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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**Form 10-Q**

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

For the quarterly period ended March 31, 2006

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

Commission File Number 0-23320

**OLYMPIC STEEL, INC.**

(Exact name of registrant as specified in its charter)

Ohio  
(State or other jurisdiction of  
incorporation or organization)

34-1245650  
(I.R.S. Employer  
Identification Number)

5096 Richmond Road, Bedford Heights, Ohio  
(Address of principal executive offices)

44146  
(Zip Code)

Registrant's telephone number, including area code (216) 292-3800

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 is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Indicate the number of shares of each of the issuer's classes of common stock, as of the latest practicable date:

Class  
Common stock, without par value

Outstanding as of May 5, 2006  
10,410,036

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**Part I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**Olympic Steel, Inc.  
Consolidated Balance Sheets**

(in thousands)

	<u>March 31, 2006</u>	<u>December 31, 2005</u>
	(unaudited)	
<b>Assets</b>		
Cash and cash equivalents	\$ 5,066	\$ 9,555
Accounts receivable, net	99,383	80,131
Inventories	137,408	134,236
Prepaid expenses and other	3,925	3,733
<b>Total current assets</b>	<u>245,782</u>	<u>227,655</u>
Property and equipment, at cost	161,458	155,231
Accumulated depreciation	<u>(79,485)</u>	<u>(77,480)</u>
<b>Net property and equipment</b>	<u>81,973</u>	<u>77,751</u>
Investments in joint ventures	93	200
<b>Total assets</b>	<u>\$ 327,848</u>	<u>\$ 305,606</u>
<b>Liabilities</b>		
Accounts payable	\$ 77,668	\$ 77,412
Accrued payroll	4,941	6,239
Other accrued liabilities	13,244	10,952
<b>Total current liabilities</b>	<u>95,853</u>	<u>94,603</u>
Credit facility revolver	10,000	-
Other long-term liabilities	3,284	2,962
Deferred income taxes	7,224	7,720
<b>Total liabilities</b>	<u>116,361</u>	<u>105,285</u>
<b>Shareholders' Equity</b>		
Preferred stock	-	-
Common stock	108,453	104,956
Retained earnings	103,034	95,365
<b>Total shareholders' equity</b>	<u>211,487</u>	<u>200,321</u>
<b>Total liabilities and shareholders' equity</b>	<u>\$ 327,848</u>	<u>\$ 305,606</u>

*The accompanying notes are an integral part of these balance sheets.*

**Olympic Steel, Inc.**  
**Consolidated Statements of Operations**

(in thousands, except per share and tonnage data)

	Three Months Ended March 31,	
	2006	2005
	(unaudited)	
<b>Tons sold</b>		
<b>Direct</b>	281,805	313,888
<b>Toll</b>	56,363	45,965
	338,168	359,853
<b>Net sales</b>	\$ 238,871	\$ 284,558
<b>Costs and expenses</b>		
<b>Cost of materials sold (exclusive of depreciation shown below)</b>	191,713	235,135
<b>Warehouse and processing</b>	11,637	10,628
<b>Administrative and general</b>	9,304	9,273
<b>Distribution</b>	6,248	5,135
<b>Selling</b>	3,436	4,037
<b>Occupancy</b>	1,691	1,499
<b>Depreciation</b>	2,008	2,018
<b>Total costs and expenses</b>	226,037	267,725
<b>Operating income</b>	12,834	16,833
<b>Income (loss) from joint ventures</b>	(107)	243
<b>Income before financing costs and income taxes</b>	12,727	17,076
<b>Interest and other expense on debt</b>	154	1,308
<b>Income before income taxes</b>	12,573	15,768
<b>Income tax provision</b>	4,592	6,149
<b>Net income</b>	\$ 7,981	\$ 9,619
<b>Earnings per share:</b>		
<b>Net income per share - basic</b>	\$ 0.78	\$ 0.95
<b>Weighted average shares outstanding - basic</b>	10,259	10,080
<b>Net income per share - diluted</b>	\$ 0.76	\$ 0.92
<b>Weighted average shares outstanding - diluted</b>	10,568	10,455

*The accompanying notes are an integral part of these statements.*

**Olympic Steel, Inc.**  
**Consolidated Statements of Cash Flows**  
**For the Three Months Ended March 31,**  
(in thousands)

	2006	2005
	(unaudited)	
<b>Cash flows from (used for) operating activities:</b>		
Net income	\$ 7,981	\$ 9,619
<b>Adjustments to reconcile net income to net cash from operating activities-</b>		
Depreciation and amortization	2,008	2,252
(Income) loss from joint ventures, net of distributions	107	(94)
Gain on disposition of property and equipment	(3)	-
Stock based compensation	83	-
Tax benefit from exercise of stock options	-	608
Other long-term liabilities	322	-
Long-term deferred income taxes	(496)	(168)
	10,002	12,217
<b>Changes in working capital:</b>		
Accounts receivable	(19,252)	(34,175)
Inventories	(3,172)	4,965
Prepaid expenses and other	(192)	(377)
Accounts payable	2,949	140
Accrued payroll and other accrued liabilities	994	(5,251)
	(18,673)	(34,698)
<b>Net cash used for operating activities</b>	<b>(8,671)</b>	<b>(22,481)</b>
<b>Cash flows from (used for) investing activities:</b>		
Capital expenditures	(6,230)	(417)
Proceeds from disposition of property and equipment	3	-
<b>Net cash used for investing activities</b>	<b>(6,227)</b>	<b>(417)</b>
<b>Cash flows from (used for) financing activities:</b>		
Credit facility revolver borrowings, net	10,000	28,829
Change in outstanding checks	(2,693)	(3,222)
Scheduled repayments of long-term debt	-	(1,708)
Proceeds from exercise of stock options (including tax benefit) and employee stock purchases	3,414	992
Dividends paid	(312)	-
<b>Net cash from financing activities</b>	<b>10,409</b>	<b>24,891</b>
<b>Cash and cash equivalents:</b>		
Net change	(4,489)	1,993
Beginning balance	9,555	4,684
<b>Ending balance</b>	<b>\$ 5,066</b>	<b>\$ 6,677</b>

*The accompanying notes are an integral part of these statements.*

**Olympic Steel, Inc.**  
**Notes to Consolidated Financial Statements**  
**March 31, 2006**

**(1) Basis of Presentation:**

The accompanying consolidated financial statements have been prepared from the financial records of Olympic Steel, Inc. and its wholly-owned subsidiaries (collectively Olympic or the Company), without audit and reflect all normal and recurring adjustments which are, in the opinion of management, necessary to fairly present the results of the interim periods covered by this report. Year-to-date results are not necessarily indicative of 2006 annual results and these financial statements should be read in conjunction with the Company's 2005 Annual Report on Form 10-K for the period ended December 31, 2005. All significant intercompany transactions and balances have been eliminated in consolidation. Investments in the Company's joint ventures are accounted for under the equity method.

**(2) Accounts Receivable:**

The Company maintained allowances for doubtful accounts and unissued credits of \$3.4 million and \$3.6 million at March 31, 2006 and December 31, 2005, respectively. The allowance for doubtful accounts is maintained at a level considered appropriate based on historical experience and specific customer collection issues that have been identified. Estimations are based upon a calculated percentage of accounts receivable, which remains fairly level from year to year, and judgments about the probable effects of economic conditions on certain customers, which can fluctuate significantly from year to year. The Company cannot guarantee that the rate of future credit losses will be similar to past experience. The Company considers all available information when assessing each quarter the adequacy of its allowance for doubtful accounts.

### (3) Inventories:

Steel inventories consist of the following:

(in thousands)	<u>March 31,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>
Unprocessed	\$ 95,672	\$ 98,939
Processed and finished	41,736	35,297
Totals	<u>\$ 137,408</u>	<u>\$ 134,236</u>

### (4) Investments in Joint Ventures:

The Company and the United States Steel Corporation (USS) each own 50% of Olympic Laser Processing (OLP), a company that produced laser welded sheet steel blanks for the automotive industry. In January 2006, the Company and USS announced the closing of OLP. In conjunction with the closing, during the fourth quarter of 2005, the Company recorded a \$3.5 million charge for the disposition of the joint venture. OLP ceased operations during the first quarter of 2006. Operating losses incurred by OLP during the first quarter were recorded against the \$3.5 million reserve. As of May 3, 2006, the Company guaranteed 50% of OLP's \$10.6 million of outstanding bank debt on a several basis. The \$3.5 million charge consisted of \$1.3 million for the impairment of the Company's investment in OLP and \$2.2 million to be funded under the Company's guarantee of OLP's debt. As of May 3, 2006, the Company had funded \$2.0 million of the expected \$2.2 million to be paid under the loan guarantee.

The Company has a 49% ownership interest in G.S.P., LLC (GSP) a joint venture to support the flat-rolled steel requirements of the automotive industry as a Minority Business Enterprise. GSP is a certified member of the Michigan Minority Business Development Council. As of March 31, 2006, the Company guaranteed 49% of GSP's \$3.4 million demand note bank loan agreement.

The following table sets forth selected data for the Company's GSP joint venture:

<b>Results of Operations:</b>	<b>For the Three Months</b>	
	<b>Ended March 31,</b>	
<b>(in thousands)</b>	<b>2006</b>	<b>2005</b>
Net sales	\$ 4,802	\$ 6,318
Gross profit	181	692
Operating income (loss)	(160)	240
Net income (loss)	\$ (219)	\$ 189

The Company records 49% of GSP's net income or loss to its Consolidated Statements of Operations as "Income (Loss) from Joint Ventures."

#### **(5) Debt:**

The Company's secured bank-financing agreement (the Credit Facility) is a revolving credit facility collateralized by the Company's accounts receivable, inventories, and substantially all of the property and equipment. Borrowings are limited to the lesser of a borrowing base, comprised of eligible receivables and inventories, or \$110 million in the aggregate. In April 2006, the Company entered into an amendment of the Credit Facility which, subject to the terms and conditions set forth in the amendment: (i) extended the maturity date of the Credit Facility to December 15, 2009, with annual extensions at the banks' option; (ii) increased the amount of allowable investments in joint ventures from \$2.5 million to \$10 million; and (iii) increased the annual limitation on capital expenditures from \$15 million to \$25 million. The Company has the option to borrow based on the agent's base rate or Eurodollar Rates (EURO) plus a premium.

The Credit Facility requires the Company to comply with various covenants, the most significant of which include: (i) minimum availability of \$10 million, tested monthly, (ii) a minimum fixed charge coverage ratio of 1.25, and a maximum leverage ratio of 1.75, which are tested quarterly, (iii) restrictions on additional indebtedness, and (iv) limitations on dividends, capital expenditures and investments.

Since the fourth quarter of 2005, outstanding checks are included as part of Accounts Payable on the accompanying consolidated balance sheets and such checks totaled \$12.3 million as of March 31, 2006 and \$15.0 million as of December 31, 2005.

## (6) Shares Outstanding and Earnings Per Share:

Earnings per share have been calculated based on the weighted average number of shares outstanding as set forth below:

	<b>For the Three Months Ended March 31,</b>	
	<b>2006</b>	<b>2005</b>
(in thousands, except per share data)		
Weighted average shares outstanding	10,259	10,080
Assumed exercise of stock options	<u>309</u>	<u>375</u>
Weighted average diluted shares	<u>10,568</u>	<u>10,455</u>
Net income	\$ 7,981	\$ 9,619
Basic earnings per share	<u>\$ 0.78</u>	<u>\$ 0.95</u>
Diluted earnings per share	<u>\$ 0.76</u>	<u>\$ 0.92</u>

## (7) Stock Options:

In January 1994, the Stock Option Plan (Option Plan) was adopted by the Board of Directors and approved by the shareholders of the Company. Pursuant to the provisions of the Option Plan, key employees of the Company, non-employee directors and consultants may be offered the opportunity to acquire shares of Common Stock by the grant of stock options, including both incentive stock options (ISOs) and nonqualified stock options. ISOs are not available to non-employee directors or consultants. A total of 1,300,000 shares of Common Stock are reserved under the Option Plan. To the extent possible, shares of Treasury Stock are used to satisfy shares resulting from the exercise of stock options. The purchase price of a share of Common Stock pursuant to an ISO will not be less than the fair market value of a share of Common Stock at the grant date. Options vest over periods ranging from six months to five years and all expire 10 years after the grant date.

The Option Plan terminates on January 5, 2009. Termination of the Option Plan will not effect outstanding options. As of March 31, 2006, there were 24,170 options available for grant.

On January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123-R (SFAS No. 123-R) and elected to use the modified prospective transition

method. The modified prospective transition method requires that compensation cost be recognized in the financial statements for all awards granted after the date of adoption as well as for existing awards for which the requisite service has not been rendered as of the date of the adoption. The modified prospective transition does not require prior periods to be restated. Prior to the adoption of SFAS No. 123-R, the Company accounted for stock-based compensation using the intrinsic value method prescribed in Accounting Principals Board Opinion No. 25, “Accounting for Stock Issued to Employees,” and related Interpretations. The Company has elected to use the “short-cut method” to calculate the historical pool of windfall tax benefits upon adoption of SFAS No. 123-R. The election to use the “short-cut method” had no effect on the Company’s financial statements.

Under the intrinsic value method used prior to January 1, 2006, compensation expense for stock option-based compensation was not recognized in our Consolidated Statements of Operations as all stock options granted by the Company had an exercise price equal or greater than the market value of the underlying common stock on the option grant date. The adoption of SFAS No. 123-R reduced income before taxes for the first quarter of 2006 by \$83 thousand and reduced net income for the first quarter of 2006 by \$53 thousand (\$.01 per basic and diluted share). The \$83 thousand pre-tax charge was included in the caption “Administrative and general” on the accompanying Consolidated Statements of Operations. Prior to the adoption of SFAS No. 123-R, the Company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flow in the Consolidated Statements of Cash Flow. SFAS No. 123-R requires the cash flow resulting from the tax deductions in excess of the compensation cost recognized for those options to be classified as financing cash flows. For the quarter ended March 31, 2006, tax benefits realized from option exercises totaled \$2.1 million.

The fair value of each option grant was estimated as of the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Risk free interest rate	n/a	n/a	4.48%
Expected life in years	n/a	n/a	10
Expected volatility	n/a	n/a	0.59
Expected dividend yield	n/a	n/a	0%

The expected volatility assumption was derived by referring to changes in the Company's historical common stock prices over a timeframe similar to that of the expected life of the award.

The weighted average fair value of options granted during 2004 was \$9.04. No options were granted during 2005 or 2006.

The following table illustrates the pro-forma effect on net income and earnings per share as if the fair value based method had been applied to all outstanding and unvested awards in the period:

	<b>For the Three Months Ended March 31, 2005</b>
(in thousands, except per share data)	
Net income, as reported	\$ 9,619
Pro forma expense, net of tax	<u>(81)</u>
Pro forma net income	<u>\$ 9,538</u>
Basic net income per share:	
As reported	<u>\$ 0.95</u>
Pro forma	<u>\$ 0.95</u>
Diluted earnings per share:	
As reported	<u>\$ 0.92</u>
Pro forma	<u>\$ 0.91</u>

The following table summarizes stock-based award activity during the three months ended March 31, 2006:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in 000s)
Outstanding at December 31, 2005	753,845	\$ 6.00		
Granted	-	\$ -		
Exercised	(244,333)	\$ 5.41		
Canceled	(1,334)	\$ 3.50		
Outstanding at March 31, 2006	<u>508,178</u>	<u>\$ 6.29</u>	6.1 years	<u>\$12,531</u>
Exercisable at March 31, 2006	<u>453,511</u>	<u>\$ 6.42</u>	5.9 years	<u>\$11,126</u>

The total intrinsic value of stock options exercised during the three months ended March 31, 2006 and 2005 were \$5.5 million and \$1.6 million, respectively. Net cash proceeds from the exercise of stock options were \$1.3 million and \$992 thousand for the three months ended March 31, 2006 and 2005, respectively. Income tax benefits of \$2.1 million and \$608 thousand were

realized from stock option exercises during the three months ended March 31, 2006 and 2005, respectively. The fair value of options vested during the three months ended March 31, 2006 and 2005 totaled \$93 thousand and \$110 thousand, respectively.

As of March 31, 2006, approximately \$130 thousand of expense, before taxes, with respect to non-vested stock-based awards has yet to be recognized and will be amortized into expense over a weighted-average period of 1.89 years.

**(8) Supplemental Cash Flow Information:**

Interest paid during the first three months of 2006 and 2005 totaled \$88 thousand and \$1.3 million, respectively. Taxes paid during the first three months of 2006 and 2005 totaled \$1.5 million and \$2.3 million, respectively.

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

The following discussion and analysis should be read in conjunction with our unaudited consolidated financial statements and accompanying notes contained herein and our consolidated financial statements, accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2005. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those described in Item 1A, Risk Factors, of our Annual Report on Form 10-K and in Part II, Item 1A of this Form 10-Q and under the caption "Forward-Looking Information" below.

### **Overview**

We are a leading U.S. steel service center with over 50 years of experience. Our primary focus is on the direct sale and distribution of large volumes of processed carbon, coated and stainless flat-rolled sheet, coil and plate products. We act as an intermediary between steel producers and manufacturers that require processed steel for their operations. We serve customers in most carbon steel consuming industries, including manufacturers and fabricators of transportation and material handling equipment, automobiles, construction and farm machinery, storage tanks, environmental and energy generation, food service and electrical equipment, as well as general and plate fabricators, and steel service centers. We distribute our products primarily through a direct sales force.

We operate as a single business segment with 12 strategically-located processing and distribution facilities in Connecticut, Georgia, Illinois, Iowa, Michigan, Minnesota, Ohio and Pennsylvania. This geographic footprint allows us to focus on regional customers and larger national and multi-national accounts, primarily located throughout the midwestern, eastern and southern United States.

Our G.S.P., LLC (GSP) joint venture is a certified Minority Business Enterprise company supporting the flat-rolled steel requirements of the automotive industry. In January 2006, we announced plans to close the Olympic Laser Processing (OLP) joint venture facility in Detroit, Michigan. OLP, which was a processor of laser welded steel blanks for the automotive industry,

ceased operations in the first quarter of 2006. Our 49% interest in GSP and our 50% interest in OLP are accounted for under the equity method.

We sell a broad range of steel products, many of which have different gross profits and margins. Products that have more value-added processing generally have a greater gross profit and higher margins. Accordingly, our overall gross profit is affected by, among other things, product mix, the amount of processing performed, the availability of steel, volatility in selling prices and material purchase costs. We also perform toll processing of customer-owned steel, the majority of which is performed by our Detroit and Georgia operations. We sell certain products internationally, primarily in Puerto Rico and Mexico. All international sales and payments are made in United States dollars. Recent international sales have been immaterial to our consolidated financial results.

Our results of operations are affected by numerous external factors including, but not limited to, general and global business, economic and political conditions, competition, steel pricing and availability, energy prices, pricing and availability of raw materials used in the production of steel, customer demand for steel and their ability to manage their credit line availability and layoffs or work stoppages by our own, our suppliers' or our customers' personnel.

During the first quarter of 2006, the collective bargaining agreement covering hourly plant employees at our Minneapolis plate facility was extended through March 31, 2009. Collective bargaining agreements covering our Detroit and other Minneapolis employees expire in 2007 and subsequent years. We have never experienced a work stoppage and we believe that our relationship with employees is good. However, any prolonged work stoppages by our personnel represented by collective bargaining units could have a material adverse effect on our business, financial condition, results of operations and cash flows.

### **Critical Accounting Policies**

This discussion and analysis of financial condition and results of operations is based on our consolidated condensed financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from these estimates under different assumptions or conditions. On an ongoing basis, we monitor and evaluate our estimates and assumptions.

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, see our Annual Report on Form 10-K for the year ended December 31, 2005.

## Results of Operations

The following table sets forth certain income statement data for the three months ended March 31, 2006 and 2005 (dollars are shown in thousands):

	For the Three Months Ended March 31,			
	2006		2005	
	\$	% of net sales	\$	% of net sales
Net sales	\$ 238,871	100.0%	\$ 284,558	100.0%
Gross profit (1)	47,158	19.7%	49,423	17.4%
Operating expenses (2)	34,324	14.4%	32,590	11.5%
Operating income	\$ 12,834	5.4%	\$ 16,833	5.9%

(1) Gross profit is calculated as net sales less the cost of materials sold, exclusive of depreciation.

(2) Operating expenses are calculated as total costs and expenses less the cost of materials sold.

Tons sold decreased 6.0% to 338 thousand in the first quarter of 2006 from 360 thousand in the first quarter of 2005. Tons sold in the first quarter of 2006 included 282 thousand from direct sales and 56 thousand from toll processing, compared with 314 thousand direct tons and 46 thousand toll tons in the comparable period of last year. The decrease in tons sold was primarily attributable to reduced sales to automotive customers due to credit concerns and lower sales to certain contractual customers due to competitive pricing.

Net sales decreased 16.1% to \$238.9 million in the first quarter of 2006 from \$284.6 million in the first quarter of 2005. Average selling prices for the first quarter of 2006 decreased 10.7% from last year's first quarter and increased 1.9% from the fourth quarter of 2005. Average selling prices began increasing during the last quarter of 2005 and remained relatively consistent through the first quarter of 2006. We expect steel prices to increase during the second quarter of 2006.

As a percentage of net sales, gross profit (exclusive of depreciation) increased to 19.7% in the first quarter of 2006 from 17.4% in the first quarter of 2005. Gross margin dollars generated per ton remained relatively consistent in the first quarter of 2006 when compared to the first quarter of 2005.

Operating expenses in the first quarter of 2006 increased 5.3% to \$34.3 million from \$32.6 million in last year's first quarter. The increases in operating expenses are primarily attributable

to higher distribution costs caused by higher fuel costs and surcharges, the addition of our second facility in Chambersburg, Pennsylvania during the first quarter of 2006 and the increased number of laser processing machines in operation. As a percentage of net sales, operating expenses increased to 14.4% for the first quarter of 2006 from 11.5% in the comparable 2005 period.

During the first quarter of 2006, the Company adopted SFAS No. 123-R which requires the Company to record compensation expense for stock options issued to employees and directors. Prior to 2006, the Company accounted for stock options granted to employees and directors under the intrinsic value method of APB No. 25, where no compensation expense was recognized. The Company has elected to use the modified prospective transition method where compensation expense is recorded prospectively. The adoption of SFAS No. 123-R resulted in \$83 thousand of expense being recorded for stock options in the first quarter of 2006, compared to no stock option expense being recognized in the first quarter of 2005. For additional information, see Note 7, Stock Options, of the Notes to Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

Loss from joint ventures totaled \$107 thousand in the first quarter of 2006, compared to income of \$243 thousand in the first quarter of 2005. The caption "Income (Loss) From Joint Ventures" in the accompanying Consolidated Statements of Operations includes GSP in the first quarter of 2006 and both GSP and OLP in the first quarter of 2005. OLP ceased operations during the first quarter of 2006. Operating losses generated by OLP during the first quarter of 2006 were recorded against the \$3.5 million loss on disposition of joint ventures that was recorded at December 31, 2005. We cannot be certain that OLP can be liquidated without recording additional loss reserve. We expect GSP losses to continue in the second quarter of 2006 due to the challenging domestic automobile market.

Financing costs totaled \$154 thousand for the first quarter of 2006 compared to \$1.3 million for the first quarter of 2005. Our effective borrowing rate, inclusive of deferred financing fees and commitment fees, for the first quarter of 2006 was 9.8% compared to 5.3% in the first quarter of 2005. The effective borrowing rate increased because the unused line commitment fee remained relatively consistent while our average borrowings decreased significantly. We expect debt levels to remain relatively low during the second quarter of 2006.

For the first quarter of 2006, income before income taxes totaled \$12.6 million compared to \$15.8 million in the first quarter of 2005. An income tax provision of 36.5% was recorded for

the first quarter of 2006, compared to a provision of 39.0% for the first quarter of 2005. The effective tax rate decreased in 2006 due to the recognition of deferred tax assets related to certain state net operating loss carryforwards. We expect the effective tax rate to approximate 38% to 39% for the remainder of 2006. Taxes paid totaled \$1.5 million and \$2.3 million for the first quarter of 2006 and 2005, respectively.

Net income for the first quarter of 2006 totaled \$8.0 million or \$.76 per diluted share, compared to net income of \$9.6 million or \$.92 per diluted share for the first quarter of 2005.

### **Liquidity and Capital Resources**

Our principal capital requirements include funding working capital needs, purchasing and upgrading processing equipment and facilities, paying dividends and investing in joint ventures. We use cash generated from operations, leasing transactions, and our credit facility to fund these requirements.

Working capital at March 31, 2006 totaled \$149.9 million, a \$16.9 million increase from the end of the prior year. Significant working capital changes included a \$19.3 million increase in accounts receivable and a \$3.2 million increase in inventories, partially offset by decreases of \$4.5 million in cash and cash equivalents and a \$1.0 million increase in accrued payroll and accrued liabilities.

For the three months ended March 31, 2006, we used \$8.7 million of net cash from operations, of which \$10.0 million was derived from cash earnings and \$18.7 million was used for working capital. We generated \$10.4 million from financing activities, inclusive of outstanding checks, proceeds from the exercise of stock options and payment of dividends. We spent \$6.2 million on capital expenditures. Over the next 12 to 15 months, we expect to increase our capital spending significantly over levels seen in recent years. In January 2006, we purchased and equipped a 150,000 square foot facility in Chambersburg, Pennsylvania for \$5.6 million to expand our plate processing and machining activities in that geographic area. We added three new laser-processing lines during the first quarter of 2006 and we expect to add three additional lines during the second quarter of 2006. All six new lines are expected to be financed through operating leases. We continue to evaluate the possibility of implementing a new single information system to replace the three systems we currently use. We also anticipate using our financial position to take advantage of a consolidating service center industry.

In February 2006, our Board of Directors approved a quarterly dividend of \$.03 per share (\$312 thousand in aggregate) that was paid on March 15, 2006 to shareholders of record as of March 1, 2006. In April 2006, our Board of Directors approved a quarterly dividend of \$.03 per share which is payable on June 15, 2006 to shareholders of record as of June 1, 2006. We expect to make regular dividend distributions in the future, subject to the continuing determination by our Board of Directors that the payment of dividends remains in the best interest of our shareholders.

Our secured bank-financing agreement (the Credit Facility) is a revolving credit facility collateralized by our accounts receivable, inventories, and substantially all of our property and equipment. Borrowings are limited to the lesser of a borrowing base, comprised of eligible receivables and inventories, or \$110 million in the aggregate. In April 2006, we entered into an amendment of the Credit Facility which, subject to the terms and conditions set forth in the amendment: (i) extended the maturity date of the existing Credit Facility to December 15, 2009, with annual extensions at the banks' option; (ii) increased the allowable investments in joint ventures from \$2.5 million to \$10 million; and (iii) increased the annual limitation on capital expenditures from \$15 million to \$25 million.

The Credit Facility requires us to comply with various covenants, the most significant of which include: (i) minimum availability of \$10 million, tested monthly, (ii) a minimum fixed charge coverage ratio of 1.25, and a maximum leverage ratio of 1.75, which are tested quarterly, (iii) restrictions on additional indebtedness, and (iv) limitations on dividends, capital expenditures and investments. At March 31, 2006 we had approximately \$80 million of availability under our Credit Facility and we were in compliance with our covenants.

We believe that funds available under our Credit Facility and lease arrangements, together with funds generated from operations, will be sufficient to provide us with the liquidity necessary to fund anticipated working capital requirements and capital expenditure requirements over the next 12 months. In the future, we may as part of our business strategy, acquire and dispose of other companies in the same or complementary lines of business, enter into and exit strategic alliances and joint ventures, and pursue other business ventures. Accordingly, the timing and size of our capital requirements are subject to change as business conditions warrant and opportunities arise.

## Forward-Looking Information

This document contains various forward-looking statements and information that are based on management's beliefs as well as assumptions made by and information currently available to management. When used in this document, the words "may," "will," "anticipate," "should," "intend," "expect," "believe," "estimate," "project," "plan," "potential," "continue," as well as the negative of these terms or similar expressions are intended to identify forward-looking statements, which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks, uncertainties and assumptions including, but not limited to those set forth in Item 1A, Risk Factors, as found in our Annual Report on 10-K for the year ended December 31, 2005 and this Form 10-Q and the following:

- general and global business, economic and political conditions;
- competitive factors such as availability and pricing of steel, industry inventory levels and rapid fluctuations in customer demand and pricing;
- the cyclical and volatility within the steel industry;
- the ability of customers (especially in the automotive industry) to maintain their credit availability;
- layoffs or work stoppages by our own or our suppliers' or customers' personnel;
- the availability and costs of transportation and logistical services;
- equipment malfunctions or installation delays;
- the successes of our strategic efforts and initiatives to increase sales volumes, maintain cash turnover, maintain or improve inventory turns and reduce costs;
- the adequacy of our information technology and business system software;
- the operating and financial results of our joint ventures, including the timing and outcome of OLP's efforts and ability to liquidate its assets and the impact of customer, supplier, and competitive factors on OLP's liquidation plans; and
- customer, supplier, and competitor consolidation, bankruptcy or insolvency.

Should one or more of these, or other risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, expected, believed, estimated, projected or planned. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no

obligation to republish revised forward-looking statements to reflect the occurrence of unanticipated events of circumstances after the date hereof.

**Item 3. *Qualitative and Quantitative Disclosure About Market Risk***

From September 2004 through August 2005, the base price of carbon flat-rolled steel began declining. This decline reduced our gross profit margin percentages to levels which were lower than our historical levels. Higher levels of inventory at steel service centers and end-use customers caused competitive pressures which compressed gross margin percentages during the first nine months of 2005. Steel prices began increasing at the end of the third quarter of 2005 and remained relatively level during the fourth quarter of 2005 and the first quarter of 2006. Steel prices began increasing during the second quarter of 2006. While we have been successful in the past in passing on producers' price increases and surcharges to our customers, there is no guarantee that we will be able to pass on price increases to our customers during the second quarter of 2006 and beyond.

Approximately 9% of our net sales in the first three months of 2006 were directly to Automotive Customers. The automotive industry experiences significant fluctuations in demand based on numerous factors such as general economic conditions and consumer confidence. The automotive industry is also subject, from time to time, to labor work stoppages. The domestic automotive industry, which has experienced a number of bankruptcies, is currently involved in significant restructuring. Certain customers in this industry represent an increasing credit risk.

We are exposed to the impact of interest rate changes and fluctuating steel prices. We have not entered into any interest rate or steel commodity hedge transactions for speculative purposes or otherwise.

Our primary interest rate risk exposure results from variable rate debt. Given our current level of debt and our expected low levels of debt during the second quarter of 2006, we do not expect to have significant interest rate exposure from variable rate debt in the near future.

Inflation generally affects us by increasing the cost of employee wages and benefits, transportation services, processing equipment, purchased steel, energy and borrowings under our credit facility. General inflation has not had a material effect on our financial results during the past two years; however, we have experienced a significant increase in distribution expense as a result of higher fuel costs.

When raw material prices increase, competitive conditions will influence how much of the steel price increase can be passed on to our customers. When raw material prices decline, customer demands for lower costed product result in lower selling prices. Declining steel prices have generally adversely affected our net sales and net income, while increasing steel prices favorably affect net sales and net income.

#### **Item 4. *Controls and Procedures***

The evaluation required by Rule 13a-15 of the Securities Exchange Act of 1934 of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this Report have been carried out under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer. These disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in reports that are filed with or submitted to the SEC is: (i) accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures; and (ii) recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2006, our disclosure controls and procedures were effective.

There were no changes in our internal controls over financial reporting that occurred during the first quarter of 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **Part II. OTHER INFORMATION**

Items 1,2,3, 4 and 5 of this Part II are either inapplicable or are answered in the negative and are omitted pursuant to the instructions to Part II

### **Item 1A. Risk Factors**

Information regarding risk factors appears in Item 1A, Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2005 and in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Quarterly Report on Form 10-Q. Except for the item shown below, there have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2005.

#### **Sales to the automotive industry could adversely affect our sales, margins and profitability.**

Approximately 9% of our first quarter 2006 sales were to automotive manufacturers or manufacturers of automotive components and parts (“Automotive Customers”). Historically, due to the concentration of customers in this industry, our gross margins on these sales have generally been less than our margins on sales to customers in other industries. The continued difficulties faced by domestic Automotive Customers in the first quarter of 2006 has further challenged our margins on such sales. In addition, the precarious nature of the financial position of many domestic Automotive Customers has caused us to forego sales due to credit concerns. The loss of such sales contributed to the decrease in tons sold that we reported for the first quarter of 2006. We do not expect the problems faced by our domestic Automotive Customers to significantly improve in the second quarter of 2006. If we are unable to generate sufficient future cash flow on our sales to Automotive Customers, we may be required to record an impairment charge against the assets which are used to service those customers.

## Item 6. Exhibits

<u>Exhibit</u>	<u>Description of Document</u>	<u>Reference</u>
4.13	Amendment No. 11 to Amended and Restated Credit Agreement and Waiver dated April 26, 2006 by and among the Registrant, five banks and Comerica Bank, as Administrative Agent.	Incorporated by reference to Exhibit 4.13 to Registrant's Form 8-K filed with the Commission on April 28, 2005.
10.17 *	Form of Supplemental Executive Retirement Plan term sheet	Incorporated by reference to Exhibit 99.1 to Registrant's Form 8-K filed with the Commission on January 5, 2006.
10.20 *	Olympic Steel, Inc. Supplemental Executive Retirement Plan	Incorporated by reference to Exhibit 10.20 to Registrant's Form 8-K filed with the Commission on April 28, 2005.
31.1	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith
31.2	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith
32.1	Certification of the Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Furnished herewith
32.2	Certification of the Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Furnished herewith

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\* This exhibit is a management contract or compensatory plan or arrangement.

## SIGNATURES

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

**OLYMPIC STEEL, INC.**

(Registrant)

Date: May 9, 2006

By: \_\_\_\_\_

**Michael D. Siegal**

Chairman of the Board and Chief

Executive Officer

By: \_\_\_\_\_

**Richard T. Marabito**

Chief Financial Officer

(Principal Accounting Officer)

**Certification of the Principal Executive Officer**

**Pursuant to 15 U.S.C. 78m(a) or 78o(d)**

**(Section 302 of the Sarbanes-Oxley Act of 2002)**

I, Michael D. Siegal, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Olympic Steel, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially

affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: \_\_\_\_\_  
Michael D. Siegal  
Olympic Steel, Inc.  
Chairman and Chief Executive Officer  
May 9, 2006

## Exhibit 31.2

### Certification of the Principal Financial Officer

#### Pursuant to 15 U.S.C. 78m(a) or 78o(d)

#### (Section 302 of the Sarbanes-Oxley Act of 2002)

I, Richard T. Marabito, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Olympic Steel, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has

materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: \_\_\_\_\_

Richard T. Marabito  
Olympic Steel, Inc.  
Chief Financial Officer  
May 9, 2006

**Certification of the Principal Executive Officer**

**Pursuant to 18 U.S.C. 1350**

**(Section 906 of the Sarbanes-Oxley Act of 2002)**

I, Michael D. Siegal, the Chairman & Chief Executive Officer of Olympic Steel, Inc. (the "Company"), certify that to the best of my knowledge, based upon a review of this report on Form 10-Q for the period ended March 31, 2006 of the Company (the "Report"):

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: \_\_\_\_\_  
Michael D. Siegal  
Olympic Steel, Inc.  
Chairman & Chief Executive Officer  
May 9, 2006

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Report or as a separate disclosure document.

A signed original of this written statement required by Section 906 has been provided to Olympic Steel, Inc. and will be retained by Olympic Steel, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**Certification of the Principal Financial Officer**

**Pursuant to 18 U.S.C. 1350**

**(Section 906 of the Sarbanes-Oxley Act of 2002)**

I, Richard T. Marabito, the Chief Financial Officer of Olympic Steel, Inc. (the "Company"), certify that to the best of my knowledge, based upon a review of this report on Form 10-Q for the period ended March 31, 2006 of the Company (the "Report"):

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: \_\_\_\_\_  
Richard T. Marabito  
Olympic Steel, Inc.  
Chief Financial Officer  
May 9, 2006

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Report or as a separate disclosure document.

A signed original of this written statement required by Section 906 has been provided to Olympic Steel, Inc. and will be retained by Olympic Steel, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.