OLYMPIC STEEL INC
Form S-3
August 27, 2004

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As filed with the Securities and Exchange Commission on August 27, 2004
Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-3

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

OLYMPIC STEEL, INC.

(Exact name of registrant as specified in its charter)

Ohio **5051** **34-1245650** *(State or other jurisdiction of* *(Primary Standard Industrial* *(I.R.S. Employer incorporation or organization)* *Classification Code Number)* *Identification Number)*

5096 Richmond Road

Bedford Heights, Ohio 44146
(216) 292-3800

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

MICHAEL D. SIEGAL
Olympic Steel, Inc.
5096 Richmond Road
Bedford Heights, Ohio 44146
(216) 292-3800

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

MARC H. MORGENSTERN
Kahn Kleinman, LPA
1301 East Ninth Street, Suite 2600
Cleveland, Ohio 44114-1823
(216) 696-3311 **R. CABELL MORRIS, JR.**
Winston & Strawn LLP
35 West Wacker Drive
Chicago, Illinois 60601
(312) 558-5600

Approximate date of commencement of proposed sale to the public:

As soon as practicable after the effective date of this registration statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the Securities Act), other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

CALCULATION OF REGISTRATION FEE

Title of each Class of Securities to be Registered	Amount to be Registered (2)	Proposed Maximum Offering Price Per Share (3)	Proposed Maximum Aggregate Offering Price (3)	Amount of Registration Fee
Common Stock, without par value (1)	2,817,500	$24.125	$67,972,187	$8,612.08

(1) Includes associated rights to purchase common stock.

(2) Includes up to 367,500 shares which the underwriters have the option to purchase to cover over-allotments. See Underwriting.

(3) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(c) under the Securities Act.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to Section 8(a), may determine.

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SUBJECT TO COMPLETION, DATED , 2004

PROSPECTUS

2,450,000 Shares

Olympic Steel, Inc.

Common Stock

$ per share

We are selling 2,250,000 shares of our common stock and the selling shareholders named in this prospectus are selling 200,000 shares. We will not receive any proceeds from the sale of the shares by the selling shareholders. We and the selling shareholders have granted the underwriters an option to purchase up to 367,500 additional shares of common stock to cover over-allotments.

Our common stock is quoted on the Nasdaq National Market under the symbol ZEUS. The last reported sale price of our common stock on the Nasdaq National Market on , 2004, was $ per share.

Investing in our common stock involves risks. See Risk Factors beginning on page 7.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public Offering Price	$	$
Underwriting Discount	$	$
Proceeds to Olympic Steel (before expenses)	$	$
Proceeds to the selling shareholders (before expenses)	$	$

The underwriters expect to deliver the shares to purchasers on or about , 2004.

Citigroup

KeyBanc Capital Markets

Jefferies & Company, Inc.

, 2004

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Mission Statement

Achieve Profitable Growth by Safely Providing Quality

Business Solutions to Users of Flat-Rolled Steel.

Core Values

Olympic Steel commits to these core values to guide its decisions and behaviors

ACCOUNTABILITY	We accept responsibility for achieving targeted goals and objectives.
CORPORATE CITIZENSHIP	We value the communities where our employees live and work. We recognize the importance of family and strive to balance our work and personal priorities.
CUSTOMER SATISFACTION	We take great pride in exceeding our customers expectations. We build enduring relationships by anticipating, understanding and fulfilling our customers needs.
EMPLOYEE DEVELOPMENT	We support personal growth and continuous learning whether in the classroom or through on-the-job training. We encourage employees to accept new challenges and to demonstrate individual initiative. We are committed to providing performance feedback and coaching in order to bring out the best in our employees.
FINANCIAL STABILITY	We are committed to maintaining economic strength and long term viability for the benefit of our employees and shareholders.
INTEGRITY	We are honest and ethical in all our business dealings, starting with how we treat each other. Our personal conduct ensures that Olympic Steel s name is always worthy of trust.
QUALITY	We are committed to identifying and eliminating the sources of error and waste in our processes. We believe that quality excellence is pivotal to our success.
RESPECT	We treat each other with honor and dignity, while valuing individual and cultural differences. We communicate frequently and effectively while listening to each other regardless of position.
SAFETY	We are committed to providing a safe work environment and promoting employee health and well being through continuous education.
TEAMWORK	We value and reward both individual and team achievements. We encourage employees to cross organizational boundaries in order to advance the interest of customers and shareholders.

You should rely only on the information contained in or incorporated by reference in this prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front of this prospectus.

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SUMMARY

This summary highlights information contained elsewhere or incorporated by reference in this prospectus. Accordingly, it does not contain all of the information that may be important to you. You should read this entire prospectus carefully, including the information under Risk Factors and the consolidated financial statements and the notes thereto included elsewhere in this prospectus before making an investment decision. Unless the context otherwise requires, references to we, us or our refer collectively to Olympic Steel, Inc. and its subsidiaries. Unless otherwise stated, all information contained in this prospectus assumes no exercise of the over-allotment option granted to the underwriters.

The Company

We are a leading U.S. steel service center with 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 steel products. We operate as an intermediary between steel producers and manufacturers that require processed steel for their operations. We provide services and functions that form an integral component of our customers supply chain management, reducing inventory levels and increasing efficiency, thereby lowering their overall cost of production. Our processing services include both traditional service center processes of cutting-to-length, slitting, and shearing and higher value-added processes of blanking, tempering, plate burning, laser welding, and precision machining of steel parts.

We operate 12 strategically-located processing and distribution facilities in Connecticut, Georgia, Illinois, Iowa, Michigan, Minnesota, Ohio, and Pennsylvania. We also participate in two joint ventures in Michigan that primarily service the automotive market in the Detroit area. This broad geographic footprint allows us to focus on regional customers and larger national and multi-location accounts, primarily located throughout the midwestern, eastern and southern United States.

Over the past several years, we have focused on a disciplined business strategy of improving our operating performance and financial strength. In order to position us for continued profitable growth, we reduced our annual operating expenses, improved our working capital efficiency (through improved inventory turns and accounts receivables collection), and reduced our total headcount. From December 31, 2002 to June 30, 2004, we increased our inventory by $30.7 million and our accounts receivable by $48.7 million, while at the same time reducing our total indebtedness by $16.4 million. We believe that our success in these initiatives provides us with increased financial and operating flexibility and puts us in a strong position to continue to profitably grow our business.

In addition, we have made significant investments in our business through acquisitions, joint ventures, greenfield operations and other capital expenditures. We believe that this strategic, long-term investment strategy, together with our improved inventory management practices and cost structure, will allow us to expand sales and capture additional market share without material increases in capital expenditures in the near term.

We believe that our recent strategic initiatives have enabled us to capitalize on increased industrial demand, particularly in the current high steel pricing environment. In 2003, we sold approximately 1.2 million tons of steel, generating net sales of $472.5 million. In the first six months of 2004, we sold 729 thousand tons, an increase of 33% over the 548 thousand tons sold in the prior year period. Net sales in the first half of 2004 totaled $409.8 million, an increase of 80% over the net sales of $228.3 million in the 2003 comparable period. This improvement in volume and sales, together with our improved cost structure, resulted in net income of $29.3 million for the first six months of 2004, an increase of over $30 million from the prior year period.

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The Industry

The steel industry is comprised of three types of entities: steel producers, intermediate steel processors and steel service centers. Services provided by steel service centers can range from storage and distribution of unprocessed metal products to complex, precision value-added steel processing. Steel service centers respond directly to customer needs and emphasize value-added processing of steel pursuant to specific customer demands, such as cutting-to-length, slitting, shearing, roll forming, shape correction and surface improvement, blanking, tempering, plate burning and stamping. These processes produce steel to specified lengths, widths, shapes and surface characteristics through the use of specialized equipment. Steel service centers typically have lower cost structures than, and provide services and value-added processing not otherwise available from, steel producers.

Carbon steel production in the United States has consolidated significantly over the last several years, with the three largest producers now accounting for a majority of the total domestic raw steel output. Despite this trend, the steel service center industry has remained fragmented, consisting of numerous small and mid-sized companies, as well as a few larger publicly-traded companies. According to the Metals Service Center Institute (MSCI), there are over 5,000 steel service center locations in the United States.

We believe this consolidation of steel producers should increase the importance of well-capitalized service centers in the supply chain, as steel producers focus on minimizing credit risk by establishing closer relationships with service centers that support the higher financial commitments associated with financing inventories in a high steel price environment. We believe this trend will result in a greater concentration of market share among the larger, well-capitalized service centers. This expected concentration may result from organic market share growth or through consolidation. We also believe that the movement towards higher market share concentration is being supported by the desire of many customers to work directly with service centers that have a demonstrated operating history and reliable access to steel.

Our Competitive Strengths

We believe that, since our founding in 1954, we have become a recognized leader in the U.S. steel service center industry by focusing on our core values of accountability, corporate citizenship, customer satisfaction, employee development, financial stability, integrity, quality, respect, safety and teamwork. Our leadership position and commitment to our shareholders, customers, employees and suppliers have resulted in our having the following competitive strengths:

Leading Market Position. We believe that we are a leader in the processing and distribution of flat-rolled steel in the United States. Our size and scale in a highly fragmented industry helps us to obtain and maintain the inventory levels necessary to respond to our customers steel needs, often on a just-in-time delivery basis. Our broad geographic footprint allows us to serve some of the most important manufacturing regions in the United States, reducing shipping costs and enhancing timely delivery to our customers. We believe that our significant market position provides us with purchasing economies of scale, allowing us to acquire supplies of flat-rolled steel at favorable prices. In addition, we believe we are well-positioned to take advantage of current market conditions and pursue continued sales and share growth. Our tonnage sales volume for the six month period ended June 30, 2004 increased 33% from the 2003 comparable period, while, according to MCSI statistics, overall industry volume increased only 18%.

Operating Excellence and Financial Strength. During the past several years of the U.S. manufacturing industry s downturn, we have been successful in improving our cost structure, which has resulted in improved operating margins and has well-positioned us for the cyclical recovery. In particular, our focus on inventory management and financial discipline has resulted in a significant improvement in our cash management cycle, while at the same time ensuring adequate supplies to provide timely delivery of finished products to our customers. From December 31, 2002 to June 30, 2004, we increased our inventory by $30.7 million and accounts receivables by $48.7 million, while at the same time reducing our total indebtedness by $16.4 million. These initiatives have helped improve our working capital efficiency, enhanced our overall profitability, and strengthened our balance sheet. In August 2004, we increased our revolving credit facility by $20 million, to an aggregate $110 million. We believe that our financial strength and access to additional capital makes us a preferred customer for our suppliers, as they seek reduced credit risk, and a preferred supplier for our customers, as we are able to leverage our balance sheet for their benefit.

Experienced, Committed Management Team and Workforce. Our business is managed by an experienced team of executive officers, led by Michael Siegal, our Chairman and Chief Executive Officer and David Wolfort, our President and Chief Operating Officer, who each have over 30 years of experience in the steel industry and are our largest individual shareholders. The extensive experience of our management team, which includes leadership positions at a number of industry organizations, has resulted in close, long-standing relationships with our customers and suppliers. Our management team also has significant experience in the implementation of internal and external growth initiatives, including both acquisitions and development of greenfield operations. We believe that our management team s experience and key relationships position us well to identify, evaluate and pursue new opportunities for growth. In addition, we have developed and trained a highly skilled workforce, which is incentivized to help us deliver earnings growth and value to our shareholders through interest-aligning initiatives such as our incentive compensation and gain-sharing plans.

Superior Customer and Supplier Relationships. We believe that we have earned a reputation for providing high quality products and superior customer service. The regular interaction between our large field sales force and our customers allows us to better judge their supply chain requirements, and help provide value-added products and services that enhance our customers financial returns. We are also among the largest purchasers of flat-rolled steel in the United States and have well-established relationships with the largest U.S. steel producers and many international steel producers. This provides us with multiple sources for steel products and allows us to purchase steel efficiently and cost-effectively. Our close relationships, long operating history and demonstrated credibility throughout all market conditions, have helped us maintain ample access to steel in an environment where supply has become constrained. Our close customer and supplier relationships, fostered by the active involvement of our senior management team, also allow us to anticipate macro steel supply and pricing trends on a global basis, which we believe results in superior purchasing and inventory decisions.

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Our Strategy

Our overall corporate mission is to achieve profitable growth by safely providing quality business solutions to users of flat-rolled steel. We intend to achieve this growth through operational excellence by continuing to focus on a long-term, disciplined business strategy, allowing us to further enhance our leadership position in the steel distribution and processing industry and deliver increased value to our shareholders.

Focus on Profitable Growth. We continually evaluate alternatives to drive increased growth and profitability. Our primary approach is to increase our sales and market share using our existing capacity, which is facilitated by our previous investments in equipment and infrastructure. We may also pursue potential acquisitions that complement our existing operations or that allow us to deliver more value-added services, and new greenfield operations or business partnerships that complement our existing facilities and services. We evaluate growth opportunities through a disciplined, analytical approach focused on earnings accretion.

Grow Market Share in a Dynamic Steel Market. We believe that industrial economic conditions are improving and that demand for the products manufactured by some of our key customers continues to be robust. This increased end-market demand will help drive increased sales of our products and, with the actions we have proactively taken to improve our cost structure, will further enhance our earnings growth. In addition, we believe we can further increase our sales through our ability to help our customers as they seek to improve their supply chain management by outsourcing processing functions that we can perform more efficiently and cost-effectively, and can support through our increased financial strength. With the overall fragmentation of the steel service center industry and the consolidation among steel producers, suppliers continue to look for select, long-term relationships with service centers that both enjoy access to large end-user customers and can demonstrate the ability to meet increasingly higher required financial commitments.

Maintain Disciplined Cost Control Approach. We will continue to focus on operating efficiency and look to maintain the benefits of our cost control initiatives as we grow our business. We will also continue to develop, train and invest in our employees. We believe that our well-trained and incentivized workforce constitutes a significant advantage for us, improving sales and helping us pursue our long-term objectives for profitable growth. We believe that we can effectively increase our sales without significantly increasing head count or incurring any material incremental capital investment, leveraging the significant investments we have made in our workforce and assets. In addition, our management team is continually evaluating our purchasing and operating processes to identify additional areas where we can control expenses and maintain or improve our ability to provide timely delivery of high-quality products to our customers.

Seek Continuous Improvement to Customer Service. We will continue to focus our efforts on maintaining and improving our close, long-standing relationships with our customers. We believe that our ability to identify and provide new supply chain solutions for our customers, including value-added services and processes, allows our customers to operate more efficiently and generate higher returns. Our large field sales force, supported by the active involvement and participation by senior management, will continue to implement our customer-driven marketing strategy as we also seek to expand and create new relationships.

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Corporate Information

We are incorporated under the laws of the State of Ohio. Our executive offices are located at 5096 Richmond Road, Bedford Heights, Ohio 44146. Our telephone number is (216) 292-3800, and our website address is www.olysteel.com.

The Offering

Common stock being offered by us	2,250,000 shares
Common stock being offered by the selling shareholders	200,000 shares
Total	2,450,000 shares
Common stock to be outstanding after this offering	12,113,825 shares (1)
Use of proceeds	We will use the net proceeds to repay a portion of our outstanding bank indebtedness and for other general corporate purposes. We will not receive any proceeds from the sale of shares by the selling shareholders. See Use of Proceeds.
Nasdaq National Market symbol	ZEUS

(1) Excludes (i) an aggregate of 1,047,797 shares of common stock reserved for issuance under our Stock Option Plan, of which 1,044,629 shares were subject to outstanding options as of July 31, 2004 at a weighted average exercise price of $6.03 per share, and (ii) an aggregate of 1,000,000 shares of common stock reserved for issuance during 2004 under our Section 423 Employee Stock Purchase Plan.

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Summary Consolidated Financial Data

The summary consolidated financial data presented below for each of the five years in the period ended December 31, 2003 have been derived from our consolidated audited financial statements. Periods ended December 31, 2000, 2001, 2002 and 2003 have been audited by PricewaterhouseCoopers LLP. The period ended December 31, 1999 was audited by Arthur Andersen LLP. The six-month periods ended June 30, 2003 and 2004 were derived from our unaudited consolidated financial statements. The unaudited financial statements were prepared on the same basis as the audited consolidated financial statements and include all adjustments, consisting only of normal recurring adjustments, necessary to present fairly our results of operations and financial condition as of the period presented. The results of operations for interim periods are not necessarily indicative of operating results for future periods. The data presented should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, and the consolidated financial statements and the notes thereto included elsewhere in this prospectus.

	Year Ended December 31,					Six Months Ended June 30,	
	1999	2000	2001	2002	2003	2003	2004
	(in thousands, except per share data)						
Tons Sold Data:							
Direct	1,033	1,008	936	1,004	996	463	623
Toll(a)	207	165	131	154	185	84	106
Total	1,240	1,173	1,067	1,158	1,181	548	729
Income Statement Data:							
Net sales	$509,882	$505,522	$404,803	$459,384	$472,548	$228,281	$409,806
Gross profit	129,667	113,153	102,740	109,776	99,856	47,864	124,013
Operating income (loss)	13,150	(701)	2,871	5,838	166	525	50,582
Income (loss) from joint ventures	(1,032)	(1,425)	(160)	606	(1,012)	(10)	172
Interest and other financing expenses	6,734	9,347	7,733	8,071	4,155	2,129	2,445

Income (loss) from continuing operations before income taxes and cumulative effect of a change in accounting principle	5,384	(11,473)	(5,022)	(1,627)	(5,001)	(1,614)	48,309
Net income (loss)	3,159	(8,721)	(3,648)	(5,759)	(3,260)	(1,033)	29,347
Earnings Per Share Data:							
Basic(b)	$0.30	$(0.90)	$(0.38)	$(0.60)	$(0.34)	$(0.11)	$3.01
Diluted	0.30	(0.90)	(0.38)	(0.60)	(0.34)	(0.11)	2.90
Weighted average shares basic	10,452	9,677	9,588	9,637	9,646	9,644	9,734
Weighted average shares diluted	10,452	9,677	9,588	9,637	9,646	9,644	10,108
Other Data:							
Capital expenditures	$12,574	$5,451	$2,635	$1,490	$836	$237	$1,065
Depreciation and amortization	7,852	9,222	10,084	13,852	9,060	4,584	4,910
Balance Sheet Data (end of period)(c):							
Current assets(d)	$137,513	$103,837	$117,240	$162,686	$155,794	$154,006	$237,536
Current liabilities	36,248	32,672	32,455	43,962	42,574	33,480	89,505
Working capital(d)	101,265	71,165	84,785	118,724	113,220	120,526	148,031
Total assets(d)	267,007	224,929	235,386	262,911	249,002	249,826	327,358
Total debt(d)	93,426	68,009	84,499	106,793	97,797	102,567	90,387
Shareholders equity	136,820	124,920	121,243	115,495	112,236	114,465	143,106

(a) Net sales generated from toll tons sold represented less than 3% of consolidated net sales for all years presented.

(b) Calculated by dividing net income (loss) by weighted average shares outstanding. There was no dilution for any periods presented prior to the six months ended June 30, 2004.

(c) See Capitalization for unaudited pro forma balance sheet data assuming that consummation of this offering and application of the estimated proceeds therefrom to reduce indebtedness had occurred on June 30, 2004.

(d) 2000 and 1999 reflect the sale of $48,000 and $52,000, respectively, of accounts receivable under our former accounts receivable securitization program which was terminated in June 2001.

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RISK FACTORS

Investing in our common stock involves certain risks. Prior to making a decision about investing in our common stock, you should carefully consider the following risks and uncertainties and all other information contained in this prospectus or incorporated herein by reference. Any of the following risks, should they materialize, could adversely affect our business, financial condition or operating results. As a result, the trading price of our common stock could decline and you could lose all or part of your investment.

Volatile steel prices can cause significant fluctuations in our operating results. Our sales and operating income could decrease if we are unable to pass cost increases on to our customers.

Our principal raw material is flat-rolled carbon, coated and stainless steel that we typically purchase from multiple primary steel producers. The steel industry as a whole is cyclical and at times pricing and availability of steel can be volatile due to numerous factors beyond our control, including general domestic and international economic conditions, labor costs, sales levels, competition, import duties and tariffs and currency exchange rates. This volatility can significantly affect the availability and cost of raw materials for us.

We, like many other steel service centers, maintain substantial inventories of steel to accommodate the short lead times and just-in-time delivery requirements of our customers. Accordingly, we purchase steel in an effort to maintain our inventory at levels that we believe to be appropriate to satisfy the anticipated needs of our customers based upon historic buying practices, contracts with customers and market conditions. Our commitments to purchase steel are generally at prevailing market prices in effect at the time we place our orders. We have no long-term, fixed-price steel purchase contracts. When steel prices increase, competitive conditions will influence how much of the price increase we can pass on to our customers. When steel prices decline, customer demands for lower prices and our competitors responses to those demands could result in lower sale prices and, consequently, lower margins as we use existing steel inventory. Changing steel prices therefore could significantly impact our net sales, gross margins, operating income and net income.

Since the beginning of 2004, steel producers have been significantly impacted by a shortage of raw materials, rising raw material prices, increased product demand, producer consolidation and longer lead time requirements. These conditions have resulted in unprecedented cost increases. As a result, domestic steel producers have implemented price increases and raw material surcharges to offset these costs. During the first half of 2004, we were generally able to pass these increased prices and surcharges on to our customers. However, in the future it may be more difficult to pass on material price increases. If we are unable to do so, our operating income and profitability could decrease.

An interruption in the sources of our steel supply could have a material adverse effect on our results of operations.

Following a period of industry consolidation, three entities account for a majority of domestic steel production. During 2003 and the first half of 2004, we purchased approximately 54.5% and 53.4%, respectively, of our total steel tonnage from these suppliers. We have no long-term supply contracts. If, in the future, we are unable to obtain sufficient amounts of steel on a timely basis, we may not be able to obtain steel from alternative sources at competitive prices. In addition, interruptions or reductions in our supply of steel could make it difficult to satisfy our customers just-in-time delivery requirements, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our business may be affected by the cyclicality of the industries that purchase our products. Reduced demand from one or more of these industries could result in lower operating income and profitability.

We sell our products to customers in a variety of industries, including capital equipment manufacturers for industrial, agricultural and construction use, the automotive industry, and manufacturers of fabricated metal products. Our largest category of customers is other steel service centers, which resell the products to manufacturers. Numerous factors, such as general economic conditions, consumer confidence, significant

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business interruptions, labor shortages or work stoppages and other factors beyond our control, may cause significant demand fluctuations from one or more of these industries. Periods of economic slowdown or recession in the United States, downturns in demand, or a decrease in the prices that we can realize from sales of our products to customers in any of these industries, could result in lower operating income and profitability.

Approximately 14% of our net sales in 2003 and 11% of our net sales in the first half of 2004 were directly to automotive manufacturers or manufacturers of automotive components and parts. Due to the concentration of customers in this industry, our gross margins on these sales are generally less than our margins on sales to customers in other industries. Further pressure by the automotive manufacturers to reduce their costs could result in even lower margins.

Our success is dependent upon our relationships and contracts with certain key customers.

We have derived and expect to continue to derive a significant portion of our revenues from a relatively limited number of customers. Our top three customers accounted for approximately 14% of our revenues in both 2003 and the first six months of 2004. The loss of any one of our major customers could have a material adverse effect on our business, financial condition or results of operations.

Customer credit restraints and credit losses could have a material adverse effect on our results of operations.

In the current climate of escalating steel prices, increased sales volume and consolidation among capital providers to the steel industry, the ability of our customers to maintain credit availability has become more challenging. Many customers have reduced their purchases because of these credit restraints. Moreover, our disciplined credit policies have, in some instances, resulted in lost sales. Were we to lose sales or customers due to these actions, or if we have misjudged our credit estimations and they result in future credit losses, there could be a material adverse affect on our results of operations.

If we fail to renegotiate our collective bargaining agreements or if we experience work stoppages, our financial condition could be harmed.

We have four collective bargaining agreements covering approximately 205 employees at our Minneapolis and Detroit facilities. The collective bargaining agreement covering hourly plant employees at our Detroit facility expired on June 30, 2004 and is currently being renegotiated. A collective bargaining agreement for employees at our Minneapolis coil facility expires on September 30, 2005, whereas agreements covering other Detroit and Minneapolis employees expire in 2006 and subsequent years. From time to time, union organizing efforts have occurred at our other locations, including current activities at our Iowa facility. While we have never experienced a work stoppage by our personnel, any prolonged disruption in business arising from work stoppages by personnel represented by collective bargaining units could have a material adverse effect on our results of operations.

Risks associated with our growth strategy may adversely impact our ability to sustain our growth and our stock price may decline.

Historically, we have grown internally by increasing sales and services to our existing customers, aggressively pursuing new customers and services, building new facilities, and acquiring and upgrading processing equipment in order to expand the range of value-added services we offer. In addition, we have grown through external expansion by the acquisition of other steel service centers and related businesses. We intend to continue to actively pursue our growth strategy in the future.

The future expansion of an existing facility or construction of a new facility could have adverse effects on our results of operations due to the impact of the start-up costs and the potential for underutilization in the start-up phase of a facility. Acquisitions may result in unforeseen difficulties and the integration of acquisitions may divert management time and attention from day-to-day operations. In addition, we may not be able to identify appropriate acquisition candidates, consummate acquisitions on satisfactory terms, or integrate these acquired businesses effectively and profitably into our existing operations.

In order to achieve growth through acquisitions, expansion of current facilities, greenfield construction or otherwise, we may need to make significant expenditures and may need additional capital to do so. Our ability to grow is dependent upon, and may be limited by, among other things, availability of financing arrangements. Additional funding sources may be needed, and we may not be able to obtain the additional capital necessary to pursue our growth strategy on terms which are satisfactory to us or at all. Moreover, the issuance of capital stock to effect acquisitions could result in dilution to our shareholders. If we cannot secure additional capital to support our anticipated growth, our business and results of operations could be adversely affected.

We depend on our senior management team and the loss of any member could prevent us from implementing our business strategy.

Our success is dependent on the management and leadership skills of our senior management team. We have an employment agreement with our President and Chief Operating Officer that expires on December 31, 2005, and agreements with our Chairman and Chief Executive Officer and our Chief Financial Officer that expire on December 31, 2006. The loss of any members of our senior management team or the failure to attract and retain additional qualified personnel could prevent us from implementing our business strategy and continuing to grow our business at a rate necessary to maintain future profitability.

The failure of our key computer-based systems could have a material adverse effect on our business.

We currently maintain three separate computer-based systems in the operation of our business and we depend on these systems to a significant degree, particularly for inventory management. The destruction or failure of any one of our computer-based systems for any significant period of time could materially adversely affect our business, financial condition and results of operations and cash flows.

Our business is highly competitive, and increased competition could reduce our market share and harm our financial performance.

Our business is highly competitive. We compete with other steel service centers and, to a certain degree, steel producers and intermediate steel processors on a regional basis, primarily on quality, price, inventory availability and the ability to meet the delivery schedules of our customers. We have different competitors for each of our products and within each region. Certain of these competitors have financial and operating resources in excess of ours. Increased competition could lower our margins or reduce our market share and have a material adverse effect on our financial performance.

We expect to finance our future growth through borrowings under our bank credit facility. Increased leverage could adversely impact our business and results of operations.

In light of increased sales volume and rising steel prices, and our expectation of even higher steel prices in the near-term, we will require significant working capital to support our operations and anticipated growth. We expect to finance our higher working capital needs through borrowings under our bank credit facility.

After giving effect to the contemplated repayment of a portion of our existing bank debt with the proceeds from this offering, the revolver portion of our bank credit facility will permit borrowings of up to $ million. If we incur additional debt under our credit facility or otherwise, our leverage will increase as will the risks associated with such leverage. A high degree of leverage could have important consequences to us. For example, it could:

increase our vulnerability to adverse economic and industry conditions;

require us to dedicate a substantial portion of cash from operations to the payment of debt service thereby reducing the availability of cash to fund working capital, capital expenditures and other general corporate purposes;

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- limit our ability to obtain additional financing for working capital, capital expenditures, general corporate purposes or acquisitions;
- place us at a disadvantage compared to our competitors that are less leveraged; and
- limit our flexibility in planning for, or reacting to, changes in our business and in the steel industry.

Variable rate borrowings under our bank credit facility could cause our annual interest expense to increase significantly.

A significant portion of our debt is subject to variable interest rates. As such, any substantial increase in interest rates could negatively affect our financial results. Based on our total variable debt balances as of June 30, 2004, a 100 basis point increase in interest rates would increase our annual interest expense by approximately $850,000.

The market price for our common stock may be volatile.

In recent periods, there has been volatility in the market price for our common stock. Furthermore, the market price of our common stock could fluctuate substantially in the future in response to a number of factors, including the following:

- our quarterly operating results or the operating results of other steel service centers;
- changes in general conditions in the economy, the financial markets, or the steel industry;
- changes in financial estimates or recommendations by stock market analysts regarding us or our competitors;
- announcements by us or our competitors of significant acquisitions; and
- increases in the costs of raw materials or other costs.

In addition, in recent years the stock market has experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market prices of securities issued by many companies for reasons unrelated to their operating performance. These broad market fluctuations may materially adversely affect our stock price, regardless of our operating results.

Future sales of our common stock could depress our market price and diminish the value of your investment.

Future sales of shares of our common stock could adversely affect the prevailing market price of our common stock. If our shareholders sell a large number of shares, or if we issue a large number of shares, the market price of our common stock could significantly decline. Moreover, the perception in the public market that shareholders might sell shares of common stock could depress the market for our common stock. Although we and our directors and executive officers have entered into lock-up agreements, whereby we and they will not offer, sell, contract to sell, pledge, grant or otherwise dispose of, directly or indirectly, any shares of common stock or securities convertible into or exchangeable or exercisable for shares of our common stock, except for the shares of common stock to be sold in this offering and certain other exceptions, for a period of 90 days from the date of this prospectus, we or any of these persons may be released from this obligation, in whole or in part, by the representative of the underwriters at any time with or without notice.

Our principal shareholders have the ability to exert significant control in matters requiring a shareholder vote and could delay, deter or prevent a change of control in our company.

Upon consummation of this offering, approximately 17.7% of our outstanding common stock will be owned by Michael D. Siegal, our Chairman of the Board and Chief Executive Officer, and David A. Wolfort, our President and Chief Operating Officer. As a result, Messrs. Siegal and Wolfort will continue to have significant influence over all actions requiring shareholder approval, including the election of our Board of

Directors. Through their concentration of voting power, our principal shareholders may be able to delay, deter or prevent a change in control of our company or other business combinations that might otherwise be beneficial to our other shareholders. In deciding how to vote on such matters, these individuals may be influenced by interests that conflict with yours.

Certain provisions of our charter documents and Ohio law could discourage potential acquisition proposals and could deter, delay or prevent a change in control of our company that our shareholders consider favorable and could depress the market value of our common stock.

Under our charter, our Board of Directors is authorized to issue, from time to time, without any further action on the part of our shareholders, up to 2,500,000 shares of voting preferred stock, without par value, and up to 2,500,000 shares of non-voting preferred stock, without par value, each in one or more series, with such relative rights, powers, preferences and conversion rights as are determined by our Board of Directors at the time of issuance. The issuance of shares of preferred stock could adversely affect our holders of shares of common stock. In addition, certain statutory provisions of the Ohio General Corporation law and our charter documents may have the effect of deterring hostile takeovers or delaying or preventing changes in control or management of the Company, including transactions in which our shareholders might otherwise receive a premium