDER OF THE BOARD OF DIRECTORS

Harry Wachtel, Chairman of the Board

Dated: Boca Raton, Florida
October 8, 2012