

RELIANCE STEEL & ALUMINUM CO
Form 10-Q
July 31, 2014
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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 June 30, 2014

OR

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

For the transition period from _____ to _____.

Commission file number: 001-13122

RELIANCE STEEL & ALUMINUM CO.

(Exact name of registrant as specified in its charter)

California

(State or other jurisdiction of
incorporation or organization)

95-1142616

(I.R.S. Employer
Identification No.)

350 South Grand Avenue, Suite 5100

Los Angeles, California 90071

(213) 687-7700

(Address of principal executive offices and telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. 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 Exchange Act).

Yes No

As of July 28, 2014, 77,967,476 shares of the registrant's common stock, no par value, were outstanding.

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RELIANCE STEEL & ALUMINUM CO.

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(in millions, except share amounts)

ASSETS

	June 30, 2014	December 31, 2013*
Current assets:		
Cash and cash equivalents	\$ 113.5	\$ 83.6
Accounts receivable, less allowance for doubtful accounts of \$20.6 at June 30, 2014 and \$18.9 at December 31, 2013	1,169.2	983.5
Inventories	1,769.9	1,540.0
Prepaid expenses and other current assets	63.9	59.0
Income taxes receivable		33.9
Deferred income taxes	38.9	38.9
Total current assets	3,155.4	2,738.9
Property, plant and equipment:		
Land	192.5	191.7
Buildings	951.7	934.6
Machinery and equipment	1,406.3	1,350.3
Accumulated depreciation	(942.7)	(872.7)
	1,607.8	1,603.9
Goodwill	1,676.3	1,691.6
Intangible assets, net	1,186.2	1,213.8
Cash surrender value of life insurance policies, net	40.5	45.4
Investments in unconsolidated entities	15.1	14.1
Other assets	33.4	33.3
Total assets	\$ 7,714.7	\$ 7,341.0

LIABILITIES AND EQUITY

Current liabilities:		
Accounts payable	\$ 457.8	\$ 280.3
Accrued expenses	108.1	91.1
Accrued compensation and retirement costs	105.0	119.5
Accrued insurance costs	45.7	46.0
Current maturities of long-term debt and short-term borrowings	39.2	36.5
Income taxes payable	6.7	
Total current liabilities	762.5	573.4
Long-term debt	2,093.2	2,072.5
Long-term retirement costs	84.7	84.0
Other long-term liabilities	30.7	35.9

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Deferred income taxes	689.4	690.8
Commitments and contingencies		
Equity:		
Preferred stock, no par value:		
Authorized shares 5,000,000		
None issued or outstanding		
Common stock, no par value:		
Issued and outstanding shares 77,941,158 at June 30, 2014 and 77,492,017 at December 31, 2013, stated capital	852.5	818.3
Retained earnings	3,193.1	3,063.0
Accumulated other comprehensive loss	(1.3)	(6.7)
Total Reliance shareholders equity	4,044.3	3,874.6
Noncontrolling interests	9.9	9.8
Total equity	4,054.2	3,884.4
Total liabilities and equity	\$ 7,714.7	\$ 7,341.0

* Amounts were derived from audited financial statements.

See accompanying notes to unaudited consolidated financial statements.

Table of Contents**RELIANCE STEEL & ALUMINUM CO.****UNAUDITED CONSOLIDATED STATEMENTS OF INCOME****(in millions, except per share amounts)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net sales	\$ 2,616.8	\$ 2,448.3	\$ 5,169.8	\$ 4,473.6
Costs and expenses:				
Cost of sales (exclusive of depreciation and amortization shown below)	1,943.5	1,826.7	3,849.3	3,323.2
Warehouse, delivery, selling, general and administrative	444.9	426.0	885.9	783.7
Depreciation and amortization	52.7	50.1	104.6	91.2
	2,441.1	2,302.8	4,839.8	4,198.1
Operating income	175.7	145.5	330.0	275.5
Other income (expense):				
Interest	(20.2)	(22.1)	(40.4)	(35.2)
Other (expense) income, net	(1.3)	(0.6)	(1.3)	2.3
Income before income taxes	154.2	122.8	288.3	242.6
Income tax provision	56.4	40.9	102.6	76.2
Net income	97.8	81.9	185.7	166.4
Less: Net income attributable to noncontrolling interests	1.3	0.9	2.0	1.7
Net income attributable to Reliance	\$ 96.5	\$ 81.0	\$ 183.7	\$ 164.7
Earnings per share:				
Diluted earnings per common share attributable to Reliance shareholders	\$ 1.22	\$ 1.05	\$ 2.34	\$ 2.13
Basic earnings per common share attributable to Reliance shareholders	\$ 1.24	\$ 1.06	\$ 2.37	\$ 2.15
Cash dividends per share	\$ 0.35	\$ 0.30	\$ 0.70	\$ 0.60

See accompanying notes to unaudited consolidated financial statements.

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RELIANCE STEEL & ALUMINUM CO.

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	\$ 97.8	\$ 81.9	\$ 185.7	\$ 166.4
Other comprehensive income (loss):				
Foreign currency translation gain (loss)	14.2	(9.8)	5.3	(19.9)
Unrealized gain on investments, net of tax			0.1	0.2
Total other comprehensive income (loss)	14.2	(9.8)	5.4	(19.7)
Comprehensive income	112.0	72.1	191.1	146.7
Less: comprehensive income attributable to noncontrolling interests	1.3	0.9	2.0	1.7
Comprehensive income attributable to Reliance	\$ 110.7	\$ 71.2	\$ 189.1	\$ 145.0

See accompanying notes to unaudited consolidated financial statements.

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RELIANCE STEEL & ALUMINUM CO.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

	Six Months Ended June 30,	
	2014	2013
Operating activities:		
Net income	\$ 185.7	\$ 166.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	104.6	91.2
Deferred income tax (benefit) provision	(1.5)	0.6
(Gain) loss on sales of property, plant and equipment	(1.0)	1.0
Equity in earnings of unconsolidated entities	(1.4)	(0.9)
Dividends received from unconsolidated entity	0.4	0.4
Share-based compensation expense	12.9	14.5
Other	4.4	(0.5)
Changes in operating assets and liabilities:		
Accounts receivable	(188.0)	(133.2)
Inventories	(230.4)	62.8
Prepaid expenses and other assets	37.2	11.3
Accounts payable and other liabilities	186.6	70.3
Net cash provided by operating activities	109.5	283.9
Investing activities:		
Purchases of property, plant and equipment	(86.9)	(74.3)
Acquisitions, net of cash acquired		(794.7)
Proceeds from sale of business, net	26.2	
Other	(9.0)	8.5
Net cash used in investing activities	(69.7)	(860.5)
Financing activities:		
Net short-term debt repayments	(3.6)	(469.3)
Proceeds from long-term debt borrowings	297.0	2,257.9
Principal payments on long-term debt	(270.3)	(1,191.6)
Debt issuance costs		(10.3)
Dividends paid	(54.4)	(46.0)
Exercise of stock options	21.3	42.4
Other	(1.1)	(1.7)
Net cash (used in) provided by financing activities	(11.1)	581.4
Effect of exchange rate changes on cash	1.2	(1.6)
Increase in cash and cash equivalents	29.9	3.2
Cash and cash equivalents at beginning of year	83.6	97.6
Cash and cash equivalents at end of period	\$ 113.5	\$ 100.8
Supplemental cash flow information:		
Interest paid during the period	\$ 40.5	\$ 29.9
Income taxes paid during the period, net	\$ 62.5	\$ 65.7
Non-cash investing and financing activities:		
Debt assumed in connection with acquisitions	\$	\$ 529.9

See accompanying notes to unaudited consolidated financial statements.

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RELIANCE STEEL & ALUMINUM CO.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

1. Basis of Presentation

Principles of Consolidation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information and with the instructions of Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation with respect to the interim financial statements, have been included. The results of operations for the six months ended June 30, 2014 are not necessarily indicative of the results for the full year ending December 31, 2014. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended December 31, 2013, included in Reliance Steel & Aluminum Co. s (Reliance , the Company , we , our or us) Annual Report on Form 10-K.

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

Our 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. Our 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

Impact of Recently Issued Accounting Standards Adopted

Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity In April 2014, the FASB issued accounting guidance for reporting discontinued operations and disposals of components of an entity. The new guidance limits discontinued operations reporting to those disposals which represent a strategic shift that has (or will have) a major effect on an entity s operations and financial results. The updated guidance also expands the disclosure requirements for discontinued operations and adds new disclosures for individually significant dispositions that do not qualify as discontinued operations. The new accounting guidance is effective for disposals that occur during fiscal years

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that begin after December 15, 2014. Early adoption of the new accounting guidance is permitted and we adopted the new guidance during the three months ended June 30, 2014 and applied it to our sale of Metals USA's non-core roofing business in May 2014. The adoption of these changes did not have a material impact on our consolidated financial statements.

Impact of Recently Issued Accounting Standards Not Yet Adopted

Revenue from Contracts with Customers In May 2014, the FASB issued accounting changes which replace most of the detailed guidance on revenue recognition that currently exists under U.S. GAAP. Under the new guidance an entity should recognize revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. We are evaluating the new standard, but do not at this time expect this standard to have a material impact on our consolidated financial statements.

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RELIANCE STEEL & ALUMINUM CO.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

3. Acquisitions

2013 Acquisitions

On November 1, 2013, through our wholly-owned subsidiary American Metals Corporation, we acquired Haskins Steel Co., Inc. (Haskins Steel), located in Spokane, Washington. Founded in 1955, Haskins Steel processes and distributes primarily carbon steel and aluminum products of various shapes and sizes to a diverse customer base in the Pacific Northwest. Their in-house processing capabilities include shearing, sawing, burning and forming. Net sales of Haskins Steel for the six months ended June 30, 2014 were \$15.9 million.

On April 30, 2013, we acquired Travel Main Holdings, LLC (Travel Main), a real estate holding company with a portfolio of 18 real estate properties, all of which are leased by certain of our subsidiaries. The transaction value of \$78.9 million included the assumption of \$43.8 million of indebtedness. The cash portion of the purchase price was funded with borrowings on our revolving credit facility.

On April 12, 2013, we acquired Metals USA Holdings Corp. (Metals USA). Metals USA is one of the largest metals service center businesses in the United States and a leading provider of value-added processed aluminum, brass, copper, carbon steel, stainless steel, manufactured metal components and inventory management services. Metals USA sells its products and services to a diverse customer base and broad range of end markets, including the aerospace, auto, defense, heavy equipment, marine transportation, commercial construction, office furniture manufacturing, energy and oilfield service industries, among several others. This acquisition added a total of 44 service centers strategically located throughout the United States to our existing operations and complements our existing customer base, product mix and geographic footprint. Net sales of Metals USA for the six months ended June 30, 2014 were \$918.6 million. Effective May 16, 2014, the Company sold Metals USA's non-core roofing business for net proceeds of approximately \$26.2 million and recorded a pre-tax loss of approximately \$1.1 million, which is included in other expense, net. Net sales of Metals USA's non-core roofing business during the six months ended June 30, 2014 and during the period from April 13, 2013 through December 31, 2013 were \$9.6 million and \$25.4 million, respectively.

The purchase price for Metals USA of \$766.8 million along with assumed debt of \$486.1 million represented a total transaction value of approximately \$1.25 billion. We funded the transaction and refinanced all but \$12.3 million of Metals USA's debt with proceeds from our \$500.0 million term loan, which we entered into in April 2013, and our April 2013 \$500.0 million senior notes offering, with the balance drawn on our revolving credit facility (see Note 7). During the three months and six months ended June 30, 2013 we incurred approximately \$11.4 million in transaction related costs, which are included in warehouse, delivery, selling, general and administrative expenses.

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

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(in millions)

Cash	\$	3.2
Accounts receivable		206.0
Inventories		379.5
Property, plant and equipment		242.6
Goodwill		382.7
Intangible assets subject to amortization		137.6
Intangible assets not subject to amortization		203.0
Other current and long-term assets		9.1
Total assets acquired		1,563.7
Current and long-term debt		486.1
Deferred taxes		184.4
Other current and long-term liabilities		126.4
Total liabilities assumed		796.9
Net assets acquired	\$	766.8

Table of Contents**RELIANCE STEEL & ALUMINUM CO.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2014***Purchase price allocations*

The acquisitions discussed in this note have been accounted for under the acquisition method of accounting and, accordingly, the respective purchase price has been allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of each acquisition. The accompanying consolidated statements of income include the revenues and expenses of each acquisition since its respective acquisition date. The consolidated balance sheets reflect the allocation of each acquisition's purchase price as of June 30, 2014, as applicable. The purchase price allocation for the Haskins Steel acquisition is preliminary and is pending the completion of pre-acquisition period income tax returns. The measurement periods for purchase price allocations do not exceed 12 months from the acquisition date.

Pro forma financial information

The following pro forma summary financial results present the consolidated results of operations as if the acquisition of Metals USA had occurred as of January 1, 2013, after the effect of certain adjustments, including interest expense on the acquisition debt, non-recurring acquisition related costs, and amortization of certain identifiable intangible assets. The pro forma summary financial results reflect Metals USA's historical method for inventory valuation, which was the first-in, first-out (FIFO) method for the majority of its inventories. Metals USA adopted the last-in, first-out (LIFO) method of inventory valuation upon acquisition. The pro forma summary financial results for the three months and six months ended June 30, 2013 excluded approximately \$43.5 million and \$48.7 million of acquisition and related costs, respectively.

The pro forma results have been presented for comparative purposes only and are not indicative of what would have occurred had the Metals USA acquisition been made as of January 1, 2013, or of any potential results which may occur in the future.

	Three Months Ended June 30, 2013 (in millions, except per share amounts)	Six Months Ended June 30, 2013 (in millions, except per share amounts)
Pro forma:		
Net sales	\$ 2,519.2	\$ 5,003.6
Net income attributable to Reliance	\$ 83.0	\$ 172.0
Diluted earnings per common share attributable to Reliance shareholders	\$ 1.07	\$ 2.23
Basic earnings per common share attributable to Reliance shareholders	\$ 1.08	\$ 2.25

4. Goodwill

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The change in the carrying amount of goodwill is as follows:

	(in millions)	
Balance at December 31, 2013	\$	1,691.6
Purchase price allocation adjustment		1.2
Sale of business		(17.1)
Effect of foreign currency translation		0.6
Balance at June 30, 2014	\$	1,676.3

We had no accumulated impairment losses related to goodwill as of June 30, 2014.

Table of Contents**RELIANCE STEEL & ALUMINUM CO.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2014****5. Intangible Assets, net**

Intangible assets, net consisted of the following:

	Weighted Average Amortizable Life in Years	June 30, 2014		December 31, 2013	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
(in millions)					
Intangible assets subject to amortization:					
Covenants not to compete	4.5	\$ 2.1	\$ (1.5)	\$ 8.0	\$ (7.3)
Loan fees	3.8	41.5	(25.7)	41.5	(24.1)
Customer lists/relationships	14.6	654.8	(225.9)	654.3	(200.6)
Software - internal use	10.0	8.1	(6.7)	8.1	(6.3)
Other	5.2	7.2	(3.5)	7.4	(2.7)
		713.7	(263.3)	719.3	(241.0)
Intangible assets not subject to amortization:					
Trade names		735.8		735.5	
		\$ 1,449.5	\$ (263.3)	\$ 1,454.8	\$ (241.0)

We recognized amortization expense for intangible assets of \$28.2 million and \$26.4 million for the six months ended June 30, 2014 and 2013, respectively. Other changes in intangible assets, net during the six months ended June 30, 2014 are due to foreign currency translation gains of \$0.6 million.

The following is a summary of estimated aggregate amortization expense for the remaining six months of 2014 and each of the succeeding five years:

	(in millions)
2014	\$ 27.6
2015	53.7
2016	52.1
2017	47.6
2018	41.4
2019	40.7

6. Income Taxes

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Our effective income tax rates for the three-month periods ended June 30, 2014 and 2013 were 36.6% and 33.3%, respectively. Our effective income tax rates for the six-month periods ended June 30, 2014 and 2013 were 35.6% and 31.4%, respectively. Our 2014 three-month and six-month period effective income tax rates were unfavorably impacted by the sale of certain non-core assets acquired as part of the Metals USA acquisition. Permanent items that lowered our effective income tax rates from the federal statutory rate were not materially different in amounts during both years and relate mainly to company-owned life insurance policies, domestic production activities deductions and foreign income levels that are taxed at rates lower than the U.S. statutory rate of 35%.

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RELIANCE STEEL & ALUMINUM CO.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

7. Debt

Debt consisted of the following:

	June 30, 2014	(in millions)	December 31, 2013
Unsecured revolving credit facility due April 4, 2018	\$ 520.0		\$ 480.0
Senior unsecured term loan due from September 30, 2014 to April 4, 2018	455.0		467.5
Senior unsecured notes due November 15, 2016	350.0		350.0
Senior unsecured notes due April 15, 2023	500.0		500.0
Senior unsecured notes due November 15, 2036	250.0		250.0
Other notes and revolving credit facilities	60.5		64.8
Total	2,135.5		2,112.3
Less: unamortized discount	(3.1)		(3.3)
Less: amounts due within one year and short-term borrowings	(39.2)		(36.5)
Total long-term debt	\$ 2,093.2		\$ 2,072.5

Unsecured Credit Facility

On April 4, 2013, we entered into a syndicated Third Amended and Restated Credit Agreement with 26 banks as lenders (Credit Agreement). The Credit Agreement amended and restated our existing \$1.5 billion unsecured revolving credit facility and provided for a \$500.0 million term loan and an option to increase the revolving credit facility for up to \$500.0 million at our request, subject to approval of the lenders and certain other conditions. The term loan due April 4, 2018 amortizes in quarterly installments, with an annual amortization of 5% through March 2015 and 10% thereafter until March 2018, with the balance to be paid at maturity. Interest on borrowings from the revolving credit facility during the three-month period ended June 30, 2014 was at variable rates based on LIBOR plus 1.25% or the bank prime rate plus 0.25% and included a commitment fee at an annual rate of 0.20% on the unused portion. The applicable margins over LIBOR rate and base rate borrowings, along with commitment fees, are subject to adjustment every quarter based on our leverage ratio, as defined.

Weighted average rates on borrowings outstanding on the revolving credit facility were 1.40% and 1.41% as of June 30, 2014 and December 31, 2013, respectively. As of June 30, 2014, we had \$59.2 million of letters of credit outstanding under the revolving credit facility with availability to issue an additional \$190.8 million of letters of credit.

Senior Unsecured Notes Publicly Traded

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On November 20, 2006 we entered into an indenture (the 2006 Indenture), for the issuance of \$600.0 million of unsecured debt securities. The total debt issued was comprised of two tranches, (a) \$350.0 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) \$250.0 million aggregate principal amount of senior unsecured notes bearing interest at the rate of 6.85% per annum, maturing on November 15, 2036.

On April 12, 2013, we entered into an indenture (the 2013 Indenture and, together with the 2006 Indenture, the Indentures), for the issuance of \$500.0 million aggregate principal amount of senior unsecured notes at the rate of 4.50% per annum, maturing on April 15, 2023. The net proceeds from the issuance were used to partially fund the acquisition of Metals USA.

Under the Indentures, the notes are senior unsecured obligations and rank equally in right of payment with all of our existing and future unsecured and unsubordinated obligations. The notes are guaranteed by certain of our 100%-owned domestic subsidiaries that guarantee our revolving credit facility. The senior unsecured notes include provisions that require us to make an offer to repurchase the notes at a price equal to 101% of their principal amount plus accrued and unpaid interest in the event of a change in control and a downgrade of our credit rating.

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RELIANCE STEEL & ALUMINUM CO.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

Other Notes and Revolving Credit Facilities

Other revolving credit facilities with a combined credit limit of approximately \$21.8 million are in place for operations in Asia and Europe with combined outstanding balances of \$6.0 million and \$9.5 million as of June 30, 2014 and December 31, 2013, respectively.

Pursuant to our acquisition of Metals USA, we assumed industrial revenue bonds with combined outstanding balances of \$11.9 million as of June 30, 2014 and December 31, 2013 that have maturities through 2027. Additionally, we assumed mortgage obligations pursuant to our acquisition of Travel Main, which had outstanding balances of \$42.4 million and \$43.0 million as of June 30, 2014 and December 31, 2013, respectively. The mortgages, which are secured by the underlying properties, have a fixed interest rate of 6.40% and scheduled amortization payments with a lump sum payment of \$39.2 million due October 2016.

Covenants

The Credit Agreement requires us to maintain an interest coverage ratio and a maximum leverage ratio, among other things.

Our obligations under the Credit Agreement and Indentures are required to be guaranteed by certain of our 100%-owned domestic subsidiaries. The subsidiary guarantors, together with Reliance, are required to collectively account for at least 80% of our consolidated EBITDA and 80% of consolidated tangible assets.

We were in compliance with all debt covenants as of June 30, 2014.

8. Equity

Common Stock

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During the six months ended June 30, 2014, we issued 449,141 shares of common stock in connection with the exercise of employee stock options for total proceeds of approximately \$21.3 million.

Dividends

On July 22, 2014, our Board of Directors declared the 2014 third quarter cash dividend of \$0.35 per share. The dividend is payable on September 12, 2014 to shareholders of record as of August 15, 2014.

During the six months ended June 30, 2014 we declared and paid quarterly dividends of \$0.35 per share, or \$54.4 million in total, compared to quarterly dividends of \$0.30 per share, or \$46.0 million in total, for the same period in 2013.

Share-Based Compensation

On March 25, 2014, we granted a total of 349,380 restricted stock units (RSUs) to key employees pursuant to our Amended and Restated Stock Option and Restricted Stock Plan. Each RSU consists of the right to receive one share of our common stock and dividend equivalent rights, subject to forfeiture, equal to the accrued cash or stock dividends where the record date for such dividends is after the grant date but before the shares vest. Each 2014 RSU granted has a service condition and cliff vests at December 31, 2016, if the recipient is an employee on that date. In addition to the service criteria, 136,162 of the RSUs granted in 2014 also have performance goals and vest only upon the satisfaction of the service and performance criteria. The fair value of the 2014 RSUs granted was \$71.15, the closing price of our common stock on the day before the grant.

Table of Contents**RELIANCE STEEL & ALUMINUM CO.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2014***Share Repurchase Program*

As of June 30, 2014, 7,883,033 shares of common stock remain authorized for repurchase under our stock repurchase program. No shares were repurchased in 2014 or 2013. Repurchased shares are redeemed and treated as authorized but unissued shares.

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss included the following:

	Foreign Currency Translation Gain	Unrealized Gain on Investments, Net of Tax	Pension and Postretirement Benefit Adjustments, Net of Tax	Accumulated Other Comprehensive Loss
	(in millions)			
Balance as of December 31, 2013	\$ 3.2	\$ 0.2	\$ (10.1)	\$ (6.7)
Current-period change	5.3	0.1		5.4
Balance as of June 30, 2014	\$ 8.5	\$ 0.3	\$ (10.1)	\$ (1.3)

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 pension and postretirement benefit adjustments are net of taxes of \$0.1 million and \$6.9 million, respectively, as of June 30, 2014 and December 31, 2013.

9. Commitments and Contingencies*Environmental Contingencies*

We are currently involved with certain environmental remediation projects related to activities at former manufacturing operations of our wholly owned subsidiary Earle M. Jorgensen Company (EMJ) that were sold many years prior to our 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. We do not expect that these obligations will have a material adverse impact on our financial position, results of operations or cash flows.

Legal Matters

On April 29, 2014, a judgment was entered against the Company and its subsidiary, Chapel Steel Corp. (Chapel), along with four other co-defendants, in an antitrust lawsuit filed in the United States District Court for the Southern District of Texas. As previously disclosed, Reliance has been involved in this legal proceeding brought by two former employees who left the Company to start their own business and claim that Reliance and the co-defendants engaged in anticompetitive activities. The judgment, entered against all defendants jointly and severally, awarded the plaintiff \$156 million in damages, representing a trebling under federal antitrust laws of the jury verdict of \$52 million in damages. On May 27, 2014 the judgment was reduced to \$153.5 million. All remaining defendants, including Reliance and Chapel, have filed Notices of Appeal to the United States Court of Appeals for the Fifth Circuit seeking to have the judgment reversed, altered, or amended. Execution on the judgment is stayed pending the appeal. Despite the judgment, Reliance currently believes a reasonable range of its potential loss in this matter is between \$10.0 million and \$38.4 million. The low end of the estimated range of potential loss is based on our current belief that we may be successful in our efforts, including the appeal or other proceeding, in reducing the judgment and/or settling this matter. The high end of the estimated range of potential loss represents our estimate of Reliance's maximum share of the judgment should we be unsuccessful in reducing the judgment or settling the matter at a lower amount. We have determined that no amount within this range is a better estimate than any other amount and, therefore, have recognized a contingent liability equal to the minimum amount of the range. Our estimated range of potential loss is based on our opinion regarding the current status and likelihood of final

Table of Contents**RELIANCE STEEL & ALUMINUM CO.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2014**

resolution through appeal or other proceedings, and could change as a result of developments in the appeal or other proceedings or if the likelihood of settlement changes. The ultimate financial obligation resulting from resolution of this matter could vary, perhaps materially, from our estimated range of potential loss.

From time to time, we are named as a defendant in legal actions. Generally, these actions arise out of our normal course of business. Except as disclosed above, we are not a party to any pending legal proceedings other than routine litigation incidental to the business. We expect that these other matters will be resolved without a material adverse effect on our results of operations or financial condition. We maintain liability insurance against risks arising out of our ordinary course of business.

10. Earnings Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in millions, except share and per share amounts)			
Numerator:				
Net income attributable to Reliance	\$ 96.5	\$ 81.0	\$ 183.7	\$ 164.7
Denominator:				
Denominator for basic earnings per share:				
Weighted average shares	77,735,301	76,695,598	77,621,983	76,497,454
Effect of dilutive securities:				
Stock options, restricted stock, and RSUs	1,042,451	773,519	946,439	778,557
Denominator for dilutive earnings per share:				
Adjusted weighted average shares and assumed conversions	78,777,752	77,469,117	78,568,422	77,276,011
Net income per share attributable to Reliance shareholders diluted	\$ 1.22	\$ 1.05	\$ 2.34	\$ 2.13
Net income per share attributable to Reliance shareholders basic	\$ 1.24	\$ 1.06	\$ 2.37	\$ 2.15

The computations of earnings per share for the three months ended June 30, 2014 and 2013 do not include 46,255 and 144,143 weighted average shares, respectively, for stock options and RSUs, because their inclusion would have been anti-dilutive.

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The computations of earnings per share for the six months ended June 30, 2014 and 2013 do not include 31,940 and 313,912 weighted average shares, respectively, for stock options and RSU s, because their inclusion would have been anti-dilutive.

11. Condensed Consolidating Financial Statements

In November 2006 and April 2013, we issued senior unsecured notes in the aggregate principal amount of \$1.1 billion, at fixed interest rates that are guaranteed by certain of our 100%-owned domestic subsidiaries that also guarantee borrowings under the Credit Agreement. 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 our ability to obtain funds from any of the guarantor subsidiaries by dividends or loans. The supplemental consolidating financial information has been presented in lieu of separate financial statements of the guarantors as such separate financial statements are not considered meaningful.

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As of June 30, 2014****(in millions)**

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Assets					
Cash and cash equivalents	\$ 49.4	\$ (11.0)	\$ 75.1	\$	\$ 113.5
Accounts receivable, less allowance for doubtful accounts	79.7	992.9	96.6		1,169.2
Inventories	64.9	1,549.5	155.5		1,769.9
Income taxes receivable	52.2			(52.2)	
Intercompany receivables	0.6	17.7	1.4	(19.7)	
Other current assets	115.0	50.1	14.6	(76.9)	102.8
Total current assets	361.8	2,599.2	343.2	(148.8)	3,155.4
Investments in subsidiaries	4,645.3	219.2		(4,864.5)	
Property, plant and equipment, net	103.9	1,306.5	197.4		1,607.8
Goodwill	23.8	1,549.8	102.7		1,676.3
Intangible assets, net	33.0	1,037.0	116.2		1,186.2
Intercompany receivables	1,365.0	84.5	10.2	(1,459.7)	
Other assets	22.6	61.1	5.3		89.0
Total assets	\$ 6,555.4	\$ 6,857.3	\$ 775.0	\$ (6,473.0)	\$ 7,714.7
Liabilities & Equity					
Accounts payable	\$ 40.4	\$ 414.6	\$ 22.5	\$ (19.7)	\$ 457.8
Accrued compensation and retirement costs	13.3	81.9	9.8		105.0
Other current liabilities	63.7	82.6	68.1	(53.9)	160.5
Deferred income taxes		75.2		(75.2)	
Current maturities of long-term debt and short-term borrowings	31.5		7.7		39.2
Total current liabilities	148.9	654.3	108.1	(148.8)	762.5
Long-term debt	2,040.6	5.7	46.9		2,093.2
Intercompany borrowings		1,312.2	147.5	(1,459.7)	
Other long-term liabilities	321.6	445.3	37.9		804.8
Total Reliance shareholders' equity	4,044.3	4,433.3	431.2	(4,864.5)	4,044.3
Noncontrolling interests		6.5	3.4		9.9
Total equity	4,044.3	4,439.8	434.6	(4,864.5)	4,054.2
Total liabilities and equity	\$ 6,555.4	\$ 6,857.3	\$ 775.0	\$ (6,473.0)	\$ 7,714.7

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RELIANCE STEEL & ALUMINUM CO.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

**Condensed Unaudited Consolidating Balance Sheet
As of December 31, 2013**

(in millions)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Assets					
Cash and cash equivalents	\$ 19.7	\$ (0.8)	\$ 64.7	\$	\$ 83.6
Accounts receivable, less allowance for doubtful accounts	64.1	820.3	99.1		983.5
Inventories	52.6	1,344.8	142.6		1,540.0
Income taxes receivable	34.4			(0.5)	33.9
Intercompany receivables	0.3	350.6	2.2	(353.1)	
Other current assets	124.8	40.8	8.9	(76.6)	97.9
Total current assets	295.9	2,555.7	317.5	(430.2)	2,738.9
Investments in subsidiaries	4,647.7	312.4		(4,960.1)	
Property, plant and equipment, net	100.8	1,298.7	204.4		1,603.9
Goodwill	23.8	1,555.7	112.1		1,691.6
Intangible assets, net	17.4	1,077.8	118.6		1,213.8
Intercompany receivables	1,219.4	22.4	394.3	(1,636.1)	
Other assets	20.8	66.6	5.4		92.8
Total assets	\$ 6,325.8	\$ 6,889.3	\$ 1,152.3	\$ (7,026.4)	\$ 7,341.0
Liabilities & Equity					
Accounts payable	\$ 29.1	\$ 185.8	\$ 418.5	\$ (353.1)	\$ 280.3
Accrued compensation and retirement costs	21.1	85.9	12.5		119.5
Other current liabilities	53.5	63.1	22.4	(1.9)	137.1
Deferred income taxes		75.2		(75.2)	
Current maturities of long-term debt and short-term borrowings	25.3		11.2		36.5
Total current liabilities	129.0	410.0	464.6	(430.2)	573.4
Long-term debt	2,019.2	5.7	47.6		2,072.5
Intercompany borrowings		1,550.6	85.5	(1,636.1)	
Other long-term liabilities	303.0	466.5	41.2		810.7
Total Reliance shareholders' equity	3,874.6	4,450.1	510.0	(4,960.1)	3,874.6
Noncontrolling interests		6.4	3.4		9.8
Total equity	3,874.6	4,456.5	513.4	(4,960.1)	3,884.4
Total liabilities and equity	\$ 6,325.8	\$ 6,889.3	\$ 1,152.3	\$ (7,026.4)	\$ 7,341.0

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RELIANCE STEEL & ALUMINUM CO.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

Condensed Unaudited Consolidating Statement of Income
For the three months ended June 30, 2014
(in millions)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	\$ 191.8	\$ 2,311.4	\$ 173.6	\$ (60.0)	\$ 2,616.8
Costs and expenses:					
Cost of sales (exclusive of depreciation and amortization shown below)	136.0	1,738.6	128.9	(60.0)	1,943.5
Warehouse, delivery, selling, general and administrative	42.6	387.6	31.1	(16.4)	444.9
Depreciation and amortization	5.0	42.9	4.8		52.7
	183.6	2,169.1	164.8	(76.4)	2,441.1
Operating income	8.2	142.3	8.8	16.4	175.7
Other income (expense):					
Interest	(19.3)	(7.6)	(1.3)	8.0	(20.2)
Other income (expense), net	23.1	0.4	(0.4)	(24.4)	(1.3)
Income before equity in earnings of subsidiaries and income taxes	12.0	135.1	7.1		154.2
Equity in earnings of subsidiaries	76.5	3.8		(80.3)	
Income before income taxes	88.5	138.9	7.1	(80.3)	154.2
Income tax (benefit) provision	(8.0)	61.4	3.0		56.4
Net income	96.5	77.5	4.1	(80.3)	97.8
Less: Net income attributable to noncontrolling interests		1.2	0.1		1.3
Net income attributable to Reliance	\$ 96.5	\$ 76.3	\$ 4.0	\$ (80.3)	\$ 96.5
Comprehensive income attributable to Reliance	\$ 97.2	\$ 76.3	\$ 17.5	\$ (80.3)	\$ 110.7

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RELIANCE STEEL & ALUMINUM CO.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

**Condensed Unaudited Consolidating Statement of Income
For the three months ended June 30, 2013**

(in millions)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	\$ 183.6	\$ 2,139.2	\$ 177.5	\$ (52.0)	\$ 2,448.3
Costs and expenses:					
Cost of sales (exclusive of depreciation and amortization shown below)	129.3	1,617.6	131.8	(52.0)	1,826.7
Warehouse, delivery, selling, general and administrative	58.6	349.8	31.4	(13.8)	426.0
Depreciation and amortization	5.1	40.9	4.1		50.1
	193.0	2,008.3	167.3	(65.8)	2,302.8
Operating (loss) income	(9.4)	130.9	10.2	13.8	145.5
Other income (expense):					
Interest	(21.2)	(4.9)	(0.8)	4.8	(22.1)
Other income (expense), net	18.5	(0.2)	(0.3)	(18.6)	(0.6)
(Loss) income before equity in earnings of subsidiaries and income taxes	(12.1)	125.8	9.1		122.8
Equity in earnings of subsidiaries	82.1	3.2		(85.3)	
Income before income taxes	70.0	129.0	9.1	(85.3)	122.8
Income tax (benefit) provision	(11.0)	49.5	2.4		40.9
Net income	81.0	79.5	6.7	(85.3)	81.9
Less: Net income attributable to noncontrolling interests		0.8	0.1		0.9
Net income attributable to Reliance	\$ 81.0	\$ 78.7	\$ 6.6	\$ (85.3)	\$ 81.0
Comprehensive income (loss) attributable to Reliance	\$ 81.0	\$ 78.7	\$ (3.2)	\$ (85.3)	\$ 71.2

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RELIANCE STEEL & ALUMINUM CO.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

**Condensed Unaudited Consolidating Statement of Income
For the six months ended June 30, 2014**

(in millions)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	\$ 374.2	\$ 4,556.3	\$ 361.2	\$ (121.9)	\$ 5,169.8
Costs and expenses:					
Cost of sales (exclusive of depreciation and amortization shown below)	282.1	3,417.2	271.9	(121.9)	3,849.3
Warehouse, delivery, selling, general and administrative	87.7	768.7	62.3	(32.8)	885.9
Depreciation and amortization	9.5	85.8	9.3		104.6
	379.3	4,271.7	343.5	(154.7)	4,839.8
Operating (loss) income	(5.1)	284.6	17.7	32.8	330.0
Other income (expense):					
Interest	(38.5)	(13.8)	(2.5)	14.4	(40.4)
Other income, net	43.6	0.2	2.1	(47.2)	(1.3)
Income before equity in earnings of subsidiaries and income taxes		271.0	17.3		288.3
Equity in earnings of subsidiaries	161.2	6.6		(167.8)	
Income before income taxes	161.2	277.6	17.3	(167.8)	288.3
Income tax (benefit) provision	(22.5)	118.2	6.9		102.6
Net income	183.7	159.4	10.4	(167.8)	185.7
Less: Net income attributable to noncontrolling interests		1.9	0.1		2.0
Net income attributable to Reliance	\$ 183.7	\$ 157.5	\$ 10.3	\$ (167.8)	\$ 183.7
Comprehensive income attributable to Reliance	\$ 184.6	\$ 157.6	\$ 14.7	\$ (167.8)	\$ 189.1

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RELIANCE STEEL & ALUMINUM CO.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

**Condensed Unaudited Consolidating Statement of Income
For the six months ended June 30, 2013**

(in millions)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	\$ 363.0	\$ 3,877.9	\$ 341.2	\$ (108.5)	\$ 4,473.6
Costs and expenses:					
Cost of sales (exclusive of depreciation and amortization shown below)	267.4	2,909.0	255.3	(108.5)	3,323.2
Warehouse, delivery, selling, general and administrative	109.5	649.4	54.7	(29.9)	783.7
Depreciation and amortization	9.1	74.5	7.6		91.2
	386.0	3,632.9	317.6	(138.4)	4,198.1
Operating (loss) income	(23.0)	245.0	23.6	29.9	275.5
Other income (expense):					
Interest	(34.3)	(7.4)	(1.3)	7.8	(35.2)
Other income (expense), net	36.8	3.7	(0.5)	(37.7)	2.3
(Loss) income before equity in earnings of subsidiaries and income taxes	(20.5)	241.3	21.8		242.6
Equity in earnings of subsidiaries	164.7	8.0		(172.7)	
Income before income taxes	144.2	249.3	21.8	(172.7)	242.6
Income tax (benefit) provision	(20.5)	91.7	5.0		76.2
Net income	164.7	157.6	16.8	(172.7)	166.4
Less: Net income attributable to noncontrolling interests		1.6	0.1		1.7
Net income attributable to Reliance	\$ 164.7	\$ 156.0	\$ 16.7	\$ (172.7)	\$ 164.7
Comprehensive income (loss) attributable to Reliance	\$ 163.2	\$ 156.2	\$ (1.7)	\$ (172.7)	\$ 145.0

Table of Contents**RELIANCE STEEL & ALUMINUM CO.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2014****Condensed Unaudited Consolidating Cash Flow Statement
For the six months ended June 30, 2014**

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Cash provided by (used in) operating activities	\$ 167.8	\$ (63.2)	\$ 4.9	\$	\$ 109.5
Investing activities:					
Purchases of property, plant and equipment	(10.4)	(72.7)	(3.8)		(86.9)
Net advances to subsidiaries	(123.0)			123.0	
Other investing activities, net	0.1	(9.1)	26.2		17.2
Cash (used in) provided by investing activities	(133.3)	(81.8)	22.4	123.0	(69.7)
Financing activities:					
Net short-term debt repayments			(3.6)		(3.6)
Proceeds from long-term debt borrowings	297.0				297.0
Principal payments on long-term debt	(269.5)	(0.8)			(270.3)
Dividends paid	(54.4)				(54.4)
Net intercompany borrowings (repayments)		137.5	(14.5)	(123.0)	
Other financing activities, net	22.1	(1.9)			20.2
Cash (used in) provided by financing activities	(4.8)	134.8	(18.1)	(123.0)	(11.1)
Effect of exchange rate changes on cash and cash equivalents			1.2		1.2
Increase (decrease) in cash and cash equivalents	29.7	(10.2)	10.4		29.9
Cash and cash equivalents at beginning of year	19.7	(0.8)	64.7		83.6
Cash and cash equivalents at end of period	\$ 49.4	\$ (11.0)	\$ 75.1	\$	\$ 113.5

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RELIANCE STEEL & ALUMINUM CO.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

**Condensed Unaudited Consolidating Cash Flow Statement
For the six months ended June 30, 2013**

(in millions)

Guarantor	Non- Guarantor	Consolidating
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