

RELIANCE STEEL & ALUMINUM CO  
Form 10-Q  
July 31, 2015  
Table of Contents

**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, 2015

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.**

Edgar Filing: RELIANCE STEEL & ALUMINUM CO - Form 10-Q

(Exact name of registrant as specified in its charter)

**Delaware**  
(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 30, 2015, 73,469,819 shares of the registrant's common stock, \$0.001 par value, were outstanding.

Table of Contents

**RELIANCE STEEL & ALUMINUM CO.**

**TABLE OF CONTENTS**

<b><u>PART I -- FINANCIAL INFORMATION</u></b>	<b>1</b>
<b><u>Item 1.</u></b>	<b><u>Financial Statements</u></b>
	<u>Unaudited Consolidated Balance Sheets at June 30, 2015 and December 31, 2014</u> 1
	<u>Unaudited Consolidated Statements of Income for the Three Months and Six Months Ended June 30, 2015 and 2014</u> 2
	<u>Unaudited Consolidated Statements of Comprehensive Income for the Three Months and Six Months Ended June 30, 2015 and 2014</u> 3
	<u>Unaudited Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2015 and 2014</u> 4
	<u>Notes to Unaudited Consolidated Financial Statements</u> 5
<b><u>Item 2.</u></b>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 21
<b><u>Item 3.</u></b>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 30
<b><u>Item 4.</u></b>	<u>Controls and Procedures</u> 30
<b><u>PART II -- OTHER INFORMATION</u></b>	<b>30</b>
<b><u>Item 1A.</u></b>	<u>Risk Factors</u> 30
<b><u>Item 2.</u></b>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 30
<b><u>Item 6.</u></b>	<u>Exhibits</u> 30
<b><u>SIGNATURES</u></b>	<b>31</b>
<b><u>EXHIBIT INDEX</u></b>	<b>32</b>

---

Table of Contents**PART I -- FINANCIAL INFORMATION****Item 1. Financial Statements****RELIANCE STEEL & ALUMINUM CO.****UNAUDITED CONSOLIDATED BALANCE SHEETS**

(in millions, except share amounts)

**ASSETS**

	<b>June 30, 2015</b>	<b>December 31, 2014*</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 131.9	\$ 106.2
Accounts receivable, less allowance for doubtful accounts of \$19.4 at June 30, 2015 and \$18.3 at December 31, 2014	1,117.1	1,144.6
Inventories	1,672.8	1,752.1
Prepaid expenses and other current assets	56.0	71.8
Income taxes receivable	14.7	
Deferred income taxes	46.4	46.4
<b>Total current assets</b>	<b>3,038.9</b>	<b>3,121.1</b>
<b>Property, plant and equipment:</b>		
Land	197.2	197.5
Buildings	990.5	983.2
Machinery and equipment	1,539.4	1,479.8
Accumulated depreciation	(1,078.5)	(1,004.1)
	1,648.6	1,656.4
Goodwill	1,732.4	1,736.4
Intangible assets, net	1,195.9	1,227.4
Cash surrender value of life insurance policies, net	40.4	46.4
Other assets	35.0	34.7
<b>Total assets</b>	<b>\$ 7,691.2</b>	<b>\$ 7,822.4</b>

**LIABILITIES AND EQUITY**

<b>Current liabilities:</b>		
Accounts payable	\$ 371.0	\$ 286.5
Accrued expenses	82.7	98.2
Accrued compensation and retirement costs	106.8	128.4
Accrued insurance costs	43.7	46.6
Current maturities of long-term debt and short-term borrowings	107.1	93.9
Income taxes payable		9.2
<b>Total current liabilities</b>	<b>711.3</b>	<b>662.8</b>
Long-term debt	2,094.3	2,208.1
Long-term retirement costs	104.7	102.2
Other long-term liabilities	28.0	28.5
Deferred income taxes	690.6	692.9

Edgar Filing: RELIANCE STEEL & ALUMINUM CO - Form 10-Q

Commitments and contingencies

Equity:

Common stock and additional paid-in capital, \$0.001 par value:

Authorized shares 200,000,000

Issued and outstanding shares 74,379,301 at June 30, 2015 and  
77,337,251 at December 31, 2014

	641.0	819.4
Retained earnings	3,457.6	3,328.5
Accumulated other comprehensive loss	(66.3)	(48.9)
Total Reliance stockholders' equity	4,032.3	4,099.0
Noncontrolling interests	30.0	28.9
Total equity	4,062.3	4,127.9
Total liabilities and equity	\$ 7,691.2	\$ 7,822.4

\* 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,	
	2015	2014	2015	2014
Net sales	\$ 2,423.7	\$ 2,616.8	\$ 5,038.1	\$ 5,169.8
Costs and expenses:				
Cost of sales (exclusive of depreciation and amortization shown below)	1,767.8	1,943.5	3,711.5	3,849.3
Warehouse, delivery, selling, general and administrative	440.8	444.9	886.9	885.9
Depreciation and amortization	54.9	52.7	110.2	104.6
	2,263.5	2,441.1	4,708.6	4,839.8
Operating income	160.2	175.7	329.5	330.0
Other expense:				
Interest	(21.5)	(20.2)	(42.1)	(40.4)
Other expense, net	(2.8)	(1.3)	(0.9)	(1.3)
Income before income taxes	135.9	154.2	286.5	288.3
Income tax provision	44.3	56.4	92.0	102.6
Net income	91.6	97.8	194.5	185.7
Less: Net income attributable to noncontrolling interests	1.4	1.3	3.0	2.0
Net income attributable to Reliance	\$ 90.2	\$ 96.5	\$ 191.5	\$ 183.7
Earnings per share attributable to Reliance stockholders:				
Diluted	\$ 1.20	\$ 1.22	\$ 2.50	\$ 2.34
Basic	\$ 1.21	\$ 1.24	\$ 2.53	\$ 2.37
Cash dividends per share	\$ 0.40	\$ 0.35	\$ 0.80	\$ 0.70

*See accompanying notes to unaudited consolidated financial statements.*

Table of Contents**RELIANCE STEEL & ALUMINUM CO.****UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(in millions)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Net income	\$ 91.6	\$ 97.8	\$ 194.5	\$ 185.7
Other comprehensive income (loss):				
Foreign currency translation gain (loss)	7.9	14.2	(17.0)	5.3
Unrealized (loss) gain on investments, net of tax	(0.5)		(0.4)	0.1
Total other comprehensive income (loss)	7.4	14.2	(17.4)	5.4
Comprehensive income	99.0	112.0	177.1	191.1
Less: comprehensive income attributable to noncontrolling interests	1.4	1.3	3.0	2.0
Comprehensive income attributable to Reliance	\$ 97.6	\$ 110.7	\$ 174.1	\$ 189.1

*See accompanying notes to unaudited consolidated financial statements.*

Table of Contents

## RELIANCE STEEL &amp; ALUMINUM CO.

## UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

	Six Months Ended June 30,	
	2015	2014
<b>Operating activities:</b>		
Net income	\$ 194.5	\$ 185.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	110.2	104.6
Deferred income tax benefit	(2.0)	(1.5)
Gain on sales of property, plant and equipment	(0.3)	(1.0)
Stock-based compensation expense	12.4	12.9
Other	5.1	3.4
Changes in operating assets and liabilities:		
Accounts receivable	25.0	(188.0)
Inventories	75.3	(230.4)
Prepaid expenses and other assets	0.4	37.2
Accounts payable and other liabilities	43.3	186.6
Net cash provided by operating activities	463.9	109.5
<b>Investing activities:</b>		
Purchases of property, plant and equipment	(77.1)	(86.9)
Proceeds from sale of business, net		26.2
Other	(1.5)	(9.0)
Net cash used in investing activities	(78.6)	(69.7)
<b>Financing activities:</b>		
Net short-term debt borrowings (repayments)	6.8	(3.6)
Proceeds from long-term debt borrowings	412.0	297.0
Principal payments on long-term debt	(521.8)	(270.3)
Dividends and dividend equivalents paid	(61.4)	(54.4)
Exercise of stock options	10.6	21.3
Share repurchases	(200.0)	
Other	(4.3)	(1.1)
Net cash used in financing activities	(358.1)	(11.1)
Effect of exchange rate changes on cash	(1.5)	1.2
Increase in cash and cash equivalents	25.7	29.9
Cash and cash equivalents at beginning of year	106.2	83.6
Cash and cash equivalents at end of period	\$ 131.9	\$ 113.5
<b>Supplemental cash flow information:</b>		
Interest paid during the period	\$ 42.2	\$ 40.5
Income taxes paid during the period, net	\$ 118.2	\$ 62.5

*See accompanying notes to unaudited consolidated financial statements.*



Table of Contents

**RELIANCE STEEL & ALUMINUM CO.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2015**

**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. GAAP 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, 2015 are not necessarily indicative of the results for the full year ending December 31, 2015. These financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto for the year ended December 31, 2014, 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. All significant intercompany accounts and transactions have been eliminated. 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.

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

*Impact of Recently Issued Accounting Standards Adopted*

*Simplifying the Presentation of Debt Issuance Costs* In April 2015, the Financial Accounting Standards Board ( FASB ) issued accounting changes which simplify the presentation of debt issuance costs. The guidance requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability, consistent with the presentation of debt discounts. The guidance is to be applied

retrospectively to all prior periods presented in the financial statements. We adopted these accounting changes during the three months ended June 30, 2015, which resulted in a \$14.2 million reduction of our Intangible assets, net and Long-term debt at December 31, 2014.

*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. The guidance will be effective for fiscal years beginning after December 15, 2017. Early adoption is permitted for fiscal years beginning after December 15, 2016. We are evaluating the new standard, but do not expect this standard will have a material impact on our consolidated financial statements.

**3. Acquisitions**

*2014 Acquisitions*

On December 1, 2014, we acquired Fox Metals and Alloys, Inc. ( Fox ), a Houston, Texas-based steel distributor specializing in alloy, carbon and stainless steel bar and plate products, primarily servicing OEMs and machine shops that manufacture or support the manufacturing of equipment for the oil, gas and petrochemical industries. Fox's in-house processing services include saw cutting, plate burning and testing. Net sales of Fox for the six months ended June 30, 2015 were \$14.9 million.

Table of Contents**RELIANCE STEEL & ALUMINUM CO.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2015**

On August 1, 2014, we acquired Aluminium Services UK Limited, the parent holding company of All Metal Services ( AMS ). AMS provides comprehensive materials management solutions to aerospace and defense OEMs and their subcontractors on a global basis, supporting customers in more than 40 countries worldwide. AMS offers a broad range of aerospace metals including aluminum, steel, titanium, nickel alloys and aluminum bronze, offering full or cut to size materials. AMS also offers in-house machining and water-jet cutting for more complex requirements. AMS has eight locations in four countries including China, France, Malaysia, and the United Kingdom. Net sales of AMS for the six months ended June 30, 2015 were \$132.1 million.

On August 1, 2014, we acquired Northern Illinois Steel Supply Co. ( NIS ), a value-added distributor and fabricator of a variety of steel and non-ferrous metal products, primarily structural steel components and parts, located in Channahon, Illinois. Net sales of NIS for the six months ended June 30, 2015 were \$9.1 million.

We funded these acquisitions with borrowings on our revolving credit facility and cash on hand.

The preliminary allocation of the total purchase price of our 2014 acquisitions to the fair values of the assets acquired and liabilities assumed was as follows:

	(in millions)	
Cash	\$	1.6
Accounts receivable		67.1
Inventories		89.2
Property, plant and equipment		23.4
Goodwill		51.2
Intangible assets subject to amortization		37.5
Intangible assets not subject to amortization		39.0
Other current and long-term assets		1.5
Total assets acquired		310.5
Deferred taxes		9.0
Current and long-term debt		39.2
Other current and long-term liabilities		53.1
Total liabilities assumed		101.3
Net assets acquired	\$	209.2

*Purchase price allocations*

## Edgar Filing: RELIANCE STEEL & ALUMINUM CO - Form 10-Q

All of 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, 2015 and December 31, 2014. The purchase price allocations for the 2014 acquisitions are preliminary and are pending the completion of various pre-acquisition period income tax returns. The measurement periods for purchase price allocations do not exceed 12 months from the acquisition date.

Table of Contents**RELIANCE STEEL & ALUMINUM CO.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2015****4. Goodwill**

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

	(in millions)	
Balance at January 1, 2015	\$	1,736.4
Acquisition		0.3
Purchase price allocation adjustment		(0.4)
Effect of foreign currency translation		(3.9)
Balance at June 30, 2015	\$	1,732.4

We had no accumulated impairment losses related to goodwill at June 30, 2015.

**5. Intangible Assets, net**

Intangible assets, net consisted of the following:

	Weighted Average Amortizable Life in Years	June 30, 2015		December 31, 2014	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Intangible assets subject to amortization:					
Covenants not to compete	4.4	\$ 1.4	\$ (0.9)	\$ 2.3	\$ (1.7)
Customer lists/relationships	14.2	690.9	(273.7)	694.7	(249.3)
Software internal use	10.0	8.1	(7.5)	8.1	(7.1)
Other	5.4	6.4	(4.4)	7.2	(4.5)
		706.8	(286.5)	712.3	(262.6)
Intangible assets not subject to amortization:					
Trade names		775.6		777.7	
		\$ 1,482.4	\$ (286.5)	\$ 1,490.0	\$ (262.6)

## Edgar Filing: RELIANCE STEEL & ALUMINUM CO - Form 10-Q

We recognized amortization expense for intangible assets of \$27.7 million and \$28.2 million for the six months ended June 30, 2015 and 2014, respectively. Other changes in intangible assets, net during the six months ended June 30, 2015 are mainly due to foreign currency translation losses of \$4.7 million.

The following is a summary of estimated aggregate amortization expense for the remaining six months of 2015 and each of the succeeding five years:

	(in millions)	
2015	\$	26.7
2016		52.0
2017		47.7
2018		43.4
2019		43.3
2020		43.3

Table of Contents**RELIANCE STEEL & ALUMINUM CO.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2015****6. Debt**

Debt consisted of the following:

	<b>June 30, 2015</b>	<b>(in millions)</b>	<b>December 31, 2014</b>
Unsecured revolving credit facility due April 4, 2018	\$ 585.0		\$ 675.0
Unsecured term loan due from September 30, 2015 to April 4, 2018	423.8		442.5
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	107.8		101.6
<b>Total</b>	<b>2,216.6</b>		<b>2,319.1</b>
Less: unamortized discount and debt issuance costs	(15.2)		(17.1)
Less: amounts due within one year and short-term borrowings	(107.1)		(93.9)
<b>Total long-term debt</b>	<b>\$ 2,094.3</b>		<b>\$ 2,208.1</b>

*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 10% until March 2018, with the balance to be paid at maturity. Interest on borrowings from the revolving credit facility and term loan during the three-month period ended June 30, 2015 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 of the revolving credit facility. 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 in the Credit Agreement.

Weighted average interest rates on borrowings outstanding on the revolving credit facility and term loan were 1.44% and 1.42% as of June 30, 2015 and December 31, 2014, respectively. As of June 30, 2015, we had \$585.0 million of outstanding borrowings, \$58.9 million of letters of credit issued and \$856.1 million available on the revolving credit facility.

*Senior Unsecured Notes*

## Edgar Filing: RELIANCE STEEL & ALUMINUM CO - Form 10-Q

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 Holdings Corp. ( 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 both a change in control and a downgrade of our credit rating.



Table of Contents

**RELIANCE STEEL & ALUMINUM CO.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2015**

*Other Notes and Revolving Credit Facilities*

Other revolving credit facilities with a combined credit limit of approximately \$80.6 million are in place for operations in Asia and Europe with combined outstanding balances of \$55.3 million and \$48.3 million as of June 30, 2015 and December 31, 2014, respectively.

Pursuant to our acquisition of Metals USA, we assumed industrial revenue bonds with combined outstanding balances of \$11.5 million as of June 30, 2015 and December 31, 2014 and maturities through 2027. Additionally, we assumed mortgage obligations pursuant to our acquisition of a portfolio of real estate properties that we were leasing, which have outstanding balances of \$41.1 million and \$41.8 million as of June 30, 2015 and December 31, 2014, 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 material covenants in our debt agreements at June 30, 2015.

**7. Income Taxes**

Our effective income tax rates for the three-month periods ended June 30, 2015 and 2014 were 32.6% and 36.6%, respectively. Our effective income tax rates for the six-month periods ended June 30, 2015 and 2014 were 32.1% and 35.6%, 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 in the Metals USA acquisition. Permanent items that lowered our effective income tax rates from the federal statutory rate were not materially different 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%.

## 8. Equity

### *Reincorporation*

During the second quarter of 2015, the Company's shareholders approved the reincorporation of the Company from California by means of a merger with and into a wholly-owned Delaware subsidiary. The reincorporation did not result in any change in the business, physical location, management, assets, liabilities, net worth or number of authorized shares of the Company. The Company's common stock continues to be listed under the symbol "RS" on the New York Stock Exchange. However, the amendments to the Company's Restated Articles of Incorporation established par value of the Company's common stock and unissued preferred stock of \$0.001 per share.

### *Common Stock*

During the three months ended June 30, 2015, we issued 112,175 shares of common stock in connection with the exercise of employee stock options for total proceeds of approximately \$4.5 million. During the six months ended June 30, 2015, we issued 221,731 shares of common stock in connection with the exercise of employee stock options for total proceeds of approximately \$10.6 million. In addition, during the six months ended June 30, 2015, we issued 258,719 shares of common stock pursuant to vested performance and time-based restricted stock units (RSUs) that were granted in 2012.

Table of Contents

**RELIANCE STEEL & ALUMINUM CO.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2015**

*Dividends*

On July 21, 2015, our Board of Directors declared the 2015 third quarter cash dividend of \$0.40 per share. The dividend is payable on September 11, 2015 to stockholders of record as of August 14, 2015.

During the three months ended June 30, 2015, we declared and paid a quarterly dividend of \$0.40 per share, or \$29.7 million in total, compared to a quarterly dividend of \$0.35 per share, or \$27.2 million in total, for the same period in 2014. During the six months ended June 30, 2015, we declared and paid quarterly dividends of \$0.80 per share, or \$60.4 million in total, compared to quarterly dividends of \$0.70 per share, or \$54.4 million in total, for the same period in 2014. During the six months ended June 30, 2015, we also paid \$1.0 million in dividend equivalents with respect to vested RSUs.

*Stock-Based Compensation*

We annually grant time-based and performance-based RSUs, which have both service and performance goal criteria, to officers and key employees that generally have 3-year vesting periods. Additionally, we grant restricted stock to the non-employee members of the Board of Directors. The fair value of the RSUs and restricted stock is determined based on the closing stock price of our common stock on the grant date.

A summary of the status of our unvested restricted stock grants and time-based and performance-based RSUs as of June 30, 2015 and changes during the period then ended is as follows:

<b>Unvested RSUs and Restricted Stock</b>	<b>Shares</b>		<b>Weighted Average Grant Date Fair Value</b>
Unvested at January 1, 2015	846,760	\$	65.10
Granted(1)	570,479		59.42
Vested	(75,719)		58.87
Canceled	(91,995)		58.06
Unvested at June 30, 2015	1,249,525	\$	63.31
Shares reserved for future grants (all plans)	2,088,837		

(1) 557,760 RSUs, including 225,450 performance-based RSUs, and 12,719 restricted stock grants.

*Share Repurchase Plan*

During the three months ended June 30, 2015, we repurchased 251,165 shares of our common stock at an average cost of \$59.97 per share for \$15.1 million through open market purchases under a plan complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (the Exchange Act ). During the six months ended June 30, 2015, we repurchased 3,438,400 shares of our common stock at an average cost of \$58.17 per share for \$200.0 million through open market purchases, including under a plan complying with Rule 10b5-1 under the Exchange Act. During the period July 1, 2015 through July 30, 2015, we repurchased an additional 1,206,586 shares at an average cost of \$59.11 per share for \$71.3 million under a plan complying with Rule 10b5-1 under the Exchange Act. Since initiating the share repurchase plan in 1994 we have purchased approximately 20.6 million shares at an average cost of \$29.17 per share. As of July 30, 2015, we had authorization to purchase an additional 2,478,247 shares (or about 3% of shares currently outstanding) under our existing share repurchase plan. Repurchased and subsequently retired shares are restored to the status of authorized but unissued shares.

Table of Contents**RELIANCE STEEL & ALUMINUM CO.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2015***Accumulated Other Comprehensive Loss*

Accumulated other comprehensive loss included the following:

	<b>Foreign Currency Translation Loss</b>	<b>Unrealized Gain (Loss) on Investments, Net of Tax</b>	<b>Pension and Postretirement Benefit Adjustments, Net of Tax</b>	<b>Accumulated Other Comprehensive Loss</b>
	(in millions)			
Balance as of January 1, 2015	\$ (23.2)	\$ 0.4	\$ (26.1)	\$ (48.9)
Current-period change	(17.0)	(0.4)		(17.4)
Balance as of June 30, 2015	\$ (40.2)	\$	\$ (26.1)	\$ (66.3)

Foreign currency translation adjustments are not generally adjusted for income taxes as they relate to indefinite investments in foreign subsidiaries. Pension and postretirement benefit adjustments are net of taxes of \$15.6 million as of June 30, 2015 and December 31, 2014.

**9. Commitments and Contingencies***Environmental Contingencies*

We are currently involved with certain environmental remediation projects related to activities at former manufacturing operations of Earle M. Jorgensen Company ( EMJ ), our 100%-owned subsidiary, 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 have covered costs incurred to-date, and are expected to continue to cover the majority of the remaining costs. We do not expect that these obligations will have a material adverse impact on our consolidated financial position, results of operations or cash flows.

*Legal Matters*

## Edgar Filing: RELIANCE STEEL & ALUMINUM CO - Form 10-Q

From time to time, we are named as a defendant in legal actions. Generally, these actions arise out of our normal course of business. 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.

Table of Contents**RELIANCE STEEL & ALUMINUM CO.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2015****10. Earnings Per Share**

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>(in millions, except share and per share amounts)</b>			
<b>Numerator:</b>				
Net income attributable to Reliance	\$ 90.2	\$ 96.5	\$ 191.5	\$ 183.7
<b>Denominator:</b>				
Weighted average shares outstanding	74,316,582	77,735,301	75,710,182	77,621,983
Dilutive effect of stock-based awards	777,480	1,042,451	745,267	946,439
Weighted average diluted shares outstanding	75,094,062	78,777,752	76,455,449	78,568,422
<b>Earnings per share attributable to Reliance stockholders:</b>				
Diluted	\$ 1.20	\$ 1.22	\$ 2.50	\$ 2.34
Basic	\$ 1.21	\$ 1.24	\$ 2.53	\$ 2.37

The computations of earnings per share for the three months ended June 30, 2015 and 2014 do not include 39,834 and 46,255 weighted average shares for RSUs and stock options, respectively, because their inclusion would have been anti-dilutive.

The computations of earnings per share for the six months ended June 30, 2015 and 2014 do not include 123,617 and 31,940 weighted average shares for RSUs and stock options, respectively, 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.





Table of Contents

## RELIANCE STEEL &amp; ALUMINUM CO.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015

## Condensed Unaudited Consolidating Balance Sheet

As of June 30, 2015

(in millions)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<b>Assets</b>					
Cash and cash equivalents	\$ 44.1	\$ 1.7	\$ 86.1	\$	\$ 131.9
Accounts receivable, net	79.1	887.6	170.4	(20.0)	1,117.1
Inventories	53.6	1,367.3	251.9		1,672.8
Income taxes receivable	63.2			(48.5)	14.7
Other current assets	126.7	36.1	16.3	(76.7)	102.4
Total current assets	366.7	2,292.7	524.7	(145.2)	3,038.9
Investments in subsidiaries	4,895.5	299.9		(5,195.4)	
Property, plant and equipment, net	104.0	1,330.9	213.7		1,648.6
Goodwill	23.8	1,570.9	137.7		1,732.4
Intangible assets, net	15.1	1,034.6	146.2		1,195.9
Intercompany receivables	1,120.2	33.7	23.2	(1,177.1)	
Other assets	25.1	44.6	5.7		75.4
Total assets	\$ 6,550.4	\$ 6,607.3	\$ 1,051.2	\$ (6,517.7)	\$ 7,691.2
<b>Liabilities &amp; Equity</b>					
Accounts payable	\$ 36.6	\$ 269.5	\$ 84.9	\$ (20.0)	\$ 371.0
Accrued compensation and retirement costs	17.8	79.1	9.9		106.8
Other current liabilities	54.3	61.7	59.8	(49.4)	126.4
Deferred income taxes		75.2	0.6	(75.8)	
Current maturities of long-term debt and short-term borrowings	50.0		57.1		107.1
Total current liabilities	158.7	485.5	212.3	(145.2)	711.3
Long-term debt	2,043.5	5.7	45.1		2,094.3
Intercompany borrowings		1,023.4	153.7	(1,177.1)	
Other long-term liabilities	315.9	454.9	52.5		823.3
Total Reliance stockholders' equity	4,032.3	4,631.2	564.2	(5,195.4)	4,032.3
Noncontrolling interests		6.6	23.4		30.0
Total equity	4,032.3	4,637.8	587.6	(5,195.4)	4,062.3
Total liabilities and equity	\$ 6,550.4	\$ 6,607.3	\$ 1,051.2	\$ (6,517.7)	\$ 7,691.2

Table of Contents

## RELIANCE STEEL &amp; ALUMINUM CO.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015

## Condensed Unaudited Consolidating Balance Sheet

As of December 31, 2014

(in millions)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<b>Assets</b>					
Cash and cash equivalents	\$ 41.9	\$ (8.3)	\$ 72.6	\$	\$ 106.2
Accounts receivable, net	72.7	923.1	164.8	(16.0)	1,144.6
Inventories	57.6	1,454.2	240.3		1,752.1
Other current assets	139.3	38.5	16.1	(75.7)	118.2
Total current assets	311.5	2,407.5	493.8	(91.7)	3,121.1
Investments in subsidiaries	4,891.8	299.9		(5,191.7)	
Property, plant and equipment, net	103.8	1,333.7	218.9		1,656.4
Goodwill	23.8	1,571.0	141.6		1,736.4
Intangible assets, net	16.1	1,056.7	154.6		1,227.4
Intercompany receivables	1,361.7	26.1	18.2	(1,406.0)	
Other assets	22.7	52.5	5.9		81.1
Total assets	\$ 6,731.4	\$ 6,747.4	\$ 1,033.0	\$ (6,689.4)	\$ 7,822.4
<b>Liabilities &amp; Equity</b>					
Accounts payable	\$ 29.2	\$ 212.3	\$ 60.6	\$ (15.6)	\$ 286.5
Accrued compensation and retirement costs	23.9	89.9	14.6		128.4
Other current liabilities	65.2	26.1	62.6	0.1	154.0
Deferred income taxes		75.1	0.6	(75.7)	
Current maturities of long-term debt and short-term borrowings	43.8		50.1		93.9
Total current liabilities	162.1	403.4	188.5	(91.2)	662.8
Long-term debt	2,156.6	5.7	45.8		2,208.1
Intercompany borrowings		1,242.5	163.5	(1,406.0)	
Other long-term liabilities	313.7	456.2	54.1	(0.4)	823.6
Total Reliance stockholders' equity	4,099.0	4,633.4	558.4	(5,191.8)	4,099.0
Noncontrolling interests		6.2	22.7		28.9
Total equity	4,099.0	4,639.6	581.1	(5,191.8)	4,127.9
Total liabilities and equity	\$ 6,731.4	\$ 6,747.4	\$ 1,033.0	\$ (6,689.4)	\$ 7,822.4

Table of Contents

## RELIANCE STEEL &amp; ALUMINUM CO.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015

## Condensed Unaudited Consolidating Statement of Comprehensive Income

For the Three Months Ended June 30, 2015

(in millions)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	\$ 185.6	\$ 2,069.2	\$ 219.4	\$ (50.5)	\$ 2,423.7
Costs and expenses:					
Cost of sales (exclusive of depreciation and amortization shown below)	128.4	1,521.4	168.6	(50.6)	1,767.8
Warehouse, delivery, selling, general and administrative	41.5	379.9	37.2	(17.8)	440.8
Depreciation and amortization	3.9	45.3	5.7		54.9
	173.8	1,946.6	211.5	(68.4)	2,263.5
Operating income	11.8	122.6	7.9	17.9	160.2
Other income (expense):					
Interest	(20.6)	(5.1)	(1.8)	6.0	(21.5)
Other income (expense), net	18.5	(0.7)	3.3	(23.9)	(2.8)
Income before equity in earnings of subsidiaries and income taxes	9.7	116.8	9.4		135.9
Equity in earnings of subsidiaries	74.0	2.6		(76.6)	
Income before income taxes	83.7	119.4	9.4	(76.6)	135.9
Income tax (benefit) provision	(6.5)	45.7	5.1		44.3
Net income	90.2	73.7	4.3	(76.6)	91.6
Less: Net income attributable to noncontrolling interests		1.3	0.1		1.4
Net income attributable to Reliance	\$ 90.2	\$ 72.4	\$ 4.2	\$ (76.6)	\$ 90.2
Comprehensive income attributable to Reliance	\$ 97.6	\$ 76.8	\$ 6.3	\$ (83.1)	\$ 97.6

Table of Contents

## RELIANCE STEEL &amp; ALUMINUM CO.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015

## Condensed Unaudited Consolidating Statement of Comprehensive 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	\$ 110.7	\$ 84.8	\$ 17.5	\$ (102.3)	\$ 110.7

Table of Contents

## RELIANCE STEEL &amp; ALUMINUM CO.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015

## Condensed Unaudited Consolidating Statement of Comprehensive Income

For the Six Months Ended June 30, 2015

(in millions)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	\$ 377.7	\$ 4,306.3	\$ 457.3	\$ (103.2)	\$ 5,038.1
Costs and expenses:					
Cost of sales (exclusive of depreciation and amortization shown below)	283.5	3,182.3	349.0	(103.3)	3,711.5
Warehouse, delivery, selling, general and administrative	81.4	765.3	74.6	(34.4)	886.9
Depreciation and amortization	9.0	89.8	11.4		110.2
	373.9	4,037.4	435.0	(137.7)	4,708.6
Operating income	3.8	268.9	22.3	34.5	329.5
Other income (expense):					
Interest	(40.2)	(11.0)	(3.3)	12.4	(42.1)
Other income (expense), net	37.4	(0.4)	9.0	(46.9)	(0.9)
Income before equity in earnings of subsidiaries and income taxes	1.0	257.5	28.0		286.5
Equity in earnings of subsidiaries	172.8	6.1		(178.9)	
Income before income taxes	173.8	263.6	28.0	(178.9)	286.5
Income tax (benefit) provision	(17.7)	100.7	9.0		92.0
Net income	191.5	162.9	19.0	(178.9)	194.5
Less: Net income attributable to noncontrolling interests		2.7	0.3		3.0
Net income attributable to Reliance	\$ 191.5	\$ 160.2	\$ 18.7	\$ (178.9)	\$ 191.5
Comprehensive income attributable to Reliance	\$ 174.1	\$ 146.9	\$ 0.5	\$ (147.4)	\$ 174.1

Table of Contents

## RELIANCE STEEL &amp; ALUMINUM CO.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015

## Condensed Unaudited Consolidating Statement of Comprehensive 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 (expense), 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	\$ 189.1	\$ 158.5	\$ 14.7	\$ (173.2)	\$ 189.1

Table of Contents**RELIANCE STEEL & ALUMINUM CO.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2015****Condensed Unaudited Consolidating Cash Flow Statement****For the Six Months Ended June 30, 2015****(in millions)**

	<b>Parent</b>	<b>Guarantor Subsidiaries</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Consolidating Adjustments</b>	<b>Consolidated</b>
Net cash provided by operating activities	\$ 130.1	\$ 304.2	\$ 29.6	\$	\$ 463.9
<b>Investing activities:</b>					
Purchases of property, plant and equipment	(7.4)	(65.0)	(4.7)		(77.1)
Net repayments from subsidiaries	241.5			(241.5)	
Other investing activities, net		(1.5)			(1.5)
Net cash provided by (used in) investing activities	234.1	(66.5)	(4.7)	(241.5)	(78.6)
<b>Financing activities:</b>					
Net short-term debt borrowings			6.8		6.8
Proceeds from long-term debt borrowings	412.0				412.0
Principal payments on long-term debt	(520.8)	(1.0)			(521.8)
Dividends and dividend equivalents paid	(61.4)				(61.4)
Share repurchases	(200.0)				(200.0)
Net intercompany repayments		(226.7)	(14.8)	241.5	
Other financing activities, net	8.2		(1.9)		6.3
Net cash used in financing activities	(362.0)	(227.7)	(9.9)	241.5	(358.1)
Effect of exchange rate changes on cash and cash equivalents			(1.5)		(1.5)
Increase in cash and cash equivalents	2.2	10.0	13.5		25.7
Cash and cash equivalents at beginning of year	41.9	(8.3)	72.6		106.2
Cash and cash equivalents at end of period	\$ 44.1	\$ 1.7	\$ 86.1	\$	\$ 131.9

Table of Contents

## RELIANCE STEEL &amp; ALUMINUM CO.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015

## Condensed Unaudited Consolidating Cash Flow Statement

For the Six Months Ended June 30, 2014

(in millions)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net 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
Net 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 and dividend equivalents 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
Net 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



Table of Contents

**RELIANCE STEEL & ALUMINUM CO.**

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

*This report contains certain statements that are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Our forward-looking statements include discussions of our business strategies and our expectations concerning future operations, margins, profitability, liquidity and capital resources. In some cases, you can identify forward-looking statements by terminology such as may, will, should, could, would, expect, plan, anticipate, believe, estimate, predict, potential and continue, the negative of these terms, and similar expressions. All statements contained in this report, other than statements of historical fact, are forward-looking statements. These forward-looking statements are based on management's estimates, projections and assumptions as of the date of such statements.*

*Forward-looking statements involve known and unknown risks and uncertainties and are not guarantees of future performance. Actual outcomes and results may differ materially from what is expressed or forecasted in these forward-looking statements as a result of various important factors, including, but not limited to, those disclosed in this report and in other reports we have filed with the Securities and Exchange Commission (the SEC). As a result, these statements speak only as of the date that they were made, and we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by law. Important risks and uncertainties about our business can be found in our Annual Report on Form 10-K for the year ended December 31, 2014 filed with the SEC.*

**Overview**

We achieved solid operational performance in the three-month and six-month periods ended June 30, 2015 despite ongoing industry headwinds that negatively impacted metals pricing. Our sales for the three-month period ended June 30, 2015 were \$2.42 billion, down 7.4% from \$2.62 billion in the same period in 2014. During the six-month period ended June 30, 2015, sales were \$5.04 billion, down 2.5% from \$5.17 billion in the same period in 2014.

Our same-store tons sold were down only 2.8% and 1.4% in the three-month and six-month periods ended June 30, 2015, respectively, compared to the same 2014 periods and compared favorably to the 8.3% and 5.0% declines for the industry reported by the Metals Service Center Institute (MSCI) over these same periods, respectively. Demand was relatively strong in most of our end markets, with the exception of the energy market (oil and gas) that continued to decline throughout the 2015 first half. Our average selling price has decreased sequentially for three quarters in a row largely due to the historically high levels of imports, supported in part by the strength of the U.S. Dollar. Our 2015 second quarter same-store average selling price decreased 8.6% from the second quarter of 2014 and decreased 5.3% from the 2015 first quarter.

We were able to maintain our gross profit margin within our historical range of 25% to 27% despite the difficult pricing environment mainly due to our disciplined sales strategy, focus on small, quick-turn orders and value-added processing. Due to the decline in metals pricing, especially for carbon steel products, our last-in, first-out (LIFO) inventory reserve adjustment, which is included in cost of sales and, in effect, reflects cost of sales at current replacement costs, resulted in LIFO income in the 2015 first half, compared to LIFO expense in the comparable 2014 periods,

## Edgar Filing: RELIANCE STEEL & ALUMINUM CO - Form 10-Q

which contributed to our gross profit margin increasing to 27.1% in the 2015 second quarter from 25.7% in the 2014 second quarter and 26.3% in the 2015 first half from 25.5% in the 2014 first half.

Our S,G&A expense decreased \$4.1 million, or 0.9%, and increased \$1.0 million, or 0.1%, in the three-month and six-month periods ended June 30, 2015, respectively, compared to the same periods in 2014. Our S,G&A expense as a percent of sales of 18.2% in the 2015 second quarter and 17.6% in the 2015 first half increased compared to 17.0% and 17.1% in the same 2014 periods, respectively, due to the lower metals pricing environment during the 2015 periods.

Our inventory reduction efforts, combined with declining metals pricing in 2015, decreased our investment in working capital (primarily accounts receivable and inventory), generating a significant increase in cash flow from operations of \$463.9 million in the six-month period ended June 30, 2015 compared to \$109.5 million in the same period in 2014. Our inventory turn rate (based on dollars) during the six-month period ended June 30, 2015 was fairly consistent with the same period in 2014. However, given our significant first-in, first-out ( FIFO ) inventory reductions of \$163 million in the 2015 second quarter, we expect our inventory turn rate to improve in the 2015 second half.

Table of Contents

As of June 30, 2015, our net debt-to-total capital ratio was 33.9%, down from 34.9% as of December 31, 2014. We paid down \$156 million of debt in the second quarter of 2015 with our strong cash flow and had significant liquidity as of June 30, 2015 with only \$585 million outstanding on our \$1.5 billion revolving credit facility.

We invested \$77.1 million in capital expenditures in the six months ended June 30, 2015, with the majority related to growth activities. In the six months ended June 30, 2015, we repurchased \$200 million of our common stock and an additional \$71 million from July 1, 2015 through July 30, 2015, further reflecting our commitment to returning value to our stockholders.

**2014 Acquisitions**

On December 1, 2014, we acquired Fox Metals and Alloys, Inc. ( Fox ), a Houston, Texas-based steel distributor specializing in alloy, carbon and stainless steel bar and plate products, primarily servicing OEMs and machine shops that manufacture or support the manufacturing of equipment for the oil, gas and petrochemical industries. Fox 's in-house processing services include saw cutting, plate burning and testing. Net sales of Fox for the six months ended June 30, 2015 were \$14.9 million.

On August 1, 2014, we acquired Aluminium Services UK Limited, the parent holding company of All Metal Services ( AMS ). AMS provides comprehensive materials management solutions to aerospace and defense OEMs and their subcontractors on a global basis, supporting customers in more than 40 countries worldwide. AMS offers a broad range of aerospace metals including aluminum, steel, titanium, nickel alloys and aluminum bronze, offering full or cut to size materials. AMS also offers in-house machining and water-jet cutting for more complex requirements. AMS has eight locations in four countries including China, France, Malaysia, and the United Kingdom. Net sales of AMS for the six months ended June 30, 2015 were \$132.1 million.

On August 1, 2014, we acquired Northern Illinois Steel Supply Co. ( NIS ), a value-added distributor and fabricator of a variety of steel and non-ferrous metal products, primarily structural steel components and parts, located in Channahon, Illinois. NIS focuses on customers requiring extensive fabrication services and/or critical delivery timelines with a large concentration in the energy and petrochemical sectors. Net sales of NIS for the six months ended June 30, 2015 were \$9.1 million.

Table of Contents**Three Months and Six Months Ended June 30, 2015 Compared to Three Months and Six Months Ended June 30, 2014**

The following table sets forth certain income statement data for the three-month and six-month periods ended June 30, 2015 and 2014 (dollars are shown in millions and certain amounts may not calculate due to rounding):

	Three Months Ended June 30, 2015		2014		Six Months Ended June 30, 2015		2014	
	\$	% of Net Sales	\$	% of Net Sales	\$	% of Net Sales	\$	% of Net Sales
Net sales	\$ 2,423.7	100.0%	\$ 2,616.8	100.0%	\$ 5,038.1	100.0%	\$ 5,169.8	100.0%
Cost of sales (exclusive of depreciation and amortization expense shown below)	1,767.8	72.9	1,943.5	74.3	3,711.5	73.7	3,849.3	74.5
Gross profit (1)	655.9	27.1	673.3	25.7	1,326.6	26.3	1,320.5	25.5
Warehouse, delivery, selling, general and administrative expense ( S,G&A )(2)	440.8	18.2	444.9	17.0	886.9	17.6	885.9	17.1
Depreciation expense	41.5	1.7	38.6	1.5	82.5	1.6	76.4	1.5
Amortization expense	13.4	0.6	14.1	0.5	27.7	0.5	28.2	0.5
Operating income	\$ 160.2	6.6%	\$ 175.7	6.7%	\$ 329.5	6.5%	\$ 330.0	6.4%

(1) Gross profit, calculated as net sales less cost of sales, and gross profit margin, calculated as gross profit divided by net sales, are non-GAAP financial measures as they exclude depreciation and amortization expense associated with the corresponding sales. The majority of our orders are basic distribution with no processing services performed. For the remainder of our sales orders, we perform first-stage processing, which is generally not labor intensive as we are simply cutting the metal to size. Because of this, the amount of related labor and overhead, including depreciation and amortization, is not significant and is excluded from our cost of sales. Therefore, our cost of sales is primarily comprised of the cost of the material we sell. We use gross profit and gross profit margin as shown above as measures of operating performance. Gross profit and gross profit margin are important operating and financial measures, as their fluctuations can have a significant impact on our earnings. Gross profit and gross profit margin, as presented, are not necessarily comparable with similarly titled measures for other companies.

(2) S,G&A includes a \$1.2 million and \$11.5 million non-recurring charge in the three-month and six-month periods ended June 30, 2014, respectively, related to certain settled litigation.

*Net Sales*

Edgar Filing: RELIANCE STEEL & ALUMINUM CO - Form 10-Q

	2015	June 30, (in millions)	2014	Dollar Change	Percentage Change
Net sales (three months ended)	\$	2,423.7	\$	2,616.8	\$ (193.1) (7.4)%
Net sales (six months ended)	\$	5,038.1	\$	5,169.8	\$ (131.7) (2.5)%
Net sales, same-store (three months ended)	\$	2,342.8	\$	2,616.8	\$ (274.0) (10.5)%
Net sales, same-store (six months ended)	\$	4,868.2	\$	5,169.8	\$ (301.6) (5.8)%

	2015	June 30, (in thousands)	2014	Tons Change	Percentage Change
Tons sold (three months ended)		1,508.2		1,539.8	(31.6) (2.1)%
Tons sold (six months ended)		3,052.7		3,072.2	(19.5) (0.6)%
Tons sold, same-store (three months ended)		1,497.4		1,539.8	(42.4) (2.8)%
Tons sold, same-store (six months ended)		3,028.6		3,072.2	(43.6) (1.4)%

## Edgar Filing: RELIANCE STEEL & ALUMINUM CO - Form 10-Q

### Table of Contents

	June 30,				Price	Percentage
	2015		2014		Change	Change
Average selling price per ton sold (three months ended)	\$ 1,600	\$	1,703	\$	(103)	(6.0)%
Average selling price per ton sold (six months ended)	\$ 1,645	\$	1,688	\$	(43)	(2.5)%
Average selling price per ton sold, same-store (three months ended)	\$ 1,557	\$	1,703	\$	(146)	(8.6)%
Average selling price per ton sold, same-store (six months ended)	\$ 1,601	\$	1,688	\$	(87)	(5.2)%

Tons sold and average selling price per ton sold amounts exclude our toll processing sales. Same-store amounts exclude the results of our 2014 acquisitions.

Our consolidated sales and tons sold were down in the three-month and six-month periods ended June 30, 2015 compared to the same periods in 2014 mainly due to lower metals prices and the continued decline in demand in the energy market (oil and gas). For the three-month and six-month periods ended June 30, 2015, same-store tons sold were down 2.8% and 1.4%, respectively, from the comparable 2014 periods; however, our performance outpaced the industry data reported by the MSCI, which indicated tons shipped were down 8.3% and 5.0%, respectively, during the same periods.

End markets that continued to perform well for us in the three-month and six-month periods ended June 30, 2015 when compared to the same 2014 periods were automotive, primarily through our toll processing businesses in the U.S. and Mexico, and aerospace. Heavy industry also continued to perform reasonably well, despite downward pressure on agricultural and construction equipment in the 2015 second quarter. Non-residential construction, our largest end market, continued to improve modestly during the three-month and six-month periods ended June 30, 2015 albeit at significantly reduced demand levels from its peak in 2006. Sales to the energy market (oil and gas), estimated at approximately 8% to 10% of our total sales, declined significantly during the three-month and six-month periods ended June 30, 2015 due to weak oil prices leading to reduced drilling activity.

Since we primarily purchase and sell our inventories in the spot market, the changes in our average selling prices generally fluctuate in accordance with changes in the costs of the various metals we purchase. The mix of products sold can also have an impact on our average selling prices.

The most significant challenge in the three-month and six-month periods ended June 30, 2015 continued to be weaker metals pricing largely due to the historically high levels of imports in the U.S., lower raw material prices, and a strong U.S. dollar put significant downward pressure on pricing for many steel products.

Our major commodity selling prices changed year-over-year as follows:

Three Months Ended June 30,		Six Months Ended June 30,	
Average Selling Price per Ton Sold (percentage change)	Same-store Average Selling Price per Ton Sold	Average Selling Price per Ton Sold (percentage change)	Same-store Average Selling Price per Ton Sold (percentage change)

## Edgar Filing: RELIANCE STEEL & ALUMINUM CO - Form 10-Q

Carbon steel	(8.9)%	(9.0)%	(4.8)%	(5.0)%
Aluminum	6.2%	1.3%	6.4%	1.3%
Stainless steel	(5.1)%	(5.5)%	0.7%	0.3%
Alloy	(5.9)%	(6.3)%	(2.6)%	(3.2)%

Our AMS acquisition in August 2014 contributed to changes in our company-wide mix. In the six months ended June 30, 2015, carbon steel sales decreased to 53% of total sales from 55% in the comparable period and aluminum sales increased to 18% from 15% during this same period.

Table of Contents*Cost of Sales*

	2015		June 30,		2014			
	\$	% of	\$	% of	\$	% of	Dollar	Percentage
		Net Sales		Net Sales		Net Sales	Change	Change
		(dollars in millions)		(dollars in millions)		(dollars in millions)		
Cost of sales (three months ended)	\$ 1,767.8	72.9%	\$ 1,943.5	74.3%	\$ (175.7)			(9.0)%
Cost of sales (six months ended)	\$ 3,711.5	73.7%	\$ 3,849.3	74.5%	\$ (137.8)			(3.6)%

The decrease in cost of sales in the three-month and six-month periods ended June 30, 2015 is mainly due to decreases in our tons sold and a lower average selling price per ton sold. See *Net Sales* above for trends in both demand and costs of our products.

Our LIFO method inventory valuation reserve adjustment, which is included in cost of sales and, in effect, reflects cost of sales at current replacement costs, resulted in credits, or income, of \$32.5 million and \$40.0 million in the three-month and six-month periods ended June 30, 2015 compared to charges, or expense, of \$5.0 million and \$10.0 million in the same periods of 2014. Lower metal costs in our inventory as of June 30, 2015 as compared to December 31, 2014 resulted in LIFO income in 2015.

*Gross Profit*

	2015		June 30,		2014			
	\$	% of	\$	% of	\$	% of	Dollar	Percentage
		Net Sales		Net Sales		Net Sales	Change	Change
		(dollars in millions)		(dollars in millions)		(dollars in millions)		
Gross profit (three months ended)	\$ 655.9	27.1%	\$ 673.3	25.7%	\$ (17.4)			(2.6)%
Gross profit (six months ended)	\$ 1,326.6	26.3%	\$ 1,320.5	25.5%	\$ 6.1			0.5%

Decreased tons sold and a lower average selling price per ton sold in the three-month and six-month periods ended June 30, 2015 negatively impacted gross profits and outweighed the contributions of our 2014 acquisitions. However, our increased LIFO income contributed to the increase in our gross profit in the three-month period ended June 30, 2015 and contributed to our increased gross profit margins in the 2015 periods as compared to the same periods in 2014. See *Net Sales* and *Cost of Sales* for further discussion on product pricing trends and our LIFO inventory valuation reserve adjustments, respectively.

*Expenses*

	June 30,	
	2015	2014



Edgar Filing: RELIANCE STEEL & ALUMINUM CO - Form 10-Q

	\$	% of Net Sales (dollars in millions)	\$	% of Net Sales	Dollar Change	Percentage Change
S,G&A expense (three months ended)	\$ 440.8	18.2%	\$ 444.9	17.0%	\$ (4.1)	(0.9)%
S,G&A expense (six months ended)	\$ 886.9	17.6%	\$ 885.9	17.1%	\$ 1.0	0.1%
S,G&A expense, same-store (three months ended)	\$ 428.1	18.3%	\$ 444.9	17.0%	\$ (16.8)	(3.8)%
S,G&A expense, same-store (six months ended)	\$ 862.2	17.7%	\$ 885.9	17.1%	\$ (23.7)	(2.7)%
Depreciation & amortization expense (three months ended)	\$ 54.9	2.3%	\$ 52.7	2.0%	\$ 2.2	4.2%
Depreciation & amortization expense (six months ended)	\$ 110.2	2.2%	\$ 104.6	2.0%	\$ 5.6	5.4%

Our same-store expenses in the three-month and six-month periods ended June 30, 2015 decreased mainly due to our lower tons sold and \$1.2 million and \$11.5 million of charges related to certain settled litigation in the same periods in 2014, respectively. Our S,G&A expense as a percent of sales in the three-month and six-month periods ended June 30, 2015 increased due to the decline in average selling prices.

Table of Contents

The increase in depreciation and amortization expense was mainly due to our 2014 acquisitions and depreciation expense from our recent capital expenditures.

*Operating Income*

--	--	--	--	--	--	--	--

(dollars in millions)

Operating income (three months ended)	\$	160.2	6.6%	\$	175.7	6.7%	\$	(15.5)	(8.8)%
Operating income (six months ended)	\$	329.5	6.5%	\$	330.0	6.4%	\$	(0.5)	(0.2)%

Our operating income was lower in the 2015 second quarter compared to the 2014 second quarter due to our decreased gross profit. Our operating margins were relatively consistent in the three-month and six-month periods ended June 30, 2015 compared to the same periods in 2014 as our gross profit margins increased at a similar rate as our S,G&A expenses as a percent of sales.

*Other Expense*

--	--	--	--	--	--	--	--

(dollars in millions)

Interest (three months ended)	\$	(21.5)	(0.9)%	\$	(20.2)	(0.8)%	\$	(1.3)	6.4%
Interest (six months ended)	\$	(42.1)	(0.8)%	\$	(40.4)	(0.8)%	\$	(1.7)	4.2%
Other expense, net (three months ended)	\$	(2.8)	(0.1)%	\$	(1.3)	%	\$	(1.5)	115.4%
Other expense, net (six months ended)	\$	(0.9)	%	\$	(1.3)	%	\$	0.4	(30.8)%

Increased borrowings on our revolving credit facility contributed to the increase in interest expense for the three-month and six-month periods ended June 30, 2015 compared to the same periods in 2014. The increase in other expense, net for the three-month period ended June 30, 2015 was primarily due to decreased equity in earnings of unconsolidated entities due to the consolidation of a joint venture in the 2014 fourth quarter as a result of acquiring majority ownership.

*Income Tax Rate*

Our effective income tax rates for the three-month periods ended June 30, 2015 and 2014 were 32.6% and 36.6%, respectively. Our effective income tax rates for the six-month periods ended June 30, 2015 and 2014 were 32.1% and 35.6%, 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 in the Metals USA Holdings Corp. ( Metals USA ) acquisition. Permanent items that lowered our effective income tax rates from the federal statutory rate were not

## Edgar Filing: RELIANCE STEEL & ALUMINUM CO - Form 10-Q

materially different 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%.

### *Net Income*



(dollars in millions)

Net income attributable to Reliance (three months ended)	\$ 90.2	3.7%	\$ 96.5	3.7%	\$ (6.3)	(6.5)%
Net income attributable to Reliance (six months ended)	\$ 191.5	3.8%	\$ 183.7	3.6%	\$ 7.8	4.2%

The decrease in our net income in the three-month period ended June 30, 2015 compared to the same period in 2014 was primarily the result of lower operating income partially offset by a lower effective income tax rate. The increase in our net income in the six-month period ended June 30, 2015 compared to the same period in 2014 was primarily the result of somewhat consistent operating income and a lower effective income tax rate.

Table of Contents

**Liquidity and Capital Resources**

*Operating Activities*

Net cash provided by operating activities was \$463.9 million in the six-month period ended June 30, 2015 compared to \$109.5 million provided in the same period in 2014. The increase was mainly due to a larger working capital (primarily accounts receivable and inventory) investment in the 2014 six-month period due to the improving metals pricing environment during that period as well as increased focus on lowering our inventory levels in the second quarter of 2015. To manage our working capital, we focus on our days sales outstanding and on our inventory turnover rate, as receivables and inventory are the two most significant elements of our working capital. At June 30, 2015, our days sales outstanding rate was approximately 42.1 days compared to 41.4 days at December 31, 2014. Our inventory turn rate (based on dollars) during the six-month period ended June 30, 2015 was approximately 3.9 times (or 3.1 months on hand), compared to our 2014 annual rate of 4.1 times (or 2.9 months on hand).

*Investing Activities*

Net cash used in investing activities of \$78.6 million in the six-month period ended June 30, 2015 was mainly comprised of our capital expenditures. Capital expenditures were \$77.1 million for the six-month period ended June 30, 2015 compared to \$86.9 million during the same period in 2014. The majority of our 2015 capital expenditures relate to growth initiatives. In the six-month period ended June 30, 2014, we received \$26.2 million of net proceeds from the sale of certain non-core assets acquired as part of the Metals USA acquisition.

*Financing Activities*

Our net cash used in financing activities of \$358.1 million in the six-month period ended June 30, 2015 was mainly comprised of share repurchases, dividend payments to our stockholders and net debt repayments. We used cash of \$200.0 million to repurchase shares of our common stock in the six-month period ended June 30, 2015, while there were no repurchases during the same period in 2014. We paid dividends and dividend equivalents of \$61.4 million during the six-month period ended June 30, 2015, an increase of \$7.0 million from the same period in 2014 due to an increase in our regular quarterly dividend rate. Net debt repayments in the six-month period ended June 30, 2015 were \$103.0 million compared to net borrowings of \$23.1 million in the same period in 2014.

On July 21, 2015, the Board declared the 2015 third quarter cash dividend of \$0.40 per share of common stock. We have increased our dividend 22 times since our IPO in 1994 and have paid regular quarterly dividends to our stockholders for 56 consecutive years.

On October 21, 2014, our Board of Directors extended the duration of our share repurchase plan to December 31, 2017. During the six months ended June 30, 2015, we repurchased 3,438,400 shares of our common stock at an average cost of \$58.17 per share for \$200.0 million through open market purchases, including under a plan complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (the Exchange Act ). During the period July 1, 2015 through July 30, 2015, we repurchased an additional 1,206,586 shares at an average cost of

## Edgar Filing: RELIANCE STEEL & ALUMINUM CO - Form 10-Q

\$59.11 per share for \$71.3 million under a plan complying with Rule 10b5-1 under the Exchange Act. Since initiating the share repurchase plan in 1994, we have purchased approximately 20.6 million shares at an average cost of \$29.17 per share. As of July 30, 2015, we had authorization under the plan to purchase an additional 2,478,247 shares, or about 3% of our outstanding shares, under our existing share repurchase plan.

### *Liquidity*

Our primary sources of liquidity are our internally generated funds from operations and our \$1.5 billion revolving credit facility. Our total outstanding debt at June 30, 2015 was \$2.20 billion, down from \$2.30 billion at December 31, 2014. At June 30, 2015, we had \$585.0 million in outstanding borrowings, \$58.9 million of issued letters of credit and \$856.1 million available on our revolving credit facility. As of June 30, 2015, our net debt-to-total capital ratio was 33.9%, down from 34.9% as of December 31, 2014.

On April 4, 2013, we entered into a syndicated Third Amended and Restated Credit Agreement ( Credit Agreement ) with 26 banks as lenders. 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. We intend to use the credit facility for working capital and general corporate purposes, including, but not limited to, capital expenditures, dividend payments, repayment of debt, stock repurchases, internal growth initiatives and acquisitions.

Table of Contents

Other revolving credit facilities with a combined credit limit of approximately \$80.6 million are in place for operations in Asia and Europe with combined outstanding balances of \$55.3 million and \$48.3 million as of June 30, 2015 and December 31, 2014, respectively.

*Capital Resources*

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 both a change in control and a downgrade of our credit rating.

The \$500.0 million term loan due April 4, 2018 amortizes in quarterly installments, with an annual amortization of 10% until March 2018, with the balance to be paid at maturity. The term loan may be prepaid without penalty.

In connection with our acquisition of Metals USA, we assumed industrial revenue bonds with combined outstanding balances of \$11.5 million as of June 30, 2015 and maturities through 2027. Additionally, we assumed mortgage obligations pursuant to our acquisition of a portfolio of real estate properties that we were leasing, which have outstanding balances of \$41.1 million as of June 30, 2015. 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.

As of June 30, 2015, we had \$572.8 million of debt obligations coming due before our \$1.5 billion revolving credit facility expires on April 4, 2018. We believe that we will continue to have sufficient operating flexibility, cash resources, and funding sources to maintain adequate amounts of liquidity and to meet future operating needs. We believe our investment grade credit rating enhances our ability to effectively raise funding, if needed. We expect to continue our acquisition and other growth activities in the future and anticipate that we will be able to fund such activities as they arise.

*Covenants*

Our Credit Agreement, including our term loan, requires us to maintain a minimum interest coverage ratio and a maximum leverage ratio, among other things. Our interest coverage ratio for the twelve-month period ended June 30, 2015 was approximately 7.3 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). Our leverage ratio as of June 30, 2015, calculated in accordance with the terms of the Credit Agreement, was 35.8% compared to the debt 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 stockholders' equity plus total debt).

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 collectively to account for at least 80% of our consolidated EBITDA and 80% of consolidated tangible assets. Reliance and the subsidiary guarantors accounted for approximately 88% of our consolidated EBITDA for the last twelve months and approximately 84% of consolidated tangible assets as of June 30, 2015.

We were in compliance with all material covenants in our debt agreements at June 30, 2015.

Table of Contents

*Off-Balance-Sheet Arrangements*

We do not have any off-balance-sheet arrangements or relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or variable interest entities, which are typically established for the purpose of facilitating off-balance-sheet arrangements or other contractually narrow or limited purposes.

As of June 30, 2015 and December 31, 2014, we were contingently liable under standby letters of credit in the aggregate amount of \$58.9 million and \$59.2 million, respectively. The letters of credit relate to insurance policies, construction projects and outstanding bonds.

**Contractual Obligations and Other Commitments**

We had no material changes in commitments for capital expenditures, operating lease obligations or purchase obligations as of June 30, 2015, as compared to those disclosed in our table of contractual obligations included in our Annual Report on Form 10-K for the year ended December 31, 2014.

**Inflation**

Our operations have not been, and we do not expect them to be, materially affected by general inflation. Historically, we have been successful in adjusting prices to our customers to reflect changes in metal prices.

**Seasonality**

Some of our customers are in seasonal businesses, especially customers in the construction industry and related businesses. As a result of our geographic, product and customer diversity our overall operations have not shown any material seasonal trends. Typically, revenues in the months of July, November and December have been lower than in other months because of a reduced number of working days for shipments of our products, resulting from vacation and holiday closures at some of our customers. We cannot assure you that period-to-period fluctuations will be consistent with historical patterns. Results of any one or more quarters are therefore not necessarily indicative of annual results.

**Goodwill and Other Intangible Assets**

Goodwill, which represents the excess of cost over the fair value of net assets acquired, amounted to \$1.73 billion at June 30, 2015, or approximately 22.5% of total assets, or 43.0% of Reliance stockholders' equity. Additionally, other intangible assets, net amounted to \$1.20



billion at June 30, 2015, or approximately 15.5% of total assets, or 29.7% of Reliance stockholders' equity. Goodwill and other intangible assets deemed to have indefinite lives are not amortized but are subject to annual impairment tests. Other intangible assets with finite useful lives continue to be amortized over their useful lives. We review the recoverability of our long-lived assets whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable.

### **Critical Accounting Policies and Estimates**

*Management's Discussion and Analysis of Financial Condition and Results of Operations* discusses our Unaudited Consolidated Financial Statements, which have been prepared in accordance with U.S. generally accepted accounting principles. When we prepare these consolidated financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Some of our accounting policies require that we make subjective judgments, including estimates that involve matters that are inherently uncertain. Our most critical accounting estimates include those related to accounts receivable, inventories, income taxes, goodwill and intangible assets and long-lived assets. We base our estimates and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for our judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our actual results may differ from these estimates under different assumptions or conditions.

See *Critical Accounting Policies and Estimates* in our Annual Report on Form 10-K for the year ended December 31, 2014 for further information regarding the accounting policies that we believe to be critical accounting policies and that affect our more significant judgments and estimates used in preparing our consolidated financial statements. We do not believe that the new accounting guidance implemented in 2015 changed our critical accounting policies.

Table of Contents

**New Accounting Guidance**

See *Note 2 Impact of Recently Issued Accounting Guidance* to our Unaudited Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for disclosure on new accounting guidance issued or implemented.

**Item 3. Quantitative And Qualitative Disclosures About Market Risk**

In the ordinary course of business, we are exposed to various market risk factors, including fluctuations in interest rates, changes in general economic conditions, domestic and foreign competition, foreign currency exchange rates, metals pricing, demand and availability. There have been no significant changes in our market risk exposures since December 31, 2014. See *Item 7A - Quantitative and Qualitative Disclosures About Market Risk* in our Annual Report on Form 10-K for the year ended December 31, 2014 for further discussion on quantitative and qualitative disclosures about market risk.

**Item 4. Controls And Procedures**

Under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to and as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that, as of the end of the period covered in this report, the Company's disclosure controls and procedures are effective.

There have been no changes in the Company's internal control over financial reporting during the quarter ended June 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION**

**Item 1A. Risk Factors**

There have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014.

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

Edgar Filing: RELIANCE STEEL & ALUMINUM CO - Form 10-Q

Share repurchase activity during the three months ended June 30, 2015 was as follows:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares That May Yet Be Purchased Under the Plan(1)
April 1 - April 30, 2015	251,165	\$ 59.97	251,165	3,684,833
May 1 - May 31, 2015				3,684,833
June 1 - June 30, 2015				3,684,833
Total	251,165		251,165	

(1) In May 2005, our Board of Directors amended and restated our stock repurchase plan authorizing the repurchase of up to 12,000,000 shares of our common stock through December 31, 2014. On October 21, 2014, our Board of Directors again amended and restated our share repurchase plan extending its duration to December 31, 2017. Our share repurchase plan does not obligate us to acquire any specific number of shares. Under the plan, shares may be repurchased in the open market or privately negotiated transactions, including under plans complying with Rule 10b5-1 under the Exchange Act. The 3,684,833 remaining shares available for repurchase under the authorized repurchase plan at June 30, 2015 does not include 1,206,586 additional shares purchased from July 1, 2015 through July 30, 2015.

**Item 6. Exhibits**

See the Exhibit Index immediately following the signature page of this Quarterly Report on Form 10-Q.

Table of Contents

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RELIANCE STEEL & ALUMINUM CO.

Dated: July 31, 2015

By: /s/ Gregg J. Mollins  
Gregg J. Mollins  
President and  
Chief Executive Officer

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

Table of Contents

**Exhibit Index**

<b><u>Exhibit No.</u></b>	<b><u>Description</u></b>
3.1	Restated Certificate of Incorporation dated as of May 26, 2015 (incorporated by reference to Exhibit 3.1 of Reliance Steel & Aluminum Co. s Form 8-K filed with the SEC on June 1, 2015).
3.2	Amended and Restated Bylaws of Reliance Steel & Aluminum Co. (incorporated by reference to Exhibit 3.2 of Reliance Steel & Aluminum Co. s Form 8-K filed with the SEC on June 1, 2015).
4.1*	Form of Common Stock Certificate.
10.1	Amended and Restated 2015 Incentive Award Plan (incorporated by reference from Exhibit 10.1 to Registrant s Current Report on Form 8-K filed on May 27, 2015).
10.2	Registrant s Directors Equity Plan (incorporated by reference from Appendix A to Registrant s Proxy Statement for Annual Meeting of Shareholders held May 18, 2011).
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
32**	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document.

101.SCH\* XBRL Taxonomy Extension Schema Document.

101.CAL\* XBRL Taxonomy Calculation Linkbase Document.

101.DEF\* XBRL Taxonomy Extension Definition Linkbase Document.

101.LAB\* XBRL Taxonomy Label Linkbase Document.

101.PRE\* XBRL Taxonomy Presentation Linkbase Document.

\* Filed herewith.

\*\* Furnished herewith.