

RELIANCE STEEL & ALUMINUM CO
Form 10-Q
November 05, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

OR

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

For the transition period from _____ to _____.

Commission file number: 001-13122

RELIANCE STEEL & ALUMINUM CO.

(Exact name of registrant as specified in its charter)

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California
(State or other jurisdiction of
incorporation or organization)

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

350 South Grand Avenue, Suite 5100

Los Angeles, California 90071

(213) 687-7700

(Address of principal executive offices and telephone number)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of October 29, 2010, 74,606,271 shares of the registrant's common stock, no par value, were outstanding.

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RELIANCE STEEL & ALUMINUM CO.

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Table of Contents**PART I FINANCIAL INFORMATION****RELIANCE STEEL & ALUMINUM CO.****CONSOLIDATED BALANCE SHEETS**

(In thousands, except share amounts)

	September 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 186,463	\$ 43,002
Accounts receivable, less allowance for doubtful accounts of \$18,862 at September 30, 2010 and \$21,269 at December 31, 2009	761,955	533,871
Inventories	921,225	719,915
Prepaid expenses and other current assets	38,181	40,096
Income taxes receivable	13,333	54,020
Total current assets	1,921,157	1,390,904
Property, plant and equipment:		
Land	136,099	131,009
Buildings	574,708	543,590
Machinery and equipment	860,136	829,154
Accumulated depreciation	(585,583)	(522,494)
	985,360	981,259
Goodwill	1,082,256	1,081,324
Intangible assets, net	707,664	726,255
Cash surrender value of life insurance policies, net	88,013	92,860
Investments in unconsolidated entities	15,641	20,880
Other assets	17,432	13,295
Total assets	\$ 4,817,523	\$ 4,306,777
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 326,359	\$ 169,113
Accrued expenses	65,782	55,927
Accrued compensation and retirement costs	78,022	67,012
Accrued insurance costs	37,955	39,134
Current maturities of long-term debt and short-term borrowings	150,816	86,383
Total current liabilities	658,934	417,569
Long-term debt	944,231	849,375
Long-term retirement costs	71,572	69,277
Other long-term liabilities	28,307	26,537
Deferred income taxes	333,029	335,897
Commitments and contingencies		

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Equity:

Preferred stock, no par value:		
Authorized shares	5,000,000	
None issued or outstanding		
Common stock, no par value:		
Authorized shares	100,000,000	
Issued and outstanding shares	74,501,093 at September 30, 2010 and 73,750,771 at December 31, 2009,	
stated capital	616,300	587,612
Retained earnings	2,156,322	2,020,343
Accumulated other comprehensive income (loss)	2,966	(1,523)
Total Reliance shareholders equity	2,775,588	2,606,432
Noncontrolling interests	5,862	1,690
Total equity	2,781,450	2,608,122
Total liabilities and equity	\$ 4,817,523	\$ 4,306,777

See accompanying notes to unaudited 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 September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net sales	\$ 1,653,798	\$ 1,243,373	\$ 4,728,458	\$ 4,044,886
Costs and expenses:				
Cost of sales (exclusive of depreciation and amortization shown below)	1,257,629	886,904	3,537,401	3,051,090
Warehouse, delivery, selling, general and administrative	278,135	251,761	819,596	776,270
Depreciation and amortization	29,847	30,425	88,902	89,852
	1,565,611	1,169,090	4,445,899	3,917,212
Operating income	88,187	74,283	282,559	127,674
Other income (expense):				
Interest	(15,276)	(15,916)	(46,006)	(51,930)
Other income (expense), net	513	3,144	(596)	6,900
Income before income taxes	73,424	61,511	235,957	82,644
Income tax provision	24,139	19,434	78,880	25,735
Net income	49,285	42,077	157,077	56,909
Less: Net income attributable to noncontrolling interests	635	320	2,178	821
Net income attributable to Reliance	\$ 48,650	\$ 41,757	\$ 154,899	\$ 56,088
Earnings per share:				
Diluted earnings per common share attributable to Reliance shareholders	\$ 0.65	\$ 0.57	\$ 2.08	\$ 0.76
Weighted average shares outstanding - diluted	74,400,359	73,784,086	74,369,076	73,623,714
Basic earnings per common share attributable to Reliance shareholders	\$ 0.65	\$ 0.57	\$ 2.09	\$ 0.76
Weighted average shares outstanding - basic	74,292,161	73,478,197	74,126,497	73,391,043
Cash dividends per share	\$ 0.10	\$ 0.10	\$ 0.30	\$ 0.30

See accompanying notes to unaudited consolidated financial statements.

Table of Contents**RELIANCE STEEL & ALUMINUM CO.****UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

	Nine Months Ended September 30,	
	2010	2009
Operating activities:		
Net income	\$ 157,077	\$ 56,909
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	88,902	89,852
Deferred income tax benefit	(2,906)	(14,120)
Loss on sales of property, plant and equipment	779	62
Equity in earnings of unconsolidated entities	(244)	(705)
Dividends received from unconsolidated entity	320	1,120
Share based compensation expense	12,715	11,456
Excess tax benefit from share based compensation	(3,316)	(303)
Net loss (gain) from life insurance policies	964	(5,219)
Changes in operating assets and liabilities:		
Accounts receivable	(227,156)	266,537
Inventories	(200,610)	497,000
Prepaid expenses and other assets	38,498	18,464
Accounts payable and other liabilities	182,662	(113,849)
Net cash provided by operating activities	47,685	807,204
Investing activities:		
Purchases of property, plant and equipment	(65,784)	(55,044)
Proceeds from sales of property, plant and equipment	1,067	1,173
Net proceeds from redemption of life insurance policies	3,883	6,576
Net cash used in investing activities	(60,834)	(47,295)
Financing activities:		
Net short-term debt borrowings (repayments)	3,906	(1,107)
Proceeds from long-term debt borrowings	427,000	352,000
Principal payments on long-term debt	(272,789)	(1,047,417)
Debt issuance costs		(6,841)
Payments to noncontrolling interest holder	(980)	(1,323)
Capital contributions from noncontrolling interests	142	
Dividends paid	(22,236)	(22,019)
Excess tax benefit from share based compensation	3,316	303
Exercise of stock options	17,434	4,059
Issuance of common stock		258
Noncontrolling interests purchased		(2,661)
Net cash provided by (used in) financing activities	155,793	(724,748)
Effect of exchange rate changes on cash	817	708
Increase in cash and cash equivalents	143,461	35,869
Cash and cash equivalents at beginning of year	43,002	51,995

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Cash and cash equivalents at end of period	\$ 186,463	\$ 87,864
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Supplemental cash flow information:

Interest paid during the period	\$ 33,026	\$ 46,832
Income taxes paid during the period	\$ 47,100	\$ 28,260

See accompanying notes to unaudited consolidated financial statements.

Table of Contents**RELIANCE STEEL & ALUMINUM CO.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(UNAUDITED)****1. Basis of Presentation**

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions of Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation with respect to the interim financial statements, have been included. The results of operations for the nine months ended September 30, 2010 are not necessarily indicative of the results for the full year ending December 31, 2010. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended December 31, 2009, included in Reliance Steel & Aluminum Co. s (We , Reliance or the Company) Annual Report on Form 10-K.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and the disclosure of contingent amounts in the Company s consolidated financial statements and the accompanying notes. Actual results could differ from those estimates.

The Company s consolidated financial statements include the assets, liabilities and operating results of majority-owned subsidiaries. The ownership of the other interest holders of consolidated subsidiaries is reflected as noncontrolling interests. The Company s investments in unconsolidated subsidiaries are recorded under the equity method of accounting. All significant intercompany accounts and transactions have been eliminated.

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

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

3. Goodwill

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

	(In thousands)
Balance as of December 31, 2009	\$ 1,081,324
Effect of foreign currency translation	781
Consolidation of a joint venture entity	151
Balance as of September 30, 2010	\$ 1,082,256

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

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

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

	September 30, 2010		December 31, 2009	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
(In thousands)				
Intangible assets subject to amortization:				
Covenants not to compete	\$ 6,853	\$ (6,687)	\$ 6,853	\$ (6,558)
Loan fees	23,868	(13,194)	23,868	(10,592)
Customer lists/relationships	346,703	(76,888)	345,035	(58,749)
Software - internal use	8,100	(3,645)	8,100	(3,038)
Other	4,933	(1,629)	4,949	(1,297)
	390,457	(102,043)	388,805	(80,234)
Intangible assets not subject to amortization:				
Trade names	419,250		417,684	
	\$ 809,707	\$ (102,043)	\$ 806,489	\$ (80,234)

The Company recognized amortization expense for intangible assets of approximately \$21.7 million and \$22.6 million for the nine months ended September 30, 2010 and 2009, respectively. Other changes in intangible assets during the nine months ended September 30, 2010 are due to foreign currency translation gains of \$1.0 million and a \$2.1 million increase from consolidation of a joint venture entity.

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

	(In thousands)
2010	\$ 7,212
2011	28,670
2012	28,130
2013	25,449
2014	23,449
2015	21,886

5. Income Taxes

The Company's effective tax rates for the nine months ended September 30, 2010 and 2009 were 33.4% and 31.1%, respectively. For the three months ended September 30, 2010 and 2009 the Company's effective tax rates were 32.9% and 31.6%, respectively. The fluctuations in the Company's effective tax rates are mainly because of varying income levels over these periods. Permanent items that impacted the Company's

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effective tax rates as compared to the U.S. federal statutory rate of 35% were not materially different in amounts during these periods and relate mainly to company-owned life insurance policies and domestic production activities deductions.

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

Debt consists of the following:

	September 30, 2010	December 31, 2009
	(In thousands)	
Unsecured revolving credit facility due November 9, 2012	\$ 270,000	\$ 115,000
Senior unsecured notes due October 15, 2010	78,000	78,000
Senior unsecured notes due from July 1, 2011 to July 2, 2013	135,000	135,000
Senior unsecured notes due November 15, 2016	350,000	350,000
Senior unsecured notes due November 15, 2036	250,000	250,000
Other notes and revolving credit facilities	13,865	9,684
Total debt	1,096,865	937,684
Less unamortized discount	(1,818)	(1,926)
Less amounts due within one year and short-term borrowings	(150,816)	(86,383)
Total long-term debt	\$ 944,231	\$ 849,375

Unsecured Revolving Credit Facility

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

Weighted average rates on borrowings outstanding on the revolving credit facility were 3.65% and 3.51% as of September 30, 2010 and December 31, 2009, respectively.

As of September 30, 2010, the Company had \$44.9 million of letters of credit outstanding under the revolving credit facility with availability to issue an additional \$80.1 million of letters of credit.

Revolving Credit Facilities Foreign Operations

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

Various other separate revolving credit facilities with a combined credit limit of approximately \$22.6 million are in place for operations in Asia and Europe with combined outstanding balances of \$12.6 million and \$8.1 million as of September 30, 2010 and December 31, 2009, respectively.

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RELIANCE STEEL & ALUMINUM CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Senior Unsecured Notes Private Placements

The Company also has \$213.0 million of outstanding senior unsecured notes issued in private placements of debt as of September 30, 2010. At September 30, 2010, the outstanding senior notes bear interest at a weighted average fixed rate of 5.7% and have a weighted average remaining life of 1.2 years, maturing from October 2010 to July 2013. On October 15, 2010, we repaid \$78.0 million of the notes that matured on that date.

Senior Unsecured Notes Publicly Traded

On November 20, 2006, the Company entered into an Indenture (the Indenture), for the issuance of \$600 million of unsecured debt securities. The total debt issued was comprised of two tranches, (a) \$350 million aggregate principal amount of senior unsecured notes bearing interest at the rate of 6.20% per annum, maturing on November 15, 2016 and (b) \$250 million aggregate principal amount of senior unsecured notes bearing interest at the rate of 6.85% per annum, maturing on November 15, 2036. The notes are senior unsecured obligations of Reliance and rank equally with all other existing and future unsecured and unsubordinated debt obligations of Reliance. The senior unsecured notes include provisions that, in the event of a change in control and a downgrade of the Company's credit rating, require the Company to make an offer to repurchase the notes at a price equal to 101% of their principal amount plus accrued interest.

Covenants

The \$1.1 billion revolving credit facility and the senior unsecured note agreements collectively require the Company to maintain a minimum net worth and interest coverage ratio and a maximum leverage ratio and include a change of control provision, among other things. On June 30, 2010, the minimum interest coverage ratio and maximum leverage ratio requirements adjusted from amended levels of 2.0 times and 50%, respectively, back to the pre-amendment levels of 3.0 times and 60%, respectively. The Company's interest coverage ratio for the twelve-month period ended September 30, 2010 was approximately 6.6 times compared to the debt covenant minimum requirement of 3.0 times (interest coverage ratio is calculated as net income attributable to Reliance plus interest expense and provision for income taxes and plus or minus any non-operating non-recurring loss or gain, respectively, divided by interest expense). The Company's leverage ratio as of September 30, 2010 calculated in accordance with the terms of the revolving credit facility was 29.2% compared to the financial covenant maximum amount of 60% (leverage ratio is calculated as total debt, inclusive of capital lease obligations and outstanding letters of credit, divided by Reliance shareholders equity plus total debt). The minimum net worth requirement as of September 30, 2010 was \$950.6 million compared to Reliance shareholders equity balance of \$2.78 billion as of September 30, 2010.

Additionally, all of our wholly-owned domestic subsidiaries, which constitute the substantial majority of our subsidiaries, guarantee the borrowings under the revolving credit facility, the Indenture and the private placement notes. The subsidiary guarantors, together with Reliance, are required collectively to account for at least 80% of the Company's consolidated EBITDA and 80% of consolidated tangible assets. Reliance and the subsidiary guarantors accounted for approximately 95% of our total consolidated EBITDA for the last twelve months and approximately 93% of total consolidated tangible assets as of September 30, 2010.

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

7. Equity

Common Stock

During the nine months ended September 30, 2010, the Company issued 689,322 shares of common stock in connection with the exercise of stock options for total proceeds of approximately \$17.4 million.

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

On July 26, 2010, the Company granted 61,000 shares of restricted stock to certain officers of the Company. The awards include dividend rights and vest 20% on August 1, 2011 and 20% on each August 1 thereafter through 2015. The fair value of the restricted stock granted was \$41.24 per share, determined based on the fair value of the Company's common stock on the grant date.

On May 19, 2010, pursuant to the Amended and Restated Directors' Stock Option Plan, which has been approved by the shareholders, 36,000 options to acquire the Company's common stock were automatically granted to the non-employee members of the Board of Directors with an exercise price equal to the fair market value as of the date of the grant. The stock options cliff vest after one year and expire ten years after the date of grant. The fair value of stock options granted was estimated using the Black-Scholes option-pricing model with the following assumptions: Expected life 5.5 years; Expected volatility 57.3%; Dividend yield 0.9%; Risk-free interest rate 2.1%; Exercise price \$44.99.

On February 23, 2010, the Company granted 1,003,400 options to acquire its common stock to key employees with an exercise price equal to the fair market value as of the date of the grant. The stock options vest ratably over a period of four years and expire seven years after the date of grant. The fair value of stock options granted was estimated using the Black-Scholes option-pricing model with the following assumptions: Expected life 4.8 years; Expected volatility 59.7%; Dividend yield 0.9%; Risk-free interest rate 2.4%; Exercise price \$42.81.

Share Repurchase Program

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

Other Comprehensive Income

Other comprehensive income included the following:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
	(In thousands)			
Net income	\$ 49,285	\$ 42,077	\$ 157,077	\$ 56,909
Other comprehensive income (loss):				
Foreign currency translation gain	5,453	10,689	4,443	19,848
Unrealized gain on investments, net of tax	75	131	38	371
Minimum pension liability, net of tax	3	1	8	(30)
Total other comprehensive income, net of tax	5,531	10,821	4,489	20,189
Comprehensive income	54,816	52,898	161,566	77,098
Comprehensive income attributable to noncontrolling interests	(635)	(320)	(2,178)	(821)
Comprehensive income attributable to Reliance	\$ 54,181	\$ 52,578	\$ 159,388	\$ 76,277

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

Accumulated other comprehensive income (loss) included the following:

	September 30, 2010	December 31, 2009
	(In thousands)	
Foreign currency translation gain	\$ 15,091	\$ 10,648
Unrealized loss on investments, net of tax	(410)	(448)
Minimum pension liability, net of tax	(11,715)	(11,723)
Total accumulated other comprehensive income (loss)	\$ 2,966	\$ (1,523)

Foreign currency translation adjustments are not generally adjusted for income taxes as they relate to indefinite investments in foreign subsidiaries. Unrealized loss on investments and minimum pension liability are net of taxes of approximately \$0.3 million and \$7.3 million, respectively, as of September 30, 2010 and December 31, 2009.

8. Commitments and Contingencies

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

9. Earnings Per Share

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In thousands, except share and per share amounts)			
Numerator:				
Net income attributable to Reliance	\$ 48,650	\$ 41,757	\$ 154,899	\$ 56,088
Denominator:				
Denominator for basic earnings per share:				
Weighted average shares	74,292	73,478	74,126	73,391
Effect of dilutive securities:				
Stock options	108	306	243	233
Denominator for diluted earnings per share:				
Adjusted weighted average shares and assumed conversions	74,400	73,784	74,369	73,624
Net income per share attributable to Reliance shareholders diluted	\$ 0.65	\$ 0.57	\$ 2.08	\$ 0.76
Net income per share attributable to Reliance shareholders basic	\$ 0.65	\$ 0.57	\$ 2.09	\$ 0.76

The computations of earnings per share for the three and nine months ended September 30, 2010 do not include 3,954,200 and 2,759,308 weighted average shares reserved for issuance upon exercise of stock options or vesting of restricted shares, respectively, because their inclusion would have been anti-dilutive. For the three and nine months ended September 30, 2009 the computations of earnings per share exclude 3,032,425 and 3,122,897 weighted average shares reserved for issuance upon exercise of stock options, respectively, because their inclusion would have also been anti-dilutive.

10. Subsequent Events

On October 1, 2010 the Company acquired all of the outstanding capital stock of Diamond Consolidated Industries, Inc. and affiliated companies. The operating entities consist of Diamond Manufacturing Company located in Wyoming, Pennsylvania and Diamond Manufacturing Midwest in Michigan City, Indiana that specialize in the manufacture and sale of specialty engineered perforated materials; Perforated Metals Plus, a distributor of perforated metals located in Charlotte, North Carolina; and Dependable Punch Corporation, a manufacturer of custom punches for tools and dies also located in Wyoming, Pennsylvania. The combined unaudited net sales of Diamond and its affiliated companies for the nine months ended September 30, 2010 were approximately \$75 million. All the businesses will operate as divisions of Diamond Manufacturing Company, which will operate as a subsidiary of Reliance Steel & Aluminum Co.

11. Condensed Consolidating Financial Statements

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In November 2006, the Company issued senior unsecured notes in the aggregate principal amount of \$600 million at fixed interest rates that are guaranteed by its wholly-owned domestic subsidiaries. The accompanying consolidating financial information has been prepared and presented pursuant to Rule 3-10 of SEC Regulation S-X *Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered*. The guarantees are full and unconditional and joint and several obligations of each of the guarantor subsidiaries. There are no significant restrictions on the ability of the Company to obtain funds from any of the guarantor subsidiaries by

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dividends or loans. The supplemental consolidating financial information has been presented in lieu of separate financial statements of the guarantors as such separate financial statements are not considered meaningful.

Condensed Unaudited Consolidating Balance Sheet**As of September 30, 2010****(In thousands)**

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations & Reclassifications	Consolidated
Assets					
Cash and cash equivalents	\$ 131,576	\$ 16,648	\$ 38,239	\$	\$ 186,463
Accounts receivable, less allowance for doubtful accounts	64,245	642,504	55,206		761,955
Inventories	43,105	823,070	55,050		921,225
Intercompany receivables	321	12,061	147	(12,529)	
Income taxes receivable	47,502			(34,169)	13,333
Prepaid expenses and other current assets	4,160	27,031	6,990		38,181
Total current assets	290,909	1,521,314	155,632	(46,698)	1,921,157
Investments in subsidiaries	1,763,964	190,002		(1,953,966)	
Property, plant and equipment, net	91,509	836,812	57,039		985,360
Goodwill	23,780	1,002,775	55,701		1,082,256
Intangible assets, net	10,507	633,134	64,023		707,664
Intercompany receivables	1,938,812			(1,938,812)	
Other assets	3,762	115,294	2,030		121,086
Total assets	\$ 4,123,243	\$ 4,299,331	\$ 334,425	\$ (3,939,476)	\$ 4,817,523
Liabilities & Equity					
Accounts payable	\$ 34,952	\$ 272,932	\$ 31,004	\$ (12,529)	\$ 326,359
Accrued compensation and retirement costs	14,154	59,370	4,498		78,022
Other current liabilities	51,263	79,502	7,141	(34,169)	103,737
Current maturities of long-term debt and short-term borrowings	138,250		12,566		150,816
Total current liabilities	238,619	411,804	55,209	(46,698)	658,934
Long-term debt	944,078	153			944,231
Intercompany borrowings		1,912,271	26,541	(1,938,812)	
Deferred taxes and other long-term liabilities	164,958	265,229	2,721		432,908
Total Reliance shareholders' equity	2,775,588	1,706,348	247,618	(1,953,966)	2,775,588
Noncontrolling interests		3,526	2,336		5,862

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Total equity	2,775,588	1,709,874	249,954	(1,953,966)	2,781,450
Total liabilities and equity	\$ 4,123,243	\$ 4,299,331	\$ 334,425	\$ (3,939,476)	\$ 4,817,523

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

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

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Total liabilities and equity	\$ 3,777,602	\$ 3,921,943	\$ 280,602	\$ (3,673,370)	\$ 4,306,777
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Table of Contents**RELIANCE STEEL & ALUMINUM CO.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****Condensed Unaudited Consolidating Statement of Income****For the three months ended September 30, 2010****(In thousands)**

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ 155,005	\$ 1,449,264	\$ 89,278	\$ (39,749)	\$ 1,653,798
Costs and expenses:					
Cost of sales (exclusive of depreciation and amortization shown below)	119,006	1,119,381	59,012	(39,770)	1,257,629
Warehouse, delivery, selling, general and administrative	26,607	248,186	17,768	(14,426)	278,135
Depreciation and amortization	3,275	24,840	1,732		29,847
	148,888	1,392,407	78,512	(54,196)	1,565,611
Operating income	6,117	56,857	10,766	14,447	88,187
Other income (expense):					
Interest	(15,612)	(4,367)	(198)	4,901	(15,276)
Other (expense) income, net	(28,899)	48,214	546	(19,348)	513
(Loss) income before equity in earnings of subsidiaries and income taxes	(38,394)	100,704	11,114		73,424
Equity in earnings of subsidiaries	63,466	4,997		(68,463)	
Income before income taxes	25,072	105,701	11,114	(68,463)	73,424
Income tax (benefit) provision	(23,578)	45,225	2,492		24,139
Net income	48,650	60,476	8,622	(68,463)	49,285
Less: Net income (loss) attributable to noncontrolling interests		773	(138)		635
Net income attributable to Reliance	\$ 48,650	\$ 59,703	\$ 8,760	\$ (68,463)	\$ 48,650

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

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

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

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ 448,010	\$ 4,164,465	\$ 244,444	\$ (128,461)	\$ 4,728,458
Costs and expenses:					
Cost of sales (exclusive of depreciation and amortization shown below)	339,500	3,159,487	166,937	(128,523)	3,537,401
Warehouse, delivery, selling, general and administrative	75,142	744,917	51,904	(52,367)	819,596
Depreciation and amortization	9,605	74,724	4,573		88,902
	424,247	3,979,128	223,414	(180,890)	4,445,899
Operating income	23,763	185,337	21,030	52,429	282,559
Other income (expense):					
Interest	(46,889)	(26,152)	(579)	27,614	(46,006)
Other income (expense), net	31,330	47,684	433	(80,043)	(596)
Income before equity in earnings of subsidiaries and income taxes	8,204	206,869	20,884		235,957
Equity in earnings of subsidiaries	113,593	9,557		(123,150)	
Income before income taxes	121,797	216,426	20,884	(123,150)	235,957
Income tax (benefit) provision	(33,102)	107,886	4,096		78,880
Net income	154,899	108,540	16,788	(123,150)	157,077
Less: Net income (loss) attributable to noncontrolling interests		2,223	(45)		2,178
Net income attributable to Reliance	\$ 154,899	\$ 106,317	\$ 16,833	\$ (123,150)	\$ 154,899

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

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

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

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Operating activities:					
Net income	\$ 154,899	\$ 108,540	\$ 16,788	\$ (123,150)	\$ 157,077
Equity in earnings of subsidiaries	(113,593)	(9,801)		123,150	(244)
Adjustments to reconcile net income to cash provided by (used in) operating activities	21,289	(118,847)	(11,590)		(109,148)
Cash provided by (used in) operating activities	62,595	(20,108)	5,198		47,685
Investing activities:					
Purchases of property, plant and equipment	(6,847)	(53,500)	(5,437)		(65,784)
Net advances to subsidiaries	(81,369)			81,369	
Other investing activities, net	(5,035)	4,843	92	5,050	4,950
Cash used in investing activities	(93,251)	(48,657)	(5,345)	86,419	(60,834)
Financing activities:					
Net borrowings (repayments) of debt	154,750	(539)	3,906		158,117
Dividends paid	(22,236)				(22,236)
Net intercompany borrowings		80,042	1,327	(81,369)	
Other financing activities, net	20,750	(980)	5,192	(5,050)	19,912
Cash provided by financing activities	153,264	78,523	10,425	(86,419)	155,793
Effect of exchange rate changes on cash and cash equivalents			817		817
Increase in cash and cash equivalents	122,608	9,758	11,095		143,461
Cash and cash equivalents at beginning of year	8,968	6,890	27,144		43,002
Cash and cash equivalents at end of period	\$ 131,576	\$ 16,648	\$ 38,239	\$	\$ 186,463

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

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

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RELIANCE STEEL & ALUMINUM CO.

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

This Quarterly Report on 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, 2009.

2010 Acquisition

On October 1, 2010 we acquired all of the outstanding capital stock of Diamond Consolidated Industries, Inc. and affiliated companies. The operating entities consist of Diamond Manufacturing Company located in Wyoming, Pennsylvania and Diamond Manufacturing Midwest in Michigan City, Indiana that specialize in the manufacture and sale of specialty engineered perforated materials; Perforated Metals Plus, a distributor of perforated metals located in Charlotte, North Carolina; and Dependable Punch Corporation, a manufacturer of custom punches for tools and dies also located in Wyoming, Pennsylvania. The combined unaudited net sales of Diamond and its affiliated companies for the nine months ended September 30, 2010 were approximately \$75 million.

Three Months and Nine Months Ended September 30, 2010 Compared to Three Months and Nine Months Ended September 30, 2009

The following table sets forth certain income statement data for the three-month and nine-month periods ended September 30, 2010 and 2009 (dollars are shown in thousands and certain amounts may not calculate due to rounding):