JPMORGAN CHASE & CO
Form 424B2
December 31, 2018

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December 27, 2018

JPMorgan Chase Financial Company LLC
Structured Investments

$3,855,000

Auto Callable Contingent Interest Notes Linked to the Lesser Performing of the Russell 2000® Index and the S&P 500® Index due January 3, 2020

Fully and Unconditionally Guaranteed by JPMorgan Chase & Co.

The notes are designed for investors who seek a Contingent Interest Payment with respect to each Review Date for which the closing level of each of the Russell 2000® Index and the S&P 500® Index, which we refer to as the Indices, is greater than or equal to 70.00% of its Initial Value, which we refer to as an Interest Barrier.
The notes will be automatically called if the closing level of each Index on any Review Date (other than the final Review Date) is greater than or equal to its Initial Value.

Investors in the notes should be willing to accept the risk of losing some or all of their principal and the risk that no Contingent Interest Payment may be made with respect to some or all Review Dates.

Investors should also be willing to forgo fixed interest and dividend payments, in exchange for the opportunity to receive Contingent Interest Payments.
The notes are unsecured and unsubordinated obligations of JPMorgan Chase Financial Company LLC, which we refer to as JPMorgan Financial, the payment on which is fully and unconditionally guaranteed by JPMorgan Chase & Co.
Any payment on the notes is subject to the credit risk of JPMorgan Financial, as issuer of the notes, and the credit risk of JPMorgan Chase & Co., as guarantor of the notes.
Payments on the notes are not linked to a basket composed of the Indices. Payments on the notes are linked to the performance of each of the Indices individually, as described below.

Minimum denominations of $1,000 and integral multiples thereof
The notes priced on December 27, 2018 and are expected to settle on or about January 2, 2019.
CUSIP: 48130WFR7

Investing in the notes involves a number of risks. See "Risk Factors" beginning on page PS-10 of the accompanying product supplement, "Risk Factors" beginning on page US-1 of the accompanying underlying supplement and "Selected Risk Considerations" beginning on page PS-4 of this pricing supplement.

Neither the Securities and Exchange Commission (the "SEC") nor any state securities commission has approved or disapproved of the notes or passed upon the accuracy or the adequacy of this pricing supplement or the accompanying product supplement, underlying supplement, prospectus supplement and prospectus. Any representation to the contrary is a criminal offense.

	Price to Public (1)	Fees and Commissions (2)	Proceeds to Issuer
Per note	$1,000	$4.3774	$995.6226
Total	$3,855,000	$16,875	$3,838,125

(1) See "Supplemental Use of Proceeds" in this pricing supplement for information about the components of the price to public of the notes.

(2) J.P. Morgan Securities LLC, which we refer to as JPMS, acting as agent for JPMorgan Financial, will pay all of the selling commissions it receives from us to other affiliated or unaffiliated dealers. These selling commissions will vary and will be up to $6.25 per $1,000 principal amount note. See "Plan of Distribution (Conflicts of Interest)" in the accompanying product supplement.

The estimated value of the notes, when the terms of the notes were set, was $974.90 per $1,000 principal amount note. See "The Estimated Value of the Notes" in this pricing supplement for additional information.

The notes are not bank deposits, are not insured by the Federal Deposit Insurance Corporation or any other governmental agency and are not obligations of, or guaranteed by, a bank.

Pricing supplement to product supplement no. 4-I dated April 5, 2018, underlying supplement no. 1-I dated April 5, 2018 and the prospectus and prospectus supplement, each dated April 5, 2018

Key Terms

Issuer: JPMorgan Chase Financial Company LLC, an indirect, wholly owned finance subsidiary of JPMorgan Chase & Co.

Guarantor: JPMorgan Chase & Co.

Indices: The Russell 2000® Index (Bloomberg ticker: RTY) and the S&P 500® Index (Bloomberg ticker: SPX) (each an "Index" and collectively, the "Indices")

Contingent Interest Payments: If the notes have not been automatically called and the closing level of each Index on any Review Date is greater than or equal to its Interest Barrier, you will receive on the applicable Interest Payment Date for each $1,000 principal amount note a Contingent Interest Payment of $26.25 (equivalent to a Contingent Interest Rate of 10.50% per annum, payable at a rate of 2.625% per quarter).

If the closing level of either Index on any Review Date is less than its Interest Barrier, no Contingent Interest Payment will be made with respect to that Review Date.

Contingent Interest Rate: 10.50% per annum, payable at a rate of 2.625% per quarter

Interest Barrier/Trigger Value: With respect to each Index, 70.00% of its Initial Value, which is 932.2719 for the Russell 2000® Index and 1,742.181 for the S&P 500® Index

Pricing Date: December 27, 2018

Original Issue Date (Settlement Date): On or about January 2, 2019

Review Dates*: March 26, 2019, June 25, 2019, September 25, 2019 and December 30, 2019 (final Review Date)

Interest Payment Dates*: March 29, 2019, June 28, 2019, September 30, 2019 and the Maturity Date

Maturity Date*: January 3, 2020

Call Settlement Date*: If the notes are automatically called on any Review Date (other than the final Review Date), the first Interest Payment Date immediately

Lesser Performing Index: The Index with the Lesser Performing Index Return

Lesser Performing Index Return: The lower of the Index Returns of the Indices

Index Return: With respect to each Index,

$$\frac{(\text{Final Value} - \text{Initial Value})}{\text{Initial Value}}$$

Initial Value: With respect to each Index, the closing level of that Index on the Pricing Date, which was 1,331.817 for the Russell 2000® Index and 2,488.83 for the S&P 500® Index

Final Value: With respect to each Index, the closing level of that Index on the final Review Date

Trigger Event: A Trigger Event occurs if, on any day during the Monitoring Period, the closing level of either Index is less than its Trigger Value

Monitoring Period: The period from but excluding the Pricing Date to and including the final Review Date

Automatic Call: If the closing level of each Index on any Review Date (other than the final Review Date) is greater than or equal to its Initial Value, the notes will be automatically called for a cash payment, for each $1,000 principal amount note, equal to (a) $1,000 *plus* (b) the Contingent Interest Payment applicable to that Review Date, payable on the applicable Call Settlement Date. No further payments will be made on the notes.

Payment at Maturity:

If the notes have not been automatically called and (i) the Final Value of each Index is greater than or equal to its Initial Value or (ii) a Trigger Event has not occurred, you will receive a cash payment at maturity, for each $1,000 principal amount note, equal to (a) $1,000 plus (b) the Contingent Interest Payment applicable to the final Review Date.

If the notes have not been automatically called and (i) the Final Value of either Index is less than its Initial Value and (ii) a Trigger Event has occurred, your payment at following that Review Date

* Subject to postponement in the event of a market disruption event and as described under “General Terms of Notes — Postponement of a Determination Date — Notes Linked to Multiple Underlyings” and “General Terms of Notes — Postponement of a Payment Date” in the accompanying product supplement

maturity per $1,000 principal amount note, in addition to any Contingent Interest Payment, will be calculated as follows:

$1,000 + ($1,000 × Lesser Performing Index Return)

If the notes have not been automatically called and (i) the Final Value of either Index is less than its Initial Value and (ii) a Trigger Event has occurred, you will lose some or all of your principal amount at maturity.

How the Notes Work

Payments in Connection with Review Dates Preceding the Final Review Date

Payment at Maturity If the Notes Have Not Been Automatically Called

Total Contingent Interest Payments

The table below illustrates the total Contingent Interest Payments per $1,000 principal amount note over the term of the notes based on the Contingent Interest Rate of 10.50% per annum, depending on how many Contingent Interest Payments are made prior to automatic call or maturity.

Number of Contingent Interest Payments	Total Contingent Interest Payments
4	$105.00
3	$78.75
2	$52.50
1	$26.25
0	$0.00

Hypothetical Payout Examples

The following examples illustrate payments on the notes linked to two hypothetical Indices, assuming a range of performances for the hypothetical Lesser Performing Index on the Review Dates. **Each hypothetical payment set forth below assumes that the closing level of the Index that is not the Lesser Performing Index on each Review Date is greater than or equal to its Initial Value (and therefore its Interest Barrier and Trigger Value).**

In addition, the hypothetical payments set forth below assume the following:

- an Initial Value for the Lesser Performing Index of 100.00;
- an Interest Barrier and a Trigger Value for the Lesser Performing Index of 70.00 (equal to 70.00% of its hypothetical Initial Value); and
- a Contingent Interest Rate of 10.50% per annum (payable at a rate of 2.625% per quarter).

The hypothetical Initial Value of the Lesser Performing Index of 100.00 has been chosen for illustrative purposes only and does not represent the actual Initial Value of either Index.

The actual Initial Value of each Index is the closing level of that Index on the Pricing Date and is specified under "Key Terms - Initial Value" in this pricing supplement. For historical data regarding the actual closing levels of each Index, please see the historical information set forth under "The Indices" in this pricing supplement.

Each hypothetical payment set forth below is for illustrative purposes only and may not be the actual payment applicable to a purchaser of the notes. The numbers appearing in the following examples have been rounded for ease of analysis.

Example 1 — Notes are automatically called on the first Review Date.

Date	Closing Level of Lesser Performing Index	Payment (per $1,000 principal amount note)
First Review Date	105.00	$1,026.25
	Total Payment	$1,026.25 (2.625% return)

Because the closing level of each Index on the first Review Date is greater than or equal to its Initial Value, the notes will be automatically called for a cash payment, for each $1,000 principal amount note, of $1,026.25 (or $1,000 *plus* the Contingent Interest Payment applicable to the first Review Date), payable on the applicable Call Settlement Date. No further payments will be made on the notes.

Example 2 — Notes have NOT been automatically called, the Final Value of the Lesser Performing Index is greater than or equal to its Initial Value and a Trigger Event has occurred.

Date	Closing Level of Lesser Performing Index	Payment (per $1,000 principal amount note)
First Review Date	95.00	$26.25
Second Review Date	85.00	$26.25
Third Review Date	50.00	$0
Final Review Date	105.00	$1,026.25
	Total Payment	$1,078.75 (7.875% return)

Because the notes have not been automatically called and the Final Value of the Lesser Performing Index is greater than or equal to its Initial Value (and, therefore, its Interest Barrier), even though a Trigger Event has occurred, the payment at maturity, for each $1,000 principal amount note, will be $1,026.25 (or $1,000 *plus* the Contingent Interest Payment applicable to the final Review Date). When added to the Contingent Interest Payments received with respect to the prior Review Dates, the total amount paid, for each $1,000 principal amount note, is $1,078.75.

Example 3 — Notes have NOT been automatically called, the Final Value of the Lesser Performing Index is less than its Initial Value and a Trigger Event has NOT occurred.

Date	Closing Level of Lesser Performing Index	Payment (per $1,000 principal amount note)
First Review Date	95.00	$26.25
Second Review Date	95.00	$26.25
Third Review Date	90.00	$26.25
Final Review Date	70.00	$1,026.25
	Total Payment	$1,105.00 (10.50% return)

Because the notes have not been automatically called, the Final Value of the Lesser Performing Index is greater than or equal to its Interest Barrier and a Trigger Event has not occurred, even though the Final Value of the Lesser Performing Index is less than its Initial Value, the payment at maturity, for each $1,000 principal amount note, will be $1,026.25 (or $1,000 plus the Contingent Interest Payment applicable to the final Review Date). When added to the Contingent Interest Payments received with respect to the prior Review Dates, the total amount paid, for each $1,000 principal amount note, is $1,105.00.

Example 4 — Notes have NOT been automatically called, the Final Value of the Lesser Performing Index is less than its Initial Value and its Interest Barrier and a Trigger Event has occurred.

Date	Closing Level of Lesser Performing Index	Payment (per $1,000 principal amount note)
First Review Date	40.00	$0
Second Review Date	45.00	$0
Third Review Date	55.00	$0
Final Review Date	50.00	$500.00
	Total Payment	$500.00 (-50.00% return)

Because the notes have not been automatically called, the Final Value of the Lesser Performing Index is less than its Initial Value and its Interest Barrier, a Trigger Event has occurred and the Lesser Performing Index Return is -50.00%, the payment at maturity will be $500.00 per $1,000 principal amount note, calculated as follows:

$\$1,000 + [\$1,000 \times (-50.00\%)] = \$500.00$

The hypothetical returns and hypothetical payments on the notes shown above apply **only if you hold the notes for their entire term or until automatically called.** These hypotheticals do not reflect the fees or expenses that would be associated with any sale in the secondary market. If these fees and expenses were included, the hypothetical returns and hypothetical payments shown above would likely be lower.

Selected Risk Considerations

An investment in the notes involves significant risks. These risks are explained in more detail in the “Risk Factors” sections of the accompanying product supplement and underlying supplement.

YOUR INVESTMENT IN THE NOTES MAY RESULT IN A LOSS —
The notes do not guarantee any return of principal. If the notes have not been automatically called and (i) the Final Value of either Index is less than its Initial Value and (ii) a Trigger Event has occurred, you will lose 1% of the principal amount of your notes for every 1% that the Final Value of the Lesser Performing Index is less than its Initial Value. Accordingly, under these circumstances, you will lose some or all of your principal amount at maturity.

THE NOTES DO NOT GUARANTEE THE PAYMENT OF INTEREST AND MAY NOT PAY ANY INTEREST AT ALL —
If the notes have not been automatically called, we will make a Contingent Interest Payment with respect

to a Review Date only if the closing level of each Index on that Review Date is greater than or equal to its Interest Barrier. If the closing level of either Index on that Review Date is less than its Interest Barrier, no Contingent Interest Payment will be made with respect to that Review Date. Accordingly, if the closing level of either Index on each Review Date is less than its Interest Barrier, you will not receive any interest payments over the term of the notes.

CREDIT RISKS OF JPMORGAN FINANCIAL AND JPMORGAN CHASE & CO. —
Investors are dependent on our and JPMorgan Chase & Co.'s ability to pay all amounts due on the notes. Any actual or potential change in our or JPMorgan Chase & Co.'s creditworthiness or credit spreads, as determined by the market for taking that credit risk, is likely to adversely affect the value of the notes. If we and JPMorgan Chase & Co. were to default on our payment obligations, you may not receive any amounts owed to you under the notes and you could lose your entire investment.

AS A FINANCE SUBSIDIARY, JPMORGAN FINANCIAL HAS NO INDEPENDENT OPERATIONS AND HAS LIMITED ASSETS —
As a finance subsidiary of JPMorgan Chase & Co., we have no independent operations beyond the issuance and administration of our securities. Aside from the initial capital contribution from JPMorgan Chase & Co., substantially all of our assets relate to obligations of our affiliates to make payments under loans made by us or other intercompany agreements. As a result, we are dependent upon payments from our affiliates to meet our obligations under the notes. If these affiliates do not make payments to us and we fail to make payments on the notes, you may have to seek payment under the related guarantee by JPMorgan Chase & Co., and that guarantee will rank *pari passu* with all other unsecured and unsubordinated obligations of JPMorgan Chase & Co.

THE APPRECIATION POTENTIAL OF THE NOTES IS LIMITED TO THE SUM OF ANY CONTINGENT INTEREST PAYMENTS THAT MAY BE PAID OVER THE TERM OF THE NOTES,
regardless of any appreciation of either Index, which may be significant. You will not participate in any appreciation of either Index.

POTENTIAL CONFLICTS —
We and our affiliates play a variety of roles in connection with the notes. In performing these duties, our and JPMorgan Chase & Co.'s economic interests are potentially adverse to your interests as an investor in the notes. It is possible that hedging or trading activities of ours or our affiliates in connection with the notes could result in substantial returns for us or our affiliates while the value of the notes declines. Please refer to "Risk Factors — Risks Relating to Conflicts of Interest" in the accompanying product supplement.

JPMORGAN CHASE & CO. IS CURRENTLY ONE OF THE COMPANIES THAT MAKE UP THE S&P 500® INDEX,
but JPMorgan Chase & Co. will not have any obligation to consider your interests in taking any corporate action that might affect the level of the S&P 500® Index.

AN INVESTMENT IN THE NOTES IS SUBJECT TO RISKS ASSOCIATED WITH SMALL CAPITALIZATION STOCKS WITH RESPECT TO THE RUSSELL 2000® INDEX —
Small capitalization companies may be less able to withstand adverse economic, market, trade and competitive conditions relative to larger companies. Small capitalization companies are less likely to pay dividends on their stocks, and the presence of a dividend payment could be a factor that limits downward stock price pressure under adverse market conditions.

YOU ARE EXPOSED TO THE RISK OF DECLINE IN THE LEVEL OF EACH INDEX—
Payments on the notes are not linked to a basket composed of the Indices and are contingent upon the performance of each individual Index. Poor performance by either of the Indices over the term of the notes may result in the notes not being automatically called on a Review Date, may negatively affect whether you will receive a Contingent Interest Payment on any Interest Payment Date and your payment at maturity and will not be offset or mitigated by positive performance by the other Index.

YOUR PAYMENT AT MATURITY WILL BE DETERMINED BY THE LESSER PERFORMING INDEX. THE BENEFIT PROVIDED BY THE TRIGGER VALUE MAY TERMINATE ON ANY DAY DURING THE MONITORING PERIOD—
If, on any day during the Monitoring Period, the closing level of either Index is less than its Trigger Value (*i.e.,* a Trigger Event occurs) and the notes have not been automatically called, the benefit provided by the Trigger Value will terminate and you will be fully exposed to any depreciation of the Lesser Performing Index. You will be subject to this potential loss of principal even if that Index subsequently recovers such that the closing level of that Index is greater than or equal to its Trigger Value.

THE AUTOMATIC CALL FEATURE MAY FORCE A POTENTIAL EARLY EXIT —
If your notes are automatically called, the term of the notes may be reduced to as short as approximately three months and you will not receive any Contingent Interest Payments after the applicable Call Settlement Date. There is no guarantee that you would be able to reinvest the proceeds from an investment in the notes at a comparable return and/or with a comparable interest rate for a similar level of risk. Even in cases where the notes are called before maturity, you are not entitled to any fees and commissions described on the front cover of this pricing supplement.

YOU WILL NOT RECEIVE DIVIDENDS ON THE SECURITIES INCLUDED IN EITHER INDEX OR HAVE ANY RIGHTS WITH RESPECT TO THOSE SECURITIES.

THE RISK OF THE CLOSING LEVEL OF AN INDEX FALLING BELOW ITS INTEREST BARRIER OR TRIGGER VALUE IS GREATER IF THE LEVEL OF THAT INDEX IS VOLATILE.

LACK OF LIQUIDITY—

The notes will not be listed on any securities exchange. Accordingly, the price at which you may be able to trade your notes is likely to depend on the price, if any, at which JPMS is willing to buy the notes. You may not be able to sell your notes. The notes are not designed to be short-term trading instruments. Accordingly, you should be able and willing to hold your notes to maturity.

THE ESTIMATED VALUE OF THE NOTES IS LOWER THAN THE ORIGINAL ISSUE PRICE (PRICE TO PUBLIC) OF THE NOTES —

The estimated value of the notes is only an estimate determined by reference to several factors. The original issue price of the notes exceeds the estimated value of the notes because costs associated with selling, structuring and hedging the notes are included in the original issue price of the notes. These costs include the selling commissions, the projected profits, if any, that our affiliates expect to realize for assuming risks inherent in hedging our obligations under the notes and the estimated cost of hedging our obligations under the notes. See "The Estimated Value of the Notes" in this pricing supplement.

THE ESTIMATED VALUE OF THE NOTES DOES NOT REPRESENT FUTURE VALUES OF THE NOTES AND MAY DIFFER FROM OTHERS' ESTIMATES —

See "The Estimated Value of the Notes" in this pricing supplement.

THE ESTIMATED VALUE OF THE NOTES IS DERIVED BY REFERENCE TO AN INTERNAL FUNDING RATE —
The internal funding rate used in the determination of the estimated value of the notes is based on, among other things, our and our affiliates' view of the funding value of the notes as well as the higher issuance, operational and ongoing liability management costs of the notes in comparison to those costs for the conventional fixed-rate debt of JPMorgan Chase & Co. The use of an internal funding rate and any potential changes to that rate may have an adverse effect on the terms of the notes and any secondary market prices of the notes. See "The Estimated Value of the Notes" in this pricing supplement.
THE VALUE OF THE NOTES AS PUBLISHED BY JPMS (AND WHICH MAY BE REFLECTED ON CUSTOMER ACCOUNT STATEMENTS) MAY BE HIGHER THAN THE THEN-CURRENT ESTIMATED VALUE OF THE NOTES FOR A LIMITED TIME PERIOD —
We generally expect that some of the costs included in the original issue price of the notes will be partially paid back to you in connection with any repurchases of your notes by JPMS in an amount that will decline to zero over an initial predetermined period. See "Secondary Market Prices of the Notes" in this pricing supplement for additional information relating to this initial period. Accordingly, the estimated value of your notes during this initial period may be lower than the value of the notes as published by JPMS (and which may be shown on your customer account statements).
SECONDARY MARKET PRICES OF THE NOTES WILL LIKELY BE LOWER THAN THE ORIGINAL ISSUE PRICE OF THE NOTES —
Any secondary market prices of the notes will likely be lower than the original issue price of the notes because, among other things, secondary market prices take into account our internal secondary market funding rates for structured debt issuances and, also, because secondary market prices (a) exclude selling commissions and (b) may exclude projected hedging profits, if any, and estimated hedging costs that are included in the original issue price of the notes. As a result, the price, if any, at which JPMS will be willing to buy the notes from you in secondary market transactions, if at all, is likely to be lower than the original issue price. Any sale by you prior to the Maturity Date could result in a substantial loss to you.
SECONDARY MARKET PRICES OF THE NOTES WILL BE IMPACTED BY MANY ECONOMIC AND MARKET FACTORS —
The secondary market price of the notes during their term will be impacted by a number of economic and market factors, which may either offset or magnify each other, aside from the selling commissions, projected hedging profits, if any, estimated hedging costs and the levels of the Indices. Additionally, independent pricing vendors and/or third party broker-dealers may publish a price for the notes, which may also be reflected on customer account statements. This price may be different (higher or lower) than the price of the notes, if any, at which JPMS may be willing to purchase your notes in the secondary market. See "Risk Factors — Risks Relating to the Estimated Value and Secondary Market Prices of the Notes — Secondary market prices of the notes will be impacted by many economic and market factors" in the accompanying product supplement.

The Indices

The Russell 2000® Index consists of the middle 2,000 companies included in the Russell 3000E™ Index and, as a result of the index calculation methodology, consists of the smallest 2,000 companies included in the Russell 3000® Index. The Russell 2000® Index is designed to track the performance of the small capitalization segment of the U.S. equity market. For additional information about the Russell 2000® Index, see "Equity Index Descriptions — The Russell Indices" in the accompanying underlying supplement.

The S&P 500® Index consists of stocks of 500 companies selected to provide a performance benchmark for the U.S. equity markets. For additional information about the S&P 500® Index, see "Equity Index Descriptions — The S&P U.S. Indices" in the accompanying underlying supplement.

Historical Information

The following graphs set forth the historical performance of each Index based on the weekly historical closing levels from January 4, 2013 through December 21, 2018. The closing level of the Russell 2000® Index on December 27, 2018 was 1,331.817. The closing level of the S&P 500® Index on December 27, 2018 was 2,488.83. We obtained the closing levels above and below from the Bloomberg Professional® service ("Bloomberg"), without independent verification.

The historical closing levels of each Index should not be taken as an indication of future performance, and no assurance can be given as to the closing level of either Index on any Review Date or any day during the Monitoring Period. There can be no assurance that the performance of the Indices will result in the return of any of your principal amount or the payment of any interest.

Historical Performance of the Russell 2000® Index

Source: Bloomberg

Historical Performance of the S&P 500® Index

Source: Bloomberg

Tax Treatment

You should review carefully the section entitled “Material U.S. Federal Income Tax Consequences” in the accompanying product supplement no. 4-I. In determining our reporting responsibilities we intend to treat (i) the notes for U.S. federal income tax purposes as prepaid forward contracts with associated contingent coupons and (ii) any Contingent Interest Payments as ordinary income, as described in the section entitled “Material U.S. Federal Income Tax Consequences — Tax Consequences to U.S. Holders — Notes Treated as Prepaid Forward Contracts with Associated Contingent Coupons” in the accompanying product supplement. Based on the advice of Davis Polk & Wardwell LLP, our special tax counsel, we believe that this is a reasonable treatment, but that there are other reasonable treatments that the IRS or a court may adopt, in which case the timing and character of any income or loss on the notes could be materially affected. In addition, in 2007 Treasury and the IRS released a notice requesting comments on the U.S. federal income tax treatment of “prepaid forward contracts” and similar instruments. The notice focuses in particular on whether to require investors in these instruments to accrue income over the term of their investment. It also asks for comments on a number of related topics, including the character of income or loss with respect to these instruments and the relevance of factors such as the nature of the underlying property to which the instruments are linked. While the notice requests comments on appropriate transition rules and effective dates, any Treasury regulations or other guidance promulgated after consideration of these issues could materially affect the tax consequences of an investment in the notes, possibly with retroactive effect. The discussions above and in the accompanying product supplement do not address the consequences to taxpayers subject to special tax accounting rules under Section 451(b) of the Code. You should consult your tax adviser regarding the U.S. federal income tax consequences of an investment in the notes, including possible alternative treatments and the issues presented by the notice described above.

Non-U.S. Holders — Tax Considerations. The U.S. federal income tax treatment of Contingent Interest Payments is uncertain, and although we believe it is reasonable to take a position that Contingent Interest Payments are not subject to U.S. withholding tax (at least if an applicable Form W-8 is provided), a withholding agent may nonetheless withhold on these payments (generally at a rate of 30%, subject to the possible reduction of that rate under an applicable income tax treaty), unless income from your notes is effectively connected with your conduct of a trade or business in the United States (and, if an applicable treaty so requires, attributable to a permanent establishment in the United States). If you are not a United States person, you are urged to consult your tax adviser regarding the U.S. federal income tax consequences of an investment in the notes in light of your particular circumstances.

Section 871(m) of the Code and Treasury regulations promulgated thereunder (“Section 871(m)”) generally impose a 30% withholding tax (unless an income tax treaty applies) on dividend equivalents paid or deemed paid to Non-U.S. Holders with respect to certain financial instruments linked to U.S. equities or indices that include U.S. equities. Section 871(m) provides certain exceptions to this withholding regime, including for instruments linked to certain broad-based indices that meet requirements set forth in the applicable Treasury regulations (such an index, a “Qualified Index”). Additionally, a recent IRS notice excludes from the scope of Section 871(m) instruments issued prior to January 1, 2021 that do not have a delta of one with respect to underlying securities that could pay U.S.-source dividends for U.S. federal income tax purposes (each an “Underlying Security”). Based on certain determinations made by us, our special tax counsel is of the opinion that Section 871(m) should not apply to the notes with regard to Non-U.S. Holders. Our determination is not binding on the IRS, and the IRS may disagree with this determination. Section 871(m) is complex and its application may depend on your particular circumstances, including whether you enter into other transactions with respect to an Underlying Security. You should consult your tax adviser regarding the potential application of Section 871(m) to the notes.

FATCA. Withholding under legislation commonly referred to as “FATCA” could apply to payments with respect to the notes that are treated as U.S.-source “fixed or determinable annual or periodical” income (“FDAP Income”) for U.S. federal income tax purposes (such as interest, if the notes are recharacterized, in whole or in part, as debt instruments, or Contingent Interest Payments if they are otherwise treated as FDAP Income). If the notes are recharacterized, in whole or in part, as debt instruments, withholding could also apply to payments of gross proceeds of a taxable disposition, including an early redemption or redemption at maturity, although under recently proposed regulations (the preamble to which specifies that taxpayers are permitted to rely on them pending finalization), no withholding will apply to payments of gross proceeds (other than any amount treated as FDAP Income). You should consult your tax adviser regarding the potential application of FATCA to the notes.

In the event of any withholding on the notes, we will not be required to pay any additional amounts with respect to amounts so withheld.

The Estimated Value of the Notes

The estimated value of the notes set forth on the cover of this pricing supplement is equal to the sum of the values of the following hypothetical components: (1) a fixed-income debt component with the same maturity as the notes, valued using the internal funding rate described below, and (2) the derivative or derivatives underlying the economic terms of the notes. The estimated value of the notes does not represent a minimum price at which JPMS would be willing to buy your notes in any secondary market (if any exists) at any time. The internal funding rate used in the determination of the estimated value of the notes is based on, among other things, our and our affiliates' view of the funding value of the notes as well as the higher issuance, operational and ongoing liability management costs of the notes in comparison to those costs for the conventional fixed-rate debt of JPMorgan Chase & Co. For additional information, see "Selected Risk Considerations — The Estimated Value of the Notes Is Derived by Reference to an Internal Funding Rate" in this pricing supplement.

The value of the derivative or derivatives underlying the economic terms of the notes is derived from internal pricing models of our affiliates. These models are dependent on inputs such as the traded market prices of comparable derivative instruments and on various other inputs, some of which are market-observable, and which can include volatility, dividend rates, interest rates and other factors, as well as assumptions about future market events and/or environments. Accordingly, the estimated value of the notes is determined when the terms of the notes are set based on market conditions and other relevant factors and assumptions existing at that time.

The estimated value of the notes does not represent future values of the notes and may differ from others' estimates. Different pricing models and assumptions could provide valuations for the notes that are greater than or less than the estimated value of the notes. In addition, market conditions and other relevant factors in the future may change, and any assumptions may prove to be incorrect. On future dates, the value of the notes could change significantly based on, among other things, changes in market conditions, our or JPMorgan Chase & Co.'s creditworthiness, interest rate movements and other relevant factors, which may impact the price, if any, at which JPMS would be willing to buy notes from you in secondary market transactions.

The estimated value of the notes is lower than the original issue price of the notes because costs associated with selling, structuring and hedging the notes are included in the original issue price of the notes. These costs include the selling commissions paid to JPMS and other affiliated or unaffiliated dealers, the projected profits, if any, that our affiliates expect to realize for assuming risks inherent in hedging our obligations under the notes and the estimated cost of hedging our obligations under the notes. Because hedging our obligations entails risk and may be influenced by market forces beyond our control, this hedging may result in a profit that is more or less than expected, or it may result in a loss. A portion of the profits, if any, realized in hedging our obligations under the notes may be allowed to other affiliated or unaffiliated dealers, and we or one or more of our affiliates will retain any remaining hedging profits. See "Selected Risk Considerations — The Estimated Value of the Notes Is Lower Than the Original Issue Price (Price to Public) of the Notes" in this pricing supplement.

Secondary Market Prices of the Notes

For information about factors that will impact any secondary market prices of the notes, see "Risk Factors — Risks Relating to the Estimated Value and Secondary Market Prices of the Notes — Secondary market prices of the notes will be impacted by many economic and market factors" in the accompanying product supplement. In addition, we generally expect that some of the costs included in the original issue price of the notes will be partially paid back to you in connection with any repurchases of your notes by JPMS in an amount that will decline to zero over an initial predetermined period. These costs can include projected hedging profits, if any, and, in some circumstances, estimated hedging costs and our internal secondary market funding rates for structured debt issuances. This initial predetermined time period is intended to be the shorter of six months and one-half of the stated term of the notes. The length of any such initial period reflects the structure of the notes, whether our affiliates expect to earn a profit in connection with our hedging activities, the estimated costs of hedging the notes and when these costs are incurred, as determined by our affiliates. See "Selected Risk Considerations — The Value of the Notes as Published by JPMS (and Which May Be Reflected on Customer Account Statements) May Be Higher Than the Then-Current Estimated Value of the Notes for a Limited Time Period" in this pricing supplement.

Supplemental Use of Proceeds

The notes are offered to meet investor demand for products that reflect the risk-return profile and market exposure provided by the notes. See "How the Notes Work" and "Hypothetical Payout Examples" in this pricing supplement for an illustration of the risk-return profile of the notes and "The Indices" in this pricing supplement for a description of the market exposure provided by the notes.

The original issue price of the notes is equal to the estimated value of the notes plus the selling commissions paid to JPMS and other affiliated or unaffiliated dealers, plus (minus) the projected profits (losses) that our affiliates expect to realize for assuming risks inherent in hedging our obligations under the notes, plus the estimated cost of hedging our obligations under the notes.

Supplemental Plan of Distribution

We expect that delivery of the notes will be made against payment for the notes on or about the Original Issue Date set forth on the front cover of this pricing supplement, which will be the third business day following the Pricing Date of the notes (this settlement cycle being referred to as “T+3”). Under Rule 15c6-1 of the Securities Exchange Act of 1934, as amended, trades in the secondary market generally are required to settle in two business days, unless the parties to that trade expressly agree otherwise. Accordingly, purchasers who wish to trade notes on any date prior to two business days before delivery will be required to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement and should consult their own advisors.

Validity of the Notes and the Guarantee

In the opinion of Davis Polk & Wardwell LLP, as special products counsel to JPMorgan Financial and JPMorgan Chase & Co., when the notes offered by this pricing supplement have been executed and issued by JPMorgan Financial and authenticated by the trustee pursuant to the indenture, and delivered against payment as contemplated herein, such notes will be valid and binding obligations of JPMorgan Financial and the related guarantee will constitute a valid and binding obligation of JPMorgan Chase & Co., enforceable in accordance with their terms, subject to applicable bankruptcy, insolvency and similar laws affecting creditors’ rights generally, concepts of reasonableness and equitable principles of general applicability (including, without limitation, concepts of good faith, fair dealing and the lack of bad faith), *provided* that such counsel expresses no opinion as to (i) the effect of fraudulent conveyance, fraudulent transfer or similar provision of applicable law on the conclusions expressed above or (ii) any provision of the indenture that purports to avoid the effect of fraudulent conveyance, fraudulent transfer or similar provision of applicable law by limiting the amount of JPMorgan Chase & Co.'s obligation under the related guarantee. This opinion is given as of the date hereof and is limited to the laws of the State of New York, the General Corporation Law of the State of Delaware and the Delaware Limited Liability Company Act. In addition, this opinion is subject to customary assumptions about the trustee's authorization, execution and delivery of the indenture and its authentication of the notes and the validity, binding nature and enforceability of the indenture with respect to the trustee, all as stated in the letter of such counsel dated March 8, 2018, which was filed as an exhibit to the Registration Statement on Form S-3 by JPMorgan Financial and JPMorgan Chase & Co. on March 8, 2018.

Additional Terms Specific to the Notes

You should read this pricing supplement together with the accompanying prospectus, as supplemented by the accompanying prospectus supplement relating to our Series A medium-term notes of which these notes are a part, and the more detailed information contained in the accompanying product supplement and the accompanying underlying supplement. This pricing supplement, together with the documents listed below, contains the terms of the notes and supersedes all other prior or contemporaneous oral statements as well as any other written materials including preliminary or indicative pricing terms, correspondence, trade ideas, structures for implementation, sample structures, fact sheets, brochures or other educational materials of ours. You should carefully consider, among other things, the matters set forth in the "Risk Factors" sections of the accompanying product supplement and the accompanying underlying supplement, as the notes involve risks not associated with conventional debt securities. We urge you to consult your investment, legal, tax, accounting and other advisers before you invest in the notes.

You may access these documents on the SEC website at www.sec.gov as follows (or if such address has changed, by reviewing our filings for the relevant date on the SEC website):

Product supplement no. 4-I dated April 5, 2018:
http://www.sec.gov/Archives/edgar/data/19617/000095010318004519/dp87528_424b2-ps4i.pdf
Underlying supplement no. 1-I dated April 5, 2018:
http://www.sec.gov/Archives/edgar/data/19617/000095010318004514/crt_dp87766-424b2.pdf
Prospectus supplement and prospectus, each dated April 5, 2018:
http://www.sec.gov/Archives/edgar/data/19617/000095010318004508/dp87767_424b2-ps.pdf

Our Central Index Key, or CIK, on the SEC website is 1665650, and JPMorgan Chase & Co.'s CIK is 19617. As used in this pricing supplement, "we," "us" and "our" refer to JPMorgan Financial.

TD id=TBL1312.finRow.3.lead.5 style="FONT-SIZE: 10pt; FONT-FAMILY: Times New Roman, Times, serif; WIDTH: 1%; VERTICAL-ALIGN: bottom; BACKGROUND-COLOR: #cceeff"> $345,865

Costs and expenses

Cost of materials sold (excludes items shown seperately below)

199,820 279,939

Warehouse and processing

20,492 22,537

Administrative and general

16,040 17,330

Distribution

9,207 9,301

Selling

5,687 5,891

Occupancy

2,337 2,710

Depreciation

4,509 4,590

Amortization

222 222

Total costs and expenses

258,314 342,520

Operating income

35 3,345

Other income (loss), net

(5) (31)

Income before interest and income taxes

30 3,314

Interest and other expense on debt

1,285 1,563

Income (loss) before income taxes	(1,255)	1,751
Income tax provision (benefit)	(488)	682
Net income (loss)	$(767)	$1,069
Net gain (loss) on cash flow hedges, net of tax of $30 at March 31, 2016 and $397 at March 31, 2015.	48	(636)
Total comprehensive income (loss)	$(719)	$433
Earnings per share:		
Net income (loss) per share - basic	$(0.07)	$0.10
Weighted average shares outstanding - basic	11,182	11,195
Net income (loss) per share - diluted	$(0.07)	$0.10
Weighted average shares outstanding - diluted	11,182	11,195

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

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Olympic Steel, Inc.

Consolidated Statements of Cash Flows

For the Three Months Ended March 31,

(in thousands)

	2016	2015
	(unaudited)	
Cash flows from (used for) operating activities:		
Net income (loss)	$(767)	$1,069
Adjustments to reconcile net income to net cash from (used for) operating activities -		
Depreciation and amortization	4,960	5,007
Gain on disposition of property and equipment	(160)	-
Stock-based compensation	797	953
Other long-term assets	(1,857)	(230)
Other long-term liabilities	367	(3,783)
	3,340	3,016
Changes in working capital:		
Accounts receivable	(21,825)	(27,673)
Inventories	16,831	30,842
Prepaid expenses and other	(62)	5,075
Accounts payable	764	1,091
Change in outstanding checks	(411)	4,964
Accrued payroll and other accrued liabilities	4,208	(2,747)
	(495)	11,552
Net cash from operating activities	2,845	14,568
Cash flows from (used for) investing activities:		
Capital expenditures	(1,396)	(1,691)
Proceeds from disposition of property and equipment	160	-
Net cash used for investing activities	(1,236)	(1,691)
Cash flows from (used for) financing activities:		
Credit facility revolver borrowings	57,188	112,410
Credit facility revolver repayments	(57,775)	(122,400)
Proceeds from exercise of stock options (including tax benefits) and employee stock purchases	23	9
Dividends paid	(219)	(220)
Net cash used for financing activities	(783)	(10,201)
Cash and cash equivalents:		
Net change	826	2,676
Beginning balance	1,604	2,238

Ending balance	$2,430	$4,914

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

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Olympic Steel, Inc.

Supplemental Disclosures of Cash Flow Information

For the Three Months Ended March, 31

(in thousands)

	2016	**2015**
	(unaudited)	
Interest paid	$1,026	$1,413
Income taxes paid	$3	$39

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

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Olympic Steel, Inc.

Notes to Unaudited Consolidated Financial Statements

March 31, 2016

1. ***Basis of Presentation****:*

The accompanying consolidated financial statements have been prepared from the financial records of Olympic Steel, Inc. and its wholly-owned subsidiaries (collectively, Olympic or the Company), without audit and reflect all normal and recurring adjustments which are, in the opinion of management, necessary to fairly state the results of the interim periods covered by this report. Year-to-date results are not necessarily indicative of 2016 annual results and these financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2015. All intercompany transactions and balances have been eliminated in consolidation.

The Company operates in three reportable segments; carbon flat products, specialty metals flat products, and tubular and pipe products. Through its carbon flat products segment, the Company sells and distributes large volumes of processed carbon and coated flat-rolled sheet, coil and plate products. Through its specialty metals flat products segment, the Company sells and distributes processed aluminum and stainless flat-rolled sheet and coil products, flat bar products and fabricated parts. Through its tubular and pipe products segment, the Company distributes metal tubing, pipe, bar, valve and fittings and fabricates pressure parts supplied to various industrial markets.

Corporate expenses are reported as a separate line item for segment reporting purposes. Corporate expenses include the unallocated expenses related to managing the entire Company (i.e., all three 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.

2. ***Accounts Receivable*****:**

Accounts receivable are presented net of allowances for doubtful accounts and unissued credits of $2.2 million as of March 31, 2016 and $3.1 million as of December 31, 2015. The allowance for doubtful accounts is maintained at a level considered appropriate based on historical experience and specific customer collection issues that have been identified. Estimations are based upon a calculated percentage of accounts receivable, which remains fairly level from year to year, and judgments about the probable effects of economic conditions on certain customers, which can fluctuate significantly from year to year. The Company cannot guarantee that the rate of future credit losses will be similar to past experience. The Company considers all available information when assessing the adequacy of its allowance for doubtful accounts and unissued credits each quarter.

3. <u>Inventories:</u>

Inventories consisted of the following:

(in thousands)	**Inventory as of March 31, 2016**	**December 31, 2015**
Unprocessed	$ 151,019	$ 163,942
Processed and finished	38,795	42,703
Totals	$ 189,814	$ 206,645

The Company values certain of its tubular and pipe products inventory at the last-in, first-out (LIFO) method. At March 31, 2016 and December 31, 2015, approximately $40.8 million, or 21.5% of consolidated inventory, and $42.7 million, or 20.7% of consolidated inventory, respectively, was reported under the LIFO method of accounting. The cost of the remainder of the tubular and pipe products inventory is determined using a weighted average rolling first-in, first-out (FIFO) method.

During the three months ended March 31, 2016, the Company did not record an adjustment to LIFO inventory as the current projections anticipate comparative levels and pricing of inventory for the remainder of the year. During the three months ended March 31, 2015, the Company recorded $250 thousand of LIFO income.

If the FIFO method had been in use, inventories would have been $6.6 million lower than reported at March 31, 2016 and December 31, 2015.

4.*Debt*:

The Company's debt is comprised of the following components:

(in thousands)	As of March 31, 2016	December 31, 2015
Asset-based revolving credit facility due June 30, 2019	$145,214	$145,800
Industrial revenue bond due April 1, 2018	2,690	2,690
Total debt	147,904	148,490
Less current amount	(2,690)	(2,690)
Total long-term debt	$145,214	$145,800

The Company's existing asset-based credit facility (the ABL Credit Facility) is collateralized by the Company's accounts receivable and inventory. The ABL Credit Facility consists of a revolving credit line of $365 million. Revolver borrowings are limited to the lesser of a borrowing base, comprised of eligible receivables and inventories, or $365 million in the aggregate. The ABL Credit Facility matures on June 30, 2019.

The ABL Credit Facility requires the Company to comply with various covenants, the most significant of which include: (i) until maturity of the ABL Credit Facility, if any commitments or obligations are outstanding and the Company's availability is less than the greater of $30 million or 10.0% of the aggregate amount of revolver commitments ($36.5 million at March 31, 2016), then the Company must maintain a ratio of EBITDA minus certain capital expenditures and cash taxes paid to fixed charges of at least 1.00 to 1.00 for the most recent twelve fiscal month period; (ii) limitations on dividend payments and common stock repurchases; and (iii) restrictions on additional indebtedness. The Company has the option to borrow under its revolver based on the agent's base rate plus a premium ranging from 0.00% to 0.25% or the London Interbank Offered Rate (LIBOR) plus a premium ranging from 1.25% to 3.00%.

As of March 31, 2016, the Company was in compliance with its covenants and had approximately $93 million of availability under the ABL Credit Facility.

As of March 31, 2016, $2.6 million of bank financing fees were included in "Prepaid expenses and other" and "Other long-term assets" on the accompanying Consolidated Balance Sheets. The financing fees are being amortized over the five-year term of the ABL Credit facility and are included in "Interest and other expense on debt" on the accompanying Consolidated Statements of Comprehensive Income.

In June 2012, the Company entered into a forward starting fixed rate interest rate hedge that commenced June 2013, in order to eliminate the variability of cash interest payments on $53.2 million of then outstanding LIBOR-based borrowings under the ABL Credit Facility. The hedge matures on June 1, 2016 and the notional amount is reduced monthly by $729 thousand. The hedged balance as of March 31, 2016 was $28.4 million. The interest rate hedge fixed the rate at 1.21% plus a premium ranging from 1.25% to 1.75%. Although the Company is exposed to credit loss in the event of nonperformance by the other parties to the interest rate hedge agreement, the Company anticipates performance by the counterparties.

As part of the Chicago Tube and Iron (CTI) acquisition in July 2011, the Company assumed approximately $5.9 million of Industrial Revenue Bond (IRB) indebtedness issued through the Stanly County, North Carolina Industrial Revenue and Pollution Control Authority. The bond matures in April 2018, with the option to provide principal payments annually on April 1st. On April 1, 2016, the Company paid an optional principal payment of $865 thousand. Since the IRB is remarketed annually, it is included in “Current portion of long-term debt” on the accompanying Consolidated Balance Sheets. Interest is payable monthly, with a variable rate that resets weekly. As a security for payment of the bonds, the Company obtained a direct pay letter of credit issued by JPMorgan Chase Bank, N.A. The letter of credit reduces annually by the principal reduction amount. The interest rate at March 31, 2016 was 0.6% for the IRB debt.

CTI entered into an interest rate swap agreement to reduce the impact of changes in interest rates on the above IRB. At March 31, 2016, the effect of the swap agreement on the bond was to fix the rate at 3.46%. The swap agreement matures in April 2018, and is reduced annually by the amount of the optional principal payments on the bond. The Company is exposed to credit loss in the event of nonperformance by the other parties to the interest rate swap agreement. However, the Company does not anticipate nonperformance by the counterparties.

5.*Derivative Instruments:*

Metals swaps and embedded customer derivatives

During 2016 and 2015, the Company entered into nickel swaps indexed to the London Metal Exchange (LME) price of nickel with third-party brokers. The nickel swaps are accounted for as derivatives for accounting purposes. The Company entered into them to mitigate its customers' risk of volatility in the price of metals. The outstanding nickel swaps have one to eight months remaining. The swaps are settled with the brokers at maturity. The economic benefit or loss arising from the changes in fair value of the swaps is contractually passed through to the customer. The primary risk associated with the metals swaps is the ability of customers or third-party brokers to honor their agreements with the Company related to derivative instruments. If the customer or third-party brokers are unable to honor their agreements, the Company's risk of loss is the fair value of the metals swaps.

While these derivatives are intended to help the Company manage risk, they have not been designated as hedging instruments. The periodic changes in fair value of the metals and embedded customer derivative instruments are included in "Cost of materials sold" in the Consolidated Statements of Comprehensive Income. The Company recognizes derivative positions with both the customer and the third party for the derivatives and classifies cash settlement amounts associated with them as part of "Cost of materials sold" in the Consolidated Statements of Comprehensive Income. The cumulative change in fair value of the metals swaps that have not yet been settled are included in "Other accrued liabilities", and the embedded customer derivatives are included in "Accounts receivable, net" on the Consolidated Balance Sheets at March 31, 2016 and December 31, 2015.

Interest rate swap

CTI entered into an interest rate swap to reduce the impact of changes in interest rates on its IRB. The swap agreement matures in April 2018, the same time as the IRB, and is reduced annually by the amount of the optional principal payments on the IRB. The Company is exposed to credit loss in the event of nonperformance by the other parties to the interest rate swap agreement. However, the Company does not anticipate nonperformance by the counterparties. The interest rate swap is not treated as a hedge for accounting purposes.

The periodic changes in fair value of the interest rate swap and cash settlement amounts associated with the interest rate swap are included in "Interest and other expense on debt" in the Consolidated Statements of Comprehensive Income.

Fixed rate interest rate hedge

In June 2012, the Company entered into a forward starting fixed rate interest rate hedge commencing July 2013 in order to eliminate the variability of cash interest payments on $53.2 million of the outstanding LIBOR-based borrowings under the ABL Credit Facility. The hedged balance as of March 31, 2016 was $28.4 million. The hedge matures on June 1, 2016 and the notional amount is reduced monthly by $729 thousand. The interest rate hedge fixed the rate at 1.21% plus a premium ranging from 1.25% to 1.75%. Although the Company is exposed to credit loss in the event of nonperformance by the other parties to the interest rate hedge agreement, the Company anticipates performance by the counterparties. The fixed rate interest rate hedge is accounted for as a cash flow hedging instrument for accounting purposes.

There was no net impact from the nickel swaps or embedded customer derivative agreements to the Company's Consolidated Statements of Comprehensive Income for the three months ended March 31, 2016 and 2015. The table below shows the total impact to the Company's Consolidated Statements of Comprehensive Income through net income of the derivatives for the three months ended March 31, 2016 and 2015.

	Net Loss Recognized For the Three Months Ended March 31,	
(in thousands)	**2016**	**2015**
Interest rate swap (CTI)	$(20)	$(17)
Fixed interest rate swap (ABL)	(61)	(99)
Metals swaps	(76)	(1,117)
Embedded customer derivatives	76	1,117
Total loss	$(81)	$(116)

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6. ***Fair Value of Financial Instruments:***

During the three months ended March 31, 2016, there were no transfers of financial assets between Levels 1, 2 or 3 fair value measurements. There have been no changes in the methodologies used at March 31, 2016 since December 31, 2015. Following is a description of the valuation methodologies used for assets and liabilities measured at fair value as of March 31, 2016 and December 31, 2015:

Metals swaps and embedded customer derivatives – Determined by using Level 2 inputs that include the price of nickel indexed to the LME and the price of Hot-Rolled Coil Steel indexed to the NYMEX. The fair value is determined based on quoted market prices and reflects the estimated amounts the Company would pay or receive to terminate the nickel swaps.

Interest rate swaps – Based on the present value of the expected future cash flows, considering the risks involved, and using discount rates appropriate for the maturity date. Market observable Level 2 inputs are used to determine the present value of future cash flows.

The following table presents information about the Company's assets and liabilities that were measured at fair value on a recurring basis and indicates the fair value hierarchy of the valuation techniques utilized by the Company:

	Value of Items Recorded at Fair Value As of March 31, 2016			
(in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Embedded customer derivative	$-	$204	$ -	$204
Total assets at fair value	**$-**	**$204**	**$ -**	**$204**
Liabilities:				
Metals swaps	$-	$204	$ -	$204
Interest rate swap (CTI)	-	82	-	82
Fixed interest rate swap (ABL)	-	37	-	37
Total liabilities recorded at fair value	**$-**	**$323**	**$ -**	**$323**

	Value of Items Not Recorded at Fair Value As of March 31, 2016	
(in thousands)	**Level 2**	**Total**

	Level 1		Level 3	
Liabilities:				
IRB	$2,690	$-	$ -	$2,690
Revolver	-	145,214	-	145,214
Total liabilities not recorded at fair value	**$2,690**	**$145,214**	**$ -**	**$147,904**

The value of the items not recorded at fair value represent the carrying value of the liabilities.

(in thousands)	Value of Items Recorded at Fair Value As of December 31, 2015 Level 1	Level 2	Level 3	Total
Assets:				
Embedded customer derivative	$-	$384	$ -	$384
Total assets at fair value	**$-**	**$384**	**$ -**	**$384**
Liabilities:				
Metals swaps	$-	$384	$ -	$384
Interest rate swap (CTI)	-	102	-	102
Fixed interest rate swap (ABL)	-	114	-	114
Total liabilities recorded at fair value	**$-**	**$600**	**$ -**	**$600**

(in thousands)	Value of Items Not Recorded at Fair Value As of December 31, 2015 Level 1	Level 2	Level 3	Total
Liabilities:				
IRB	$2,690	$-	$ -	$2,690
Revolver	-	145,800	-	145,800
Total liabilities not recorded at fair value	**$2,690**	**$145,800**	**$ -**	**$148,490**

The value of the items not recorded at fair value represent the carrying value of the liabilities.

The fair value of the IRB is determined using Level 1 inputs. The carrying value and the fair value of the IRB that qualify as financial instruments were $2.7 million at both March 31, 2016 and December 31, 2015.

The fair value of the revolver is determined using Level 2 inputs. The Level 2 fair value of the Company's long-term debt was estimated using prevailing market interest rates on debt with similar credit worthiness, terms and maturities.

7.*Equity Plans*:

Restricted Stock Units and Performance Share Units

Pursuant to the Olympic Steel 2007 Omnibus Incentive Plan (Plan), the Company may grant stock options, stock appreciation rights, restricted shares, restricted share units, performance shares, and other stock- and cash-based awards to employees and Directors of, and consultants to, the Company and its affiliates. Under the Plan, 500,000 shares of common stock are available for equity grants.

On March 1, 2015, the Compensation Committee of the Company’s Board of Directors approved the grant of 4,639 restricted stock units (RSUs), respectively, to each non-employee Director. Subject to the terms of the Plan and the RSU agreement, the RSUs vest after one year of service (from the date of grant). The RSUs are not converted into shares of common stock until the director either resigns or is terminated from the Board of Directors.

The fair value of each RSU was estimated to be the closing price of the Company's common stock on the date of the grant, which was $15.09 on March 1, 2015.

The Company's Senior Management Compensation Program includes an equity component in order to encourage more ownership of common stock by the senior management. The Senior Management Compensation Program imposes stock ownership requirements upon the participants. Each participant is required to own at least 750 shares of common stock for each year that the participant participates in the Senior Management Compensation Program. Any participant that fails to meet the stock ownership requirements will be ineligible to receive any equity awards under the Company's equity compensation plans, including the Plan, until the participant satisfies the ownership requirements. To assist participants in meeting the stock ownership requirements, on an annual basis, if a participant purchases 500 shares of common stock on the open market, the Company will award that participant 250 shares of common stock. During the three months ended March 31, 2016 and 2015, the Company matched 2,500 and 6,500 shares, respectively. Additionally, any participant who continues to comply with the stock ownership requirements as of the five-year, 10-year, 15-year, 20-year and 25-year anniversaries of the participant's participation in the Senior Management Compensation Program will receive a restricted stock unit award with a dollar value of $25 thousand, $50 thousand, $75 thousand, $100 thousand and $100 thousand, respectively. Restricted stock unit awards will convert into the right to receive shares of common stock upon a participant's retirement, or earlier upon the participant's death or disability or upon a change in control of the Company.

Stock-based compensation expense recognized on RSUs for the three months ended March 31, 2016 and 2015, respectively, is summarized in the following table:

	For the Three Months Ended March 31,	
(in thousands, except per share data)	**2016**	**2015**
RSU expense before taxes	$239	$231
RSU expense after taxes	$146	$141

All pre-tax charges related to RSUs were included in the caption "Administrative and general" on the accompanying Consolidated Statements of Comprehensive Income.

The following table summarizes the activity related to RSUs for the three months ended March 31, 2016:

Aggregate

	Number of Shares	**Weighted Average Granted Price**	**Intrinsic Value (in thousands)**
Outstanding at December 31, 2015	287,894	$ 22.39	
Granted	92,077	10.88	
Converted into shares	-	-	
Forfeited	-	-	
Outstanding at March 31, 2016	379,971	$ 19.60	$ 788
Vested at March 31, 2016	367,750	$ 19.48	$ 788

No RSUs were converted into shares during the three months ended March 31, 2016. During the three months ended March 31, 2015, 1,582 RSUs were converted into shares.

8.*Income Taxes*:

For the three months ended March 31, 2016, the Company recorded an income tax benefit of $488 thousand, or 38.9%, compared to an income tax provision of $682 thousand, or 38.9%, for the three months ended March 31, 2015.

Our tax benefit or provision for interim periods is determined using an estimate of our annual effective tax rate, adjusted for discrete items that are taken into account in the relevant period. Each quarter we update our estimate of the annual effective tax rate, and if our estimated tax rate changes, we make a cumulative adjustment.

Our quarterly tax provision and our quarterly estimate of our annual effective tax rate is subject to significant volatility due to several factors, including variability in accurately predicting our pre-tax and taxable income and loss and the mix of jurisdictions to which they relate, changes in law and relative changes of expenses or losses for which tax benefits are not recognized. Additionally, our effective tax rate can be more or less volatile based on the amount of pre-tax income. For example, the impact of discrete items and non-deductible expenses on our effective tax rate is greater when our pre-tax income is lower.

9.*Shares Outstanding and Earnings Per Share*:

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

	For the Three Months Ended March 31,	
(in thousands, except per share data)	**2016**	**2015**
Weighted average basic shares outstanding	11,182	11,195
Assumed exercise of stock options and issuance of stock awards	-	-
Weighted average diluted shares outstanding	11,182	11,195
Net income (loss)	$(767)	$1,069
Basic earnings (loss) per share	$(0.07)	$0.10
Diluted earnings (loss) per share	$(0.07)	$0.10
Anti-dilutive securities outstanding	147	283

10.*Segment Information*:

The Company follows 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 Company’s chief operating decision maker (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 primarily on internal management reporting.

The Company operates in three reportable segments; carbon flat products, specialty metals flat products, and tubular and pipe products. Through its carbon flat products segment, the Company sells and distributes large volumes of processed carbon and coated flat-rolled sheet, coil and plate products. Through its specialty metals flat products segment, the Company sells and distributes processed aluminum and stainless flat-rolled sheet and coil products, flat bar products and fabricated parts. Through its tubular and pipe products segment, the Company distributes metal tubing, pipe, bar, valve and fittings and fabricates pressure parts supplied to various industrial markets.

Corporate expenses are reported as a separate line item for segment reporting purposes. Corporate expenses include the unallocated expenses related to managing the entire Company (i.e., all three 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.

The following table provides financial information by segment and reconciles the Company's operating income by segment to the consolidated income before income taxes for the three months ended March 31, 2016 and 2015.

	For the Three Months Ended March 31,	
(in thousands)	**2016**	**2015**
Net sales		
Carbon flat products	$161,434	$228,545
Specialty metals flat products	45,830	52,631
Tubular and pipe products	51,085	64,689
Total net sales	$258,349	$345,865
Depreciation and amortization		
Carbon flat products	$2,954	$3,161
Specialty metals flat products	193	160
Tubular and pipe products	1,559	1,466
Corporate	25	25
Total depreciation and amortization	$4,731	$4,812
Operating income (loss)		
Carbon flat products	$(2,178)	$470
Specialty metals flat products	1,756	590
Tubular and pipe products	2,243	4,254
Corporate expenses	(1,786)	(1,969)
Total operating income	$35	$3,345
Other income (loss), net	(5)	(31)
Income before interest and income taxes	30	3,314
Interest and other expense on debt	1,285	1,563
Income (loss) before income taxes	$(1,255)	$1,751

	For the Three Months Ended March 31,	
(in thousands)	**2016**	**2015**
Capital expenditures		
Flat products segments	$1,234	$1,188
Tubular and pipe products	162	503
Corporate	-	-
Total capital expenditures	$1,396	$1,691

As of

(in thouands)	**March 31, 2016**	**December 31, 2015**
Assets		
Flat products segments	$324,344	$329,885
Tubular and pipe products	192,870	183,129
Corporate	431	456
Total assets	$517,645	$513,470

There were no material revenue transactions between the carbon flat products, specialty metals products, and tubular and pipe products segments.

The Company sells certain products internationally, primarily in Canada, Puerto Rico and Mexico. International sales are immaterial to the consolidated financial results and to the individual segments' results.

11.*Recently Issued Accounting Updates*:

In February 2016, the Financial Accounting Standards Board (FASB), issued Accounting Standards Update (ASU) No. 2016-02, "Leases", which specifies the accounting for leases. The objective is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing and uncertainty of cash flows arising from a lease. This ASU introduces the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous guidance. The guidance will be effective for annual reporting periods beginning after December 15, 2018 and interim periods within those fiscal years with early adoption permitted. We are in the process of evaluating the impact of the future adoption of this standard on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting". This ASU is part of the FASB's Simplification Initiative and has been issued to reduce complexity in the presentation of employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The guidance will be effective for annual reporting periods beginning after December 15, 2016 and interim periods within those fiscal years with early adoption permitted. We are evaluating the impact of the future adoption of this standard on our consolidated financial statements.

In November, 2015, the FASB issued ASU No. 2015-17, "Balance Sheet Classification of Deferred Taxes." This ASU is part of the FASB's Simplification Initiative and has been issued to reduce complexity in the presentation of deferred taxes. This new guidance eliminates the requirement for entities that present a classified statement of financial position to classify deferred tax assets and liabilities as current and noncurrent, and instead require that they classify all deferred tax assets and liabilities as noncurrent. As a result, each jurisdiction will now only have one net noncurrent deferred tax asset or liability. However, the guidance does not change the existing requirement that only permits offsetting within a jurisdiction. Companies are still prohibited from offsetting deferred tax liabilities from one jurisdiction against deferred tax assets of another jurisdiction. This ASU is effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. The guidance may be applied either prospectively, for all deferred tax assets and liabilities, or retrospectively (i.e., by reclassifying the comparative balance sheet). If applied prospectively, entities are required to include a statement that prior periods were not retrospectively adjusted. If applied retrospectively, entities are also required to include quantitative information about the effects of the change on prior periods. The prospective adoption of this guidance on January 1, 2016 did not have a material impact on the Company's consolidated financial statements and the prior periods were not retrospectively adjusted.

In April 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs." This ASU is part of the FASB's Simplification Initiative and has been issued to reduce the complexity in the presentation of debt issuance costs. This new guidance requires companies to present debt issuance costs the same way they currently present debt discounts, as a direct deduction from the carrying value of that debt liability. The guidance is limited to simplifying the presentation of debt issuance costs and does not impact the recognition and measurement guidance for debt issuance costs. This ASU is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years, with early adoption permitted. The amendments of ASU No. 2015-03 must be applied retrospectively, where the balance sheet of each presented individual period is adjusted to indicate the period-specific impact of using the new guidance. The FASB considered that because both debt issuance costs and debt discounts are amortized using the effective interest method, there would be no effect on the income statement upon adoption of the amendments. The adoption of this guidance on January 1, 2016 did not have an impact on the Company's consolidated financial statements because it does not apply to revolving credit agreements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." This ASU is a joint project initiated by the FASB and the International Accounting Standards Board to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. generally accepted accounting principles and International Financial Reporting Standards that will: remove inconsistencies and weaknesses in revenue requirements; provide a more robust framework for addressing revenue issues; improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets; provide more useful information to users of financial statements through improved disclosure requirements; and simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer. As originally proposed, the guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Company is in the process of determining the method of adoption and assessing the impact of this ASU on its consolidated financial statements, and interim periods within those fiscal years, with early adoption permitted. In August 2015, the FASB issued ASU No. 2015-14, "Revenue from contracts with customers." This ASU deferred the effective date of ASU No. 2014-09 by one year.

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

The following discussion and analysis should be read in conjunction with our unaudited consolidated financial statements and accompanying notes contained herein and our consolidated financial statements, accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2015. The following Management's Discussion and Analysis of Financial Condition and Results of Operations contain 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 our Annual Report on Form 10-K for the year ended December 31, 2015. The following section is qualified in its entirety by the more detailed information, including our financial statements and the notes thereto, which appear elsewhere in this Quarterly Report on Form 10-Q.

Forward-Looking Information

This Quarterly Report on Form 10-Q 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 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:

general and global business, economic, financial and political conditions;

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 strengthening of the U.S. dollar and the related impact on foreign steel pricing, U.S. exports, and foreign imports to the United States;

the levels of imported steel in the United States;

the availability and costs of transportation and logistical services;

the successes of our strategic efforts and initiatives to increase sales volumes, maintain or improve working capital turnover and free cash flows, improve our customer service, and achieve cost savings, including our internal program to improve earnings;

our ability to generate free cash flow through operations and limited 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 additional impairment charges related to indefinite lived intangible assets;
events or circumstances that could adversely impact the successful operation of our processing equipment and operations;
the amounts, successes and our ability to continue our capital investments and strategic growth initiatives, including our business information system implementations;
the successes of our operational excellence initiatives to improve our operating, cultural and management systems and reduce our costs;
the ability to comply with the terms of our asset-based credit facility;
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, our suppliers' or customers' personnel;
the impacts of union organizing activities and the success of union contract renewals;
the timing and outcomes of inventory lower of cost or market adjustments and last-in, first-out, or LIFO, income, especially during periods of declining market pricing;
the ability of our customers (especially those that may be highly leveraged, and those with inadequate liquidity) to maintain their credit availability;
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 LIFO inventory valuation;
the adequacy of our existing information technology and business system software, including duplication and security processes;
the adequacy of our efforts to mitigate cyber security risks and threats;
access to capital and global credit markets;
our ability to pay regular quarterly cash dividends and the amounts and timing of any future dividends;
our ability to repurchase shares of our common stock and the amounts and timing of repurchases, if any; 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.

Overview

We are a leading metals service center that operates in three reportable segments; carbon flat products, specialty metals flat products, and tubular and pipe products. We provide metals processing and distribution services for a wide range of customers. Our carbon flat products segment's focus is on the direct sale and distribution of large volumes of processed carbon and coated flat-rolled sheet, coil and plate products and fabricated parts. Our specialty metals flat products segment's focus is on the direct sale and distribution of processed aluminum and stainless flat-rolled sheet and coil products, flat bar products and fabricated parts. In addition, 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. 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 Canada, Puerto Rico and Mexico. 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; fluctuations in the value of the U.S. dollar to foreign currencies, competition; metals pricing, demand and availability; energy prices; pricing and availability of raw materials used in the production of metals; global supply, the level of metals imported into the United States, 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 metals 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. We have entered into nickel and carbon swaps at the request of our customers in order to mitigate our customers' risk of volatility in the price of metals, and we have entered into metals hedges to mitigate our risk of volatility in the price of metals. We have no long-term, fixed-price metals purchase contracts. 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. 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.

At March 31, 2016, we employed approximately 1,716 people. Approximately 311 of the hourly plant personnel at the facilities listed below are represented by nine separate collective bargaining units. The table below shows the expiration dates of the collective bargaining agreements.

Facility	**Expiration date**
Minneapolis plate, Minnesota	March 31, 2017
Detroit, Michigan	August 31, 2017
Duluth, Minnesota	December 21, 2017
St. Paul, Minnesota	May 25, 2018
Milan, Illinois	August 12, 2018
Locust, North Carolina	March 4, 2020
Romeoville, Illinois	May 31, 2020
Minneapolis coil, Minnesota	September 30, 2020
Indianapolis, Indiana	January 29, 2021

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.

Reportable Segments

The Company operates in three reportable segments; carbon flat products, specialty metals flat products and tubular and pipe products. The flat products segments' assets and resources are shared by the carbon and specialty metals segments and both segments' products are stored in shared facilities and processed on shared equipment. As such, total assets and capital expenditures are reported in the aggregate for the flat products segments. Due to the shared assets and resources, certain of the flat products segment expenses are allocated between the carbon flat products segment and the specialty metals flat products segment based upon an established allocation methodology.

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 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. Our operating segments are based on internal management reporting.

Due to the nature of the products sold in each segment, there are significant differences in the segments' average selling price and the cost of materials sold. The tubular and pipe products segment generally has the highest average selling price among the three segments followed by the specialty metals flat products and carbon flat products segments. Due to the nature of the tubular and pipe products, we do not report tons sold or per ton information. Gross profit per ton is generally higher in the specialty metals flat products segment than the carbon flat products segment. Gross profit as a percentage of net sales is generally highest in the tubular and pipe products segment, followed by the carbon and specialty metals flat products segments.

Due to the differences in average selling prices, gross profit and gross profit percentage among the segments, a change in the mix of sales could impact total net sales, gross profit, and gross profit percentage. In addition, certain inventory in the tubular and pipe products segment is valued under the LIFO method. Adjustments to the LIFO inventory value are recorded to cost of materials sold and may impact the gross margin and gross margin percentage at the consolidated Company and tubular and pipe products segment levels.

Corporate expenses are reported as a separate line item for segment reporting purposes. Corporate expenses include the unallocated expenses related to managing the entire Company (i.e., all three 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.

Carbon flat products

The primary focus of our carbon flat products segment is on the direct sale and distribution of large volumes of processed carbon and coated flat-rolled sheet, coil and plate products and fabricated parts. 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, 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.

Specialty metals flat products

The primary focus of our specialty metals flat products segment is on the direct sale and distribution of processed stainless and aluminum flat-rolled sheet and coil products, flat bar products and fabricated parts. We act as an intermediary between metals producers and manufacturers that require processed metals for their operations. We serve customers in various industries, including manufacturers of food service and commercial appliances, agriculture equipment, transportation and automotive equipment. We distribute these products primarily through a direct sales force.

Combined, the carbon and specialty metals flat products segments have 23 strategically-located processing and distribution facilities in the United States and one in Monterrey, Mexico. Many of our facilities service both the carbon and the specialty metals flat products segments, and certain assets and resources are shared by the segments. Our 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.

Tubular and pipe products

The tubular and pipe products segment consists of the Chicago Tube and Iron, or CTI, business, acquired in 2011. Through our tubular and pipe products segment, we distribute metal 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.

Corporate expenses

Corporate expenses are reported as a separate line item for segment reporting purposes. Corporate expenses include the unallocated expenses related to managing the entire Company (i.e., all three 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.

Results of Operations

The metals industry experienced a significant decline in the price of metals during 2015 as a result of the strengthened U.S. dollar, a historically high level of imported materials arriving in the United States, low raw material costs to produce metals and a global oversupply of metals. The price of hot-rolled carbon flat steel decreased approximately 41% during 2015. Similarly, the price of stainless steel and aluminum decreased during 2015. During the first quarter of 2016, metals prices increased. The price of hot-rolled carbon flat steel increased approximately 19% over the December 2015 price during the first quarter of 2016. Although the price of hot-rolled carbon flat steel sequentially increased in the first quarter of 2016, the average price during the quarter was still 19% lower than the average price of hot-rolled carbon flat steel during the first quarter of 2015. Industry demand has also softened in the first quarter of 2016 compared to 2015 as evidenced by lower year over year shipments by metals service centers in the United States. Lower industry demand and pricing negatively impacted our first quarter 2016 net sales and earnings as compared to the first quarter of 2015. Net sales and earnings improved as the first quarter progressed, and we expect this trend to continue into the second quarter of 2016.

Consolidated Operations

The following table presents consolidated operating results for the periods indicated (dollars are shown in thousands):

	For the Three Months Ended March 31,			
	2016		**2015**	
	$	**% of net sales**	**$**	**% of net sales**
Net sales	$258,349	100.0	$345,865	100.0
Cost of materials sold (a)	199,820	77.3	279,939	80.9
Gross profit (b)	58,529	22.7	65,926	19.1
Operating expenses (c)	58,494	22.7	62,581	18.1
Operating income	35	0.0	3,345	1.0
Other income (loss), net	(5)	-	(31)	-
Interest and other expense on debt	1,285	0.5	1,563	0.5
Income (loss) before income taxes	(1,255)	(0.5)	1,751	0.5
Income taxes	(488)	(0.2)	682	0.2
Net income (loss)	$(767)	(0.3)	$1,069	0.3

(a) Includes $250 of LIFO income for 2015. There was no LIFO impact recorded in the first quarter of 2016.
(b) Gross profit is calculated as net sales less the cost of materials sold.
(c) Operating expenses are calculated as total costs and expenses from the Statement of Comprehensive Income less the cost of materials sold.

Net sales decreased 25.3% to $258.3 million in the first quarter of 2016 from $345.9 million in the first quarter of 2015. Carbon flat products net sales were 62.5% of total net sales in the first quarter of 2016 compared to 66.1% of total net sales in the first quarter of 2015. Specialty metals products net sales were 17.7% of total net sales in the first quarter of 2016 compared to 15.2% of total net sales in the first quarter of 2015. Tubular and pipe products net sales were 19.8% of total net sales in the first quarter of 2016 compared to 18.7% of total net sales in the first quarter of 2015. The decrease in net sales was due to a 2.8% decrease in sales volume and a 23.2% decrease in average selling prices during the first quarter of 2016 compared to the first quarter of 2015. Sales volumes decreased in the carbon flat products and tubular and pipe products segments and increased in the specialty metals flat products segment during the first quarter of 2016 compared to the first quarter of 2015. Average direct selling prices decreased in all segments during the first quarter of 2016 compared to the first quarter of 2015 as a result of year over year lower market pricing for metals.

Cost of materials sold decreased 28.6% to $199.8 million in the first quarter of 2016 from $279.9 million in the first quarter of 2015. The decrease in cost of materials sold in the first quarter of 2016 is primarily related to lower metals pricing discussed above as well as the 2.8% decrease in sales volume.

As a percentage of net sales, gross profit (as defined in footnote (b) in the table above) increased to 22.7% in the first quarter of 2016 compared to 19.1% in the first quarter of 2015. The increase in the gross profit percentage is a result of metals prices sequentially increasing during the first quarter of 2016 compared to the fourth quarter of 2015, while our average cost of inventory contained lower-costed metal as we historically hold approximately three months of material in inventory. This compares to the declining metals pricing environment during the first quarter of 2015, when the average cost of inventory contained higher-costed metal.

Operating expenses in the first quarter of 2016 decreased $4.1 million, or 6.5%, to $58.5 million from $62.6 million in the first quarter of 2015. As a percentage of net sales, operating expenses increased to 22.7% for the first quarter of 2016 from 18.1% in the comparable 2015 period due to the decrease in net sales during the first quarter of 2016. Operating expenses in the flat products segment decreased $2.7 million, operating expenses in the specialty metals products segment increased $0.4 million, operating expenses in the tubular and pipe products segment decreased $1.6 million and Corporate expenses decreased $0.2 million. Operating expenses decreased in all categories as reported on the Company’s Consolidated Statements of Comprehensive Income, as we continue to execute on the profit improvement plan initiated in 2015. Variable operating expenses, such as distribution and warehouse and processing, decreased $2.1 million, or 6.7%, as a result of the 2.8% first quarter 2016 volume decrease, reductions in labor and personnel expenses and reduced warehouse consumables expenses. Occupancy expenses decreased $0.4 million, or 13.8%, as a result of operating with less warehouse space and lower utility and maintenance expenses. Selling expenses decreased $0.2 million, or 3.5%, as a result of lower bad debt expense. Administrative and general expenses decreased by $1.3 million, or 7.4%, primarily related to reductions in labor and personnel expenses, centralization of certain administrative functions, and lower variable based incentive compensation.

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Interest and other expense on debt totaled $1.3 million, or 0.5% of net sales, for the first quarter of 2016 compared to $1.6 million, or 0.5% of net sales, for the first quarter of 2015. Our effective borrowing rate, exclusive of deferred financing fees and commitment fees, was 2.5% for the first three months of 2016 compared to 2.1% for the first three months of 2015.

For the first quarter of 2016, loss before income taxes totaled $1.3 million compared to income before income taxes of $1.8 million in the first quarter of 2015.

An income tax benefit of 38.9% was recorded for the first quarter of 2016, compared to an income tax provision of 38.9% for the first quarter of 2015. Our tax benefit or provision for interim periods is determined using an estimate of our annual effective tax rate, adjusted for discrete items that are taken into account in the relevant period. Each quarter, we update our estimate of the annual effective tax rate, and if our estimated tax rate changes, we make a cumulative adjustment. We expect our effective tax rate to approximate 38% to 40% on an annual basis in 2016.

Net loss for the first quarter of 2016 totaled $0.8 million or $0.07 per basic and diluted share, compared to net income of $1.1 million or $0.10 per basic and diluted share for the first quarter of 2015.

Segment Operations

Carbon flat products

The following table presents selected operating results for our carbon flat products segment for the three months ended March 31, 2016 and 2015 (dollars are shown in thousands, except for per ton information):

	For the Three Months Ended March 31,			
	2016		**2015**	
		% of net sales		**% of net sales**
Direct tons sold	244,499		247,958	
Toll tons sold	22,351		27,740	
Total tons sold	266,850		275,698	

Net sales	$161,434	100.0	$228,545	100.0
Average selling price per ton	605		829	
Cost of materials sold	126,527	78.4	188,277	82.4
Gross profit (a)	34,907	21.6	40,268	17.6
Operating expenses (b)	37,085	23.0	39,798	17.4
Operating income (loss)	$(2,178)	(1.3)	$470	0.2

(a) Gross profit is calculated as net sales less the cost of materials sold.
(b) Operating expenses are calculated as total costs and expenses less the cost of materials sold.

Tons sold by our flat products segment decreased 3.2% to 267 thousand in the first quarter of 2016 from 276 thousand in the first quarter of 2015. The decrease in tons sold is due to decreased customer demand and lower industry-wide shipments in the first quarter of 2016 compared to the first quarter of 2015.

Net sales in our carbon flat products segment decreased $67.1 million, or 29.4%, to $161.4 million in the first quarter of 2016 from $228.5 million in the first quarter of 2015. The decrease in sales was due to a 27.0% decrease in the average selling prices during the first quarter of 2016 compared to the first quarter of 2015 as well as a 3.2% decrease in sales volume. Average selling prices in the first quarter of 2016 were $605 per ton, compared with $829 per ton in the first quarter of 2015 and $658 per ton in the fourth quarter of 2015. The decrease in the average selling price is a result of the market pricing dynamics discussed in the overview of Results of Operations above.

Cost of materials sold decreased $61.9 million, or 32.8%, to $126.5 million in the first quarter of 2016 from $188.4 million in the first quarter of 2015. The decrease was due to lower pricing and shipments discussed above, which decreased the average cost of goods sold per ton by 30.6% in the first quarter of 2016 compared to the same period in 2015.

As a percentage of net sales, gross profit (as defined in footnote (a) in the table above) increased to 21.6% in the first quarter of 2016 compared to 17.6% in the first quarter of 2015. The increase in gross profit percentage in 2016 was primarily due to the cost of materials sold decreasing more than selling prices. Gross profit per ton decreased $15 per ton to $131 per ton in the first quarter of 2016 from $146 per ton in the first quarter of 2015.

Operating expenses in the first quarter of 2016 decreased $2.7 million, or 6.8%, to $37.1 million from $39.8 million in the first quarter of 2015. Variable operating expenses, such as distribution and warehouse and processing, decreased as a result of lower sales volume. Occupancy expenses decreased as a result of decreased utility and maintenance expense due to operating with less warehouse space. Selling and administrative and general expenses decreased as a result of reductions in labor and personnel expenses, centralization of certain administrative functions, and lower variable based incentive compensation. As a percentage of net sales, operating expenses increased to 23.0% for the first quarter of 2016 compared to 17.4% for first quarter of 2015.

Operating loss for the first quarter of 2016 totaled $2.2 million, or 1.3% of net sales, compared to operating income of $0.5 million, or 0.2% of net sales, for the first quarter of 2015.

Specialty metals flat products

The following table presents selected operating results for our specialty metals flat products segment for the three months ended March 31, 2016 and 2015 (dollars are shown in thousands, except for per ton information):

	For the Three Months Ended March 31,			
	2016		**2015**	
		% of net sales		**% of net sales**
Total tons sold	19,823		18,560	
Net sales	$45,830	100.0	$52,631	100.0
Average selling price per ton	2,312		2,836	
Cost of materials sold	39,195	85.5	47,565	90.4
Gross profit (a)	6,635	14.5	5,066	9.6
Operating expenses (b)	4,879	10.6	4,476	8.5
Operating income	$1,756	3.9	$590	1.1

(a) Gross profit is calculated as net sales less the cost of materials sold.
(b) Operating expenses are calculated as total costs and expenses less the cost of materials sold.

Tons sold by our specialty metals flat products segment increased 6.8% to 20 thousand in the first quarter of 2016 from 19 thousand in the first quarter of 2015. The increase in tons sold is due to increased demand from existing customers, from the impact of new business awards in the first quarter of 2016 compared to the first quarter of 2015 and our growth in market share in specialty metals.

Net sales in our specialty metals flat products segment decreased $6.8 million, or 12.9%, to $45.8 million in the first quarter of 2016 from $52.6 million in the first quarter of 2015. The decrease in sales was due to an 18.5% decline in the average selling price offset by the 6.8% increase in sales volume during the first quarter of 2016 compared to the first quarter of 2015. Average selling prices in the first quarter of 2016 were $2,312 per ton, compared with $2,836 per ton in the first quarter of 2015 and $2,464 per ton in the fourth quarter of 2015. The decrease in the year over year average selling price per ton is a result of the market pricing dynamics, which continue to pressure metals pricing in the specialty metals segment.

Cost of materials sold decreased $8.4 million, or 17.6%, to $39.2 million in the first quarter of 2016 from $47.6 million in the first quarter of 2015. The decrease was due to a 22.9% decrease in the average cost of materials sold offset by a 6.8% increase in sales volume during the first quarter of 2016 compared to the first quarter of 2015.

As a percentage of net sales, gross profit (as defined in footnote (a) in the table above) increased to 14.5% in the first quarter of 2016 from 9.6% in the first quarter of 2015. The increase in the gross profit percentage is a result of our cost of materials sold decreasing more than the average selling price during the first quarter of 2016 compared to the first quarter of 2015.

Operating expenses in the first quarter of 2016 increased $0.4 million, or 9.0%, to $4.9 million from $4.5 million in the first quarter of 2015. Variable operating expenses, such as distribution and warehouse and processing increased 8.8% as a result of higher sales volumes. Selling and administrative and general expenses increased as a result of increased variable based incentive compensation related to the increased sales volume and gross profit. As a percentage of net sales, operating expenses increased to 10.6% for the first quarter of 2016 compared to 8.5% for the first quarter of 2015.

Operating income for the first quarter of 2016 totaled $1.8 million, or 3.9% of net sales, compared to $0.6 million, or 1.1% of net sales, for the first quarter of 2015.

Tubular and pipe products

The following table presents selected operating results for our tubular and pipe products segment for the three months ended March 31, 2016 and 2015 (dollars are shown in thousands):

	For the Three Months Ended March 31,			
	2016		2015	
		% of net sales		% of net sales
Net sales	$51,085	100.0	$64,689	100.0
Cost of materials sold (a)	34,098	66.7	44,097	68.2
Gross profit (b)	16,987	33.3	20,592	31.8
Operating expenses (c)	14,744	28.9	16,338	25.3
Operating income	$2,243	4.4	$4,254	6.5

(a) Includes $250 of LIFO income for 2015. There was no LIFO impact recorded in the first quarter of 2016.
(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.

Net sales decreased $13.6 million, or 21.0%, to $51.1 million in the first quarter of 2016 from $64.7 million in the first quarter of 2015. The decrease is a result of a 5.3% decrease in sales volume and a 16.6% decrease in the pipe and tube products segment average selling prices over the first quarter of 2015.

Cost of materials sold decreased $10.0 million, or 22.7%, to $34.1 million in the first quarter of 2016 from $44.1 million in the first quarter of 2015. The decrease in cost of materials sold is primarily a result of decreased metals pricing in the first quarter of 2016 compared to the first quarter of 2015 and decreased sales volumes. There was no LIFO income or expense recorded in the first quarter of 2016 compared to $250 thousand of LIFO income recorded in the first quarter of 2015.

As a percentage of net sales, gross profit (as defined in footnote (b) in the table above) totaled 33.3% in the first quarter of 2016 compared to 31.8% in the first quarter of 2015. As a percentage of net sales, the $250 thousand LIFO income in 2015 increased current year gross profit by 0.4%.

Operating expenses in the first quarter of 2016 decreased $1.6 million, or 9.8%, to $14.7 million from $16.3 million in the first quarter of 2015. Variable operating expenses, such as distribution and warehouse and processing, decreased as a result of lower sales volumes and net sales. Operating expenses increased to 28.9% of net sales in the first quarter of 2016 compared to 25.3% in the first quarter of 2015.

Operating income for the first quarter 2016 totaled $2.2 million, or 4.4% of net sales, compared to $4.3 million, or 6.5% of net sales, for the first quarter of 2015.

Corporate expenses

Corporate expenses decreased $0.2 million to $1.8 million in the first quarter of 2016 compared to $2.0 million in the first quarter of 2015. Corporate expenses include the unallocated expenses related to managing the entire Company, (i.e. all three 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.

Liquidity, Capital Resources and Cash Flows

Our principal capital requirements include funding working capital needs, purchasing, upgrading and acquiring processing equipment and facilities, making acquisitions and paying dividends. We use cash generated from operations, leasing transactions and borrowings under our credit facility to fund these requirements.

We believe that funds available under our existing asset-based credit facility (the ABL Credit Facility), lease arrangement proceeds and the sale of equity or debt securities, together with funds generated from operations, will be sufficient to provide us with the liquidity necessary to fund anticipated working capital requirements, capital expenditure requirements, our dividend payments and any business acquisitions over at least the next 12 months. In the future, we may, as part of our business strategy, acquire and dispose of assets or other companies in the same or complementary lines of business, or enter into or exit strategic alliances and joint ventures. Accordingly, the timing and size of our capital requirements are subject to change as business conditions warrant and opportunities arise.

Operating Activities

For the three months ended March 31, 2016, we generated $2.8 million of net cash from operations, of which $3.3 million was generated from operating activities and $0.5 million was used for working capital. For the three months ended March 31, 2015, we generated $14.6 million of net cash from operations, of which $3.0 million was generated from operating activities and $11.6 million was generated from a smaller working capital investment.

Net cash from operations totaled $3.3 million during the first quarter of 2016 and was generated from depreciation and amortization of $5.0 million, and stock-based compensation of $0.8 million, offset by the net loss of $0.8 million and a decrease in net long-term assets and liabilities of $1.5 million. Net cash from operations totaled $3.0 million during the first quarter of 2015 and was primarily generated from net income of $1.1 million, depreciation and amortization of $5.0 million, and stock-based compensation of $1.0 million, offset by a decrease in net long-term assets and liabilities of $4.0 million.

Working capital at March 31, 2016 totaled $233.2 million, a $1.3 million increase from December 31, 2015. The increase was primarily attributable to a $21.8 million, or 23.5%, increase in accounts receivable (resulting from higher sales normally experienced in the first quarter compared to the lower sales in the fourth quarter) offset by a $16.8 million, or 8.1%, decrease in inventories (resulting from increased inventory turnover, lower average inventory costs and increased sales in the first quarter of 2016 compared to the fourth quarter of 2015) and a $4.2 million decrease in accrued payroll and other accrued liabilities.

Investing Activities

Net cash used for investing activities was $1.2 million during the three months ended March 31, 2016, compared to $1.7 million during the three months ended March 31, 2015. The $1.4 million of 2016 capital expenditures were primarily attributable to additional processing equipment at our existing facilities. During 2016, we expect to limit our capital spending to less than our annual depreciation expense (approximately $18 million in 2016).

Financing Activities

During the first three months of 2016, $0.8 million of cash was used for financing activities, which primarily consisted of $0.6 million of net repayments under our ABL Credit Facility and $0.2 million of dividends paid.

Dividends paid were $0.2 million for both the three months ended March 31, 2016 and March 31, 2015. In April 2016, our Board of Directors approved a regular quarterly dividend of $0.02 per share, which will be paid on June 15, 2016 to shareholders of record as of June 1, 2016. Regular dividend distributions in the future are subject to the availability of cash, the $2.5 million annual limitation on cash dividends under our ABL Credit Facility and continuing determination by our Board of Directors that the payment of dividends remains in the best interest of our shareholders.

Stock Repurchase Program

On October 2, 2015, we announced that our Board of Directors authorized a stock repurchase program of up to 550,000 shares of the Company's issued and outstanding common stock, which could include open market repurchases, negotiated block transactions, accelerated stock repurchases or open market solicitations for shares, all or some of which may be effected through Rule 10b5-1 plans. Any of the repurchased shares will be held in our treasury, or canceled and retired as our Board may determine from time to time. Any repurchases of common stock are subject to the covenants contained in the ABL Credit Facility. Under the ABL Credit Facility, we may repurchase common stock and pay dividends up to $2.5 million in the aggregate during any trailing twelve months without restrictions. Purchases in excess of $2.5 million require us to (i) maintain availability in excess of 25% of the aggregate revolver commitments ($91.3 million at March 31, 2016) or (ii) to maintain availability equal to or greater than 15% of the aggregate revolver commitments ($54.8 million at March 31, 2016) and we must maintain a pro-forma ratio of EBITDA minus certain capital expenditures and cash taxes paid to fixed charges of at least 1.00 to 1.00. The timing and amount of any repurchases under the stock repurchase program will depend upon several factors, including market and business conditions, and limitations under the ABL Credit Facility, and repurchases may be discontinued at any time. During 2016, we expect to be limited to the $2.5 million available without restrictions to repurchase common stock and pay dividends.

No share repurchases were made during the first quarter of 2016.

Debt Arrangements

Our ABL Credit Facility is collateralized by our accounts receivable and inventory. The ABL Credit Facility consists of a revolving credit line of $365 million. Revolver borrowings are limited to the lesser of a borrowing base, comprised of eligible receivables and inventories, or $365 million in the aggregate. The ABL Credit Facility matures on June 30, 2019.

The ABL Credit Facility requires us to comply with various covenants, the most significant of which include: (i) until maturity of the ABL Credit Facility, if any commitments or obligations are outstanding and our availability is less than the greater of $30 million or 10.0% of the aggregate amount of revolver commitments ($36.5 million at March 31, 2016), then we must maintain a ratio of EBITDA minus certain capital expenditures and cash taxes paid to fixed charges of at least 1.00 to 1.00 for the most recent twelve fiscal month period; (ii) limitations on dividend payments and stock repurchases; and (iii) restrictions on additional indebtedness. We have the option to borrow under our revolver based on the agent's base rate plus a premium ranging from 0.00% to 0.25% or the London Interbank Offered Rate (LIBOR) plus a premium ranging from 1.25% to 3.00%.

As of March 31, 2016, the Company was in compliance with its covenants and had approximately $93 million of availability under the ABL Credit Facility.

As of March 31, 2016, $2.6 million of bank financing fees were included in "Prepaid expenses and other" and "Other long-term assets" on the accompanying Consolidated Balance Sheets. The financing fees are being amortized over the five-year term of the ABL Credit facility and are included in "Interest and other expense on debt" on the accompanying Consolidated Statements of Comprehensive Income.

We entered into a forward starting fixed rate interest rate hedge that commenced June 2013, in order to eliminate the variability of cash interest payments on $53.2 million of then outstanding LIBOR-based borrowings under the ABL Credit Facility. The hedge matures on June 1, 2016 and the notional amount is reduced monthly by $729 thousand. The remaining hedged balance as of March 31, 2016 was $28.4 million. The interest rate hedge fixed the rate at 1.21% plus a premium ranging from 1.25% to 1.75%. Although we are exposed to credit loss in the event of nonperformance by the other parties to the interest rate hedge agreement, we anticipate performance by the counterparties.

As part of the CTI acquisition in July 2011, we assumed approximately $5.9 million of Industrial Revenue Bond (IRB) indebtedness issued through the Stanly County, North Carolina Industrial Revenue and Pollution Control Authority. The bond matures in April 2018, with the option to provide principal payments annually on April 1st. On April 1, 2016, we paid an optional principal payment of $865 thousand. Since the IRB is remarketed annually, it is included in "Current portion of long-term debt" on the accompanying Consolidated Balance Sheets. Interest is payable monthly, with a variable rate that resets weekly. As a security for payment of the bonds, we obtained a direct pay letter of credit issued by JPMorgan Chase Bank, N.A. The letter of credit reduces annually by the principal reduction amount. The interest rate at March 31, 2016 was 0.6% for the IRB debt.

Critical Accounting Policies

This Management's Discussion and Analysis of Financial Condition and Results of Operations is based on the consolidated financial statements included in this Quarterly Report on Form 10-Q, which have been prepared in conformity with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements. We monitor and evaluate our estimates and assumptions, based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions.

We review our financial reporting and disclosure practices and accounting practices quarterly to ensure they provide accurate and transparent information relative to the current economic and business environment. For further information regarding the accounting policies that we believe to be critical accounting policies that affect our more significant judgments and estimates used in preparing our consolidated financial statements, see Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2015.

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

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, new global capacity by metals producers, volatility in 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 metals hedges discussed in Note 5 to the Consolidated Financial Statements. 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 sell 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 credit facility, as well as result in us incurring asset impairment charges. Changing metals prices therefore could significantly impact our net sales, gross profits, operating income and net income.

Rising prices result in higher working capital requirements for us and our customers. Some customers may not have sufficient credit lines or liquidity to absorb significant increases in the price of metals. While we have generally been successful in the past in passing on producers' price increases and surcharges to our customers, there is no guarantee that we will be able to pass on price increases to our customers in the future.

Declining metals prices have generally adversely affected our net sales and net income, while increasing metals prices, have generally favorably affected our net sales and net income.

Approximately 9.5% of our consolidated net sales in 2016 were directly related to automotive manufacturers or manufacturers of automotive components and parts. 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.

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

We are exposed to the impact of fluctuating metals prices and interest rate changes. During 2016 and 2015, we entered into metals swaps at the request of customers. While these derivatives are intended to be effective in helping us manage risk, they have not been designated as hedging instruments. For certain customers, we enter into contractual relationships that entitle us to pass-through the economic effect of trading positions that we take with other third parties on our customers' behalf.

Our primary interest rate risk exposure results from variable rate debt. We have the option to enter into 30- to 180-day fixed base rate LIBOR loans under the ABL Credit Facility. The Company assumed an interest rate swap agreement on the $5.9 million of CTI IRB. The swap agreement matures in April 2018, but the notional amount may be reduced annually by the amount of the optional principal payments on the IRB. In June 2012, the Company entered into a forward starting fixed rate interest rate hedge commencing July 2013 in order to eliminate the variability of cash interest payments on approximately $53.2 million of the then outstanding LIBOR-based borrowings under the ABL Credit Facility. The balance as of March 31, 2016 was $28.4 million. The hedge matures on June 1, 2016 and the notional amount is reduced monthly by $729 thousand. The fixed rate interest rate hedge is accounted for as a cash flow hedging instrument for accounting purposes. The Company is exposed to credit loss in the event of nonperformance by the other parties to the interest rate swap and fixed interest rate hedge agreements. However, the Company does not anticipate nonperformance by the counterparties.

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

The evaluation required by Rule 13a-15 of the Securities Exchange Act of 1934 of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this Quarterly Report on Form 10-Q has been carried out under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer. These disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in reports that are filed with or submitted to the SEC is: (i) accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures and (ii) recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2016, our disclosure controls and procedures were effective.

There were no changes in our internal control over financial reporting that occurred during the first quarter of 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. OTHER INFORMATION

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

Item 6. ***Exhibits***

Exhibit	Description of Document	Reference
10.32	Donald McNeeley Employment Agreement effective as of July 1, 2016	Incorporated by reference to Exhibit 10.32 to Registrant's Form 8-K filed with the Commission on March 31, 2016 (Commission File No. 0-23320)
31.1	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.1	Certification of the Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith
32.2	Certification of the Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith
101.INS	XBRL Instance Document	
101.SCH	XBRL Taxonomy Extension Schema Document	
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	
101.DEF	XBRL Taxonomy Extension Definition	
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	

SIGNATURES

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

	OLYMPIC STEEL, INC. (Registrant)
Date: April 29, 2016	By: /s/ Michael D. Siegal **Michael D. Siegal**
	Chairman of the Board and Chief Executive Officer
	By: /s/ Richard T. Marabito **Richard T. Marabito**
	Chief Financial Officer
	(Principal Financial and Accounting Officer)

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EXHIBIT INDEX

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