

RELIANCE STEEL & ALUMINUM CO

Form 8-K

March 05, 2004

Table of Contents

FORM 8-K/A
CURRENT REPORT
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Date of Report (Date of earliest event reported): July 1, 2003

RELIANCE STEEL & ALUMINUM CO.

(Exact name of registrant as specified in its charter)

California	001-13122	95-1142616
<hr/>	<hr/>	<hr/>
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

350 South Grand Avenue, Suite 5100

Los Angeles, California 90071

(Address of principal executive offices)

(213) 687-7700

(Telephone number)

N/A

(Former name or former address, if changed since last report.)

TABLE OF CONTENTS

Item 2. Acquisition or Disposition of Assets

Item 5. Other Events and Regulation FD Disclosure

Item 7. Financial Statements and Exhibits

Unaudited Pro Forma Combined Balance Sheet

Unaudited Pro Forma Combined Statement of Income

Notes to Unaudited Pro Forma Combined Financial Statements

SIGNATURES

EXHIBIT INDEX

EXHIBIT 99.1

EXHIBIT 99.2

Table of Contents

Item 2. Acquisition or Disposition of Assets.

Effective July 1, 2003, the Registrant, through its wholly-owned subsidiary RSAC Management Corp., a California corporation (RSAC), acquired all of the outstanding securities of Precision Strip, Inc., an Ohio corporation (Precision), and its related entity, Precision Strip Transport, Inc., an Ohio corporation (Transport), including both voting and non-voting common stock. Prior to the closing, certain other entities, specifically Precision Strip Leasing, Inc., an Ohio corporation; Precision Strip Kenton, Inc., an Ohio corporation; Precision Strip Kenton, Ltd., an Ohio limited partnership; PSI Limited partnership, an Ohio limited partnership; and the assets and liabilities of John R. Eiting d/b/a J.E. Rentals, were combined with Precision either by merger or by transfers of assets and assumptions of liabilities. After the closing, all of the securities of Transport were contributed to Precision. Transport will be operated as a wholly-owned subsidiary of Precision, and Precision will be operated as a wholly-owned subsidiary of RSAC. (The combined entities are hereafter referred to as Precision Strip .) RSAC paid an aggregate purchase price of \$220 million in cash to John R. Eiting, Marie Eiting, Patricia Eiting Chapa, Caroline M. Eiting, and Katherine A. Eiting, the shareholders of Precision Strip (collectively, Sellers), except that a portion of the purchase price will be retained in escrow for a certain period of time. RSAC also repaid approximately \$26 million of debt of Precision Strip.

Precision Strip operates a toll metals processing company headquartered in Minster, Ohio and with additional facilities in Kenton, Middletown, and Tipp City, Ohio; Anderson and Rockport, Indiana; Bowling Green, Kentucky; and Talladega, Alabama. Precision Strip had revenues of approximately \$121.8 million for the fiscal year ended December 31, 2002. Precision Strip will continue to engage in the toll metals processing business at the same locations as prior to the acquisition.

Prior to the closing, the Sellers and the officers and directors of Precision Strip were not affiliated with or related to the Registrant in any way. The purchase price was determined by negotiations between Registrant and RSAC, on the one hand, and the Sellers, on the other. To fund the purchase price and the repayment of debt, the Registrant and RSAC used proceeds from a private offering of senior secured notes and drew the balance from their syndicated bank revolving line of credit with nine banks, for which Bank of America N.A. is the lead lender. (See Item 5 below.)

Item 5. Other Events and Regulation FD Disclosure.

On July 1, 2003, concurrently with the acquisition described in Item 2 above, the Registrant issued \$135 million in senior secured notes to six insurance companies. The senior secured notes were issued in two series; Series L in the aggregate amount of \$60 million will mature in 2011 and bear interest at the rate of 4.87% per annum and Series M in the aggregate amount of \$75 million will mature in 2013 and bear interest at the rate of 5.35% per annum. Banc of America Securities acted as the placement agent. All of the Registrant's material corporate subsidiaries guaranteed the Registrant's obligations under the separate and several Note Purchase Agreements and the senior secured notes.

Also concurrently with the acquisition, the Registrant and RSAC amended the Credit Agreement dated as of October 24, 2001 to provide, among other things, for the borrowers and all their guarantors to grant a security interest in certain personal property to the Lenders named therein. This amendment required a similar amendment to all outstanding Note Purchase Agreements from the Registrant's prior issuances of senior notes. The Registrant and all of its material subsidiaries entered into a Security Agreement and pledged certain personal property as security for the Registrant's debt under the senior notes, as well as the Credit Agreement. The Lenders under the Credit Agreement and the Purchasers under the separate and several Note Purchase Agreements entered into a Collateral Agency and Intercreditor Agreement, pursuant to which Bank of America N.A. will act as the Collateral Agent. The Registrant is not a party to the Collateral Agency and Intercreditor Agreement. The personal property pledged as collateral includes, but is not limited to, the outstanding securities of each of the Registrant's material corporate subsidiaries, all

of which is owned directly either by the Registrant or by RSAC. (American Steel L.L.C. (a 50.5% owned subsidiary of the Registrant) is not a guarantor under these agreements.) The security interest will terminate when the Registrant meets certain conditions, including a required leverage ratio.

Item 7. Financial Statements and Exhibits.

(a) Financial Statements of Businesses Acquired.

2

Table of Contents

- (1) Precision Strip's audited combined balance sheets at December 31, 2002 and 2001 and audited combined statements of income, cash flows and shareholders' equity for the years ended December 31, 2002 and 2001 and notes thereto and Report of Independent Auditors attached as Exhibit 99.1.
 - (2) Precision Strip's audited combined balance sheets at June 30, 2003 and December 31, 2002 and audited combined statements of income, cash flows and shareholders' equity for the six months ended June 30, 2003 and year ended December 31, 2002 and notes thereto and Report of Independent Auditors attached as Exhibit 99.2.
- (b) Pro Forma Financial Information.

The following unaudited pro forma combined financial statements and related notes have been prepared to illustrate the effect of the acquisition of Precision Strip on the Registrant's financial statements. The unaudited pro forma combined balance sheet assumes that the acquisition was completed as of June 30, 2003 and the unaudited pro forma combined statements of income as of June 30, 2003 and December 31, 2002 assume that the acquisition was completed at the beginning of each respective period. The pro forma information is based upon the historical consolidated financial statements of the Registrant and the historical combined financial statements of Precision Strip, giving effect to the acquisition under the purchase method of accounting and the assumptions, estimates and adjustments described in the notes to the unaudited pro forma combined financial statements. The assumptions, estimates and adjustments are preliminary and have been made solely for the purposes of developing such pro forma information.

The unaudited pro forma financial statements are presented for illustrative purposes only and are not necessarily indicative of the consolidated financial position or consolidated results of operations of the Registrant that would have been reported had the acquisition occurred on the date indicated, nor do they represent a forecast of the consolidated financial position of the Registrant at any future date or the consolidated results of operations of the Registrant for any future period. Furthermore, no effect has been given in the unaudited pro forma combined statements of income for operating benefits that may be realized through the combination of the entities. Amounts allocated to the assets and liabilities of Precision Strip are based on their estimated fair market values as of the acquisition closing date. The purchase price allocation for this acquisition has not been finalized, pending completion of valuations of real and personal property and intangibles. The unaudited pro forma combined financial statements, including the notes thereto, should be read in conjunction with the historical consolidated financial statements, including the notes thereto, and management's discussion and analysis of financial condition and results of operations of the Registrant included in the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002 and in the Registrant's Form 10-Q for the three and six months ended March 31, 2003 and June 30, 2003, respectively, all filed with the Securities and Exchange Commission, and the historical financial statements, including the notes thereto, of Precision Strip, included herein as Exhibits 99.1 and 99.2. In addition, consideration should be given to those risk factors discussed in the Registrant's Annual Report on Form 10-K which could affect the Registrant's results and over which the Registrant has no control.

Table of Contents

Reliance Steel & Aluminum Co.
Unaudited Pro Forma Combined Balance Sheet
As of June 30, 2003
(In thousands)

	Reliance Steel & Aluminum Co.	Precision Strip, Inc.	Pro Forma Adjustments	Pro Forma Combined
Assets				
Cash and cash equivalents	\$ 19,063	\$ 42	\$	\$ 19,105
Accounts receivable, net	207,650	19,961		227,611
Inventories	291,679	690		292,369
Prepays and other current assets	11,124	103		11,227
Deferred income taxes	14,789			14,789
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Total current assets	544,305	20,796		565,101
Property, plant and equipment				
Land	52,016	3,503	8,619 ⁽¹⁾	64,138
Buildings	180,769	64,183	745 ⁽¹⁾	245,697
Machinery & equipment	242,447	139,717	(29,399) ⁽¹⁾	352,765
Accumulated depreciation	(177,531)	(62,672)	62,672 ⁽¹⁾	(177,531)
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Goodwill	297,701	144,731	42,637	485,069
Other assets	284,304		28,335 ⁽²⁾	312,639
	<hr/>	<hr/>	<hr/>	<hr/>
Other assets	14,422	2,056	16,300 ⁽²⁾	32,778
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Total assets	\$1,140,732	\$167,583	\$ 87,272	\$1,395,587
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Liabilities & Shareholders Equity				
Accounts payable	\$ 113,392	\$ 2,252	\$	\$ 115,644
Accrued expenses	41,955	911		42,866
Wages and related accruals	15,605	4,091		19,696
Deferred income taxes	4,034			4,034
Current maturities of long-term debt	22,325	396	(396) ⁽³⁾	22,325
	<hr/>	<hr/>	<hr/>	<hr/>
Total current liabilities	197,311	7,650	(396)	204,565
Long-term debt	283,175	25,197	220,424 ⁽³⁾	528,796
Other long-term liabilities		1,980		1,980
Deferred income taxes	31,190			31,190
Minority interest	9,893			9,893
Common stock	294,721	3,455	(3,455) ⁽⁴⁾	294,721
Retained earnings	325,348	129,301	(129,301) ⁽⁴⁾	325,348

Accumulated other comprehensive loss	(906)	_____	_____	_____	(906)
Total shareholders equity	619,163	_____	_____	_____	619,163
Total liabilities and shareholders equity	\$1,140,732	_____	_____	_____	\$1,395,587

See accompanying notes to unaudited pro forma combined financial statements.

Table of Contents

Reliance Steel & Aluminum Co.
Unaudited Pro Forma Combined Statement of Income
For the Six Months Ended June 30, 2003
(In thousands except share and per share amounts)

	Reliance Steel & Aluminum Co.	Precision Strip, Inc.	Pro Forma Adjustments	Pro Forma Combined
Net sales	\$ 907,152	\$63,189	\$	\$ 970,341
Cost of sales	668,377	38,504	1,304 ⁽⁵⁾	708,185
Gross profit	238,775	24,685	(1,304)	262,156
Operating expenses:				
Warehouse, delivery, SG&A	195,030	7,501		202,531
Depreciation	14,419			14,419
Income from operations	29,326	17,184	(1,304)	45,206
Other income (expense):				
Interest expense	(11,117)	(247)	(4,833) ⁽⁶⁾	(16,197)
Amortization expense	(617)	(192)	(842) ⁽⁷⁾	(1,651)
Other income, net	1,704	(18)		1,686
Income before minority interest and income taxes	19,296	16,727	(6,979)	29,044
Minority interest	433			433
Income before provision for income taxes	19,729	16,727	(6,979)	29,477
Provision for income taxes	7,758	170	3,661 ⁽⁸⁾	11,589
Net income	\$ 11,971	\$16,557	\$(3,318)	\$ 17,888
Earnings per share diluted	\$ 0.38		⁽⁹⁾	\$ 0.56
Weighted average shares o/s diluted	31,767,381		⁽⁹⁾	31,767,381
Earnings per share basic	\$ 0.38		⁽⁹⁾	\$ 0.56
Weighted average shares o/s basic	31,766,497		⁽⁹⁾	31,766,497

See accompanying notes to unaudited pro forma combined financial statements.

Table of Contents

Reliance Steel & Aluminum Co.
Unaudited Pro Forma Combined Statement of Income
For the Year Ended December 31, 2002

(In thousands except share and per share amounts)

	<u>Reliance Steel & Aluminum Co.</u>	<u>Precision Strip, Inc.</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma Combined</u>
Net sales	\$ 1,745,005	\$ 121,801	\$	\$ 1,866,806
Cost of sales	1,268,251	72,518	2,607 ⁽⁵⁾	1,343,376
Gross profit	476,754	49,283	(2,607)	523,430
Operating expenses:				
Warehouse, delivery, SG&A	379,288	13,915		393,203
Depreciation	27,191			27,191
Income from operations	70,275	35,368	(2,607)	103,036
Other income (expense):				
Interest expense	(22,605)	(786)	(9,692) ⁽⁶⁾	(33,083)
Amortization expense	(1,355)	(383)	(1,685) ⁽⁷⁾	(3,423)
Other income, net	3,266	(653)		2,613
Income before equity earnings, minority interest and income taxes	49,581	33,546	(13,984)	69,143
Equity in earnings of 50%-owned company	263			263
Minority interest	(124)			(124)
Income before provision for income taxes	49,720	33,546	(13,984)	69,282
Provision for income taxes	19,553	217	7,471 ⁽⁸⁾	27,241
Net income	\$ 30,167	\$ 33,329	\$ (6,513)	\$ 42,041
Earnings per share diluted	\$ 0.95		(9)	\$ 1.32
Weighted average shares o/s diluted	31,798,801		(9)	31,798,801
Earnings per share basic	\$ 0.95		(9)	\$ 1.33

	_____		_____
Weighted average shares o/s basic	31,687,161	(9)	31,687,161
	_____		_____

See accompanying notes to unaudited pro forma combined financial statements.

Table of Contents

**Reliance Steel & Aluminum Co.
Notes to Unaudited Pro Forma Combined Financial Statements**

- (1) To record the estimated fair values of real and personal property based upon preliminary third-party valuations.
- (2) To record the estimated fair values of identifiable intangible assets relating to certain customer contracts and goodwill arising from the acquisition based upon preliminary third-party valuations.
- (3) The purchase price of \$220 million was funded in part through the issuance of \$135 million in long-term senior secured notes. The balance of the purchase price was funded through borrowings under the Registrant's Credit Agreement dated October 24, 2001. In connection with the acquisition, the Registrant also repaid approximately \$26 million of debt of Precision Strip through borrowings under the Credit Agreement.
- (4) To eliminate the equity of the business acquired as of the date of acquisition.
- (5) To adjust for the pro forma effect on depreciation expense of property, plant and equipment based on their estimated fair market value. Consistent with Precision Strip's historical presentation, depreciation is included as part of cost of sales.
- (6) To reflect the pro forma effect on interest expense of the financing obtained for the acquisition. The following was used for purposes of determining the pro forma effect on interest expense: 1) a rate of 4.87% for the \$60 million private placement notes which mature in 2011; 2) a rate of 5.35% for the \$75 million private placement notes which will mature in 2013; and 3) the weighted average interest rate of 2.90% and 3.18% at June 30, 2003 and December 31, 2002, respectively for the balance of the purchase price which was funded through borrowings under the Company's revolving line of credit under its Credit Agreement dated October 24, 2001.
- (7) To reflect the pro forma amortization of identifiable intangible assets related to certain customer contracts over the life of the contracts, ranging from 2.5 to 6.5 years.
- (8) To reflect the pro forma effect on consolidated income tax expense, we used the Registrant's effective income tax rate of 39.3%, because Precision Strip was historically taxed as an S-Corp.
- (9) The pro forma combined earnings per share information is based on the weighted average number of common and common equivalent shares of the Registrant, as appropriate.

Table of Contents

(c) Exhibits.

- 2.1* Acquisition Agreement dated as of June 10, 2003 by and among the Registrant, RSAC Management Corp., Precision Strip, Inc., Precision Strip Transport, Inc., Precision Strip Kenton, Inc., Precision Strip Leasing, Inc., Precision Strip Kenton, Ltd., PSI Limited Partnership, John R. Eiting, individually and d/b/a J. E. Rentals, Marie Eiting, Patricia Eiting Chapa, Caroline M. Eiting and Katherine A. Eiting.
- 2.2* Form of Note Purchase Agreement dated as of July 1, 2003 by and between the Registrant and each of the Purchasers listed on the Schedule attached thereto.
- 10.1* Third Amendment to Credit Agreement dated as of July 1, 2003 by and among the Registrant, RSAC Management Corp., Bank of America, N.A. and the Lenders listed therein.
- 10.2* Amendment No. 2 to Note Purchase Agreements dated November 1, 1996 by and between the Registrant and each of the Purchasers set forth on the Schedule attached thereto.
- 10.3* Amendment No. 1 to Note Purchase Agreements dated September 15, 1997 by and between the Registrant and each of the Purchasers set forth on the Schedule attached thereto.
- 10.4* Amendment No. 1 to Note Purchase Agreements dated October 15, 1998 by and between the Registrant and each of the Purchasers set forth on the Schedule attached thereto.
- 10.5* Security Agreement dated as of July 1, 2003 by and among the Registrant, its material corporate subsidiaries, as listed on the signature page, Bank of America N.A. and the Lenders under the Credit Agreement and the Purchasers under the separate and several Note Purchase Agreements, all as listed on the signature pages attached thereto.
- 20.1* Press release dated July 2, 2003
- 99.1 Precision Strip's audited combined balance sheets at December 31, 2002 and 2001 and audited combined statements of income, cash flows and shareholders' equity for the years ended December 31, 2002 and 2001 and notes thereto and Report of Independent Auditors.
- 99.2 Precision Strip's audited combined balance sheets at June 30, 2003 and December 31, 2002 and audited combined statements of income, cash flows and shareholders' equity for the six months ended June 30, 2003 and year ended December 31, 2002 and notes thereto and Report of Independent Auditors.

* Filed on July 15, 2003 with original Form 8-K.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned hereunto duly authorized.

RELIANCE STEEL & ALUMINUM
CO.

Dated: March 5, 2004

By: /s/ Karla Lewis

Karla Lewis
Executive Vice President and
Chief Financial Officer

Table of Contents

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