

UNIVERSAL STAINLESS & ALLOY PRODUCTS INC
Form 10-Q
May 10, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2013

OR

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

For the Transition Period from _____ to _____

Commission File Number 000-25032

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

25-1724540
(IRS Employer
Identification No.)

600 Mayer Street

Bridgeville, PA 15017

(Address of principal executive offices, including zip code)

(412) 257-7600

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

As of April 30, 2013, there were 6,924,937 shares of the Registrant's Common Stock outstanding.

Table of Contents**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Quarterly Report on Form 10-Q contain forward-looking statements that reflect the current views of Universal Stainless & Alloy Products, Inc. (the Company) with respect to future events and financial performance. Statements looking forward in time, including statements regarding future growth, cost savings, expanded production capacity, broader product lines, greater capacity to meet customer quality reliability, price and delivery needs, enhanced competitive posture, effect of new accounting pronouncements and no material financial impact from litigation or contingencies are included in this Quarterly Report on Form 10-Q pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995.

The Company's actual results may be affected by a wide range of factors including future compliance with Section 404 of the Sarbanes-Oxley Act of 2002; the concentrated nature of the Company's customer base to date and the Company's dependence on its significant customers; the receipt, pricing and timing of future customer orders; changes in product mix; the limited number of raw material and energy suppliers and significant fluctuations that may occur in raw material and energy prices; risks related to property, plant and equipment, including the Company's reliance on the continuing operation of critical manufacturing equipment; risks associated with labor matters; the Company's ongoing requirement for continued compliance with laws and regulations, including applicable safety and environmental regulations; the ultimate outcome of the Company's current and future litigation matters; risks related to acquisitions that the Company has or may make; and the impact of various economic, credit and market risk uncertainties. Many of these factors are not within the Company's control and involve known and unknown risks and uncertainties that may cause the Company's actual results in future periods to be materially different from any future performance suggested herein. Any unfavorable change in the foregoing or other factors could have a material adverse effect on the Company's business, financial condition and results of operations. Further, the Company operates in an industry sector where securities values may be volatile and may be influenced by economic and other factors beyond the Company's control.

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Table of Contents**Part I. FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Dollars in Thousands, Except Per Share Information)

(Unaudited)

	Three months ended March 31,	
	2013	2012
Net sales	\$ 49,135	\$ 74,614
Cost of products sold	44,489	60,339
Selling and administrative expenses	4,479	4,583
Operating income	167	9,692
Interest expense	(689)	(704)
Other income	28	23
Income (loss) before income tax provision (benefit)	(494)	9,011
Provision (benefit) for income taxes	(534)	2,725
Net income	\$ 40	\$ 6,286
Net income per common share Basic	\$ 0.01	\$ 0.92
Net income per common share Diluted	\$ 0.01	\$ 0.86
Weighted average shares of Common Stock outstanding		
Basic	6,924,131	6,848,716
Diluted	7,063,703	7,433,086

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

Table of Contents**UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(Dollars in Thousands, Except Per Share Information)

	March 31, 2013	December 31, 2012
	(Unaudited)	(Derived from audited statements)
ASSETS		
Current assets:		
Cash	\$ 115	\$ 321
Accounts receivable (less allowance for doubtful accounts of \$1,857 and \$1,837, respectively)	29,254	24,287
Inventory, net	98,007	95,749
Deferred income taxes	12,919	22,739
Refundable income taxes	1,565	1,594
Other current assets	3,344	2,740
Total current assets	145,204	147,430
Property, plant and equipment, net	206,002	206,150
Goodwill	20,268	20,268
Other long-term assets	2,749	2,418
Total assets	\$ 374,223	\$ 376,266
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 20,618	\$ 10,610
Accrued employment costs	3,696	4,671
Current portion of long-term debt	2,250	1,500
Other current liabilities	1,303	735
Total current liabilities	27,867	17,516
Long-term debt	102,498	105,242
Deferred income taxes	44,765	55,227
Total liabilities	175,130	177,985
Commitments and contingencies (Note 7)		
Stockholders equity:		
Senior Preferred Stock, par value \$0.001 per share; 1,980,000 shares authorized; 0 shares issued and outstanding		
Common Stock, par value \$0.001 per share; 10,000,000 shares authorized; 7,260,368 and 7,246,933 shares issued, respectively	7	7
Additional paid-in capital	48,084	47,312
Retained earnings	153,155	153,115
Treasury Stock at cost; 288,681 common shares held	(2,153)	(2,153)

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Total stockholders' equity	199,093	198,281
Total liabilities and stockholders' equity	\$ 374,223	\$ 376,266

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

Table of Contents**UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW**

(Dollars in Thousands)

(Unaudited)

	Three months ended March 31,	
	2013	2012
Operating Activities:		
Net income	\$ 40	\$ 6,286
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,919	2,985
Deferred income tax	(642)	2,653
Share-based compensation expense, net	457	410
Changes in assets and liabilities:		
Accounts receivable, net	(4,967)	(10,739)
Inventory, net	(2,258)	(8,585)
Accounts payable, net of capital expenditures included in accounts payable	8,763	(1,799)
Accrued employment costs	(975)	(2,150)
Income taxes	70	4,412
Other, net	(43)	2,705
Net cash provided by (used in) operating activities	4,364	(3,822)
Investing Activities:		
Capital expenditures, net of amount included in accounts payable	(2,379)	(4,986)
Net cash used in investing activities	(2,379)	(4,986)
Financing Activities:		
Payments on revolving credit facility	(20,381)	(18,350)
Borrowings under revolving credit facility	18,387	47,550
Payment on term loan facility		(20,000)
Proceeds from the issuance of Common Stock	241	229
Payment of deferred financing costs	(475)	(348)
Tax benefit from share-based payment arrangements	37	64
Purchase of Treasury Stock		(233)
Net cash provided by (used in) financing activities	(2,191)	8,912
Net increase (decrease) in cash	(206)	104
Cash at beginning of period	321	274
Cash at end of period	\$ 115	\$ 378
Supplemental Non-Cash Investing Activity:		
Capital expenditures included in accounts payable	\$ 1,245	\$ 4,725

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

Table of Contents**UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****Note 1 Basis of Presentation**

The accompanying unaudited condensed consolidated statements of operations and statements of cash flows for the three months ended March 31, 2013 and 2012 and balance sheets as of March 31, 2013 and December 31, 2012, have been prepared by Universal Stainless & Alloy Products, Inc. (the Company) in accordance with generally accepted accounting principles (GAAP) for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (the Commission). The information furnished in the unaudited condensed consolidated financial statements includes normal recurring adjustments and reflects all adjustments, which are, in the opinion of management, necessary for a fair presentation of such financial statements. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the Commission's rules and regulations. Accordingly, these statements should be read in conjunction with the audited financial statements, and notes thereto, as of and for the year ended December 31, 2012 included in the Company's Annual Report on Form 10-K. The information furnished in the condensed consolidated financial statements is not necessarily indicative of the results to be expected for the full year.

As a result of the North Jackson acquisition, the Company's operating facilities have become more integrated, resulting in the Company's chief operating decision maker (CODM) viewing the Company as one unit. During the three months ended March 31, 2013, the Company's CODM, set performance goals, assessed performance and made decisions about resource allocations on a consolidated basis. As a result of these factors, as well as the nature of the financial information available and reviewed by the Company's CODM, the Company commenced reporting to one reportable segment beginning with the three months ended March 31, 2013.

Certain prior year amounts have been reclassified to conform to the 2013 presentation.

Note 2 Goodwill

The following is a summary of the changes in the carrying value of goodwill, from December 31, 2012 through March 31, 2013 (dollars in thousands):

Balance, December 31, 2012	\$ 20,268
Change in goodwill	
Balance, March 31, 2013	\$ 20,268

Table of Contents**Note 3 Net Income per Common Share**

The following table sets forth the computation of basic and diluted net income per common share:

<i>(dollars in thousands, except per share amounts)</i>	Three months ended	
	2013	March 31, 2012
Numerator:		
Net income	\$ 40	\$ 6,286
Adjustment for interest expense on convertible notes (A)		105
Net income, as adjusted	\$ 40	\$ 6,391
Denominator:		
Weighted average number of shares of Common Stock outstanding	6,924,131	6,848,716
Weighted average effect of dilutive stock options	139,572	156,911
Weighted average effect of assumed conversion of convertible notes (A)		