OLYMPIC STEEL INC
Form 10-K
February 27, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For The Year Ended December 31, 2013

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

For The Transition Period From _______________ To _______________

Commission File Number 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)
22901 Millcreek Boulevard, Suite 650, Highland Hills, OH (Address of principal executive offices)	44122 (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class	Name of each Exchange on which registered
Common Stock, without par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ( ) No (X)

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ( ) No (X)

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 (X) No ( )

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes (X) No ( )

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. (X)

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one:)

Large accelerated filer ( )	Accelerated filer (X)
Non-accelerated filed ( ) (Do not check if a smaller reporting company)	Small reporting company ( )

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

As of June 28, 2013, the aggregate market value of voting stock held by nonaffiliates of the registrant based on the closing price at which such stock was sold on the Nasdaq Global Select Market on such date approximated $222,115,114.

The number of shares of common stock outstanding as of February 27, 2014 was 10,965,459.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant intends to file with the Securities and Exchange Commission a definitive Proxy Statement pursuant to Regulation 14A of the Securities Exchange Act of 1934 within 120 days of the close of its fiscal year ended December 31, 2013, portions of which document shall be deemed to be incorporated by reference in Part III of this Annual Report on Form 10-K from the date such document is filed.

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PART I

ITEM 1. BUSINESS

The Company

We are a leading metals service center that operates in two reportable segments; flat products and tubular and pipe products. We provide metals processing and distribution services for a wide range of customers. Our primary flat products focus is on the direct sale and distribution of large volumes of processed carbon, coated, aluminum and stainless flat-rolled sheet, coil and plate products. We sometimes refer to stainless and aluminum as specialty metals. Commencing with the July 1, 2011 acquisition of Chicago Tube and Iron Company, or CTI, we distribute metal tubing, pipe, bar, valves and fittings and fabricate pressure parts supplied to various industrial markets. Products that require more value-added processing generally have a higher gross profit. In addition, tubular and pipe products segment gross profits are generally higher than our traditional flat products segment gross profits. Accordingly, our overall gross profit is affected by, among other things, product mix, the amount of processing performed, the demand for and availability of metals, and volatility in selling prices and material purchase costs. We also perform toll processing of customer-owned metals. We sell certain products internationally, primarily in North, Central and South America. International sales are immaterial to our consolidated financial results and to the individual segments' results.

Segment reporting information is contained in Note 17 of Notes to Consolidated Financial Statements, which can be found in Part II, Item 8 of this Annual Report on Form 10-K and which is incorporated herein by reference.

We are incorporated under the laws of the State of Ohio. Our executive offices are located at 22901 Millcreek Boulevard, Suite 650, Highland Hills, Ohio 44122. Our telephone number is (216) 292-3800, and our website address is www.olysteel.com. We are not including the information on our website as a part of, or incorporating it by reference into, this Annual Report on Form 10-K.

Industry Overview

The metals industry is comprised of three types of entities: metals producers, intermediate metals processors and metals service centers. Metals producers have historically emphasized the sale of metals to volume purchasers and have generally viewed intermediate metals processors and metals service centers as part of their customer base. However, all three types of entities can compete for certain customers who purchase large quantities of metals. Intermediate metals processors tend to serve as processors in large quantities for metals producers and major industrial consumers of processed metals, including automobile and appliance manufacturers.

Services provided by metals service centers can range from storage and distribution of unprocessed metal products to complex, precision value-added metals processing. Metals service centers respond directly to customer needs and emphasize value-added processing of metals 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 metals to specified lengths, widths, shapes and surface characteristics through the use of specialized equipment. Metals service centers typically have lower cost structures than, and provide services and value-added processing not otherwise available from, metals producers.

End product manufacturers and other metals users seek to purchase metals on shorter lead times and with more frequent and reliable deliveries than can normally be provided by metals producers. Metals service centers generally have lower labor costs than metals producers and consequently process metals on a more cost-effective basis. In addition, due to this lower cost structure, metals service centers are able to handle orders in quantities smaller than would be economical for metals producers. The benefits to customers purchasing products from metals service centers include lower inventory levels, lower overall cost of raw materials, more timely response and decreased manufacturing time and expense. Customers also benefit from a lower investment in buildings and equipment, which allows them to focus on the engineering, assembly and marketing of their products. We believe that customers' demands for just-in-time delivery have made the value-added inventory, processing and delivery functions performed by metals service centers increasingly important.

Corporate History

Our company was founded in 1954 by the Siegal family as a general steel service center. Michael Siegal, the son of one of the founders, began his career with us in the early 1970s and has served as our Chief Executive Officer since 1984, and as our Chairman of the Board of Directors since 1994. David Wolfort, our President and Chief Operating Officer, joined us as General Manager in 1984. In the late 1980s, our business strategy changed from a focus on warehousing and distributing steel from a single facility with no major processing equipment to a focus on growth, geographic and customer diversity and value-added processing. An integral part of our growth has been the acquisition and start-up of processing and sales operations, and the investment in processing equipment. In 1994, we completed an initial public offering and, in 1996, we completed a follow-on offering of our common stock. In July 2011, we acquired CTI, a private leading distributor of tubing, pipe, bar, valves, and fittings, which represents our tubular and pipe products segment.

Business Strategy and Objectives

We believe that the metals service center and processing industry is driven by four primary trends: (i) return of domestic manufacturing processes by North American original equipment manufacturers; (ii) shift by customers to fewer suppliers that are larger and financially strong; (iii) increased customer demand for more frequent, higher quality products and services; and (iv) consolidation and globalization of metals industry participants.

In recognition of these industry trends, our focus has been on achieving profitable geographic and product growth through the start-up and acquisition of service centers, processors, fabricators and related businesses, and investments in people, information systems, higher value-added processing equipment and services, while continuing our commitment to expanding and improving our operating efficiencies, sales and servicing efforts.

We are focusing on operational excellence initiatives in order to transform the order-to-delivery process by improving three key sub-systems:

Operating system: Focused on continuously improving processes through waste and variation elimination using Lean Six Sigma tools.

Cultural system: Focused on creating the environment to facilitate change and improve the way we work and create value.

Management system: Focused on creating the measurements and governance structure to support continuous improvement.

In addition, we are focused on specific operating objectives including: (i) investing in automation and value-added processing equipment; (ii) managing inventory turnover; (iii) maintaining targeted cash turnover rates; (iv) investing in technology and business information systems; (v) improving safety awareness; and (vi) improving on-time delivery and quality performance for our customers.

These operating objectives are supported by:

- A set of core values, which are communicated, practiced and measured throughout the Company.
- Our "flawless execution" program (Fe), which is an internal program that empowers employees to achieve profitable growth by delivering superior customer service and exceeding customer expectations and recognizes them for their efforts.
- On-going business process enhancements and redesigns to improve efficiencies and reduce costs.
- New systems and key metric reporting to focus managers on achieving specific operating objectives.
- Alignment of compensation with the financial objectives and performance of the Company and the achievement of specific financial and operating objectives.

We believe our depth of management, facilities, locations, processing capabilities, inventory, focus on safety, quality and customer service, extensive and experienced sales force, and the strength of our customer and supplier relationships provide a strong foundation for implementation of our strategy and achievement of our objectives. Certain elements of our strategy are set forth in more detail below.

Investments and Acquisitions. We have invested in processing and automation equipment to support customer demand and to respond to the growing trend among original equipment manufacturers (our customers) to outsource non-core production processes, such as plate processing, machining, welding and fabrication, in order to concentrate on engineering, design and assembly. When the results of sales and marketing efforts and our financial justifications indicate that there is sufficient customer demand for a particular product, process or service, we may purchase equipment to satisfy that demand. We also evaluate our existing equipment to ensure that it remains productive, and we upgrade, replace, redeploy or dispose of equipment when necessary.

Investments in automated laser cutters, welding lines, paint lines, precision machining equipment, blanking lines, shot blasters, plate processing equipment and customized temper mills with heavy gauge cut-to-length capabilities have allowed us to further increase our higher value-added processing services.

On July 1, 2011, we acquired all of the outstanding common shares of CTI. CTI is our tubular and pipe products segment. CTI stocks, processes and fabricates metal tubing, pipe, bar, valves and fittings and pressure parts at operating facilities located primarily throughout the Midwestern United States. The acquisition of CTI enhances our commercial opportunities by adding new product offerings to an expanded customer base and by increasing our distribution footprint.

Our recent capital investments allowed us to further expand our processing and value-added services. In 2013, we opened a new facility in Latrobe, Pennsylvania and added tube and pipe distribution out of our Cleveland, Ohio and Monterey, Mexico facilities. Our new specialty metals facility in Streetsboro, Ohio became operational during the third quarter of 2012, and our new temper mill and cut-to-length line in Gary, Indiana became operational at the end of December 2011. Other capital expenditures were attributable to additional processing equipment at our existing facilities and building improvements to our new facilities.

Sales and Marketing. We believe that our commitment to quality, service, just-in-time delivery and field sales personnel has enabled us to build and maintain strong customer relationships. We continuously analyze our customer base to ensure that strategic customers are properly targeted and serviced, while focusing our efforts to supply and service our larger customers on a national basis, where we successfully service multi-location customers from multi-location Olympic facilities. We continue to service our customers with both flat and tubular and pipe products with cross-stocking of products in certain facilities.

We offer business solutions to our customers through value-added and value-engineered services. We also provide inventory stocking programs and in-plant Olympic Steel employees located at certain customer locations to help reduce customers' costs. Our owned truck fleet further enhances our just-in-time deliveries based on our customers' requirements.

Our Fe program is a commitment to provide superior customer service while striving to exceed customer expectations. This program includes tracking actual on-time delivery and quality performance against objectives, and recognition of initiatives to improve efficiencies, streamline processes or reduce operating expenses at each operation.

We believe our sales force is among the largest and most experienced in the industry. Our sales force makes direct daily sales calls to customers throughout the continental United States and in Mexico. The continuous interaction between our sales force and active and prospective customers provides us with valuable market information and sales opportunities, including opportunities for outsourcing, improving customer service and increased sales.

Our sales efforts are further supported by metallurgists, engineers, technical service personnel and product specialists who have specific expertise in carbon and stainless steel, aluminum, alloy plate and steel fabrication as well as tubular and pipe products. Since 2009, we have expanded our stainless steel and aluminum products and added sales personnel to grow sales in these areas. Our services for specific customers also include integration into our internal business systems to provide cost efficiencies for both us and our customers.

Management. We believe one of our strengths is the depth, knowledge and experience of our management team. In addition to our executive officers, members of our senior management team have a diversity of backgrounds within the metals industry, including management positions at metals producers and other metals service centers. They average 29 years of experience in the metals industry and 22 years with our companies.

Products, Processing Services and Quality Standards

We maintain inventory of carbon, stainless and aluminum coil, plate and sheet products, and tubular and pipe products. Coil is in the form of a continuous sheet, typically 36 to 96 inches wide, between 0.015 and 0.625 inches thick, and rolled into 10 to 30 ton coils. Because of the size and weight of these coils and the equipment required to move and process them into smaller sizes, such coils do not meet the requirements, without further processing, of most customers. Plate is typically thicker than coil and is processed by laser, plasma or oxygen burning.

Through our CTI subsidiary, we maintain inventory of round, square, and rectangular mechanical and structural tubing; hydraulic and stainless tubing; boiler tubing; carbon, stainless, and aluminum pipe; and valves and fittings. Overall, CTI maintains over 30,000 line items within its inventory. CTI provides a variety of value added services to its tube and pipe product line, including saw cutting, laser cutting, threading and grooving. CTI also fabricates boiler pressure components for the electric utility industry and other industrial applications.

Customer orders are entered or electronically transmitted into computerized order entry systems, and appropriate inventory is then selected and scheduled for processing in accordance with the customer’s specified delivery date. We attempt to maximize yield and equipment efficiency through the use of computer software and by combining customer orders for processing each coil, plate, tube or pipe to the fullest extent practicable.

Our services include both traditional service center processes of cutting-to-length, slitting, flattening, sawing and shearing and higher value-added processes of blanking, tempering, plate burning, laser cutting, precision machining, welding, fabricating, bending, polishing, kitting and painting to process metals to specified lengths, widths and shapes pursuant to specific customer orders. Cutting-to-length involves cutting metal along the width of the coil. Slitting involves cutting metal to specified widths along the length of the coil. Shearing is the process of cutting sheet metal. Blanking cuts the metal into specific shapes with close tolerances. Tempering improves the uniformity of the thickness and flatness of the metals through a cold rolling process. Plate and laser processing is the process of cutting metal into specific shapes and sizes. Our forming activities include bending metal. Our machining activities include drilling, milling, tapping, boring and sawing. Tube processing includes tube bending and end finishing. Finishing activities include shot blasting, grinding, edging and polishing. Our fabrication activities include additional machining, welding, assembly and painting of component parts.

The following table sets forth, as of December 31, 2013, the major pieces of processing equipment in operation by segment:

Processing	Flat	Tubular and

Equipment	Products	Pipe Products	Total
Cutting-to-length	13	11	24
Slitting	8	-	8
Shearing	10	-	10
Blanking	4	-	4
Tempering	3	-	3
Plate processing	29	-	29
Laser processing	26	6	32
Forming	23	-	23
Machining	45	78	123
Painting	4	1	5
Tube processing	2	32	34
Finishing	25	3	28
Total	192	131	323

Our quality assurance system, led by certified specialists and engineers, establishes controls and procedures covering all aspects of our products from the time the material is ordered through receipt, processing and shipment to the customer. These controls and procedures encompass periodic supplier audits, customer satisfaction surveys, workshops with customers, inspection equipment and criteria, preventative actions, traceability and certification. We have quality testing labs adjacent to our temper mill facilities in Cleveland, Ohio and Bettendorf, Iowa.

In addition, 24 of our facilities have earned International Organization for Standardization (ISO) 9001:2008 certifications. Our Detroit operation is also TS-16949 certified. CTI has earned The American Society of Mechanical Engineers S Certification and The National Board of Boiler & Pressure Vessel Inspectors R Certification. We have met the requirements for ISO 14001 (environmental management) in most of our facilities. Our office building in Winder, Georgia has received Leadership in Energy and Environmental Design certification.

Customers and Distribution

We have a diverse customer and geographic base, which helps to reduce the inherent risk and cyclicality of our business. Net sales to our top three customers, in the aggregate, approximated 11.1%, 10.4% and 11.4% of our consolidated net sales in 2013, 2012 and 2011, respectively. We serve customers in metals consuming industries, including manufacturers and fabricators of transportation and material handling equipment, construction, mining and farm equipment, storage tanks, environmental and energy generation equipment, automobiles, food service and electrical equipment, military vehicles and equipment, as well as general and plate fabricators and metals service centers. The table below shows the percentage of our consolidated net sales to the largest industries for the past three years.

Industry	**2013**	**2012**	**2011**
Industrial machinery and equipment manufacturers and their fabricators	50.2%	50.1%	51.8%
Automobile manufacturers and their suppliers	8.9 %	8.4 %	8.7 %
Residential and commercial construction	8.2 %	6.1 %	3.9 %
Steel service centers	7.4 %	7.6 %	8.6 %
All others <5%	25.3%	27.8%	27.0%

While we ship products throughout the United States, most of our customers are located in the midwestern, eastern and southern regions of the United States. Most domestic customers are located within a 250-mile radius of one of our processing facilities, thus enabling an efficient delivery system capable of handling a high frequency of short lead time orders. We transport our products directly to customers via our in-house truck fleet, which further supports our just-in-time delivery requirements imposed by our customers, and third-party trucking firms. Products sold to foreign customers, which have been immaterial to our consolidated results, are shipped either directly from metals producers to the customer or to an intermediate processor, and then to the customer by rail, truck or ocean carrier. With the addition of our facility in Monterrey, Mexico, we are able to stock material and service our customers in that country with shorter lead times.

We process our metals to specific customer orders as well as for stocking programs. Many of our larger customers commit to purchase on a regular basis at agreed upon or indexed prices for periods ranging from three to twelve months. To help mitigate price volatility risks, these price commitments are generally matched with corresponding supply arrangements, or to a lesser degree by nickel hedging. Customers notify us of specific release dates as the processed products are required. Customers typically notify us of release dates anywhere from a just-in-time basis to one month before the release date. Therefore, we are required to carry sufficient inventory to meet the short lead time and just-in-time delivery requirements of our customers. CTI produces engineered products for the industrial boiler industry. These products typically take several months to produce due to their size and complexity. Due to the time required for production, we may require progress payments throughout the construction period.

The current global economic environment has resulted in increased vendor scrutiny by our customers and potential customers. We believe our size, our strong financial position and our focus on quality and customer service are advantageous in maintaining our customer base and in securing new customers.

Raw Materials

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

Inventory management is a key profitability driver in the metals service center industry. We, like many other metals service centers, maintain substantial inventories of metals to accommodate the short lead times and just-in-time delivery requirements of our customers. Accordingly, we purchase metals 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 metals are generally at prevailing market prices in effect at the time we place our orders. We have no long-term, fixed-price metals purchase contracts, except for the pass-through nickel hedges. When metals prices increase, competitive conditions will influence how much of the price increase we can pass on to our customers. When metals prices decline, customer demands for lower prices and our competitors' responses to those demands could result in lower sale prices and, consequently, lower gross profits and earnings as we use existing metals inventory.

Suppliers

We concentrate on developing supply relationships with high-quality metals producers, using a coordinated effort to be the customer of choice for business critical suppliers. We employ sourcing strategies maximizing the quality, production and transportation economies of a global supply base. We are an important customer of flat-rolled coil, plate, pipe and tube for many of our principal suppliers, but we are not dependent on any one supplier. We purchase in bulk from metals producers in quantities that are efficient for such producers. This enables us to maintain a continued source of supply at what we believe to be competitive prices. We believe the access to our facilities and equipment, and our high quality customer services and solutions, combined with our long-standing and continuous prompt pay practices, will continue to be an important factor in maintaining strong relationships with metals suppliers. We purchase metals at regular intervals from a number of domestic and foreign producers.

The metals producing supply base has experienced significant consolidation, with a few suppliers accounting for a majority of the domestic carbon steel market. We purchased approximately 42% and 44% of our total metals requirements from our three largest suppliers in 2013 and 2012, respectively. Although we have no long-term supply commitments, we believe we have good relationships with each of our metals suppliers. If, in the future, we are unable to obtain sufficient amounts of metals on a timely basis, we may not be able to obtain metals from alternate sources at competitive prices. In addition, interruptions or reductions in our supply of metals 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.

Competition

Our principal markets are highly competitive. We compete with other regional and national metals service centers, single location service centers and, to a certain degree, metals producers and intermediate metals processors on a regional basis. We have different competitors for each of our products and within each region. We compete on the basis of price, product selection and availability, customer service, value-added capabilities, quality, financial strength and geographic proximity. Certain of our competitors have greater financial and operating resources than we have.

With the exception of certain Canadian or Mexican operations, foreign-located metals service centers are generally not a material competitive factor in our principal domestic markets.

Management Information Systems

Information systems are an important component of our strategy. We have invested in technologies and human resources as a foundation for growth. We depend on our Enterprise Resource Planning (ERP) systems for financial reporting, management decision-making, inventory management, order tracking and fulfillment and production optimization. We continue to upgrade and consolidate our systems for optimal use of resources and to assure we are taking the best advantage of technology offerings.

Our information systems focus on the following core application areas:

Inventory Management. Our information systems track the status and cost of inventories by product, location and process on a daily basis. This information is essential to superior management of inventory.

Differentiated Services To Customers. Our information systems support value-added services to customers, including quality control and on-time delivery monitoring and reporting, just-in-time inventory management and shipping services.

E-Commerce and Advanced Customer Interaction. We are actively participating in electronic commerce initiatives to reduce processing cost and time. In addition to full electronic data interchange (EDI) capabilities with our customers and vendors, we also have implemented extranet sites for specific customers, which are integrated with our internal business systems.

System and Process Enhancements. We have completed development of business system alternatives to replace our legacy information systems and have successfully implemented new ERP systems at most of our major locations and have decommissioned two legacy systems as of December 31, 2013. We continue to roll out these new systems to provide streamlined business processes, enhanced inventory management, production cost, and sales information, and reduced technical support requirements. Our business analysts work with our ISO quality team to identify opportunities for efficiency and improved customer service. We collaborate across the metal supply chain, working with metal producers, service providers, customers, and industry-sponsored organizations to develop industry processing standards to drive cost out of the supply chain.

Information security and continuous availability of information processing are of highest priority. Our information professionals employ proven security and monitoring practices and tools. In case of physical emergency or threat, our new ERP systems, accounting system, internet and communications systems are duplicated at a secure off-site computing facility, with migration of our other systems now in progress.

Employees

At December 31, 2013, we employed approximately 1,790 people. Approximately 333 of the hourly plant personnel are represented by ten separate collective bargaining units. The table below shows the expiration dates of the collective bargaining agreements.

Facility	**Expiration date**
Duluth, Minnesota	December 21, 2014
Locust, North Carolina	March 4, 2015
Romeoville, Illinois	May 31, 2015
Minneapolis coil, Minnesota	September 30, 2015
Indianapolis, Indiana	January 29, 2016

Minneapolis plate, Minnesota	March 31, 2017
Detroit, Michigan	August 31, 2017
St. Paul, Minnesota	May 25, 2018
Milan, Illinois	August 12, 2018
Kansas City, Missouri	November 18, 2018

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 impact on our business, financial condition, results of operations and cash flows.

Service Marks, Trade Names and Patents

We conduct our business under the name "Olympic Steel." A provision of federal law grants exclusive rights to the word "Olympic" to the U.S. Olympic Committee. The U.S. Supreme Court has recognized, however, that certain users may be able to continue to use the word based on long-term and continuous use. We have used the name Olympic Steel since 1954, but are prevented from registering the name "Olympic" and from being qualified to do business as a foreign corporation under that name in certain states. In such states, we have registered under different names, including "Oly Steel" and "Olympia Steel." Our wholly-owned subsidiary, Olympic Steel Lafayette, Inc., does business in certain states under the names "Olympic Steel Detroit," "Lafayette Steel and Processing" and "Lafayette Steel." Our North Carolina operation conducts business under the name "Olympic Steel North Carolina." Our Integrity Stainless operation conducts business under the name "Integrity Stainless". Our CTI North Carolina operation conducts business under the name "CTI Power." Our operation in Monterrey, Mexico operates under the name "Metales de Olympic S. de.R.L. de C.V."

We also hold a trademark for our stainless steel sheet and plate product “OLY-FLATBRITE,” which has a unique combination of surface finish and flatness.

Government Regulation

Our operations are governed by many laws and regulations, including those relating to workplace safety and worker health, principally the Occupational Safety and Health Act and regulations thereunder. We believe that we are in material compliance with these laws and regulations and do not believe that future compliance with such laws and regulations will have a material adverse effect on our business, financial condition, results of operations and cash flows.

Environmental

Our facilities are subject to certain federal, state and local requirements relating to the protection of the environment. We believe that we are in material compliance with all environmental laws, do not anticipate any material expenditures to meet environmental requirements and do not believe that compliance with such laws and regulations will have a material adverse effect on our business, financial condition, results of operations and cash flows.

Seasonality

Seasonal factors may cause demand fluctuations within the year which could impact our results of operations. However, due to our diverse customer and geographic base our operations have not shown any material seasonal trends. Typically, the first half of the year is stronger than the second half of the year, as it contains more ship days and is not impacted by the seasonal shut-downs in July, November and December due to holidays.

Effects of Inflation

Inflation generally affects us by increasing the cost of employee wages and benefits, transportation services, processing equipment, purchased metals, energy and borrowings under our credit facility. General inflation, excluding the price of metals and increased distribution and fuel expense, has not had a material effect on our financial results during the past three years.

Backlog

Because we conduct our operations generally on the basis of short-term orders, we do not believe that backlog is a material or meaningful indicator of future performance.

Available Information

We file annual, quarterly, and current reports, proxy statements, and other documents with the SEC under the Securities Exchange Act of 1934. The public may read and copy any materials filed with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains an Internet website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The public can obtain any documents that are filed by the Company at http://www.sec.gov.

In addition, our annual reports on Form 10-K, as well as our quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to all of the foregoing reports, are made available free of charge on or through the "Investor Relations" section of our website at www.olysteel.com as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC.

Information relating to our corporate governance at Olympic Steel, including our Business Ethics Policy, information concerning our executive officers, directors and Board committees (including committee charters), and transactions in our securities by directors and officers, is available free of charge on or through the "Investor Relations" section of our website at www.olysteel.com. We are not including the information on our website as a part of, or incorporating it by reference into, this Annual Report on Form 10-K.

Forward-Looking Information

This Annual Report on Form 10-K and other documents we file with the SEC contain various forward-looking statements that are based on current expectations, estimates, forecasts and projections about our future performance, business, our beliefs and our management's assumptions. In addition, we, or others on our behalf, may make forward-looking statements in press releases or written statements, or in our communications and discussions with investors and analysts in the normal course of business through meetings, conferences, webcasts, phone calls and conference calls. Words such as "may," "will," "anticipate," "should," "intend," "expect," "believe," "estimate," "project," "pl and "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 forward-looking statements are subject to certain risks and uncertainties that could cause our actual results to differ materially from those implied by such statements including, but not limited to, those set forth in Item 1A (Risk Factors) below and the following:

- general and global business, economic, financial and political conditions, including the ongoing effects of the global economic recovery;
- access to capital and global credit markets;
- competitive factors such as the availability, global production levels and pricing of metals, industry shipping and inventory levels and rapid fluctuations in customer demand and metals pricing;
- cyclicality and volatility within the metals industry;
- the ability of our customers (especially those that may be highly leveraged, and those with inadequate liquidity) to maintain their credit availability;
- the ability of our newer locations to achieve expected results;
- events or circumstances that could adversely impact the successful operation of our processing equipment and operations;
- the ability to comply with the terms of our asset-based credit facility and to make the required term loan payments;
- the ability of our customers and third parties to honor their agreements related to derivative instruments;
- customer, supplier and competitor consolidation, bankruptcy or insolvency;
- reduced production schedules, layoffs or work stoppages by our own or our suppliers' or customers' personnel;
- the success of union contract renewals;
- the availability and costs of transportation and logistical services;
- the amounts, successes and our ability to continue our capital investments and strategic growth initiatives and our business information system implementations;
- the successes of our operational excellence initiatives to improve our operating systems, cultural systems and management systems;
- the successes of our strategic efforts and initiatives to increase sales volumes, maintain or improve working capital turnover and free cash flows, manage inventory turnover; improve our customer service, and achieve cost savings;
- the timing and outcome of inventory lower of cost or market adjustments;
- the inflation or deflation existing within the metals industry, as well as our product mix and inventory levels on hand, which can impact our cost of materials sold as a result of the fluctuations in the last-in, first-out, or LIFO, inventory reserve;
- the adequacy of our existing information technology and business system software;
- our ability to pay regular quarterly cash dividends and the amounts and timing of any future dividends;

- our ability to generate free cash flow through operations and decreased future capital expenditures, reduce inventory and repay debt within anticipated time frames;
- events or circumstances that could impair or adversely impact the carrying value of any of our assets;
- risks and uncertainties associated with intangible assets, including potential impairment charges;
- the enacted federal healthcare legislation’s impact on the healthcare benefits required to be provided by us and the impact of such legislation on our compensation and administrative costs; and
- unanticipated developments that could occur with respect to contingencies such as litigation and environmental matters, including any developments that would require any increase in our costs for such contingencies.

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, intended, 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 or circumstances after the date hereof, except as otherwise required by law.

ITEM 1A. RISK FACTORS

In addition to the other information in this Annual Report on Form 10-K and our other filings with the SEC, the following risk factors should be carefully considered in evaluating us and our business before investing in our common stock. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties, not presently known to us or otherwise, may also impair our business. If any of the risks actually occur, our business, financial condition or results of operations could be materially and adversely affected. In that case, the trading price of our common stock could decline, and investors may lose all or part of their investment.

Risks Related to our Business

Volatile metals prices can cause significant fluctuations in our operating results. Our sales and operating income could decrease if metals prices decline or if we are unable to pass producer price increases on to our customers.

Our principal raw materials are carbon, coated and stainless steel, and aluminum, pipe and tube, flat rolled coil, sheet and plate that we typically purchase from multiple primary metals producers. The metals industry as a whole is cyclical and, at times, pricing and availability of metals can be volatile due to numerous factors beyond our control, including general domestic and international economic conditions, labor costs, sales levels, competition, levels of inventory held by other metals service centers, consolidation of metals producers, higher raw material costs for the producers of metals, 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 metals service centers, maintain substantial inventories of metals to accommodate the short lead times and just-in-time delivery requirements of our customers. Accordingly, we purchase metals 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, supply agreements with customers and market conditions. Our commitments to purchase metals are generally at prevailing market prices in effect at the time we place our orders. We have no long-term, fixed-price metals purchase contracts, except for the nickel hedges. When metals prices increase, competitive conditions will influence how much of the price increase we can pass on to our customers. To the extent we are unable to pass on future price increases in our raw materials to our customers, the net sales and profitability of our business could be adversely affected. When metals prices decline, customer demands for lower prices and our competitors' responses to those demands could result in lower sale prices and, consequently, lower gross profits and inventory lower of cost or market adjustments as we use existing inventory. Significant or rapid declines in metals prices or reductions in sales volumes could adversely impact our ability to remain in compliance with certain financial covenants in our revolving credit facility, as well as result in us incurring inventory or goodwill impairment charges. Changing metals prices therefore could significantly impact our net sales, gross profit, operating income and net income, and could impair or adversely impact the carrying value of any of our assets.

China is the world's largest producer and consumer of metals and metals products, which are integral to its current large scale industrial expansion. This large and growing demand for metals by China has significantly affected the global metals industry. Actions by domestic and foreign producers, including metals companies in China, to increase production could result in an increased supply of metals in the United States, which could result in lower prices for our products. Further, should China experience an economic downturn or slowing of its growth, its metals consumption could decrease and some of the supply it currently uses could be diverted to the U.S. markets we serve, which could depress metals prices. A decline in metals prices could adversely affect our sales, gross profits and profitability.

We service industries that are highly cyclical, and any downturn in our customers' demand could reduce our sales, gross profits and profitability.

We sell our products in a variety of industries, including capital equipment manufacturers for industrial, agricultural and construction use, the automotive industry, the utilities industry, and manufacturers of fabricated metals products. Our largest category of customers is producers of industrial machinery and equipment. Numerous factors, such as general economic conditions, government stimulus or regulation, availability of adequate credit and financing, consumer confidence, significant business interruptions, labor shortages or work stoppages, energy prices, seasonality, customer inventory levels and other factors beyond our control, may cause significant demand fluctuations from one or more of these industries. Any decrease in demand within one or more of these industries may be significant and may last for a lengthy period of time. In periods of economic slowdown or recession in the United States, excess customer or service center inventory 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 sales, gross profits and profitability.

Approximately 8.9% of our 2013 consolidated net sales were to automotive manufacturers or manufacturers of automotive components and parts, whom we refer to as automotive customers. Historically, due to the concentration of customers in the automotive industry, our gross profits on these sales have generally been less than our gross profits on sales to customers in other industries.

Our success is dependent upon our relationships 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. Collectively, our top three customers accounted for approximately 11.1% and 10.4% of our consolidated net sales in 2013 and 2012, respectively. Many of our larger customers commit to purchase on a regular basis at agreed upon prices over periods from three to twelve months. We generally do not have long-term contracts with our customers. As a result, the relationship, as well as particular orders, can generally be terminated with relatively little advance notice. The loss of any one of our major customers or decrease in demand by those customers or credit constraints placed on them could have a material adverse effect on our business, our results of operations and our cash flows.

Our newer locations may be unable to achieve expected results, and events or circumstances that could adversely impact the successful operation of our newer processing equipment and operations could have a material adverse effect on our results of operations.

We have invested in new facilities and new processing equipment to support customer demand. Although we have successfully integrated new facilities and installed new processing equipment in the past, we can provide no assurance that the recent integrations and installations will be successful, or achieve expected results. Risks associated with the integration and installations include, but are not limited to:

- a significant use of management and employee time;
- the possibility that the performance of the new facilities and new equipment does not meet expectations; and
- the possibility that disruptions from the integration and installations may make it difficult for us to maintain relationships with our respective customers, employees or suppliers.

Difficulties associated with the integration of new facilities and installations of new processing equipment could adversely affect our business, our customer service, our results of operations and our cash flows.

Customer and third-party credit constraints and credit losses could have a material adverse effect on our results of operations.

Some of our customers may experience difficulty obtaining and/or maintaining credit availability. In particular, certain customers that are highly leveraged represent an increased credit risk. Some customers have reduced their purchases because of these credit constraints. Moreover, our disciplined credit policies have, in some instances, resulted in lost sales. If we have misjudged our credit estimations and they result in future credit losses, lost sales or lost customers, there could be a material adverse effect on our business, financial condition, results of operations, cash flows and our allowance for doubtful accounts.

Our implementation of new information systems could adversely affect our results of operations and cash flows.

We are in the process of implementing new information systems and eliminating our legacy operating systems into the new systems. The objective is to standardize and streamline business processes and improve support for our growing service center and fabrication business. Risks associated with the phased implementation include, but are not limited to:

- a significant deployment of capital and a significant use of management and employee time;
- the possibility that the software vendors may not be able to support the project as planned;
- the possibility that the timelines, costs or complexities related to the new system implementations will be greater than expected;
- the possibility that the software, once fully implemented, does not work as planned;
- the possibility that benefits from the new systems may be less or take longer to realize than expected;
- the possibility that disruptions from the implementation may make it difficult for us to maintain relationships with our respective customers, employees or suppliers; and
- limitations on the availability and adequacy of proprietary software or consulting, training and project management services, as well as our ability to retain key personnel assigned to the project.

Although we have successfully initiated use of the new systems at most of our locations, we can provide no assurance that the rollout to the remaining locations will be successful or will occur as planned and without disruption to operations. Difficulties associated with the design and implementation of new information systems could adversely affect our business, our customer service, our results of operations and our cash flows.

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

Until our new systems implementations are completed, we maintain separate regional computer-based systems in the operation of our business and we depend on these systems to a significant degree, particularly for inventory management. These systems are vulnerable to, among other things, damage or interruption from fire, flood, tornado and other natural disasters, power loss, computer system and network failures, operator negligence, physical and electronic loss of data or security breaches and computer viruses. Although we have secure back-up systems off-site, 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, results of operations and cash flows.

Risks associated with our growth strategy may adversely impact our ability to sustain our growth.

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

We have completed a number of expansion projects and completed an acquisition in the past three years. These, or future expansion or construction projects, could have adverse effects on our results of operations due to the impact of the associated start-up costs and the potential for underutilization in the start-up phase of a facility. While we are pursuing potential acquisition targets, we are unable to predict whether or when any prospective acquisition candidate will become available or the likelihood that any acquisition will be completed. Moreover, in pursuing acquisition opportunities, we may compete for acquisition targets with other companies with similar growth strategies that may be larger and have greater financial and other resources than we have. Competition among potential acquirers could result in increased prices for acquisition targets. As a result, we may not be able to consummate acquisitions on satisfactory terms to us, or at all.

The pursuit of acquisitions may divert management’s time and attention away from day-to-day operations. In order to achieve growth through acquisitions, expansion of current facilities, greenfield construction or otherwise, 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 that are satisfactory to us, or at all.

Although we expect to finance our future and in-process growth initiatives through borrowings under our credit facility, we may have to find additional sources of funding, which could be difficult. Additionally, increased leverage could adversely impact our business and results of operations.

In March 2012, we amended the agreement governing our credit facility. We expect to finance our future and in-process growth initiatives through borrowings under our credit facility, which matures on June 30, 2016. However, our credit facility may not be sufficient or available to finance our growth initiatives, and we may have to find additional sources of financing. It may be difficult for us in the future to obtain the necessary funds and liquidity to run and expand our business.

Additionally, if we incur substantial additional debt, including under our credit facility, our leverage could increase as could 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, dividends and other general corporate purposes;
- 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
- increase our costs and limit our flexibility in planning for, or reacting to, changes in our business.

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 upon the management and leadership skills of our senior management team. We have employment agreements, which include non-competition provisions, with our Chief Executive Officer, our President and Chief Operating Officer, the President of our recently acquired subsidiary, CTI, and our Chief Financial Officer that expire on January 1, 2018, January 1, 2016, July 1, 2016 and January 1, 2017, respectively. The loss of any member of our senior management team or the failure to attract and retain additional qualified personnel could prevent us from implementing our business strategy.

We may not achieve the expected results of our Operational Excellence initiatives.

We are in the process of an Operational Excellence initiative, which is expected to improve our operating systems, cultural systems and management systems. The initiative is focused on continuously improving processes through waste and variation elimination using Lean Six Sigma tool. The risks associated with this initiative include, but are not limited to:

- a significant use of management and employee time;
- the possibility that the initiative does not meet expectations; and
- the possibility that the initiative does not provide the expected economic results.

Difficulties associated with our Operational Excellence initiative could adversely affect our business, our customer service, our results of operations and our cash flows

Labor disruptions at any of our facilities or those of major customers could adversely affect our business, results of operations and financial condition.

At December 31, 2013, we employed approximately 1,790 people. Approximately 333 of the hourly plant personnel are represented by ten separate collective bargaining units. Any prolonged work stoppages by our personnel represented by collective bargaining units could have a material adverse impact on our business, financial condition, results of operations and cash flows.

In addition, many of our larger customers, including those in the automotive industry, have unionized workforces and some in the past have experienced significant labor disruptions such as work stoppages, slow-downs and strikes. A labor disruption at one or more of our major customers could interrupt production or sales by that customer and cause that customer to halt or limit orders for our products. Any such reduction in the demand for our products could adversely affect our business, financial condition, results of operations and cash flows.

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

In recent years, the metals producing supply base has experienced significant consolidation with a few domestic producers accounting for a majority of the domestic metals market. Collectively, we purchased approximately 42% and 44% of our total metals requirements from our three largest suppliers in 2013 and 2012, respectively. The number of available suppliers could be reduced in the future by factors such as further industry consolidation or bankruptcies affecting metals suppliers. Additionally, fewer available suppliers increases the risk of supply disruption through both scheduled and unscheduled supplier outages. We have no long-term supply commitments with our metals suppliers. If, in the future, we are unable to obtain sufficient amounts of metals on a timely basis, we may not be able to obtain metals from alternate sources at competitive prices. In addition, interruptions or reductions in our supply of metals 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.

Conversely, the addition of new mill sources and decreased domestic demand could lead to domestic over capacity, which could lead to a decrease in steel prices.

We may not be able to retain or expand our customer base if the U.S. manufacturing industry continues to erode or if the U.S. dollar strengthens.

Our customer base primarily includes manufacturing and industrial firms in the United States, some of which are, or have considered, relocating production operations outside the United States or outsourcing particular functions outside the United States. Some customers have closed because they were unable to compete successfully with foreign competitors. Our facilities are primarily located in the United States and, therefore, to the extent that our customers relocate or move operations where we do not have a presence, we could lose their business.

Some customers have been able to continue to manufacture items in the United States for export to foreign markets, due to the relative strength of certain foreign currencies against the U.S. dollar. If the U.S. dollar were to strengthen, products made by U.S. manufacturers could become less attractive to foreign buyers. Less purchases by foreign buyers could reduce our metals sales to those U.S. manufacturers.

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 metals service centers and, to a certain degree, metals producers and intermediate metals processors, on a regular basis, primarily on quality, price, inventory availability and the ability to meet the delivery schedules and service requirements 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 gross profits or reduce our market share and have a material adverse effect on our financial performance.

Increases in energy prices would increase our operating costs, and we may be unable to pass all these increases on to our customers in the form of higher prices.

If our energy costs increase disproportionately to our revenues, our earnings could be reduced. We use energy to process and transport our products. Our operating costs increase if energy costs, including electricity, diesel fuel and natural gas, rise. During periods of higher energy costs, we may not be able to recover our operating cost increases through price increases without reducing demand for our products. In addition, we generally do not hedge our exposure to higher prices via energy futures contracts. Increases in energy and fuel prices will increase our operating costs and may reduce our profitability if we are unable to pass all of the increases on to our customers.

We are subject to significant environmental, health and safety laws and regulations and related compliance expenditures and liabilities.

Our businesses are subject to many federal, state and local environmental, health and safety laws and regulations, particularly with respect to the use, handling, treatment, and disposal of substances and wastes used or generated in our manufacturing processes. We have incurred and expect to continue to incur expenditures to comply with applicable environmental laws and regulations. Our failure to comply with applicable environmental laws and regulations and permit requirements could result in civil or criminal fines or penalties or enforcement actions, including regulatory or judicial orders enjoining or curtailing operations or requiring corrective measures, installation of pollution control equipment or remedial actions.

We may in the future be required to incur costs relating to the investigation or remediation of property, and for addressing environmental conditions. Some environmental laws and regulations impose liability and responsibility on present and former owners, operators or users of facilities and sites for contamination at such facilities and sites without regard to causation or knowledge of contamination. Consequently, we cannot assure you that existing or future circumstances, the development of new facts or the failure of third parties to address contamination at current or former facilities or properties will not require significant expenditures by us.

We expect to continue to be subject to environmental and health and safety laws and regulations. It is difficult to predict the future interpretation and development of environmental and health and safety laws and regulations or their impact on our future earnings and operations. We anticipate that compliance will continue to require increased capital expenditures and operating costs. Any increase in these costs, or unanticipated liabilities arising for example out of discovery of previously unknown conditions or more aggressive enforcement actions, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Risks Related to Our Common Stock

The market price for our common stock may be volatile.

Historically, 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, but not limited to, the risk factors described herein. Examples include:

- changes in commodity prices, especially metals;
- announcement of our quarterly operating results or the operating results of other metals service centers;
- changes in financial estimates or recommendations by stock market analysts regarding us or our competitors;
- the operating and stock performance of other companies that investors may deem comparable;
- developments affecting us, our customers or our suppliers;
- press releases, earnings releases or publicity relating to us or our competitors or relating to trends in the metals service center industry;
- inability to meet securities analysts’ and investors’ quarterly or annual estimates or targets of our performance;
- sales of our common stock by large shareholders;
- the amount of shares acquired for short-term investments;
- general domestic or international economic, market and political conditions;
- changes in the legal or regulatory environment affecting our business; and
- announcements by us or our competitors of significant acquisitions, dispositions or joint ventures, or other material events impacting the domestic or global metals industry.

In the past, the stock market has experienced significant 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 specific operating performance. These factors may adversely affect the trading price of our common stock, regardless of actual operating performance.

In addition, stock markets from time to time experience extreme price and volume fluctuations that may be unrelated or disproportionate to the operating performance of companies. In the past, some shareholders have brought securities class action lawsuits against companies following periods of volatility in the market price of their securities. We may in the future be the target of similar litigation. Securities litigation, regardless of whether our defense is ultimately successful, could result in substantial costs and divert management’s attention and resources.

Our quarterly results may be volatile.

Our operating results have varied on a quarterly basis during our operating history and are likely to fluctuate significantly in the future. Our operating results may be below the expectations of our investors or stock market analysts as a result of a variety of factors, many of which are outside of our control. Factors that may affect our quarterly operating results include, but are not limited to, the risk factors listed above.

Many factors could cause our revenues and operating results to vary significantly in the future. Accordingly, we believe that quarter-to-quarter comparisons of our operating results are not necessarily meaningful. Investors should not rely on the results of one quarter as an indication of our future performance. Further, it is our practice not to provide forward-looking sales or earnings guidance and not to endorse any analyst's sales or earnings estimates. Nonetheless, if our results of operations in any quarter do not meet analysts' expectations, our stock price could materially decrease.

Certain provisions in our charter documents and Ohio law could delay or prevent a change in management or a takeover attempt that you may consider to be in your best interest.

We are subject to Chapter 1704 of the Ohio Revised Code, which prohibits certain business combinations and transactions between an "issuing public corporation" and an "Ohio law interested shareholder" for at least three years after the Ohio law interested shareholder attains 10% ownership, unless the Board of Directors of the issuing public corporation approves the transaction before the Ohio law interest shareholder attains 10% ownership. We are also subject to Section 1701.831 of the Ohio Revised Code, which provides that certain notice and informational filings and special shareholder meeting and voting procedures must be followed prior to consummation of a proposed "control share acquisition." Assuming compliance with the notice and information filings prescribed by the statute, a proposed control share acquisition may be made only if the acquisition is approved by a majority of the voting power of the issuer represented at the meeting and at least a majority of the voting power remaining after excluding the combined voting power of the "interested shares."

Certain provisions contained in our Amended and Restated Articles of Incorporation and Amended and Restated Code of Regulations and Ohio law could delay or prevent the removal of directors and other management and could make a merger, tender offer or proxy contest involving us that you may consider to be in your best interest more difficult. For example, these provisions:

- allow our Board of Directors to issue preferred stock without shareholder approval;
- provide for our Board of Directors to be divided into two classes of directors serving staggered terms;
- limit who can call a special meeting of shareholders; and
- establish advance notice requirements for nomination for election to the Board of Directors or for proposing matters to be acted upon at shareholder meetings.

These provisions may discourage potential takeover attempts, discourage bids for our common stock at a premium over market price or adversely affect the market price of, and the voting and other rights of the holders of our common stock. These provisions could also discourage proxy contests and make it more difficult for you and other shareholders to elect directors other than the candidates nominated by our Board of Directors.

Principal shareholders who own a significant numbers of shares of our common stock may have interests that conflict with yours.

Michael D. Siegal, our Chief Executive Officer and Chairman of the Board and one of our largest shareholders, owned approximately 11.4% of our outstanding common stock as of December 31, 2013. Mr. Siegal may have the ability to significantly influence matters requiring shareholder approval. In deciding how to vote on such matters, Mr. Siegal may be influenced by interests that conflict with yours.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

In 2013, we relocated our executive office suite from Bedford Heights, Ohio to an 8,600 square foot leased facility in Highland Hills, Ohio. The new corporate office suite houses executives responsible for the strategic direction and oversight of all of the Company's combined operations including its flat product and tubular and pipe products segments, as well as our growing specialty metals product line. The lease expires on August 31, 2023.

We believe that our properties are strategically situated relative to our domestic suppliers, our customers and each other, allowing us to support customers from multiple locations. This enables us to provide inventory and processing services, which are available at one operation but not another. Product is shipped from the most advantageous facility, regardless of where the customer order is taken. The facilities are located in the hubs of major metals consumption markets, and within a 250-mile radius of most of our customers, a distance approximating the one-day driving and delivery limit for truck shipments. The following table sets forth certain information concerning our principal properties within our flat products and tubular and pipe products segments:

Flat Products Segment Facilities

Operation	**Location**	**Square Feet**	**Function**	**Owned or Leased**
Cleveland	Bedford Heights, Ohio (1)	127,000	Corporate offices, coil processing and distribution center	Owned
	Bedford Heights, Ohio (1)	121,500	Coil and plate processing, distribution center for flat, tubular and pipe products and offices	Owned
	Bedford Heights, Ohio (1)	59,500	Plate processing, distribution center and offices	Leased (2)
	Dover, Ohio	62,000	Plate processing, fabrication and distribution center	Owned
Minneapolis	Plymouth, Minnesota	196,800	Coil and plate processing, distribution center and offices	Owned
	Plymouth, Minnesota	112,200	Plate processing, fabrication, distribution center and offices	Owned
	Roseville, Minnesota	57,000	Distribution center for flat and tubular and pipe products	Leased (3)
Chambersburg	Chambersburg, Pennsylvania	157,000	Plate processing, distribution center and offices	Owned
	Chambersburg, Pennsylvania	150,000	Plate processing, fabrication, distribution center and offices	Owned
Iowa	Bettendorf, Iowa	244,000	Coil and plate processing, fabrication, distribution center and offices	Owned

	Kansas City, Missouri	43,000	Distribution center and offices	Leased (4)
Winder	Winder, Georgia	285,000	Coil and plate processing, distribution center and offices	Owned
Detroit	Detroit, Michigan	256,000	Coil processing, distribution center and offices	Owned
Kentucky	Mt. Sterling, Kentucky	100,000	Plate processing and distribution center	Owned
	Mt. Sterling, Kentucky	107,000	Distribution center for flat and tubular and pipe products, offices	Owned (5)
Gary	Gary, Indiana	183,000	Coil processing, distribution center and offices	Owned
Connecticut	Milford, Connecticut	134,000	Coil processing, distribution center and offices	Owned
Chicago	Schaumburg, Illinois	80,500	Coil and sheet processing, distribution center and offices	Owned
North Carolina	Siler City, North Carolina	74,000	Plate processing, fabrication, distribution center and offices	Owned
Streetsboro	Streetsboro, Ohio	66,200	Coil and sheet processing, distribution center and offices	Owned
	Latrobe, Pennsylvania	43,200	Coil and sheet processing, distribution center	Leased (6)
Washington	Moses Lake, Washington	50,100	Distribution center	Leased (7)

Flat Products Segment Facilities

Operation	Location	Square Feet	Function	Owned or Leased
Mexico	Monterrey, Mexico	15,000	Distribution center for flat, tubular and pipe products	Leased (8)

(1) The Bedford Heights facilities are all adjacent properties.
(2) This facility is leased from a related party. The lease expires on December 31, 2018 with renewal options.
(3) The lease on this facility expires on November 30, 2016, with renewal options.
(4) The lease on this facility expires on August 31, 2014, with an option to purchase.
(5) 50% of the facility is leased to an unrelated party whose lease expires on December 31, 2014.
(6) The lease on this facility expires on May 1, 2016.
(7) The Moses Lake location is comprised of four different facilities. The leases on these facilities expire on February 28, 2014, March 31, 2014, November 30, 2014 and January 4, 2015, with renewal options.
(8) The lease on this facility expires on June 1, 2014, with an annual renewal option.

In addition to the facilities listed above, we have sales offices located in Media, Pennsylvania; Jacksonville, Florida; Miami, Florida; Houston, Texas; and Monterrey, Mexico. All of the properties listed in the table as owned are subject to mortgages securing borrowings under our credit facility. Management believes we will be able to accommodate our capacity needs for the immediate future at our existing facilities.

Tubular and Pipe Products Segment Locations

Operation	Location	Square Feet	Function	Owned or Leased
Chicago	Romeoville, Illinois	363,000	Corporate offices, fabrication and distribution center	Owned
St. Paul	St. Paul, Minnesota	132,000	Distribution center and offices	Owned
Charlotte	Locust, North Carolina	127,600	Fabrication and offices	Owned
	Fond du Lac, Wisconsin	117,000	Distribution center and offices	Owned

Fond du Lac				
Indianapolis	Indianapolis, Indiana	79,000	Distribution center and offices	Owned
Quad Cities	Milan, Illinois	57,600	Distribution center and offices	Owned
Des Moines	Ankeny, Iowa	50,000	Distribution center and offices	Owned
Duluth	Duluth, Minnesota	32,400	Distribution center and offices	Leased (1)
Owatonna cutting	Owatonna, Minnesota	23,000	Production cutting center	Owned

(1) The lease on this facility expires on November 30, 2014.

ITEM 3. LEGAL PROCEEDINGS

We are party to various legal actions that we believe are ordinary in nature and incidental to the operation of our business. In the opinion of management, the outcome of the proceedings to which we are currently a party will not have a material adverse effect upon our results of operations, financial condition or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

This information is included in this Annual Report on Form 10-K pursuant to Instruction 3 of Item 401(b) of Regulation S-K. The following is a list of our executive officers and a brief description of their business experience. Each executive officer will hold office until his successor is chosen and qualified.

Michael D. Siegal, age 61, has served as our Chief Executive Officer since 1984, and as Chairman of our Board of Directors since 1994. From 1984 until January 2001, he also served as our President. He has been employed by us in a variety of capacities since 1974. He is the Chair of the Board of Trustees Jewish Federations in North America. He is also the former Board Chair of the Jewish Federation of Cleveland and currently serves on the Development Corporation for Israel and the Rock and Roll Hall of Fame and Museum, in Cleveland, Ohio.

David A. Wolfort, age 61, has served as our President since January 2001 and Chief Operating Officer since 1995. He has been a director since 1987. He previously served as Vice President Commercial from 1987 to 1995, after having joined us in 1984 as General Manager. Prior thereto, he spent eight years with a primary steel producer in a variety of sales assignments. Mr. Wolfort is a past director of the Metals Service Center Institute and previously served as Chairman of its Political Action Committee and Governmental Affairs Committee. He is a trustee of the Board of the Musical Arts Association (Cleveland Orchestra) and of Ohio University and serves as the Chairman of its Academic Committee and is a member of the Executive Committee. He also serves as a member of the United States International Trade Committee for Steel (ITAC).

Richard T. Marabito, age 50, serves as our Chief Financial Officer. He joined us in 1994 as Corporate Controller and served in this capacity until being named Chief Financial Officer in March 2000. He also served as Treasurer from 1994 through 2002 and again from 2010 through 2012. Prior to joining us, Mr. Marabito served as Corporate Controller for a publicly traded wholesale distribution company and was employed by a national accounting firm in its audit department. Mr. Marabito served as a board member and Audit Committee Chairman for Hawk Corporation (ASE: HWK) from 2008 until Hawk was sold in November 2010, and is a Governance board member and Treasurer of the Make-A-Wish Foundation of Ohio, Kentucky and Indiana. Mr. Marabito serves on the Board of Trustees and as Treasurer for Hawken School in Cleveland, Ohio. He is also a director and Executive Committee member of the Metals Service Center Institute and is a past Chairman of its Foundation for Education and Research.

Richard A. Manson, age 45, has served as our Vice President and Treasurer since January 2013 and has been employed by us since 1996. From March 2010 through December 2012, he served as our Vice President of Human Resources and Administration. From January 2003 through March 2010, he served as our Treasurer and Corporate Controller. From 1996 through 2002, he served as our Director of Taxes and Risk Management. Prior to joining us, Mr. Manson was employed for seven years by a national accounting firm in its tax department. Mr. Manson is a Board Member and the Treasurer of the West Side Catholic Center. He also serves on the Board of Directors of the Boys and Girls Clubs of Cleveland and the Cleveland Catholic Cemeteries Association. Mr. Manson is a certified public accountant and member of the Ohio Society of Certified Public Accountants and the American Institute of Certified Public Accountants.

Donald McNeeley, age 59, has served as the President and CEO of CTI, a wholly owned subsidiary of Olympic Steel, Inc., since the acquisition on July 1, 2011. He joined CTI in 1972 and has held several operational and executive positions within the company. After serving as CTI's Vice President of Operations and subsequently Executive Vice President, in 1990, Dr. McNeeley was appointed President and Chief Operating Officer. He is a former Chairman of the Metals Service Center Institute. Dr. McNeeley is an adjunct professor at Northwestern University where he teaches in the graduate engineering program. He serves on the board of directors of Saulsbury Industries in Odessa, Texas, where he chairs the Audit Committee. Dr. McNeeley also serves on the board of directors of Vail Rubber Industries in St. Joseph, Michigan, and is a former director of The Committee for Monetary Research in Greenwich, Connecticut.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Price Range of Common Stock

Our common stock trades on the Nasdaq Global Select Market under the symbol "ZEUS." The following table sets forth, for each quarter in the two-year period ended December 31, 2013, the high and low sales prices of our common stock as reported by the Nasdaq Global Select Market:

	2013		**2012**	
	High	**Low**	**High**	**Low**
First quarter	$25.39	$18.52	$28.31	$21.78
Second quarter	26.83	19.54	25.02	15.00
Third quarter	29.48	24.46	19.20	14.77
Fourth quarter	31.68	24.56	22.21	16.61

Holders of Record

As of February 1, 2014, we estimate there were approximately 50 holders of record and 4,715 beneficial holders of our common stock.

Dividends

During 2013, our Board of Directors approved regular quarterly dividends of $0.02 per share that were paid on March 15, 2013, June 17, 2013, September 16, 2013 and December 16, 2013.

During 2012, our Board of Directors approved regular quarterly dividends of $0.02 per share that were paid on March 15, 2012, June 15, 2012, September 17, 2012 and December 17, 2012.

We expect to make regular quarterly dividend distributions in the future, subject to the continuing determination by our Board of Directors that the dividend remains in the best interest of our shareholders. The agreement governing our credit facility restricts the amount of dividends that we can pay to $2.5 million annually. Any determinations by the Board of Directors to pay cash dividends in the future will take into account various factors, including our financial condition, results of operations, current and anticipated cash needs, plans for expansion and restrictions under our credit agreement and any agreements governing our future debt. We cannot assure you that dividends will be paid in the future or that, if paid, the dividends will be at the same amount or frequency.

Issuer Purchases of Equity Securities

We did not repurchase any of our equity securities during the quarter ended December 31, 2013.

Recent Sales of Unregistered Securities

We did not have any unregistered sales of equity securities during the quarter ended December 31, 2013.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial and other data of the Company for each of the five years in the period ended December 31, 2013. 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 notes thereto included elsewhere in this Annual Report on Form 10-K.

	For the Years Ended December 31,				
	2013	**2012**	**2011**	**2010**	**2009**
	(in thousands, except per share data)				
Income Statement Data:					
Net sales	$1,263,331	$1,383,701	$1,261,872	$805,043	$523,395
Cost of materials sold	999,207	1,113,852	1,008,462	650,398	502,134
Gross profit (a)	264,124	269,849	253,410	154,645	21,261
Operating expenses (b)	244,469	251,400	208,942	148,543	118,588
Operating income (loss)	19,655	18,449	44,468	6,102	(97,327)
Interest and other expense on debt	6,703	8,357	5,953	2,305	2,217
Income (loss) before income taxes	12,924	10,139	37,485	3,797	(99,544)
Net income (loss)	$7,647	$2,277	$24,970	$2,132	$(61,228)
Per Share Data:					
Net income (loss) - basic (c)	$0.69	$0.21	$2.28	$0.20	$(5.62)
Net income (loss) - diluted	0.69	0.21	2.28	0.20	(5.62)
Dividends declared	$0.08	$0.08	$0.08	$0.08	$0.11
Shares Outstanding:					
Weighted average shares - basic	11,065	10,989	10,937	10,905	10,887
Weighted average shares - diluted	11,074	10,995	10,951	10,918	10,887
Balance Sheet Data (as of December 31):					
Current assets	$417,631	$422,377	$420,859	$298,809	$214,617
Current liabilities	165,633	142,442	139,575	102,625	66,254
Working capital	251,998	279,935	281,284	196,184	148,363
Total assets	697,349	705,994	707,499	429,438	338,294
Total debt	199,269	241,711	244,123	55,235	-
Shareholders' equity	$298,616	$289,857	$286,576	$261,638	$259,612

The data in the table above includes CTI information since the acquisition on July 1, 2011.

(a) Gross profit is calculated as net sales less the cost of materials sold (includes inventory lower of cost or market adjustment in 2009 of $81,063 and LIFO income of $3,572 in 2013).

(b) Operating expenses are calculated as total costs and expenses less the cost of materials sold (and the inventory lower of cost or market adjustment in 2009 and LIFO income in 2013). 2012 operating expenses include $6,583 of goodwill impairment charges related to the Company’s flat products segment.

(c) Calculated by dividing net income (loss) by weighted average shares outstanding.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause a difference include, but are not limited to, those discussed under Item 1A, Risk Factors in this Annual Report on Form 10-K. The following section is qualified in its entirety by the more detailed information, including our financial statements and the notes thereto, which appears elsewhere in this Annual Report.

Overview

We are a leading metals service center that operates in two reportable segments; flat products and tubular and pipe products. We provide metals processing and distribution services for a wide range of customers. Our primary flat products focus is on the direct sale and distribution of large volumes of processed carbon, coated, aluminum and stainless flat-rolled sheet, coil and plate products. We sometimes refer to stainless and aluminum as specialty metals. Commencing with the July 1, 2011 acquisition of Chicago Tube and Iron Company, or CTI, we distribute metal tubing, pipe, bar, valves and fittings and fabricate pressure parts supplied to various industrial markets. Products that require more value-added processing generally have a higher gross profit. In addition, tubular and pipe products segment gross profits are generally higher than our traditional flat products segment gross profits. Accordingly, our overall gross profit is affected by, among other things, product mix, the amount of processing performed, the demand for and availability of metals, and volatility in selling prices and material purchase costs. We also perform toll processing of customer-owned metals. We sell certain products internationally, primarily in North, Central and South America. International sales are immaterial to our consolidated financial results and to the individual segments' results.

Our results of operations are affected by numerous external factors including, but not limited to: general and global business, economic, financial, banking and political conditions; competition; metals pricing, demand, global production levels and availability; energy prices; pricing and availability of raw materials used in the production of metals; global supply and inventory held in the supply chain; customers' ability to manage their credit line availability; and layoffs or work stoppages by our own, our suppliers' or our customers' personnel. The metals industry also continues to be affected by the global consolidation of our suppliers, competitors and end-use customers.

Like other service centers, we maintain substantial inventories of metals to accommodate the short lead times and just-in-time delivery requirements of our customers. Accordingly, we purchase metals 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 customer forecasts, historic buying practices, supply agreements with customers and market conditions. Our commitments to purchase metals are generally at prevailing market prices in effect at the time we place our orders. When metals prices increase, competitive conditions will influence how much of the price increase we can pass on to our customers. To the extent we are unable to pass on future price increases in our raw materials to our customers, the net sales and gross profits of our business could be adversely affected. When metals prices decline, customer demands for lower prices and our competitors' responses to those demands could result in lower sale prices and, consequently, lower gross profits as we sell existing metals inventory.

Chicago Tube and Iron Company Acquisition

On July 1, 2011, we acquired all of the outstanding common shares of CTI, pursuant to the terms of an Agreement and Plan of Merger dated May 18, 2011. CTI stocks, processes and fabricates metal tubing, pipe, bar, valves and fittings and pressure parts at nine operating facilities located primarily throughout the Midwestern United States. The acquisition of CTI enhances our commercial opportunities by adding new product offerings to an expanded customer base and by increasing our distribution footprint.

Reportable Segments

We operate in two reportable segments; flat products and tubular and pipe products. We follow the accounting guidance that requires the utilization of a "management approach" to define and report the financial results of operating segments. The management approach defines operating segments along the lines used by the our chief operating decision maker, or CODM, to assess performance and make operating and resource allocation decisions. Our CODM evaluates performance and allocates resources based primarily on operating income (loss). Our operating segments are based on internal management reporting.

Commencing with the first quarter of 2013, corporate expenses are now reported as a separate line item in the segment reporting. Corporate expenses include the unallocated expenses related to managing the entire Company (i.e., both segments), including payroll expenses for certain personnel, expenses related to being a publicly traded entity such as board of directors expenses, audit expenses, and various other professional fees. Prior to 2013, these expenses were included in the flat products segment's operating results. The 2012 and 2011 financial information has been revised to reflect the new reporting structure.

Flat products

The primary focus of our flat products segment is on the direct sale and distribution of large volumes of processed carbon, coated, aluminum and stainless flat-rolled sheet, coil and plate products. We act as an intermediary between metals producers and manufacturers that require processed metals for their operations. We serve customers in most metals consuming industries, including manufacturers and fabricators of transportation and material handling equipment, construction and farm machinery, storage tanks, environmental and energy generation equipment, automobiles, food service and electrical equipment, military vehicles and equipment, as well as general and plate fabricators and metals service centers. We distribute these products primarily through a direct sales force.

The flat products segment has 24 strategically-located processing and distribution facilities in the United States and one in Monterrey, Mexico. 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. The flat products segment distributes these products primarily through a direct sales force.

Tubular and pipe products

The tubular and pipe products segment consists of the CTI business, acquired in 2011. Through our tubular and pipe products segment, we distribute metals tubing, pipe, bar, valve and fittings and fabricate pressure parts supplied to various industrial markets. Founded in 1914, CTI operates from nine locations in the midwestern and southeastern United States. The tubular and pipe products segment distributes its products primarily through a direct sales force.

Results of Operations

2013 Compared to 2012

The following table sets forth certain consolidated income statement data for the years ended December 31, 2013 and 2012 (dollars shown in thousands):

	2013		**2012**	
	$	**% of net sales**	**$**	**% of net sales**
Net sales	$1,263,331	100.0	$1,383,701	100.0
Cost of materials sold (a)	999,207	79.1	1,113,852	80.5
Gross profit (b)	264,124	20.9	269,849	19.5
Operating expenses (c)	244,469	19.3	251,400	18.2
Operating income	19,655	1.6	18,449	1.3
Other income (loss), net	(28)	(0.0)	47	0.0
Interest and other expense on debt	6,703	0.6	8,357	0.6
Income before income taxes	12,924	1.0	10,139	0.7
Income taxes	5,277	0.4	7,862	0.5
Net income	$7,647	0.6	$2,277	0.2

(a) Includes $3,572 of LIFO income for 2013 (inclusive of a $1,932 out-of-period LIFO adjustment recorded in 2013)
(b) Gross profit is calculated as net sales less the cost of materials sold.
(c) Operating expenses are calculated as total costs and expenses less the cost of materials sold. 2012 operating expenses include $6,583 of goodwill impairment charges related to the Company's flat-product segment.

Net sales decreased 8.7% to $1.3 billion in 2013 from $1.4 billion in 2012. Flat products net sales decreased 9.8%, or $111 million, and were 81.3% of total net sales in 2013 compared to 82.2% in 2012. Tubular and pipe products net sales declined 3.7%, or $9 million, and were 18.7% of total net sales in 2013 compared to 17.8% of total net sales in 2012. The decrease in sales for the year ended December 31, 2013 was due to a 4.1% decline in consolidated sales volume as well as a 4.8% decline in consolidated average selling prices in 2013 compared to 2012.

Cost of materials sold decreased 10.3% to $1.0 billion in 2013 from $1.1 billion in 2012. The decrease in cost of materials sold during 2013 was due to a 4.1% decline in consolidated sales volume as well as a 6.4% decline in consolidated cost of materials sold in 2013 compared to 2012. In the first quarter of 2013, we made an out-of-period adjustment to record previously unrecognized last-in, first-out (LIFO) income, which resulted in a decrease to cost of materials sold of $1.9 million. The total impact of LIFO income in 2013 was a $3.6 million decrease to cost of materials sold.

As a percentage of net sales, gross profit (as defined in footnote (b) in the table above) increased to 20.9% in 2013 from 19.5% in 2012. Gross profit as a percentage of sales increased in both segments. The impact of LIFO income increased gross profit by 0.3% of sales in 2013. The increase in gross profit during 2013 was primarily due to the cost of materials sold decreasing more than selling prices, as well as the impact of LIFO income.

Operating expenses in 2013 decreased $6.9 million, or 2.8%, from 2012. As a percentage of net sales, operating expenses increased to 19.3% in 2013 from 18.2% in 2012. The decrease in operating expenses resulted primarily from a $6.6 million goodwill impairment charge related to the flat products segment’s Southern region that was included in operating expenses in 2012. During 2013, expenses related to medical claims and workers compensation expenses increased $1.0 million over 2012. These expenses are included in “Warehouse and processing”, “Administrative and general” and “Selling” on the accompanying Consolidated Statements of Comprehensive Income. Selling expenses decreased $2.7 million in 2013 compared to 2012 as a result of decreased variable compensation, decreased discretionary spending and decreased bad debt expense. Depreciation and occupancy expense increased $2.1 million in 2013 as a result of our recent capital spending on new facilities and new processing equipment at existing facilities. We continue to monitor and control our expenses, especially headcount, temporary labor and overtime and discretionary spending to ensure alignment with our sales and operating income.

Interest and other expense on debt totaled $6.7 million in 2013 compared to $8.4 million in 2012. Our effective borrowing rate, exclusive of deferred financing fees and commitment fees, was 2.3% in 2013 compared to 2.7% in 2012. The decrease in interest and other expense on debt in 2013 was primarily attributable to lower average borrowings and lower rate premiums under our credit facility.

For 2013, income before income taxes totaled $12.9 million compared to income before income taxes of $10.1 million in 2012. 2013 included LIFO income of $3.6 million, inclusive of an out-of-period LIFO income adjustment of $1.9 million recorded in the first quarter of 2013.

An income tax provision of 40.8% was recorded for 2013, compared to an income tax provision of 77.5% in 2012. The 2012 effective income tax rate was unusually high due to the non-deductibility of the goodwill impairment charge and the impact of permanent non-deductible tax items applied to a low pre-tax income level in 2012. We expect our 2014 income tax rate to approximate 39%.

Net income for 2013 totaled $7.6 million or $0.69 per basic and diluted share, compared to net income of $2.3 million or $0.21 per basic and diluted share for 2012. The impact of LIFO income in 2013 increased earnings per share by $0.19 per basic and diluted shares. The out-of-period LIFO income adjustment accounted for $0.10 per basic and diluted share of the increase.

Segment Results of Operations

Flat products

The following table sets forth certain income statement data for the flat products segment for the years ended December 31, 2013 and 2012 (dollars shown in thousands, except per ton data):

	2013		**2012**	
		% of net sales		**% of net sales**
Direct tons sold	1,007,511		1,061,603	
Toll tons sold	81,226		80,866	
Total tons sold	1,088,737		1,142,469	
Net sales	$1,026,769	100.0	$1,138,063	100.0
Average selling price per ton	943		996	
Cost of materials sold	834,994	81.3	941,192	82.7
Gross profit (a)	191,775	18.7	196,871	17.3
Operating expenses (b)	179,669			