

RELIANCE STEEL & ALUMINUM CO  
Form 10-Q  
August 01, 2016  
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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, 2016

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)

|   |   |
|---|---|
| Delaware  | 95-1142616                              |
| (State or other jurisdiction of<br>incorporation or organization) | (I.R.S. Employer<br>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 27, 2016, 72,529,836 shares of the registrant's common stock, \$0.001 par value, were outstanding.

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RELIANCE STEEL & ALUMINUM CO.

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## PART I -- FINANCIAL INFORMATION

## Item 1. Financial Statements

## RELIANCE STEEL &amp; ALUMINUM CO.

## UNAUDITED CONSOLIDATED BALANCE SHEETS

(in millions, except share amounts)

|  | June 30,<br>2016 | December<br>31,<br>2015* |
|--|------------------|--------------------------|
| <b>ASSETS</b>  |                  |                          |
| Current assets:  |                  |                          |
| Cash and cash equivalents  | \$ 116.5         | \$ 104.3                 |
| Accounts receivable, less allowance for doubtful accounts of \$18.2 at June 30, 2016 and \$16.3 at December 31, 2015 | 1,036.0          | 916.6                    |
| Inventories  | 1,623.8          | 1,436.0                  |
| Prepaid expenses and other current assets  | 60.6             | 60.8                     |
| Income taxes receivable  | 16.9             | 36.5                     |
| Total current assets   | 2,853.8          | 2,554.2                  |
| Property, plant and equipment:   |                  |                          |
| Land   | 206.4            | 196.2                    |
| Buildings  | 1,037.4          | 1,006.3                  |
| Machinery and equipment  | 1,649.5          | 1,569.8                  |
| Accumulated depreciation   | (1,216.1)        | (1,136.8)                |
|  | 1,677.2          | 1,635.5                  |
| Goodwill   | 1,830.9          | 1,724.8                  |
| Intangible assets, net   | 1,205.3          | 1,125.4                  |
| Cash surrender value of life insurance policies, net   | 39.2             | 45.8                     |
| Other assets   | 38.2             | 35.9                     |
| Total assets   | \$ 7,644.6       | \$ 7,121.6               |
| <b>LIABILITIES AND EQUITY</b>  |                  |                          |
| Current liabilities:   |                  |                          |
| Accounts payable   | \$ 360.8         | \$ 247.0                 |
| Accrued expenses   | 79.9             | 83.0                     |
| Accrued compensation and retirement costs  | 108.6            | 118.7                    |
| Accrued insurance costs  | 44.0             | 40.2                     |
| Current maturities of long-term debt and short-term borrowings   | 484.7            | 500.8                    |
| Total current liabilities  | 1,078.0          | 989.7                    |

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|   |            |            |
|---|------------|------------|
| Long-term debt  | 1,684.7    | 1,427.9    |
| Long-term retirement costs  | 108.2      | 103.8      |
| Other long-term liabilities   | 15.3       | 30.4       |
| Deferred income taxes   | 629.0      | 627.1      |
| Commitments and contingencies   |            |            |
| Equity:   |            |            |
| Preferred stock, \$0.001 par value:   |            |            |
| Authorized shares — 5,000,000   |            |            |
| None issued or outstanding  | —          | —          |
| Common stock and additional paid-in capital, \$0.001 par value:                                 |            |            |
| Authorized shares — 200,000,000   |            |            |
| Issued and outstanding shares – 72,503,979 at June 30, 2016 and 71,739,072 at December 31, 2015 | 575.1      | 533.8      |
| Retained earnings   | 3,614.5    | 3,480.0    |
| Accumulated other comprehensive loss  | (88.8)     | (99.7)     |
| Total Reliance stockholders' equity   | 4,100.8    | 3,914.1    |
| Noncontrolling interests  | 28.6       | 28.6       |
| Total equity  | 4,129.4    | 3,942.7    |
| Total liabilities and equity  | \$ 7,644.6 | \$ 7,121.6 |

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\* Amounts were derived from audited financial statements.

See accompanying notes to unaudited consolidated financial statements.

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## RELIANCE STEEL &amp; ALUMINUM CO.

## UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

(in millions, except per share amounts)

|  | Three Months Ended |            | Six Months Ended |            |
|--|--------------------|------------|------------------|------------|
|  | June 30,           | 2015       | June 30,         | 2015       |
|  | 2016               |            | 2016             |            |
| Net sales  | \$ 2,203.9         | \$ 2,423.7 | \$ 4,366.6       | \$ 5,038.1 |
| Costs and expenses:  |                    |            |                  |            |
| Cost of sales (exclusive of depreciation and amortization shown below) | 1,518.8            | 1,767.8    | 3,044.8          | 3,711.5    |
| Warehouse, delivery, selling, general and administrative               | 456.5              | 440.8      | 907.3            | 886.9      |
| Depreciation and amortization  | 55.5               | 54.9       | 111.6            | 110.2      |
|  | 2,030.8            | 2,263.5    | 4,063.7          | 4,708.6    |
| Operating income   | 173.1              | 160.2      | 302.9            | 329.5      |
| Other income (expense):  |                    |            |                  |            |
| Interest   | (21.7)             | (21.5)     | (43.4)           | (42.1)     |
| Other income (expense), net  | 0.2                | (2.8)      | 1.3              | (0.9)      |
| Income before income taxes   | 151.6              | 135.9      | 260.8            | 286.5      |
| Income tax provision   | 49.5               | 44.3       | 65.2             | 92.0       |
| Net income   | 102.1              | 91.6       | 195.6            | 194.5      |
| Less: Net income attributable to noncontrolling interests              | 1.2                | 1.4        | 2.5              | 3.0        |
| Net income attributable to Reliance                                    | \$ 100.9           | \$ 90.2    | \$ 193.1         | \$ 191.5   |
| Earnings per share attributable to Reliance stockholders:              |                    |            |                  |            |
| Diluted  | \$ 1.38            | \$ 1.20    | \$ 2.65          | \$ 2.50    |
| Basic  | \$ 1.39            | \$ 1.21    | \$ 2.68          | \$ 2.53    |
| Cash dividends per share   | \$ 0.40            | \$ 0.40    | \$ 0.80          | \$ 0.80    |

See accompanying notes to unaudited consolidated financial statements.

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RELIANCE STEEL &amp; ALUMINUM CO.

## UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

|   | Three Months<br>Ended |         | Six Months Ended |          |
|---|-----------------------|---------|------------------|----------|
|   | June 30,<br>2016      | 2015    | June 30,<br>2016 | 2015     |
| Net income  | \$ 102.1              | \$ 91.6 | \$ 195.6         | \$ 194.5 |
| Other comprehensive loss:   |                       |         |                  |          |
| Foreign currency translation (loss) gain                            | (4.8)                 | 7.9     | 10.9             | (17.0)   |
| Unrealized loss on investments, net of tax                          | —                     | (0.5)   | —                | (0.4)    |
| Total other comprehensive (loss) income                             | (4.8)                 | 7.4     | 10.9             | (17.4)   |
| Comprehensive income  | 97.3                  | 99.0    | 206.5            | 177.1    |
| Less: comprehensive income attributable to noncontrolling interests | 1.2                   | 1.4     | 2.5              | 3.0      |
| Comprehensive income attributable to Reliance                       | \$ 96.1               | \$ 97.6 | \$ 204.0         | \$ 174.1 |

See accompanying notes to unaudited consolidated financial statements.

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## RELIANCE STEEL &amp; ALUMINUM CO.

## UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

|  | Six Months Ended |          |
|--|------------------|----------|
|  | June 30,         | 2015     |
|  | 2016             |          |
| Operating activities:  |                  |          |
| Net income   | \$ 195.6         | \$ 194.5 |
| Adjustments to reconcile net income to net cash provided by operating activities:      |                  |          |
| Depreciation and amortization expense  | 111.6            | 110.2    |
| Deferred income tax provision (benefit)  | 1.6              | (2.0)    |
| Gain on sales of property, plant and equipment   | (0.4)            | (0.3)    |
| Stock-based compensation expense   | 11.4             | 12.4     |
| Other  | 2.5              | 5.1      |
| Changes in operating assets and liabilities (excluding effect of businesses acquired): |                  |          |
| Accounts receivable  | (106.2)          | 25.0     |
| Inventories  | (126.6)          | 75.3     |
| Prepaid expenses and other assets  | 20.7             | 0.4      |
| Accounts payable and other liabilities   | 95.0             | 43.3     |
| Net cash provided by operating activities  | 205.2            | 463.9    |
| Investing activities:  |                  |          |
| Purchases of property, plant and equipment   | (71.7)           | (77.1)   |
| Acquisitions, net of cash acquired   | (322.4)          | —        |
| Other  | (1.3)            | (1.5)    |
| Net cash used in investing activities  | (395.4)          | (78.6)   |
| Financing activities:  |                  |          |
| Net short-term debt (repayments) borrowings  | (13.5)           | 6.8      |
| Proceeds from long-term debt borrowings  | 613.0            | 412.0    |
| Principal payments on long-term debt   | (365.1)          | (521.8)  |
| Dividends and dividend equivalents paid  | (58.0)           | (61.4)   |
| Exercise of stock options  | 30.1             | 10.6     |
| Share repurchases  | —                | (200.0)  |
| Other  | (3.6)            | (4.3)    |
| Net cash provided by (used in) financing activities                                    | 202.9            | (358.1)  |
| Effect of exchange rate changes on cash  | (0.5)            | (1.5)    |
| Increase in cash and cash equivalents  | 12.2             | 25.7     |
| Cash and cash equivalents at beginning of year   | 104.3            | 106.2    |
| Cash and cash equivalents at end of period   | \$ 116.5         | \$ 131.9 |
| Supplemental cash flow information:  |                  |          |
| Interest paid during the period  | \$ 41.3          | \$ 42.2  |
| Income taxes paid during the period, net   | \$ 58.0          | \$ 118.2 |



See accompanying notes to unaudited consolidated financial statements.

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RELIANCE STEEL & ALUMINUM CO.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

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, 2016 are not necessarily indicative of the results for the full year ending December 31, 2016. These financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto for the year ended December 31, 2015, 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

Improvements to Employee Share-Based Payment Accounting—In March 2016, the Financial Accounting Standards Board (“FASB”) issued accounting changes intended to improve various aspects of the accounting for share-based payment transactions as part of its simplification initiative. We adopted these changes as of January 1, 2016. The adoption of these changes did not have a material impact on our consolidated financial statements. For further discussion of our adoption of these accounting changes, see Note 8 — “Equity”.

#### Impact of Recently Issued Accounting Standards—Not Yet Adopted

Leases—In February 2016, the FASB issued accounting changes which will require lessees to recognize most long-term leases on-balance sheet through the recognition of a right-of-use asset and a lease liability. The guidance will be effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. We are evaluating the new standard and have not determined what impact the adoption of these accounting changes will have on our consolidated financial statements.

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

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## 3. Acquisitions

## 2016 Acquisitions

On April 1, 2016, we acquired Best Manufacturing, Inc. (“Best Manufacturing”), a custom sheet metal fabricator of steel and aluminum products on both a direct and toll basis. Best Manufacturing, headquartered in Jonesboro, Arkansas, provides various precision fabrication services including laser cutting, shearing, computer numerated control (“CNC”) punching, CNC forming and rolling, as well as welding, assembly, painting, inventory management and engineering expertise. For the three months ended June 30, 2016, Best Manufacturing’s net sales were approximately \$4.9 million.

On January 1, 2016, we acquired Tubular Steel, Inc. (“Tubular Steel”), a distributor and processor of carbon, alloy and stainless steel pipe, tubing and bar products. Tubular Steel, headquartered in St. Louis, Missouri, has seven locations and a fabrication business that supports its diverse customer base. For the six months ended June 30, 2016, Tubular Steel’s net sales were approximately \$60.1 million.

We funded our 2016 acquisitions with borrowings on our revolving credit facility and cash on hand.

The preliminary allocation of the total purchase price of our 2016 acquisitions to the fair values of the assets acquired and liabilities assumed was as follows:

|   | (in millions) |
|---|---------------|
| Cash  | \$ 0.2        |
| Accounts receivable                           | 12.6          |
| Inventories                                   | 59.0          |
| Property, plant and equipment                 | 57.0          |
| Goodwill                                      | 102.9         |
| Intangible assets subject to amortization     | 69.3          |
| Intangible assets not subject to amortization | 34.1          |
| Other current and long-term assets            | 0.1           |
| Total assets acquired                         | 335.2         |
| Current and long-term debt                    | 6.1           |
| Other current and long-term liabilities       | 6.5           |
| Total liabilities assumed                     | 12.6          |
| Net assets acquired                           | \$ 322.6      |

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 sheet reflects the allocation of each acquisition's purchase price as of June 30, 2016. The purchase price allocations for the 2016 acquisitions are preliminary and are pending the completion of certain purchase price adjustments based on tangible and intangible asset valuations and pre-acquisition period income tax returns. The measurement periods for the purchase price allocations do not exceed 12 months from the acquisition date.

#### 4. Goodwill

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

|  | (in millions) |
|--|---------------|
| Balance at January 1, 2016             | \$ 1,724.8    |
| Acquisitions                           | 102.9         |
| Effect of foreign currency translation | 3.2           |
| Balance at June 30, 2016               | \$ 1,830.9    |

We had no accumulated impairment losses related to goodwill at June 30, 2016.

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All of the goodwill recorded from our 2016 acquisitions is tax deductible.

## 5. Intangible Assets, net

Intangible assets, net consisted of the following:

|   | Weighted Average<br>Amortizable<br>Life in Years | June 30, 2016<br>Gross<br>Carrying Amount<br>Accumulated<br>Amortization<br>(in millions) |            | December 31, 2015<br>Gross<br>Carrying Amount<br>Accumulated<br>Amortization |            |
|---|--|---|------------|--|------------|
| Intangible assets subject to amortization:        |  |   |            |  |            |
| Covenants not to compete                          | 4.5  | \$ 1.5  | \$ (1.1)   | \$ 1.3   | \$ (1.0)   |
| Customer lists/relationships                      | 14.8   | 731.4   | (313.2)    | 659.0  | (285.7)    |
| Software – internal use                           | 10.0   | 8.1   | (8.1)      | 8.1  | (7.9)      |
| Other   | 5.2  | 6.3   | (5.5)      | 6.3  | (5.0)      |
|   |  | 747.3   | (327.9)    | 674.7  | (299.6)    |
| Intangible assets not subject to<br>amortization: |  |   |            |  |            |
| Trade names                                       |  | 785.9   | —          | 750.3  | —          |
|   |  | \$ 1,533.2  | \$ (327.9) | \$ 1,425.0   | \$ (299.6) |

Intangible assets recorded in connection with our 2016 acquisitions were \$103.4 million as of June 30, 2016 (see Note 3 — “Acquisitions”). A total of \$34.1 million was allocated to the trade names acquired, which is not subject to amortization.

We recognized amortization expense for intangible assets of \$27.1 million and \$27.7 million for the six months ended June 30, 2016 and 2015, respectively. Foreign currency translation gains related to intangible assets, net, were approximately \$3.6 million during the six months ended June 30, 2016.

The following is a summary of estimated aggregate amortization expense for the remaining six months of 2016 and each of the succeeding five years:

(in millions)

|      |    |      |
|------|----|------|
| 2016 | \$ | 26.7 |
| 2017 |    | 49.8 |
| 2018 |    | 45.4 |
| 2019 |    | 45.3 |
| 2020 |    | 45.3 |
| 2021 |    | 41.4 |

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## 6. Debt

Debt consisted of the following:

|  | June 30,<br>2016 | December 31,<br>2015 |
|--|------------------|----------------------|
|  | (in millions)    |                      |
| Unsecured revolving credit facility due April 4, 2018            | \$ 612.0         | \$ 332.0             |
| Unsecured term loan due from September 30, 2016 to April 4, 2018 | 373.8            | 398.8                |
| 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                      | 95.2             | 111.3                |
| Total  | 2,181.0          | 1,942.1              |
| Less: unamortized discount and debt issuance costs               | (11.6)           | (13.4)               |
| Less: amounts due within one year and short-term borrowings      | (484.7)          | (500.8)              |
| Total long-term debt   | \$ 1,684.7       | \$ 1,427.9           |

## Unsecured Credit Facility

On April 4, 2013, we entered into an unsecured five-year credit agreement with a syndicated bank group (“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-months ended June 30, 2016 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 were 1.82% and 1.81% as of June 30, 2016 and December 31, 2015, respectively. Weighted average interest rates on borrowings outstanding on the term loan were 1.71% and 1.67% as of June 30, 2016 and December 31, 2015, respectively. As of June 30, 2016, we had \$612.0 million of outstanding borrowings, \$56.9 million of letters of credit issued and \$831.1 million available on the revolving credit facility.



Senior Unsecured Notes

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 of these notes 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 also guarantee borrowings under the Credit Agreement. 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.

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Other Notes and Revolving Credit Facilities

Other revolving credit facilities with a combined credit limit of approximately \$69.8 million are in place for operations in Asia and Europe with combined outstanding balances of \$44.5 million and \$59.9 million as of June 30, 2016 and December 31, 2015, respectively.

In connection with our acquisition of Metals USA, we assumed industrial revenue bonds with combined outstanding balances of \$11.0 million as of June 30, 2016 and December 31, 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 had outstanding balances of \$39.7 million and \$40.4 million as of June 30, 2016 and December 31, 2015, respectively. The mortgages, which were secured by the underlying properties, had a fixed interest rate of 6.40% and scheduled amortization payments with a lump sum payment of \$39.2 million due October 2016. We repaid all of the mortgage obligations without penalty on July 1, 2016 with borrowings on our revolving credit facility.

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, 2016.

7. Income Taxes

Our effective income tax rates for the three-month periods ended June 30, 2016 and 2015 were 32.7% and 32.6%, respectively. Our effective income tax rates for the six-month periods ended June 30, 2016 and 2015 were 25.0% and 32.1%, respectively. Our 2016 six-month period effective income tax rate was favorably impacted by the resolution of a tax position that was previously uncertain, which lowered our 2016 six-month effective income tax rate by 6.7%.

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

### Common Stock

As of June 30, 2016, we had authorization to purchase a total of approximately 8.4 million shares under our existing share repurchase plan, or about 12% of outstanding shares. There were no share repurchases in the six-month period ended June 30, 2016. Repurchased and subsequently retired shares are restored to the status of authorized but unissued shares.

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Common stock and additional paid-in capital activity included the following:

|   | Three Months Ended<br>June 30, 2016               |         |  | Six Months Ended<br>June 30, 2016 |         | Weighted<br>Average<br>Exercise<br>Price |
|---|---|---------|--|-----------------------------------|---------|--|
|   | Shares  | Amount  | Weighted<br>Average<br>Exercise<br>Price | Shares                            | Amount  |  |
|   | (in millions, except share and per share amounts) |         |  |                                   |         |  |
| Stock-based compensation  | 11,611  | \$ 8.1  |  | 150,162                           | \$ 10.2 |  |
| Stock options exercised   | 269,575   | 13.6    | \$ 52.96                                 | 614,745                           | 30.1    | \$ 49.01                                 |
| Cumulative effect of change in accounting for<br>stock-based compensation |   | —       |  |                                   | 1.0     |  |
| Total   | 281,186   | \$ 21.7 |  | 764,907                           | \$ 41.3 |  |

## Dividends

On July 20, 2016, our Board of Directors declared the 2016 third quarter cash dividend of \$0.425 per share, an increase of 6.3% compared to the 2016 second quarter dividend. The dividend is payable on September 9, 2016 to stockholders of record as of August 12, 2016.

During the second quarter of 2016 and 2015, we declared and paid a quarterly dividend of \$0.40 per share, or \$29.0 million and \$29.7 million in total, respectively. During the six months ended June 30, 2016 and 2015, we declared and paid quarterly dividends of \$0.80 per share, or \$57.1 million and \$60.4 million in total, respectively. During the six months ended 2016 and 2015, we paid \$0.9 million and \$1.0 million in dividend equivalents with respect to vested restricted stock units (“RSUs”), respectively.

## Stock-Based Compensation

Effective January 1, 2016, we adopted accounting changes issued by the FASB for stock-based compensation that allow us to account for forfeitures of RSUs as they occur rather than estimating the number of forfeitures. As a result of the adoption, we recorded a cumulative-effect adjustment that reduced beginning retained earnings by \$0.6 million, net of tax.

We make annual grants of long-term incentive awards to officers and key employees in the forms of service-based and performance-based RSUs that generally have 3-year vesting periods. The performance-based RSU awards are subject to both service and performance goal criteria. We also grant restricted stock to the non-employee members of the Board of Directors. The fair value of the RSUs and restricted stock awards 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 service-based and performance-based RSUs as of June 30, 2016 and changes during the six-month period then ended is as follows:

| Unvested Shares                               | Shares    | Weighted<br>Average<br>Grant<br>Date Fair<br>Value |
|---|-----------|--|
| Unvested at January 1, 2016                   | 900,410   | \$ 63.26   |
| Granted(1)                                    | 524,746   | 69.20  |
| Vested  | (13,317)  | 69.63  |
| Cancelled                                     | (19,114)  | 64.41  |
| Unvested at June 30, 2016                     | 1,392,725 | \$ 65.43   |
| Shares reserved for future grants (all plans) | 1,862,538 |  |

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(1) 512,895 RSUs, including 190,175 performance-based RSUs, and 11,851 restricted stock grants.

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## Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss included the following:

|                               | Foreign Currency<br>Translation<br>(Loss)<br>Gain<br>(in millions) | Pension and<br>Postretirement<br>Benefit Adjustments,<br>Net of Tax | Accumulated<br>Other<br>Comprehensive<br>(Loss) Income |
|-------------------------------|--|---|--|
| Balance as of January 1, 2016 | \$ (74.2)  | \$ (25.5)   | \$ (99.7)  |
| Current-period change         | 10.9   | —   | 10.9   |
| Balance as of June 30, 2016   | \$ (63.3)  | \$ (25.5)   | \$ (88.8)  |

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, 2016 and December 31, 2015.

## 9. Commitments and Contingencies

## Environmental Contingencies

We are currently involved with an environmental remediation project related to activities at former manufacturing operations of Earle M. Jorgensen Company (“EMJ”), our 100%-owned subsidiary, which 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

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 matters will be resolved without a material adverse effect on our results of operations, financial condition or cash flows. We maintain general 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                                |            | Six Months Ended |            |
|---|---|------------|------------------|------------|
|   | June 30,<br>2016                                  | 2015       | June 30,<br>2016 | 2015       |
|   | (in millions, except share and per share amounts) |            |                  |            |
| Numerator:  |   |            |                  |            |
| Net income attributable to Reliance                       | \$ 100.9  | \$ 90.2    | \$ 193.1         | \$ 191.5   |
| Denominator:  |   |            |                  |            |
| Weighted average shares outstanding                       | 72,372,056  | 74,316,582 | 72,150,938       | 75,710,182 |
| Dilutive effect of stock-based awards                     | 740,752   | 777,480    | 759,640          | 745,267    |
| Weighted average diluted shares outstanding               | 73,112,808  | 75,094,062 | 72,910,578       | 76,455,449 |
| Earnings per share attributable to Reliance stockholders: |   |            |                  |            |
| Diluted   | \$ 1.38   | \$ 1.20    | \$ 2.65          | \$ 2.50    |
| Basic   | \$ 1.39   | \$ 1.21    | \$ 2.68          | \$ 2.53    |

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Potentially dilutive securities whose effect would have been antidilutive were not significant for the three-month and six-month periods ended June 30, 2016 and 2015.

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 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 subsidiary guarantors. There are no significant restrictions on our ability to obtain funds from any of the subsidiary guarantors by dividends or loans. The supplemental consolidating financial information has been presented in lieu of separate financial statements of the subsidiary guarantors as such separate financial statements are not considered meaningful.



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## Condensed Unaudited Consolidating Balance Sheet

As of June 30, 2016

(in millions)

|  | Parent     | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|--|------------|---------------------------|-----------------------------------|------------------------------|--------------|
| <b>Assets</b>  |            |                           |                                   |                              |              |
| Cash and cash equivalents                                      | \$ 13.4    | \$ (0.4)                  | \$ 103.5                          | \$ —                         | \$ 116.5     |
| Accounts receivable, net                                       | 78.9       | 808.9                     | 153.5                             | (5.3)                        | 1,036.0      |
| Inventories  | 68.2       | 1,324.8                   | 230.8                             | —                            | 1,623.8      |
| Income taxes receivable  | 46.1       | —                         | —                                 | (29.2)                       | 16.9         |
| Other current assets   | 34.6       | 11.9                      | 15.5                              | (1.4)                        | 60.6         |
| Total current assets   | 241.2      | 2,145.2                   | 503.3                             | (35.9)                       | 2,853.8      |
| Investments in subsidiaries                                    | 5,298.0    | 342.5                     | —                                 | (5,640.5)                    | —            |
| Property, plant and equipment, net                             | 115.1      | 1,352.9                   | 209.2                             | —                            | 1,677.2      |
| Goodwill   | 23.8       | 1,674.0                   | 133.1                             | —                            | 1,830.9      |
| Intangible assets, net   | 13.0       | 1,058.3                   | 134.0                             | —                            | 1,205.3      |
| Intercompany receivables                                       | 765.4      | 45.9                      | 33.8                              | (845.1)                      | —            |
| Other assets   | 27.1       | 44.1                      | 6.2                               | —                            | 77.4         |
| Total assets   | \$ 6,483.6 | \$ 6,662.9                | \$ 1,019.6                        | \$ (6,521.5)                 | \$ 7,644.6   |
| <b>Liabilities &amp; Equity</b>                                |            |                           |                                   |                              |              |
| Accounts payable   | \$ 36.6    | \$ 259.4                  | \$ 70.1                           | \$ (5.3)                     | \$ 360.8     |
| Accrued compensation and retirement costs                      | 19.9       | 82.7                      | 6.0                               | —                            | 108.6        |
| Other current liabilities                                      | 55.3       | 42.6                      | 56.6                              | (30.6)                       | 123.9        |
| Current maturities of long-term debt and short-term borrowings | 400.0      | —                         | 84.7                              | —                            | 484.7        |
| Total current liabilities                                      | 511.8      | 384.7                     | 217.4                             | (35.9)                       | 1,078.0      |
| Long-term debt   | 1,674.1    | 5.7                       | 4.9                               | —                            | 1,684.7      |
| Intercompany borrowings  | —          | 700.1                     | 145.0                             | (845.1)                      | —            |
| Other long-term liabilities                                    | 196.9      | 504.5                     | 51.1                              | —                            | 752.5        |
| Total Reliance stockholders' equity                            | 4,100.8    | 5,060.7                   | 579.8                             | (5,640.5)                    | 4,100.8      |
| Noncontrolling interests                                       | —          | 7.2                       | 21.4                              | —                            | 28.6         |
| Total equity   | 4,100.8    | 5,067.9                   | 601.2                             | (5,640.5)                    | 4,129.4      |
| Total liabilities and equity                                   | \$ 6,483.6 | \$ 6,662.9                | \$ 1,019.6                        | \$ (6,521.5)                 | \$ 7,644.6   |

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## Condensed Unaudited Consolidating Balance Sheet

As of December 31, 2015

(in millions)

|  | Parent     | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|--|------------|---------------------------|-----------------------------------|------------------------------|--------------|
| <b>Assets</b>  |            |                           |                                   |                              |              |
| Cash and cash equivalents                                      | \$ 10.7    | \$ (1.0)                  | \$ 94.6                           | \$ —                         | \$ 104.3     |
| Accounts receivable, net                                       | 66.5       | 701.8                     | 152.3                             | (4.0)                        | 916.6        |
| Inventories  | 56.0       | 1,145.1                   | 234.9                             | —                            | 1,436.0      |
| Income taxes receivable  | 38.2       | —                         | (1.7)                             | —                            | 36.5         |
| Other current assets   | 36.4       | 15.1                      | 12.6                              | (3.3)                        | 60.8         |
| Total current assets   | 207.8      | 1,861.0                   | 492.7                             | (7.3)                        | 2,554.2      |
| Investments in subsidiaries                                    | 5,046.2    | 328.0                     | —                                 | (5,374.2)                    | —            |
| Property, plant and equipment, net                             | 115.5      | 1,311.3                   | 208.7                             | —                            | 1,635.5      |
| Goodwill   | 23.8       | 1,571.1                   | 129.9                             | —                            | 1,724.8      |
| Intangible assets, net   | 14.0       | 977.5                     | 133.9                             | —                            | 1,125.4      |
| Intercompany receivables                                       | 614.2      | 45.4                      | 30.5                              | (690.1)                      | —            |
| Other assets   | 24.6       | 50.9                      | 6.2                               | —                            | 81.7         |
| Total assets   | \$ 6,046.1 | \$ 6,145.2                | \$ 1,001.9                        | \$ (6,071.6)                 | \$ 7,121.6   |
| <b>Liabilities &amp; Equity</b>                                |            |                           |                                   |                              |              |
| Accounts payable   | \$ 25.3    | \$ 160.0                  | \$ 65.7                           | \$ (4.0)                     | \$ 247.0     |
| Accrued compensation and retirement costs                      | 29.5       | 79.1                      | 10.1                              | —                            | 118.7        |
| Other current liabilities                                      | 54.0       | 15.3                      | 57.2                              | (3.3)                        | 123.2        |
| Current maturities of long-term debt and short-term borrowings | 400.0      | —                         | 100.8                             | —                            | 500.8        |
| Total current liabilities                                      | 508.8      | 254.4                     | 233.8                             | (7.3)                        | 989.7        |
| Long-term debt   | 1,417.3    | 5.7                       | 4.9                               | —                            | 1,427.9      |
| Intercompany borrowings  | —          | 547.6                     | 142.5                             | (690.1)                      | —            |
| Other long-term liabilities                                    | 205.9      | 505.0                     | 50.4                              | —                            | 761.3        |
| Total Reliance stockholders' equity                            | 3,914.1    | 4,824.5                   | 549.7                             | (5,374.2)                    | 3,914.1      |
| Noncontrolling interests                                       | —          | 8.0                       | 20.6                              | —                            | 28.6         |
| Total equity   | 3,914.1    | 4,832.5                   | 570.3                             | (5,374.2)                    | 3,942.7      |
| Total liabilities and equity                                   | \$ 6,046.1 | \$ 6,145.2                | \$ 1,001.9                        | \$ (6,071.6)                 | \$ 7,121.6   |

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## Condensed Unaudited Consolidating Statement of Comprehensive Income

For the Three Months Ended June 30, 2016

(in millions)

|  | Parent   | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|--|----------|---------------------------|-----------------------------------|------------------------------|--------------|
| Net sales  | \$ 178.2 | \$ 1,857.6                | \$ 214.2                          | \$ (46.1)                    | \$ 2,203.9   |
| Costs and expenses:  |          |                           |                                   |                              |              |
| Cost of sales (exclusive of depreciation and amortization shown below)   | 110.7    | 1,290.3                   | 163.9                             | (46.1)                       | 1,518.8      |
| Warehouse, delivery, selling, general and administrative                 | 47.0     | 374.8                     | 35.7                              | (1.0)                        | 456.5        |
| Depreciation and amortization  | 4.4      | 45.6                      | 5.5                               | —                            | 55.5         |
|  | 162.1    | 1,710.7                   | 205.1                             | (47.1)                       | 2,030.8      |
| Operating income   | 16.1     | 146.9                     | 9.1                               | 1.0                          | 173.1        |
| Other income (expense):  |          |                           |                                   |                              |              |
| Interest   | (20.8)   | (5.7)                     | (1.8)                             | 6.6                          | (21.7)       |
| Other income (expense), net  | 3.9      | (0.3)                     | 4.2                               | (7.6)                        | 0.2          |
| (Loss) income before equity in earnings of subsidiaries and income taxes | (0.8)    | 140.9                     | 11.5                              | —                            | 151.6        |
| Equity in earnings of subsidiaries                                       | 92.4     | 4.7                       | —                                 | (97.1)                       | —            |
| Income before income taxes   | 91.6     | 145.6                     | 11.5                              | (97.1)                       | 151.6        |
| Income tax (benefit) provision   | (9.3)    | 56.4                      | 2.4                               | —                            | 49.5         |
| Net income   | 100.9    | 89.2                      | 9.1                               | (97.1)                       | 102.1        |
| Less: Net income attributable to noncontrolling interests                | —        | 1.2                       | —                                 | —                            | 1.2          |
| Net income attributable to Reliance                                      | \$ 100.9 | \$ 88.0                   | \$ 9.1                            | \$ (97.1)                    | \$ 100.9     |
| Comprehensive income attributable to Reliance                            | \$ 96.1  | \$ 88.0                   | \$ 11.0                           | \$ (99.0)                    | \$ 96.1      |

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## Condensed Unaudited Consolidating Statement of Comprehensive Income

For the Three Months Ended June 30, 2015

(in millions)

|  | Parent   | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>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                                       | 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      |

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## Condensed Unaudited Consolidating Statement of Comprehensive Income

For the Six Months Ended June 30, 2016

(in millions)

|  | Parent   | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|--|----------|---------------------------|-----------------------------------|------------------------------|--------------|
| Net sales  | \$ 348.0 | \$ 3,674.1                | \$ 435.0                          | \$ (90.5)                    | \$ 4,366.6   |
| Costs and expenses:  |          |                           |                                   |                              |              |
| Cost of sales (exclusive of depreciation and amortization shown below)   | 240.0    | 2,560.8                   | 334.5                             | (90.5)                       | 3,044.8      |
| Warehouse, delivery, selling, general and administrative                 | 94.6     | 748.4                     | 70.4                              | (6.1)                        | 907.3        |
| Depreciation and amortization  | 8.5      | 92.0                      | 11.1                              | —                            | 111.6        |
|  | 343.1    | 3,401.2                   | 416.0                             | (96.6)                       | 4,063.7      |
| Operating income   | 4.9      | 272.9                     | 19.0                              | 6.1                          | 302.9        |
| Other income (expense):  |          |                           |                                   |                              |              |
| Interest   | (41.5)   | (8.6)                     | (3.3)                             | 10.0                         | (43.4)       |
| Other income, net  | 7.3      | 0.9                       | 9.2                               | (16.1)                       | 1.3          |
| (Loss) income before equity in earnings of subsidiaries and income taxes | (29.3)   | 265.2                     | 24.9                              | —                            | 260.8        |
| Equity in earnings of subsidiaries                                       | 207.0    | 8.9                       | —                                 | (215.9)                      | —            |
| Income before income taxes   | 177.7    | 274.1                     | 24.9                              | (215.9)                      | 260.8        |
| Income tax (benefit) provision   | (15.4)   | 74.9                      | 5.7                               | —                            | 65.2         |
| Net income   | 193.1    | 199.2                     | 19.2                              | (215.9)                      | 195.6        |
| Less: Net income attributable to noncontrolling interests                | —        | 2.5                       | —                                 | —                            | 2.5          |
| Net income attributable to Reliance                                      | \$ 193.1 | \$ 196.7                  | \$ 19.2                           | \$ (215.9)                   | \$ 193.1     |
| Comprehensive income attributable to Reliance                            | \$ 204.0 | \$ 209.8                  | \$ 39.7                           | \$ (249.5)                   | \$ 204.0     |

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## Condensed Unaudited Consolidating Statement of Comprehensive Income

For the Six Months Ended June 30, 2015

(in millions)

|  | Parent   | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>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                                       | 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     |

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## Condensed Unaudited Consolidating Cash Flow Statement

For the Six Months Ended June 30, 2016

(in millions)

|  | Parent    | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|--|-----------|---------------------------|-----------------------------------|------------------------------|--------------|
| Net cash (used in) provided by operating activities          | \$ (34.9) | \$ 203.9                  | \$ 36.2                           | \$ —                         | \$ 205.2     |
| Investing activities:  |           |                           |                                   |                              |              |
| Purchases of property, plant and equipment                   | (7.2)     | (56.7)                    | (7.8)                             | —                            | (71.7)       |
| Acquisitions, net of cash acquired                           | (322.6)   | 0.2                       | —                                 | —                            | (322.4)      |
| Net repayments from subsidiaries                             | 147.0     | —                         | —                                 | (147.0)                      | —            |
| Other investing activities, net                              | (5.5)     | 4.1                       | 0.1                               | —                            | (1.3)        |
| Net cash used in investing activities                        | (188.3)   | (52.4)                    | (7.7)                             | (147.0)                      | (395.4)      |
| Financing activities:  |           |                           |                                   |                              |              |
| Net short-term debt repayments                               | —         | —                         | (13.5)                            | —                            | (13.5)       |
| Proceeds from long-term debt borrowings                      | 613.0     | —                         | —                                 | —                            | 613.0        |
| Principal payments on long-term debt                         | (358.1)   | (6.9)                     | (0.1)                             | —                            | (365.1)      |
| Dividends and dividend equivalents paid                      | (58.0)    | —                         | —                                 | —                            | (58.0)       |
| Net intercompany (repayments) borrowings                     | —         | (144.0)                   | (3.0)                             | 147.0                        | —            |
| Other financing activities, net                              | 29.0      | —                         | (2.5)                             | —                            | 26.5         |
| Net cash provided by (used in) financing activities          | 225.9     | (150.9)                   | (19.1)                            | 147.0                        | 202.9        |
| Effect of exchange rate changes on cash and cash equivalents | —         | —                         | (0.5)                             | —                            | (0.5)        |
| Increase in cash and cash equivalents                        | 2.7       | 0.6                       | 8.9                               | —                            | 12.2         |
| Cash and cash equivalents at beginning of year               | 10.7      | (1.0)                     | 94.6                              | —                            | 104.3        |
| Cash and cash equivalents at end of period                   | \$ 13.4   | \$ (0.4)                  | \$ 103.5                          | \$ —                         | \$ 116.5     |

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## Condensed Unaudited Consolidating Cash Flow Statement

For the Six Months Ended June 30, 2015

(in millions)

|  | Parent   | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|--|----------|---------------------------|-----------------------------------|------------------------------|--------------|
| Net cash provided by operating activities                    | \$ 130.1 | \$ 304.2                  | \$ 29.6                           | \$ —                         | \$ 463.9     |
| Investing activities:  |          |                           |                                   |                              |              |
| 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)       |
| Financing activities:  |          |                           |                                   |                              |              |
| 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     |





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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. 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, 2015 filed with the SEC.

Overview

We had strong operational execution in the three-month and six-month periods ended June 30, 2016 mainly due to our ability to further increase our gross profit margin. Our sales for the three-month period ended June 30, 2016 were \$2.20 billion, down 9.1% from \$2.42 billion in the same period in 2015. During the six-month period ended June 30, 2016, sales were \$4.37 billion, down 13.3% from \$5.0 billion in the same period in 2015. Demand was relatively consistent in the 2016 periods compared to the 2015 periods outside of the energy end market, which continued to decline in the first half of 2016. Although a more favorable pricing environment existed in the second quarter of 2016, pricing levels remained significantly lower in the three-month and six-month periods ended June 30, 2016 compared to the same periods in 2015, especially for carbon (51% of our sales) and stainless steel (14% of our sales) products, which had a material impact on our revenues and operating margins. Despite the challenges of lower average selling prices, we achieved several operational successes in the 2016 second quarter:

- We increased our gross profit margin 400 basis points to 31.1% from 27.1% in the 2015 second quarter;

- The 2016 second quarter was the sixth consecutive quarter in which we increased our first-in, first-out (“FIFO”) gross profit margin, our highest quarterly level since 2004;
- Our inventory turn rate (based on tons) at June 30, 2016 was 4.7 times, in-line with our company-wide goal of 4.7 times;
- We increased our operating income margin to 7.9% from 6.6% in the 2015 second quarter; and
- Our earnings per diluted share were \$1.38, up 15.0% from \$1.20 in the second quarter of 2015.

Our same-store tons sold decreased 0.4% and 2.1% in the three-month and six-month periods ended June 30, 2016, respectively, compared to the same periods in 2015, well ahead of the industry decline reported by the Metals Service Center Institute (“MSCI”) of 4.6% and 6.9%, respectively, over these same periods. Demand was relatively healthy in most of our end markets, with the exception of the energy market (oil and gas). We believe our industry outperformance is attributable to our focus on small orders requiring high levels of quality and service on a just-in-time basis, as well as our significant investments in our value-added processing equipment over the past few years.

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Our same-store average selling price per ton sold, which had declined sequentially in each quarter from the 2014 third quarter through the 2016 first quarter, showed improvement in the 2016 second quarter, mainly for certain carbon steel products. We attribute the recent pricing improvement to stable demand, domestic mill production capacity discipline and the impact of trade case filings by U.S. steel producers. We believe this stronger pricing environment along with our improved inventory position achieved through our inventory reduction efforts in 2015 and our investments in value-added processing equipment contributed to our expanded gross profit margins during the three-month and six-month periods ended June 30, 2016.

We have exceeded our historical gross profit margin range of 25% to 27% in each of the past five quarters despite the difficult pricing environment.

We continued to maintain expense discipline as our same-store S,G&A expenses were fairly consistent in the 2016 periods with those in the 2015 periods. Our same-store S,G&A expense as a percent of sales of 20.7% and 20.8% in the 2016 three-month and six-month periods, respectively, increased from 18.2% and 17.6% in the same 2015 periods, respectively, due to significantly lower metals pricing during the 2016 periods that reduced our sales levels.

The significant increase in our gross profit margin and effective expense control drove our operating income margin to 7.9% for the second quarter of 2016, a significant improvement from 6.6% in the second quarter of 2015, and 6.0% in the first quarter of 2016.

Net income attributable to Reliance for the second quarter of 2016 was \$100.9 million, or \$1.38 per diluted share, compared to \$90.2 million, or \$1.20 per diluted share in the second quarter of 2015, and \$92.2 million, or \$1.27 per diluted share in the first quarter of 2016.

As of June 30, 2016, our net debt-to-total capital ratio was 33.4%, up from 31.8% as of December 31, 2015, mainly due to increased borrowings to fund our 2016 acquisitions. We have significant liquidity as of June 30, 2016, with \$831.1 million of availability under our Credit Agreement.

We believe that our exposure to diverse end markets, broad product base, and wide geographic footprint will continue to mitigate earnings volatility compared to many of our competitors.

We will continue to focus on working capital management and maximizing profitability of our existing businesses. Our operating and growth strategies have helped us achieve industry-leading operating results on a consistent basis,

and we remain confident in our ability to maintain our track record of success going forward.

## 2016 Acquisitions

On April 1, 2016, we acquired Best Manufacturing, Inc. (“Best Manufacturing”), a custom sheet metal fabricator of steel and aluminum products on both a direct and toll basis. Headquartered in Jonesboro, Arkansas, Best Manufacturing provides various precision fabrication services including laser cutting, shearing, computer numerated control (“CNC”) punching, CNC forming and rolling, as well as welding, assembly, painting, inventory management and engineering expertise. For the three months ended June 30, 2016, Best Manufacturing’s net sales were approximately \$4.9 million.

On January 1, 2016, we acquired Tubular Steel, Inc. (“Tubular Steel”), a distributor and processor of carbon, alloy and stainless steel pipe, tubing and bar products. Headquartered in St. Louis, Missouri, Tubular Steel has seven locations and a fabrication business that support its diverse customer base. For the six months ended June 30, 2016, Tubular Steel’s net sales were approximately \$60.1 million.

We funded our 2016 acquisitions with borrowings on our revolving credit facility and cash on hand.

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Three Months and Six Months Ended June 30, 2016 Compared to Three Months and Six Months Ended June 30, 2015

The following table sets forth certain income statement data for the three-month and six-month periods ended June 30, 2016 and 2015 (dollars are shown in millions and certain amounts may not calculate due to rounding):

|  | Three Months Ended June 30,<br>2016 |                   |   | 2015       |                   |   | Six Months Ended June 30,<br>2016 |                   |   | 2015       |                   |   |
|--|-------------------------------------|-------------------|---|------------|-------------------|---|-----------------------------------|-------------------|---|------------|-------------------|---|
|  | \$                                  | % of<br>Net Sales | % | \$         | % of<br>Net Sales | % | \$                                | % of<br>Net Sales | % | \$         | % of<br>Net Sales | % |
| Net sales  | \$ 2,203.9                          | 100.0             | % | \$ 2,423.7 | 100.0             | % | \$ 4,366.6                        | 100.0             | % | \$ 5,038.1 | 100.0             | % |
| Cost of sales<br>exclusive of<br>depreciation<br>and<br>amortization<br>expense<br>(shown below) | 1,518.8                             | 68.9              |   | 1,767.8    | 72.9              |   | 3,044.8                           | 69.7              |   | 3,711.5    | 73.7              |   |
| Gross profit<br>(1)  | 685.1                               | 31.1              |   | 655.9      | 27.1              |   | 1,321.8                           | 30.3              |   | 1,326.6    | 26.3              |   |
| Warehouse,<br>delivery,<br>selling,<br>general and<br>administrative<br>expense<br>(S,G&A")      | 456.5                               | 20.7              |   | 440.8      | 18.2              |   | 907.3                             | 20.8              |   | 886.9      | 17.6              |   |
| Depreciation<br>expense  | 42.0                                | 1.9               |   | 41.5       | 1.7               |   | 84.5                              | 1.9               |   | 82.5       | 1.6               |   |
| Amortization<br>expense  | 13.5                                | 0.6               |   | 13.4       | 0.6               |   | 27.1                              | 0.6               |   | 27.7       | 0.5               |   |
| Operating<br>income  | \$ 173.1                            | 7.9               | % | \$ 160.2   | 6.6               | % | \$ 302.9                          | 6.9               | % | \$ 329.5   | 6.5               | % |

(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.

## Net Sales

|  | June 30,<br>2016 | 2015       | Dollar<br>Change | Percentage<br>Change |   |
|--|------------------|------------|------------------|----------------------|---|
|  | (in millions)    |            |                  |                      |   |
| Net sales (three months ended)             | \$ 2,203.9       | \$ 2,423.7 | \$ (219.8)       | (9.1)                | % |
| Net sales (six months ended)               | \$ 4,366.6       | \$ 5,038.1 | \$ (671.5)       | (13.3)               | % |
| Net sales, same-store (three months ended) | \$ 2,168.7       | \$ 2,423.7 | \$ (255.0)       | (10.5)               | % |
| Net sales, same-store (six months ended)   | \$ 4,301.6       | \$ 5,038.1 | \$ (736.5)       | (14.6)               | % |

|  | June 30,<br>2016 | 2015    | Tons<br>Change | Percentage<br>Change |   |
|--|------------------|---------|----------------|----------------------|---|
|  | (in thousands)   |         |                |                      |   |
| Tons sold (three months ended)             | 1,519.4          | 1,508.2 | 11.2           | 0.7                  | % |
| Tons sold (six months ended)               | 3,022.4          | 3,052.7 | (30.3)         | (1.0)                | % |
| Tons sold, same-store (three months ended) | 1,501.6          | 1,508.2 | (6.6)          | (0.4)                | % |
| Tons sold, same-store (six months ended)   | 2,989.5          | 3,052.7 | (63.2)         | (2.1)                | % |

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|   | June 30,<br>2016 | 2015     | Price<br>Change | Percentage<br>Change |   |
|---|------------------|----------|-----------------|----------------------|---|
| Average selling price per ton sold (three months ended)             | \$ 1,438         | \$ 1,600 | \$ (162)        | (10.1)               | % |
| Average selling price per ton sold (six months ended)               | \$ 1,431         | \$ 1,645 | \$ (214)        | (13.0)               | % |
| Average selling price per ton sold, same-store (three months ended) | \$ 1,431         | \$ 1,600 | \$ (169)        | (10.6)               | % |
| Average selling price per ton sold, same-store (six months ended)   | \$ 1,425         | \$ 1,645 | \$ (220)        | (13.4)               | % |

Tons sold and average selling price per ton sold amounts exclude our toll processing sales (as we process the metal for a fee, without taking ownership of the metal). Same-store amounts exclude the results of our 2016 acquisitions.

Our consolidated sales were lower in the three-month and six-month periods ended June 30, 2016 compared to the same periods in 2015 mainly due to lower metals prices. Prices for carbon steel products improved during the 2016 second quarter compared to the 2016 first quarter, primarily due to increases in raw materials costs, including scrap, and multiple carbon steel trade cases filed in the U.S. that have resulted in reduced levels of imported carbon and stainless steel products; however metals pricing during the three-month and six-month periods ended June 30, 2016 remained significantly below the comparable 2015 periods.

The significant decline in our volume sold to the energy (oil and gas) market that began in 2014 and has continued through the first half of 2016, contributed to the decline in our same-store tons sold in the three-month and six-month periods ended June 30, 2016 compared to the same periods in 2015. In general, business activity in almost all of our end markets other than the energy market was relatively stable in the six months ended June 30, 2016 compared to the same period in 2015. For the three-month and six-month periods ended June 30, 2016, same-store tons sold were down 0.4% and 2.1%, respectively, from the comparable 2015 periods; however, our performance outpaced the industry data reported by the MSCI, which indicated industry shipments were down 4.6% and 6.9%, 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, 2016 when compared to the same 2015 periods were automotive, primarily through our toll processing businesses in the U.S. and Mexico, and aerospace. Heavy industry remained fairly consistent with the low levels we experienced throughout 2015. Non-residential construction, our largest end market, continued its slow but steady improvement, albeit at significantly reduced demand levels from its peak levels experienced in 2006 and 2007.

Our average selling price per ton sold in the three-month and six-month periods ended June 30, 2016 decreased 10.1% and 13.0%, respectively, from the comparable 2015 periods given decreased mill pricing for most products we sell, most notably carbon and stainless steel. Our major commodity selling prices changed year-over-year as follows:



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|                 | Three Months Ended<br>June 30                                |   |   | Six Months Ended<br>June 30                                  |   |   |
|-----------------|--|---|---|--|---|---|
|                 | Average Selling<br>Price per Ton Sold<br>(percentage change) | Same-store<br>Average Selling<br>Price per Ton Sold | % | Average Selling<br>Price per Ton Sold<br>(percentage change) | Same-store<br>Average Selling<br>Price per Ton Sold | % |
| Carbon steel    | (10.0)   | (10.9)  | % | (14.3)   | (15.3)  | % |
| Aluminum        | (5.1)  | (5.1)   | % | (5.3)  | (5.3)   | % |
| Stainless steel | (15.5)   | (15.6)  | % | (18.5)   | (18.5)  | % |
| Alloy           | (5.8)  | (6.1)   | % | (6.1)  | (6.4)   | % |

Cost of Sales

|                                       | June 30,<br>2016 |                   |   | 2015       |                   |   | Dollar<br>Change | Percentage<br>Change |   |
|---------------------------------------|------------------|-------------------|---|------------|-------------------|---|------------------|----------------------|---|
|                                       | \$               | % of<br>Net Sales | % | \$         | % of<br>Net Sales | % |                  |                      |   |
| Cost of sales (three months<br>ended) | \$ 1,518.8       | 68.9              | % | \$ 1,767.8 | 72.9              | % | \$ (249.0)       | (14.1)               | % |
| Cost of sales (six months<br>ended)   | \$ 3,044.8       | 69.7              | % | \$ 3,711.5 | 73.7              | % | \$ (666.7)       | (18.0)               | % |

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The decrease in cost of sales in the three-month and six-month periods ended June 30, 2016 is mainly due to a lower average cost per ton sold. See “Net Sales” above for trends in both demand and costs of our products.

Our last-in, first-out (“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 no incremental LIFO expense or income in the three-month and six-month periods ended June 30, 2016 compared to credits, or income, of \$32.5 million and \$40.0 million in the same periods of 2015, respectively.

## Gross Profit

|                                   | June 30,<br>2016      |                   | 2015       |                   |  |          | Dollar<br>Change | Percentage<br>Change |  |
|-----------------------------------|-----------------------|-------------------|------------|-------------------|--|----------|------------------|----------------------|--|
|                                   | \$                    | % of<br>Net Sales | \$         | % of<br>Net Sales |  |          |                  |                      |  |
|                                   | (dollars in millions) |                   |            |                   |  |          |                  |                      |  |
| Gross profit (three months ended) | \$ 685.1              | 31.1 %            | \$ 655.9   | 27.1 %            |  | \$ 29.2  | 4.5              | %                    |  |
| Gross profit (six months ended)   | \$ 1,321.8            | 30.3 %            | \$ 1,326.6 | 26.3 %            |  | \$ (4.8) | (0.4)            | %                    |  |

Our gross profit margin increased 400 basis points in the three-month and six-month periods ended June 30, 2016 compared to the same periods in 2015. The increase in our gross profit in the three-month period ended June 30, 2016 compared to the same period in 2015 was mainly due to our increased gross profit margin, which outweighed the decline in our net sales from significantly lower average selling prices. The increase in our gross profit margin resulted in relatively flat gross profit dollars in the six-month period ended June 30, 2016 compared to the same period in 2015, even though our net sales declined. We increased our gross profit margin significantly in the three-month and six-month periods ended June 30, 2016 compared to the same periods in 2015 from our disciplined operational execution that focuses on small, quick-turn orders and increased value-added processing along with improved inventory management. Our gross profit margins have increased for six consecutive quarters. 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,<br>2016 |      | 2015 |      |  |  | Dollar | Percentage |  |
|--|------------------|------|------|------|--|--|--------|------------|--|
|  |                  | % of |      | % of |  |  |        |            |  |

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|  | \$                    | Net<br>Sales | % | \$       | Net<br>Sales | % | Change  | Change | % |
|--|-----------------------|--------------|---|----------|--------------|---|---------|--------|---|
|  | (dollars in millions) |              |   |          |              |   |         |        |   |
| S,G&A expense (three months ended)                       | \$ 456.5              | 20.7         | % | \$ 440.8 | 18.2         | % | \$ 15.7 | 3.6    | % |
| S,G&A expense (six months ended)                         | \$ 907.3              | 20.8         | % | \$ 886.9 | 17.6         | % | \$ 20.4 | 2.3    | % |
| S,G&A expense, same-store (three months ended)           | \$ 447.6              | 20.6         | % | \$ 440.8 | 18.2         | % | \$ 6.8  | 1.5    | % |
| S,G&A expense, same-store (six months ended)             | \$ 889.1              | 20.7         | % | \$ 886.9 | 17.6         | % | \$ 2.2  | 0.2    | % |
| Depreciation & amortization expense (three months ended) | \$ 55.5               | 2.5          | % | \$ 54.9  | 2.3          | % | \$ 0.6  | 1.1    | % |
| Depreciation & amortization expense (six months ended)   | \$ 111.6              | 2.6          | % | \$ 110.2 | 2.2          | % | \$ 1.4  | 1.3    | % |

Our S,G&A expense as a percent of sales in the three-month and six-month periods ended June 30, 2016 increased due to the decline in average selling prices that resulted in lower sales levels.

The increase in depreciation and amortization expense was mainly due to depreciation expense from our recent capital expenditures and our 2016 acquisitions.

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## Operating Income

|                                       | June 30,<br>2016      |                   |   | 2015     |                   |   | Dollar<br>Change | Percentage<br>Change |   |
|---------------------------------------|-----------------------|-------------------|---|----------|-------------------|---|------------------|----------------------|---|
|                                       | \$                    | % of<br>Net Sales | % | \$       | % of<br>Net Sales | % |                  |                      |   |
|                                       | (dollars in millions) |                   |   |          |                   |   |                  |                      |   |
| Operating Income (three months ended) | \$ 173.1              | 7.9               | % | \$ 160.2 | 6.6               | % | \$ 12.9          | 8.1                  | % |
| Operating Income (six months ended)   | \$ 302.9              | 6.9               | % | \$ 329.5 | 6.5               | % | \$ (26.6)        | (8.1)                | % |

Our operating income was higher in the three-month period ended June 30, 2016 compared to the same period in 2015 mainly due to our gross profit dollars increase from our expanded gross profit margin outweighing the impact of lower net sales. Our operating income was lower in the six-month period ended June 30, 2016 compared to the same period in 2015 mainly due to lower net sales as a result of lower metals pricing, offset by higher gross profit margin. Our operating income margin increased in the three-month and six-month periods ended June 30, 2016 due to the significant increase in our gross profit margins.

## Income Tax Rate

Our effective income tax rates for the three-month periods ended June 30, 2016 and 2015 were 32.7% and 32.6%, respectively. Our effective income tax rates for the six-month periods ended June 30, 2016 and 2015 were 25.0% and 32.1%, respectively. Our 2016 six-month period effective income tax rate was favorably impacted by the resolution of a tax position that was previously uncertain, which lowered our 2016 six-month effective income tax rate by 6.7%. We currently estimate that our full year 2016 effective income tax rate will be approximately 28%. 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%.

## Net Income

|  | June 30,<br>2016 |                   |   | 2015 |                   |   | Dollar<br>Change | Percentage<br>Change |
|--|------------------|-------------------|---|------|-------------------|---|------------------|----------------------|
|  | \$               | % of<br>Net Sales | % | \$   | % of<br>Net Sales | % |                  |                      |

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(dollars in millions)

|  |          |     |   |          |     |   |         |      |   |
|--|----------|-----|---|----------|-----|---|---------|------|---|
| Net income attributable to Reliance (three months ended) | \$ 100.9 | 4.6 | % | \$ 90.2  | 3.7 | % | \$ 10.7 | 11.9 | % |
| Net income attributable to Reliance (six months ended)   | \$ 193.1 | 4.4 | % | \$ 191.5 | 3.8 | % | \$ 1.6  | 0.8  | % |

The increase in our net income in the three-month period ended June 30, 2016 compared to the same period in 2015 was primarily the result of higher operating income from our increased gross profit margin. The increase in our net income as percentage of net sales in the three-month and six-month periods ended June 30, 2016 compared to the same periods in 2015 was primarily the result of our higher operating income margins.

### Liquidity and Capital Resources

#### Operating Activities

Net cash provided by operating activities was \$205.2 million in the six-month period ended June 30, 2016 compared to \$463.9 million in the same period in 2015. The decrease was mainly due to lower working capital investment (primarily accounts receivable and inventory) needs in 2015 due to significant declines in metals prices continuing throughout the 2015 six-month period as well as increased focus on lowering our inventory levels in 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, 2016, our days sales outstanding rate was approximately 42.2 days

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compared to 42.4 days at December 31, 2015. Our inventory turn rate (based on tons) during the six-month period ended June 30, 2016 was approximately 4.7 times (or 2.6 months on hand), compared with our 2015 annual rate of 4.5 times (or 2.7 months on hand).

## Investing Activities

Net cash used in investing activities of \$395.4 million in the six-month period ended June 30, 2016 was mainly comprised of our 2016 acquisitions and capital expenditures. Capital expenditures were \$71.7 million for the six-month period ended June 30, 2016 compared to \$77.1 million during the same period in 2015. The majority of our 2016 capital expenditures relate to growth initiatives.

## Financing Activities

Our net cash provided by financing activities of \$202.9 million in the six-month period ended June 30, 2016 was mainly comprised of net debt borrowings to fund our 2016 acquisitions. Net debt borrowings in the six-month period ended June 30, 2016 were \$234.4 million compared to net debt repayments of \$103.0 million in same period in 2015. We paid dividends and dividend equivalents of \$58.0 million during the six-month period ended June 30, 2016, a decrease of \$3.4 million from the same period in 2015 due to a lower number of outstanding shares resulting from our repurchase of approximately 6.2 million shares in 2015. 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 2016. We expect to continue opportunistically repurchasing shares of our common stock going forward.

On July 20, 2016, our Board of Directors declared the 2016 third quarter cash dividend of \$0.425 per share, an increase of 6.3% compared to the 2016 second quarter dividend. We have increased our dividend 23 times since our IPO in 1994 and have paid regular quarterly dividends to our stockholders for 57 consecutive years.

On October 20, 2015, our Board of Directors increased by 7.5 million shares the number of shares authorized to be repurchased under our share repurchase plan and extended the duration of the plan through December 31, 2018. During the six-months ended June 30, 2015, we repurchased approximately 3.4 million shares of our common stock at an average cost of \$58.17 per share for \$200.0 million. We did not repurchase any shares in the six-month period ended June 30, 2016. Since initiating the share repurchase plan in 1994, we have repurchased approximately 22.1 million shares at an average cost of \$30.93 per share. As of June 30, 2016, we had authorization under the plan to purchase approximately 8.4 million shares, or about 12% of our current outstanding shares.

## Liquidity

Our primary sources of liquidity are funds generated from operations and our \$1.5 billion revolving credit facility. Our total outstanding debt at June 30, 2016 was \$2.18 billion, up from \$1.94 billion at December 31, 2015. At June 30, 2016, we had \$612.0 million of outstanding borrowings, \$56.9 million of letters of credit issued and \$831.1 million available on our revolving credit facility. As of June 30, 2016, our net debt-to-total capital ratio was 33.4%, up from 31.8% as of December 31, 2015 due to borrowings to fund our 2016 acquisitions.

On April 4, 2013, we entered into a credit agreement with a syndicated bank group (“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. 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, share repurchases, internal growth initiatives and acquisitions. 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. All borrowings under the Credit Agreement may be repaid without penalty.

Other revolving credit facilities with a combined credit limit of approximately \$69.8 million are in place for operations in Asia and Europe with combined outstanding balances of \$44.5 million and \$59.9 million as of June 30, 2016 and December 31, 2015, respectively.

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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 of these notes 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 borrowings under the Credit Agreement. 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.

In connection with our acquisition of Metals USA, we assumed industrial revenue bonds with combined outstanding balances of \$11.0 million as of June 30, 2016 and December 31, 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 had outstanding balances of \$39.7 million and \$40.4 million as of June 30, 2016 and December 31, 2015, respectively. The mortgages, which were secured by the underlying properties, had a fixed interest rate of 6.40% and scheduled amortization payments with a lump sum payment of \$39.2 million due October 2016. We repaid all of the mortgage obligations without penalty on July 1, 2016.

As of June 30, 2016, we had \$510.2 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 liquidity to fund our future operating needs and to repay our debt obligations as they become due, including \$350.0 million of senior notes that mature in November 2016. In addition to funds generated from operations and funds available under our revolving credit facility, we expect to be able to access the capital markets to raise funds, if desired. 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, 2016 was approximately 6.6 times compared to the debt covenant minimum requirement of 3.0 times (interest coverage ratio is calculated as net income attributable to Reliance plus interest expense and provision for income taxes and plus or minus any non-operating non-recurring loss or gain, respectively, divided by interest expense). Our leverage ratio as of June 30, 2016, calculated in accordance with the terms of the Credit Agreement, was 35.1% 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 91% of our consolidated EBITDA for the last twelve months and approximately 84% of consolidated tangible assets as of June 30, 2016.

We were in compliance with all material covenants in our debt agreements at June 30, 2016.

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### 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, 2016 and December 31, 2015, we were contingently liable under standby letters of credit in the aggregate amount of \$56.9 million and \$57.4 million, respectively. The letters of credit relate to insurance policies, construction projects and outstanding industrial revenue 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, 2016, 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, 2015.

### 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. Our overall operations have not shown any material seasonal trends as a result of our geographic, product and customer diversity. 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 extended holiday closures at some of our customers. We cannot predict whether 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 \$1.83 billion at June 30, 2016, or approximately 24.0% of total assets, or 44.6% of Reliance stockholders' equity. Additionally, other intangible assets, net amounted to \$1.21 billion at June 30, 2016, or approximately 15.8% of total assets, or 29.4% 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.

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See “Critical Accounting Policies and Estimates” in our Annual Report on Form 10-K for the year ended December 31, 2015 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 2016 changed our critical accounting policies.

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, 2015. See “Item 7A - Quantitative and Qualitative Disclosures About Market Risk” in our Annual Report on Form 10-K for the year ended December 31, 2015 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, 2016 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 the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Item 6. Exhibits

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

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SIGNATURES

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

RELIANCE  
STEEL &  
ALUMINUM CO.

Dated: August 1, 2016 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

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Exhibit Index

| Exhibit No. | Description  |
|-------------|--|
| 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.