

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

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 October 24, 2014, there were 7,072,019 shares of the Registrant's common stock outstanding.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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Part I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in Thousands, Except Per Share Information)

(Unaudited)

| | Three months ended September 30, | | Nine months ended September 30, | |
|-----------------------------------------------------|-------------------------------------|------------|------------------------------------|------------|
| | 2014 | 2013 | 2014 | 2013 |
| Net sales | \$ 53,626 | \$ 48,460 | \$ 152,602 | \$ 140,482 |
| Cost of products sold | 44,983 | 46,022 | 129,489 | 128,090 |
| Gross margin | 8,643 | 2,438 | 23,113 | 12,392 |
| Selling, general and administrative expenses | 5,520 | 4,467 | 15,317 | 13,815 |
| Operating income (loss) | 3,123 | (2,029) | 7,796 | (1,423) |
| Interest expense and other financing costs | (949) | (752) | (2,854) | (2,278) |
| Other (expense) income, net | (4) | 418 | (1) | 481 |
| Income (loss) before income taxes | 2,170 | (2,363) | 4,941 | (3,220) |
| Provision (benefit) for income taxes | 775 | (652) | 2,596 | (2,027) |
| Net income (loss) | \$ 1,395 | \$ (1,711) | \$ 2,345 | \$ (1,193) |
| Net income (loss) per common share - Basic | \$ 0.20 | \$ (0.25) | \$ 0.33 | \$ (0.17) |
| Net income (loss) per common share - Diluted | \$ 0.20 | \$ (0.25) | \$ 0.33 | \$ (0.17) |
| Weighted average shares of common stock outstanding | | | | |
| Basic | 7,039,823 | 6,960,967 | 7,028,658 | 6,943,208 |
| Diluted | 7,539,291 | 6,960,967 | 7,114,121 | 6,943,208 |

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

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UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)

| | September 30, 2014 | December 31, 2013 |
|-------------------------------------------------------------------------------------------|--------------------------|-----------------------------------------|
| | (Unaudited) | (Derived from audited statements) |
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 705 | \$ 307 |
| Accounts receivable (less allowance for doubtful accounts of \$20 and \$84, respectively) | 33,526 | 21,447 |
| Inventory, net | 93,871 | 82,593 |
| Deferred income taxes | 6,843 | 13,042 |
| Other current assets | 3,098 | 3,906 |
| Total current assets | 138,043 | 121,295 |
| Property, plant and equipment, net | 198,487 | 203,590 |
| Goodwill | 20,268 | 20,268 |
| Other long-term assets | 2,087 | 2,771 |
| Total assets | \$ 358,885 | \$ 347,924 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 20,829 | \$ 14,288 |
| Accrued employment costs | 5,707 | 3,430 |
| Current portion of long-term debt | 3,000 | 3,000 |
| Other current liabilities | 1,048 | 1,023 |
| Total current liabilities | 30,584 | 21,741 |
| Long-term debt | 88,091 | 86,796 |
| Deferred income taxes | 38,643 | 42,532 |
| Other long-term liabilities | 312 | 397 |
| Total liabilities | 157,630 | 151,466 |
| 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; 20,000,000 shares authorized; 7,364,874 and 7,310,138 shares issued, respectively | 7 | 7 |
| Additional paid-in capital | 52,140 | 49,688 |
| Retained earnings | 151,398 | 149,053 |
| Treasury stock, at cost; 292,855 common shares held | (2,290) | (2,290) |
| Total stockholders' equity | 201,255 | 196,458 |
| Total liabilities and stockholders' equity | \$ 358,885 | \$ 347,924 |

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

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UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOW

(Dollars in Thousands)

(Unaudited)

| | Nine months ended September 30, | |
|------------------------------------------------------------------------------------------|------------------------------------|------------|
| | 2014 | 2013 |
| Operating Activities: | | |
| Net income (loss) | \$ 2,345 | \$ (1,193) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 13,026 | 12,174 |
| Deferred income tax | 2,310 | (2,737) |
| Share-based compensation expense | 1,564 | 1,363 |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | (12,079) | (4,712) |
| Inventory, net | (12,440) | 12,212 |
| Accounts payable | 6,541 | 1,435 |
| Accrued employment costs | 2,277 | (1,378) |
| Income taxes | 246 | 552 |
| Other, net | 482 | 4,252 |
| Net cash provided by operating activities | 4,272 | 21,968 |
| Investing Activity: | | |
| Capital expenditures | (6,077) | (10,351) |
| Net cash used in investing activity | (6,077) | (10,351) |
| Financing Activities: | | |
| Borrowings under revolving credit facility | 82,416 | 63,328 |
| Payments on revolving credit facility | (78,871) | (74,720) |
| Payments on term loan facility | (2,250) | (750) |
| Proceeds from the issuance of common stock | 908 | 809 |
| Payment of deferred financing costs | - | (487) |
| Purchase of treasury stock | - | (38) |
| Net cash provided by (used in) financing activities | 2,203 | (11,858) |

| | | |
|---------------------------------|--------|-------|
| Net increase (decrease) in cash | 398 | (241) |
| Cash at beginning of period | 307 | 321 |
| Cash at end of period | \$ 705 | \$ 80 |

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

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UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Nature of Business and Basis of Presentation

Universal Stainless & Alloy Products, Inc., and its wholly-owned subsidiaries (“Universal”, “we”, “our” or the “Company”), manufacture and market semi-finished and finished specialty steel products, including stainless steel, nickel alloys, tool steel and certain other alloyed steels. Our manufacturing process involves melting, remelting, heat treating, hot and cold rolling, forging, machining and cold drawing of semi-finished and finished specialty steels. Our products are sold to service centers, forgers, rerollers, original equipment manufacturers and wire redrawers. Our customers further process our products for use in a variety of industries, including the aerospace, power generation, oil and gas and heavy equipment manufacturing industries. We also perform conversion services on materials supplied by customers.

The accompanying unaudited consolidated statements include the accounts of Universal Stainless & Alloy Products, Inc. and its subsidiaries and are prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial reports and the instructions for Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared under U.S. GAAP have been condensed or omitted pursuant to such regulations. However, we believe that the disclosures are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with our most recently audited financial statements and the notes thereto included in our Annual Report on Form 10-K as filed with the Securities and Exchange Commission. In the opinion of management, the accompanying financial statements include all adjustments necessary to present a fair presentation of the consolidated financial statements for the periods shown. Interim results are not necessarily indicative of the operating results for the full fiscal year or any future period. The preparation of these financial statements in conformity with U.S. GAAP requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. Actual results may differ from our estimates. The consolidated financial statements include our accounts and the accounts of our wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated.

Certain prior year amounts have been reclassified to conform to the 2014 presentation.

Recently Adopted Accounting Pronouncement

In July 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2013-11 Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. We adopted ASU 2013-11 in 2014. The update did not have a material impact on our consolidated financial statements.

Recently Issued Accounting Pronouncement

In May 2014, the FASB issued ASU 2014-09 “Revenue from Contracts with Customers (Topic 606).” This topic converges the guidance within U.S. GAAP and International Financial Reporting Standards and supersedes Accounting Standards Codification 605, Revenue Recognition. The new standard requires companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively, and improve guidance for multiple-element arrangements. The new guidance is effective for annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period and early

application is not permitted. We are currently evaluating the impact that this standard will have on our consolidated financial statements.

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Note 2: Net Income (Loss) per Common Share

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|--------------------------------------------------------------------------------|-------------------------------------|------------|------------------------------------|------------|
| (dollars in thousands, except per share amounts) | 2014 | 2013 | 2014 | 2013 |
| Numerator: | | | | |
| Net income (loss) | \$ 1,395 | \$ (1,711) | \$ 2,345 | \$ (1,193) |
| Adjustment for interest expense on convertible notes | 132 | - | - | - |
| Net income (loss), as adjusted | \$ 1,527 | \$ (1,711) | \$ 2,345 | \$ (1,193) |
| Denominator: | | | | |
| Weighted average number of shares of common stock outstanding | 7,039,823 | 6,960,967 | 7,028,658 | 6,943,208 |
| Weighted average effect of dilutive stock options and other stock compensation | 72,072 | - | 85,463 | - |
| Weighted average effect of assumed conversion of convertible notes | 427,396 | - | - | - |
| Weighted average number of shares of common stock outstanding, as adjusted | 7,539,291 | 6,960,967 | 7,114,121 | 6,943,208 |
| Net income (loss) per common share: | | | | |
| Net income (loss) per common share - Basic | \$ 0.20 | \$ (0.25) | \$ 0.33 | \$ (0.17) |
| Net income (loss) per common share - Diluted | \$ 0.20 | \$ (0.25) | \$ 0.33 | \$ (0.17) |

The adjustment for interest expense on convertible notes is net of tax. An adjustment for interest expense on convertible notes was excluded from the diluted earnings per share calculation for the nine months ended September 30, 2014 and for the three and nine months ended September 30, 2013 as a result of the convertible notes being antidilutive.

We had granted options to purchase 442,300 and 345,300 shares of common stock at an average price of \$35.20 and \$35.46 for the three months ended September 30, 2014 and 2013, respectively, which were excluded in the computation of diluted net income (loss) per common share. We had granted options to purchase 351,800 and 273,800 shares of common stock at an average price of \$36.31 and \$36.22 for the nine months ended September 30, 2014 and 2013, respectively, which were excluded in the computation of diluted net income (loss) per common share. These outstanding options were not included in the computation of diluted net income (loss) per common share because their respective exercise prices were greater than the average market price of our common stock. In addition,

the calculation of diluted earnings per share for the nine months ended September 30, 2014 excluded 427,914 shares for the assumed conversion of convertible notes as a result of being anti-dilutive. The calculation of diluted earnings per share for the three and nine months ended September 30, 2013 would have included 99,380 and 124,964 shares, respectively, for the assumed exercise of stock options and other stock compensation under our share incentive plans and 427,396 and 427,914 shares for the three and nine months ended September 30, 2013, respectively, for the assumed conversion of convertible notes, except that we were in a net loss position and no anti-dilution is permitted.

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Note 3: Inventory

Our inventory consists of raw materials, primarily comprised of ferrous and non-ferrous scrap metal and alloys such as nickel, chrome, molybdenum, manganese and copper. Our semi-finished and finished steel products are work-in-process in various stages of production or are finished products waiting to be shipped to our customers.

Operating materials are primarily comprised of forge dies and production molds and rolls that are consumed over their useful lives. During the nine months ended September 30, 2014 and 2013, we amortized these operating materials in the amount of \$1.2 million and \$867,000, respectively. This expense is recorded as a component of cost of products sold on the consolidated statements of operations and included as a part of our total depreciation and amortization on the consolidated statements of cash flows. Inventory is stated at the lower of cost or market with cost principally determined on a weighted average cost method. Such costs include the acquisition cost for raw materials and supplies, direct labor and applied manufacturing overhead. We assess market based upon actual and estimated transactions at or around the balance sheet date. Typically, we reserve for slow-moving inventory and inventory that is being evaluated under our quality control process. The reserves are based upon management's expected method of disposition. During 2014, we scrapped inventory that was no longer considered sellable and returned it to our melt shop. Prior to this disposition, the inventory was reserved for. Inventories consisted of the following:

| (in thousands) | September 30, 2014 | December 31, 2013 |
|-------------------------------------------|--------------------------|----------------------|
| Raw materials and starting stock | \$ 7,989 | \$ 6,848 |
| Semi-finished and finished steel products | 78,391 | 69,333 |
| Operating materials | 8,829 | 8,463 |
| Gross inventory | 95,209 | 84,644 |
| Inventory reserves | (1,338) | (2,051) |
| Total inventory, net | \$ 93,871 | \$ 82,593 |

Note 4: Goodwill

We evaluate or test goodwill for impairment by either performing a qualitative evaluation or a two-step quantitative test, which involves comparing the estimated fair value of the associated reporting unit to its carrying value. The

qualitative evaluation is an assessment of factors to determine whether it is more likely than not that fair value is less than its carrying amount. Factors considered as part of the qualitative assessment include entity-specific, industry, market and general economic conditions. We may elect to bypass this qualitative assessment and perform a two-step quantitative test. We test for goodwill impairment using a combination of valuation techniques, which include consideration of a market-based approach (guideline company method) and an income approach (discounted cash flow method), in determining fair value in the annual impairment test of goodwill. We believe that the combination of the valuation models provides a more appropriate valuation by taking into account different marketplace participant assumptions. Both methods utilize market data in the derivation of a value estimate and are forward-looking in nature. The guideline assessment of future performance and the discounted cash flow method utilize a market-derived rate of return to discount anticipated performance.

We conduct our annual impairment test during the fourth quarter of each year. Other events and changes in circumstances may also require goodwill to be tested for impairment between annual measurement dates. While a decline in stock price and market capitalization is not specifically cited as a goodwill impairment indicator, a company's stock price and market capitalization should be considered in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. Additionally, a significant decline in a company's stock price may suggest that an adverse change in the business climate may have caused the fair value of the reporting unit to fall below its carrying value. The financial and credit market volatility directly impacts our fair value measurement through our stock price that we use to determine our market capitalization. During times of volatility, significant judgment must be applied to determine whether credit or stock price changes are a short-term swing or a longer-term trend. As of September 30, 2014, we do not believe there have been any events or circumstances that would require us to perform an interim goodwill impairment review, however, a sustained decline in our market capitalization below its book value could lead us to determine, in a future period, that an interim goodwill impairment review is required and may result in an impairment charge which would have a negative impact on our results of operations.

Note 5: Long-Term Debt

Long-term debt consisted of the following:

| (in thousands) | September 30, 2014 | December 31, 2013 |
|-----------------------------------------|--------------------------|-------------------------|
| Revolving credit facility | \$ 51,350 | \$ 49,350 |
| Convertible notes | 20,000 | 20,000 |
| Term loan | 16,250 | 18,500 |
| Swing loan credit facility | 3,491 | 1,946 |
| Total debt | 91,091 | 89,796 |
| Less: current portion of long-term debt | (3,000) | (3,000) |
| Long-term debt Credit Facility | \$ 88,091 | \$ 86,796 |

We have a Credit Agreement (as amended to date the “Credit Agreement”) with a syndication of banks which provides for a \$105.0 million senior secured revolving credit facility (the “Revolver”) and a \$20.0 million senior secured term loan facility (the “Term Loan” and together with the Revolver, the “Facilities”) that expire in March 2017. Under the Credit Agreement, our loan availability under the Revolver is calculated monthly based upon our accounts receivable and inventory balances.

We are required to pay a commitment fee of 0.25% based on the daily unused portion of the Revolver. The Revolver also provides for up to \$7.0 million of swing loans so long as the sum of the outstanding swing loans and the outstanding borrowings under the Revolver do not exceed the borrowing base at any given time. The Term Loan is payable in quarterly installments in the principal amount of \$750,000 which began on July 1, 2013, with the balance of the Term Loan payable in full on March 19, 2017.

Amounts outstanding under the Facilities, at our option, will bear interest at either a base rate or a LIBOR-based rate (the “LIBOR Option”), in either case calculated in accordance with the terms of the Credit Agreement. We elected to use the LIBOR Option during the nine months ended September 30, 2014, which was 2.66% at September 30, 2014. Interest on the Facilities is payable monthly.

We were required to maintain a trailing twelve month EBITDA under the Credit Agreement of \$14.0 million for the third quarter of 2014. Beginning with the fourth quarter of 2014, we will be required to maintain a leverage ratio not exceeding a ratio decreasing from 3.75 to 1.00 for the period December 31, 2014 to March 31, 2015, 3.50 to 1.00 for the period June 30, 2015 to September 30, 2015, 3.25 to 1.00 at December 31, 2015 and 3.00 to 1.00 from March 31, 2016 through maturity. We were required to maintain a fixed charge coverage ratio of 1.0 to 1.0 for the third quarter of 2014, and we will be required to maintain a fixed charge coverage of 1.1 to 1.0 from the fourth quarter of 2014 to maturity. We were in compliance with all our covenants at September 30, 2014 and December 31, 2013.

Convertible Notes

In connection with the acquisition of the North Jackson facility, in August 2011, we issued \$20.0 million in convertible notes (the "Notes") to the sellers of the North Jackson facility as partial consideration of the acquisition. The Notes are subordinated obligations and rank junior to the Facilities. The Notes bear interest at a fixed rate of 4.0% per annum, payable in cash semi-annually in arrears on each June 18 and December 18, beginning on December 18, 2011. Unless earlier converted, the Notes mature and the unpaid principal balance is due on August 17, 2017. The Notes and any accrued and unpaid interest are convertible into shares of our common stock at the option of the holder at an initial conversion price of \$47.1675 per share of common stock. The conversion price associated with the Notes may be adjusted in certain circumstances. We may prepay any outstanding Notes, in whole or in part, during a fiscal quarter if our share price is greater than 140% of the then current conversion price for at least 20 of the trading days in the 30 consecutive trading day period ending on the last trading day of the immediately preceding quarter.

Note 6: Fair Value Measurement

The fair value hierarchy has three levels based on the inputs used to determine fair value, which are as follows:

Level 1 — Unadjusted quoted prices available in active markets for the identical assets or liabilities at the measurement date.

Level 2 — Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3 — Unobservable inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

The fair value hierarchy requires the use of observable market data when available. In instances where the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input significant to the fair value measurement in its entirety. Our assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

The carrying amounts of our cash, accounts receivable and accounts payable approximated fair value at September 30, 2014 and December 31, 2013 due to their short-term maturities (Level 1). The fair value of the Term Loan, Revolver and swing loans at September 30, 2014 and December 31, 2013 approximated the carrying amount as the interest rate is based upon floating short-term interest rates (Level 2). At September 30, 2014 and December 31, 2013, the fair value of our Notes was approximately \$23.3 million (Level 2).

Note 7: Commitments and Contingencies

From time to time, various lawsuits and claims have been or may be asserted against us relating to the conduct of our business, including routine litigation relating to commercial and employment matters. The ultimate cost and outcome of any litigation or claim cannot be predicted with certainty. Management believes, based on information presently available, that the likelihood that the ultimate outcome of any such pending matter will have a material adverse effect on our financial condition, or liquidity or a material impact on our results of operations is remote, although the resolution of one or more of these matters may have a material adverse effect on our results of operations for the period in which the resolution occurs.

Note 8: Income Taxes

Management estimates the annual effective income tax rate quarterly, based on current annual forecasted results. Items unrelated to current year ordinary income are recognized entirely in the period identified as a discrete item of tax. The quarterly income tax provision is comprised of tax on ordinary income provided at the most recent estimated annual effective tax rate, increased or decreased for the tax effect of discrete items.

Including the effect of the discrete tax items, our effective tax rates for the three months ended September 30, 2014 and 2013 were 35.7% and (27.6)%, respectively. For the nine months ended September 30, 2014 and 2013, our effective tax rates were 52.5% and (63.0)%, respectively.

For the nine months ended September 30, 2014 and 2013, our estimated annual effective tax rates applied to ordinary income was 34.0% and (47.0)%, respectively. Our overall effective tax rates for the nine months ended September 30, 2014, which reflects federal and state taxable income, also includes net discrete tax expenses of \$915,000 due to a change in the New York state tax rate to zero percent (0%) for qualified New York manufacturers, a settlement with Pennsylvania regarding certain expenses deducted, and prior year research and development ("R&D") tax credits.

On March 31, 2014, new tax legislation was enacted in New York that reduced the state income tax rate to zero percent (0%) for qualified manufacturers, such as Universal, for tax years beginning on or after January 1, 2014. Prior to this legislation, our facility in Dunkirk operated in a New York State Empire Zone and qualified to benefit from investments made and employees hired, and as such, we had recorded a deferred tax asset on these investments. As a result of this new legislation, we placed a full valuation allowance on our remaining corresponding deferred tax asset in the amount of \$596,000 during the first quarter of 2014. In addition, we reached a settlement with Pennsylvania on

certain expenses which had been deducted for state income tax purposes during the 2005-2007 tax years. As a result of this matter, we recorded a discrete tax charge of \$247,000, net of the federal tax benefit, during the first quarter of 2014 related to this settlement and all remaining open tax years.

The effective tax rate for the nine months ended September 30, 2013 was positively affected by the benefit of a reduced state apportionment factor based on year-to-date sales, 2013 R&D tax credits, and by \$513,000 for 2012 R&D tax credits, which was considered to be a discrete tax item.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains or incorporates forward looking statements within the meaning of the Private Securities Reform Act of 1995, which involves risks and uncertainties. The following information should be read in conjunction with the unaudited consolidated financial information and the notes thereto included in this Quarterly Report on Form 10-Q. You should not place undue reliance on these forward looking statements. Actual events or results may differ materially due to competitive factors and other factors referred to in Part 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2013, our other filings with the Securities and Exchange Commission and elsewhere in this Quarterly Report. These factors may cause our actual results to differ materially from any forward looking statement. These forward looking statements are based on current expectations, estimates, forecasts, and projections about the industry and markets in which we operate, and management's beliefs and assumptions. In addition, other written or oral statements that constitute forward looking statements may be made by us or on our behalf. Words such as "expect," "anticipate," "intend," "plan," "believe," "could," "estimate," "may," "target," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties, and assumptions that are difficult to predict.

Business Overview

We manufacture and market semi-finished and finished specialty steel products, including stainless steel, nickel alloys, tool steel and certain other alloyed steels. Our manufacturing process involves melting, remelting, heat treating, hot and cold rolling, forging, machining and cold drawing of semi-finished and finished specialty steels. Our products are sold to service centers, forgers, rerollers, original equipment manufacturers and wire redrawers. Our customers further process our products for use in a variety of industries, including the aerospace, power generation, oil and gas and general industrial markets. We also perform conversion services on materials supplied by customers.

During the third quarter of 2014, we continued to see increased demand for our products, led by the aerospace market, as our revenues increased to \$53.6 million, an increase of \$1.3 million, or 2.5%, compared to the second quarter of 2014. In our primary end markets, we saw a sequential increase in our third quarter 2014 aerospace and heavy equipment net sales of \$1.8 million, or 5.9%, and \$975,000, or 26.4%, respectively over the second quarter of 2014 as business conditions improved in both of these end markets. These increases were offset by lower sales levels in our power generation end market as net sales were down \$842,000, or 12.9%, over second quarter 2014 levels while net sales in both our oil and gas and general industrial end markets combined decreased by \$684,000 from second quarter 2014 levels. During the third quarter of 2014, our premium alloy products sales represented \$3.3 million, or 6.2%, of total sales compared to \$4.3 million, or 8.1%, of total sales in the second quarter of 2014. Our premium alloy products are primarily sold to the aerospace end market. Our nine month 2014 net sales were approximately \$152.6 million, or an 8.6% increase, compared to net sales of \$140.5 million in the same period of 2013 as we have seen increased demand across all our end markets with the exception of power generation as that market is being primarily driven by maintenance business rather than new turbine builds. Our backlog at September 30, 2014, before surcharges, was \$61.0 million and was basically flat with the second quarter of 2014. After coming off seasonally lower booking levels in July and August, in September, we had our second largest bookings month of 2014 of \$19.0 million. At our North Jackson facility, we continue to work on gaining customer approvals for our higher value added nickel alloy products to expand our revenue base as we move into future periods. Although we continue to see improvements in our end markets, especially aerospace, as demand for newer fuel efficient planes grows, most of our

customer base still remain cautious in their buying patterns, but we remain optimistic for future growth as we move towards 2015.

Over the first nine months of 2014, our overall manufacturing activity levels have increased significantly compared to 2013 activity levels, thus we were better able to absorb costs due to more consistent levels of demand and production. We continue to focus our attention on reducing scrap rates and improving yields, while controlling plant operating spending at each of our facilities. As a result of these efforts and improved business conditions, our gross margins for the past two quarters were 16.1% and year to date are 15.1% compared to a gross margin of 7.7% posted for the full year in 2013. Our selling, general and administrative expenses have increased \$1.5 million over the first nine months of 2014 compared to 2013 primarily as a result of accruing expenses under our variable incentive compensation plan due to our improved profitability in 2014 compared to 2013. We continue to be diligent in managing our inventory levels to customer demand while managing our borrowings under our credit facility to support working capital and capital expenditures requirements. As we move into the fourth quarter of 2014, which historically is seasonally lower than the other three quarters of the year due to holidays and customers delaying year-end shipments, we will remain diligent in our efforts to control costs while managing our working capital requirements as we execute our strategy to move to higher value added products to further drive profitability and growth.

Results of Operations

Three months ended September 30, 2014 as compared to the three months ended September 30, 2013:

| (in thousands, except shipped ton information) | Three months ended September 30, | | | | | | | | |
|------------------------------------------------|----------------------------------|-------------------------|---|------------|-------------------------|-----------------------|---------------------|---------|---|
| | 2014 | | | 2013 | | | | | |
| | Amount | Percentage of net sales | | Amount | Percentage of net sales | Dollar / ton variance | Percentage variance | | |
| Net sales: | | | | | | | | | |
| Stainless steel | \$ 41,561 | 77.5 | % | \$ 38,133 | 78.8 | % | \$ 3,428 | 9.0 | % |
| High-strength low alloy steel | 4,541 | 8.5 | | 4,373 | 9.0 | | 168 | 3.8 | |
| Tool steel | 4,254 | 7.9 | | 3,849 | 7.9 | | 405 | 10.5 | |
| High-temperature alloy steel | 1,555 | 2.9 | | 1,168 | 2.4 | | 387 | 33.1 | |
| Conversion services and other sales | 1,715 | 3.2 | | 937 | 1.9 | | 778 | 83.0 | |
| Total net sales | 53,626 | 100.0 | | 48,460 | 100.0 | | 5,166 | 10.7 | |
| Cost of products sold | 44,983 | 83.9 | | 46,022 | 95.0 | | (1,039) | (2.3) | |
| Gross margin | 8,643 | 16.1 | | 2,438 | 5.0 | | 6,205 | 254.5 | |
| Selling, general and administrative expenses | 5,520 | 10.3 | | 4,467 | 9.2 | | 1,053 | 23.6 | |
| Operating income (loss) | 3,123 | 5.8 | | (2,029) | (4.2) | | 5,152 | 253.9 | |
| Interest expense and other financing costs | (949) | (1.8) | | (752) | (1.6) | | (197) | (26.2) | |
| Other (expense) income, net | (4) | - | | 418 | 0.9 | | (422) | (101.0) | |
| Income (loss) before income taxes | 2,170 | 4.0 | | (2,363) | (4.9) | | 4,533 | 191.8 | |
| Provision (benefit) for income taxes | 775 | 1.4 | | (652) | (1.4) | | 1,427 | (218.9) | |
| Net income (loss) | \$ 1,395 | 2.6 | % | \$ (1,711) | (3.5) | % | \$ 3,106 | 181.5 | |
| Tons shipped | 10,216 | | | 9,843 | | | 373 | 3.8 | % |
| Sales dollars per shipped ton | \$ 5,249 | | | \$ 4,923 | | | \$ 326 | 6.6 | % |

Market Segment Information

| (in thousands) | Three months ended September 30, | | | | | |
|-------------------------------------|----------------------------------|-------------------------------|-----------|-------------------------------|--------------------|------------------------|
| | 2014 | | 2013 | | Dollar variance | Percentage variance |
| | Amount | Percentage of net sales | Amount | Percentage of net sales | | |
| Net sales: | | | | | | |
| Service centers | \$ 36,897 | 68.7 % | \$ 30,748 | 63.5 % | \$ 6,149 | 20.0 % |
| Forgers | 6,257 | 11.7 | 4,688 | 9.7 | 1,569 | 33.5 |
| Rerollers | 5,405 | 10.1 | 8,577 | 17.7 | (3,172) | (37.0) |
| Original equipment manufacturers | 3,352 | 6.3 | 3,510 | 7.2 | (158) | (4.5) |
| Conversion services and other sales | 1,715 | 3.2 | 937 | 1.9 | 778 | 83.0 |
| Total net sales | \$ 53,626 | 100.0 % | \$ 48,460 | 100.0 % | \$ 5,166 | 10.7 % |

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Melt Type Information

| (in thousands) | Three months ended September 30, | | | | | |
|-------------------------------------|----------------------------------|-------------------------|-----------|-------------------------|-----------------|---------------------|
| | 2014 | | 2013 | | Dollar variance | Percentage variance |
| | Amount | Percentage of net sales | Amount | Percentage of net sales | | |
| Net sales: | | | | | | |
| Specialty alloys | \$ 48,608 | 90.6 % | \$ 43,808 | 90.4 % | \$ 4,800 | 11.0 % |
| Premium alloys (A) | 3,303 | 6.2 | 3,715 | 7.7 | (412) | (11.1) |
| Conversion services and other sales | 1,715 | 3.2 | 937 | 1.9 | 778 | 83.0 |
| Total net sales | \$ 53,626 | 100.0 % | \$ 48,460 | 100.0 % | \$ 5,166 | 10.7 % |

(A) Premium alloys represent all vacuum induction melted (VIM) products.

The majority of our products are sold to service centers/processors rather than the ultimate end market customers. The end market information in this Quarterly Report is our estimate based upon our knowledge of our customers and the grade of material sold to them, that they will in-turn sell to the ultimate end market customer.

End Market Information

| (in thousands) | Three months ended September 30, | | | | | |
|---------------------------------------------------------|----------------------------------|-------------------------|-----------|-------------------------|-----------------|---------------------|
| | 2014 | | 2013 | | Dollar variance | Percentage variance |
| | Amount | Percentage of net sales | Amount | Percentage of net sales | | |
| Net sales: | | | | | | |
| Aerospace | \$ 31,972 | 59.6 % | \$ 28,723 | 59.2 % | \$ 3,249 | 11.3 % |
| Power generation | 5,710 | 10.7 | 6,378 | 13.2 | (668) | (10.5) |
| Oil & gas | 5,121 | 9.5 | 5,045 | 10.4 | 76 | 1.5 |
| Heavy equipment | 4,672 | 8.7 | 4,167 | 8.6 | 505 | 12.1 |
| General industrial, conversion services and other sales | 6,151 | 11.5 | 4,147 | 8.6 | 2,004 | 48.3 |
| Total net sales | \$ 53,626 | 100.0 % | \$ 48,460 | 100.0 % | \$ 5,166 | 10.7 % |

Net sales:

Net sales for the three months ended September 30, 2014 increased \$5.2 million, or 10.7%, as compared to the three months ended September 30, 2013. This increase reflects a 3.8% increase in consolidated shipments for the three months ended September 30, 2014, compared to the same prior year period. In addition, our sales dollars per shipped

ton increased by 6.6% from the three months ended September 30, 2013 to the three months ended September 30, 2014. The increase in both sales and sales dollars per shipped ton is partially a result of increased base prices and surcharges as well as more favorable product mix. As noted in the table above, product sales to all of our end markets, except power generation, increased as overall business conditions in most of our end markets has improved during 2014, especially the aerospace market. During the three months ended September 30, 2014, we recognized a \$4.8 million, or 11.0%, increase in specialty alloy sales when compared to the three months ended September 30, 2013. Sales of our premium alloys decreased 11.1% to \$3.3 million for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013. Our premium alloy sales are primarily to the aerospace end market.

Gross margin:

Our gross margin, as a percentage of sales, was 16.1% and 5.0% for the three months ended September 30, 2014 and 2013, respectively. The improvement in our gross margin for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013 is largely a result of improved yields, lower scrap rates, better product mix, and higher operating levels due to improved business conditions. During the three months ended September 30, 2013, we decreased production levels as the result of lower demand for our products at that time and were unable to absorb all of our fixed costs, which negatively impacted our results for the three months ended September 30, 2013.

Selling, general and administrative expenses:

Our selling, general and administrative (“SG&A”) expenses consist primarily of employee costs, which include salaries, payroll taxes and benefit related costs, legal and accounting services, stock compensation and insurance costs. SG&A expenses increased by \$1.1 million in the three months ended September 30, 2014 as compared to the three months ended September 30, 2013 primarily due to accrued expenses related to our variable incentive compensation plan of \$660,000 as the result of our increased profitability in 2014 as compared to 2013. As a percentage of sales, our SG&A expenses increased to 10.3% during the three months ended September 30, 2014 from 9.2% for the three months ended September 30, 2013.

Interest expense and other financing costs:

Our interest expense and other financing costs increased to \$949,000 for the three months ended September 30, 2014 from \$752,000 for the three months ended September 30, 2013. These costs include deferred financing amortization of \$160,000 and \$116,000 for the three months ended September 30, 2014 and 2013, respectively. The overall increase is primarily due to higher interest rates incurred on our debt in 2014 when compared to 2013 and higher deferred financing amortization costs as a result of the two amendments to our credit facilities in 2013. Our interest rates are determined by a LIBOR-based rate plus an applicable margin based upon our quarterly leverage ratio.

Other income:

During the quarter ended September 30, 2013, we entered into a settlement agreement with the sellers of the North Jackson facility, whereby we received \$425,000 as a final settlement of certain claims under an escrow agreement that was entered into at the time of acquisition to satisfy certain claims under the purchase agreement. As a result of the settlement, we recognized a gain of \$402,000 during the three months ended September 30, 2013, which is included as a component of other income on the consolidated statements of operations.

Provision (benefit) for income taxes:

For the three months ended September 30, 2014 and 2013, our estimated annual effective tax rates applied to ordinary income were 34.0% and (47.0)%, respectively.

Including the effect of the discrete tax items, our effective tax rates for the three months ended September 30, 2014 and 2013 were 35.7% and (27.6)%, respectively.

Net income (loss):

Our net income (loss) increased to \$1.4 million, or \$0.20 per diluted share, for the three months ended September 30, 2014 from a net loss of \$(1.7) million, or \$(0.25) per diluted share, for the three months ended September 30, 2013 for the reasons stated above.

Nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013:

| (in thousands, except shipped ton information) | Nine months ended September 30, | | | | | | | |
|------------------------------------------------|---------------------------------|-------------------------|--|------------|-------------------------|-----------|-----------------------|---|
| | 2014 | | | 2013 | | | Dollar / ton variance | |
| | Amount | Percentage of net sales | | Amount | Percentage of net sales | | | |
| Net sales: | | | | | | | | |
| Stainless steel | \$ 120,233 | 78.8 % | | \$ 105,803 | 75.3 % | \$ 14,430 | 13.6 | % |
| High-strength low alloy steel | 11,787 | 7.7 | | 14,831 | 10.6 | (3,043) | (20.5) | |
| Tool steel | 11,315 | 7.4 | | 13,951 | 9.9 | (2,636) | (18.9) | |
| High-temperature alloy steel | 4,570 | 3.0 | | 3,243 | 2.3 | 1,327 | 40.9 | |
| Conversion services and other sales | 4,697 | 3.1 | | 2,654 | 1.9 | 2,043 | 77.0 | |
| Total net sales | 152,602 | 100.0 | | 140,482 | 100.0 | 12,120 | 8.6 | |
| Cost of products sold | 129,489 | 84.9 | | 128,090 | 91.2 | 1,399 | 1.1 | |
| Gross margin | 23,113 | 15.1 | | 12,392 | 8.8 | 10,721 | 86.5 | |
| Selling and administrative expenses | 15,317 | 10.0 | | 13,815 | 9.8 | 1,502 | 10.9 | |
| Operating income (loss) | 7,796 | 5.1 | | (1,423) | (1.0) | 9,219 | NM | |
| Interest expense and other financing costs | (2,854) | (1.9) | | (2,278) | (1.6) | (576) | (25.3) | |
| Other (expense) income, net | (1) | - | | 481 | 0.3 | (482) | (100.1) | |
| Income (loss) before income taxes | 4,941 | 3.2 | | (3,220) | (2.3) | 8,161 | 253.5 | |
| Provision (benefit) for income taxes | 2,596 | 1.7 | | (2,027) | (1.5) | 4,623 | (228.1) | |
| Net income (loss) | \$ 2,345 | 1.5 % | | \$ (1,193) | (0.8) % | \$ 3,538 | 296.6 | |
| Tons shipped | 29,461 | | | 28,027 | | 1,434 | 5.1 | % |
| Sales dollars per shipped ton | \$ 5,180 | | | \$ 5,012 | | \$ 168 | 3.4 | % |

NM – Not meaningful

Market Segment
Information

| (in thousands) | Nine months ended September 30, | | | | | | Dollar variance | Percentage variance | |
|----------------------------------------|---------------------------------|-------------------------------|------------|-------------------------------|-----------|--------|--------------------|------------------------|--|
| | 2014 | | 2013 | | | | | | |
| | Amount | Percentage of net sales | Amount | Percentage of net sales | | | | | |
| Net sales: | | | | | | | | | |
| Service centers | \$ 100,659 | 66.0 % | \$ 92,360 | 65.7 % | \$ 8,299 | 9.0 | % | | |
| Forgers | 19,719 | 12.9 | 15,750 | 11.2 | 3,969 | 25.2 | | | |
| Rerollers | 16,257 | 10.7 | 19,657 | 14.0 | (3,400) | (17.3) | | | |
| Original equipment manufacturers | 11,270 | 7.3 | 10,061 | 7.2 | 1,209 | 12.0 | | | |
| Conversion services and other sales | 4,697 | 3.1 | 2,654 | 1.9 | 2,043 | 77.0 | | | |
| Total net sales | \$ 152,602 | 100.0 % | \$ 140,482 | 100.0 % | \$ 12,120 | 8.6 | % | | |

Melt Type Information

| (in thousands) | Nine months ended September 30, | | | | | | | | |
|-------------------------------------|---------------------------------|-------------------------|---|------------|-------------------------|---|-----------------|---------------------|---|
| | 2014 | | | | 2013 | | | | |
| | Amount | Percentage of net sales | | Amount | Percentage of net sales | | Dollar variance | Percentage variance | |
| Net sales: | | | | | | | | | |
| Specialty alloys | \$ 137,648 | 90.2 | % | \$ 130,027 | 92.5 | % | \$ 7,621 | 5.9 | % |
| Premium alloys (A) | 10,257 | 6.7 | | 7,801 | 5.6 | | 2,456 | 31.5 | |
| Conversion services and other sales | 4,697 | 3.1 | | 2,654 | 1.9 | | 2,043 | 77.0 | |
| Total net sales | \$ 152,602 | 100.0 | % | \$ 140,482 | 100.0 | % | \$ 12,120 | 8.6 | % |

(A) Premium alloys represent all vacuum induction melted (VIM) products.

The majority of our products are sold to service centers/processors rather than the ultimate end market customers. The end market information in this Quarterly Report is our estimate based upon our knowledge of our customers and the grade of material sold to them, that they will in-turn sell to the ultimate end market customer.

End Market Information

| (in thousands) | Nine months ended September 30, | | | | | | | | |
|---------------------------------------------------------|---------------------------------|-------------------------|---|------------|-------------------------|---|-----------------|---------------------|---|
| | 2014 | | | | 2013 | | | | |
| | Amount | Percentage of net sales | | Amount | Percentage of net sales | | Dollar variance | Percentage variance | |
| Net sales: | | | | | | | | | |
| Aerospace | \$ 88,869 | 58.2 | % | \$ 79,448 | 56.5 | % | \$ 9,421 | 11.9 | % |
| Power generation | 17,677 | 11.6 | | 16,668 | 11.9 | | 1,009 | 6.1 | |
| Oil & gas | 14,776 | 9.7 | | 15,821 | 11.3 | | (1,045) | (6.6) | |
| Heavy equipment | 12,328 | 8.1 | | 15,201 | 10.8 | | (2,873) | (18.9) | |
| General industrial, conversion services and other sales | 18,952 | 12.4 | | 13,344 | 9.5 | | 5,608 | 42.0 | |
| Total net sales | \$ 152,602 | 100.0 | % | \$ 140,482 | 100.0 | % | \$ 12,120 | 8.6 | % |

Net sales:

Net sales for the nine months ended September 30, 2014 and 2013 increased \$12.1 million, or 8.6%, as compared to the nine months ended September 30, 2013. This increase primarily reflects a 5.1% increase in consolidated shipments for the nine months ended September 30, 2014, compared to the nine months ended September 30, 2013. In addition, our sales dollars per shipped ton increased by 3.4% from the nine months ended September 30, 2013 to the nine months ended September 30, 2014. The increase in both sales and sales dollars per shipped ton is partially a result of increased base prices and surcharges as well as more favorable product mix. Our product sales to our aerospace and power generation end markets increased. Although sales to our heavy equipment and oil and gas end markets did decrease during the nine months ended September 30, 2014, we are seeing improvements in the overall business conditions in most of our end markets, especially aerospace. During the nine months ended September 30, 2014, we recognized a \$2.5 million, or 31.5%, increase in premium alloy sales when compared to the same period in 2013. Our premium alloy sales increased from 5.6% of total sales for the nine months ended September 30, 2013 to 6.7% in the current period. Our premium alloy sales are primarily to the aerospace end market.

Gross margin:

Our gross margin, as a percentage of sales, was 15.1% and 8.8% for the nine months ended September 30, 2014 and 2013, respectively. The improvement in our gross margin over the first nine months of 2014 when compared to the same prior year period is largely a result of a better product mix, improved yields and scrap rates, and higher operating levels due to improved business conditions, which negatively impacted our results for the nine months ended September 30, 2013.

Selling, general and administrative expenses:

Our SG&A expenses increased by \$1.5 million in the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013 primarily due to increased accrued expenses related to our variable incentive compensation plan of \$1.3 million as the result of our increased profitability in 2014 as compared to 2013, which were offset by a decrease in severance expense. We incurred \$356,000 in severance expense in the nine months ended September 30, 2013 from the departure of a senior executive. There were no similar severance expenses in the nine months ended September 30, 2014. As a percentage of sales, our SG&A expenses increased to 10.0% for the nine months ended September 30, 2014, as compared to 9.8% during the nine months ended September 30, 2013.

Interest expense and other financing costs:

Our interest expense and other financing costs increased to \$2.9 million for the nine months ended September 30, 2014 from \$2.3 million for the nine months ended September 30, 2013. These costs include deferred financing amortization of \$484,000 and \$311,000 for the nine months ended September 30, 2014 and 2013, respectively. The overall increase is primarily due to higher interest rates incurred on our debt in 2014 when compared to 2013 and higher deferred financing amortization costs as a result of the two amendments to our credit facilities in 2013. Our interest rates are determined by a LIBOR-based rate plus an applicable margin based upon our quarterly leverage ratio.

Other income:

During the nine months ended September 30, 2013, we entered into a settlement agreement with the sellers of the North Jackson facility, whereby we received \$425,000 as a final settlement of certain claims under an escrow agreement that was entered into at the time of acquisition to satisfy certain claims under the purchase agreement. As a result of the settlement, we recognized a gain of \$402,000 during the nine months ended September 30, 2013, which is included as a component of other income on the consolidated statements of operations.

Provision (benefit) for income taxes:

Our effective tax rates for the nine months ended September 30, 2014 and 2013 were 52.5% and (63.0)%, respectively. Our overall effective tax rates for the nine months ended September 30, 2014, which reflects federal and state taxable income, also includes net discrete tax expenses of \$915,000 due to a change in the New York state tax rate to zero percent (0%) for qualified New York manufacturers, a settlement with Pennsylvania regarding certain expenses deducted, and prior year research and development ("R&D") tax credits.

On March 31, 2014, new tax legislation was enacted in New York that reduced the New York state income tax rate to zero percent (0%) for qualified manufacturers, such as Universal, for tax years beginning on or after January 1, 2014. Prior to this legislation, our facility in Dunkirk operated in a New York State Empire Zone and qualified to benefit from investments made and employees hired, and as such, we had recorded a deferred tax asset on these investments. As a result of this new legislation, we placed a full valuation allowance on our remaining corresponding deferred tax asset in the amount of \$596,000 during the first quarter of 2014. In addition, we reached a settlement with Pennsylvania on certain expenses which had been deducted for state income tax purposes during the 2005-2007 tax years. As a result of this matter, we recorded a discrete tax charge of \$247,000, net of the federal tax benefit, during the first quarter of 2014 related to this settlement and all remaining open tax years. Our effective tax rate for the nine months ended September 30, 2013 reflects a benefit from a reduced state apportionment factor. Our effective tax rate for the nine months ended September 30, 2013 also included a net discrete tax benefit of \$446,000 for R&D tax credits. An extension of the R&D tax credit for 2014 has not been enacted by Congress. Our estimated annual effective tax rate on ordinary income for 2014 is 34.0%.

Net income (loss):

Our net income (loss) increased to \$2.3 million, or \$0.33 per diluted share, for the nine months ended September 30, 2014 from a net loss of \$(1.2) million, or \$(0.17) per diluted share, for the nine months ended September 30, 2013 for the reasons stated above.

Recently Adopted Accounting Pronouncement

In July 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2013-11 Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. We adopted ASU 2013-11 in 2014. The update did not have a material impact on our consolidated financial statements.

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Recently Issued Accounting Pronouncement

In May 2014, the FASB issued ASU 2014-09 “Revenue from Contracts with Customers (Topic 606)”. This topic converges the guidance within U.S. generally accepted accounting principles and International Financial Reporting Standards and supersedes Accounting Standards Codification 605, Revenue Recognition. The new standard requires companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively, and improve guidance for multiple-element arrangements. The new guidance is effective for annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period and early application is not permitted. We are currently evaluating the impact that this standard will have on our consolidated financial statements.

Liquidity and Capital Resources

Historically and currently, we have financed our operating activities through cash provided by operations and cash provided through our credit facilities. At September 30, 2014, our managed working capital, defined as net accounts receivable plus net inventory minus accounts payable, increased by \$16.8 million to \$106.6 million compared to \$89.8 million at December 31, 2013. Our net accounts receivable balances increased \$12.1 million primarily as a result of a 33.1% increase in net sales for the quarter ended September 30, 2014 compared to the quarter ended December 31, 2013. Inventory levels increased by \$11.3 million to \$93.9 million as of September 30, 2014 from \$82.6 million as of December 31, 2013 due to planned increases on certain product grades as a result of increased customer activity and improved sales levels over 2013. Our accounts payable balance increased by \$6.5 million to \$20.8 million as of September 30, 2014 from \$14.3 million as of December 31, 2013 due to increased operating activity and the timing of vendor payments.

Net cash provided by operating activities:

During the nine months ended September 30, 2014, we generated net cash from operating activities of \$4.3 million. During the nine months ended September 30, 2014, our net income adjusted for non-cash expenses generated approximately \$19.2 million of cash. The increase in our net inventory and net accounts receivable used \$12.4 million and \$12.1 million of cash, respectively which was partially offset by the net increase in our accounts payable and other accruals and assets which provided \$9.5 million in cash.

During the nine months ended September 30, 2013, we generated net cash from operating activities of \$22.0 million. The net increase in our net inventory and accounts payable provided \$13.6 million in cash, which was partially offset by changes in our net accounts receivable, other assets and liabilities which used \$1.3 million of cash. In addition, during the nine months ended September 30, 2013, our net income adjusted for non-cash expenses generated approximately \$9.6 million of cash.

Net cash used in investing activity:

During the nine months ended September 30, 2014, we used \$6.1 million in cash for capital expenditures compared to \$10.4 million during the nine months ended September 30, 2013. The primary reason for reduced capital spending during the nine months ended September 30, 2014 as compared to the same period in 2013 was that we completed the North Jackson facility build-out during the first nine months of 2013 with capital expenditures of \$5.0 million. We believe that overall capital expenditures in 2014 will be similar to 2013 spending levels, as we anticipate higher capital spending on certain projects in the last quarter of 2014.

Net cash provided by (used in) financing activities:

During the nine months ended September 30, 2014, our financing activities provided \$2.2 million in cash. Net cash provided from borrowings under our credit facility was approximately \$3.5 million. Additionally, we received \$908,000 in receipts from the exercise of stock options and the issuance of stock under our Employee Stock Purchase Plan. Our borrowings increased to support higher inventory and operating levels.

During the nine months ended September 30, 2013, we used \$11.9 million in cash for our financing activities. Of that amount, approximately \$12.1 million of our cash was utilized to reduce our bank debt. In addition, we used \$487,000 to amend our credit facility during the nine months ended September 30, 2013, which was offset by the receipt of \$809,000 from the exercise of stock options and the issuance of stock under our Employee Stock Purchase Plan.

We believe that our cash flows from continuing operations as well as available borrowings under our credit facility are adequate to satisfy our working capital, capital expenditure requirements, and other contractual obligations for the foreseeable future, including at least the next 12 months.

We continuously monitor market price fluctuations of key raw materials. The market values for these raw materials continue to fluctuate based on supply and demand, market disruptions, and other factors. We maintain sales price surcharge mechanisms on

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certain of our products, priced at time of shipment, to mitigate the risk of raw material cost fluctuations. There can be no assurance that these sales price adjustments will completely offset our raw material costs.

The following table reflects the average market values per pound for selected months during the last 10-month period:

| | September 2014 | June 2014 | March 2014 | December 2013 |
|--------------|-------------------|--------------|---------------|------------------|
| Nickel | \$ 8.20 | \$ 8.42 | \$ 7.10 | \$ 6.31 |
| Chrome | \$ 1.17 | \$ 1.16 | \$ 1.12 | \$ 1.04 |
| Molybdenum | \$ 12.50 | \$ 14.75 | \$ 10.13 | \$ 9.73 |
| Carbon scrap | \$ 0.18 | \$ 0.18 | \$ 0.18 | \$ 0.19 |

Sources: Nickel is the daily average LME Cash Settlement Price; Chrome and Molybdenum is the final monthly average as published by Ryan's Notes; Carbon is the consumer price for #1 Industrial Bundles in the Pittsburgh, PA area as reported in American Metal Market.

We have a Credit Agreement (as amended to date the "Credit Agreement") with a syndication of banks which provides for a \$105.0 million senior secured revolving credit facility (the "Revolver") and a \$20.0 million senior secured term loan facility (the "Term Loan" and together with the Revolver, the "Facilities") that expire in March 2017. Under the Credit Agreement, our loan availability under the Revolver is calculated monthly based upon our accounts receivable and inventory balances.

We are required to pay a commitment fee of 0.25% based on the daily unused portion of the Revolver. The Revolver also provides for up to \$7.0 million of swing loans so long as the sum of the outstanding swing loans and the outstanding borrowings under the Revolver do not exceed the borrowing base at any given time. The Term Loan is payable in quarterly installments in the principal amount of \$750,000 which began on July 1, 2013, with the balance of the Term Loan payable in full on March 19, 2017.

Amounts outstanding under the Facilities, at our option, will bear interest at either a base rate or a LIBOR-based rate (the "LIBOR Option"), in either case calculated in accordance with the terms of the Credit Agreement. We elected to use the LIBOR Option during the nine months ended September 30, 2014, which was 2.66% at September 30, 2014. Interest on the Facilities is payable monthly.

We were required to maintain a trailing twelve month EBITDA under the Credit Agreement of \$14.0 million for the third quarter of 2014. Beginning with the fourth quarter of 2014, we will be required to maintain a leverage ratio not exceeding a ratio decreasing from 3.75 to 1.00 for the period December 31, 2014 to March 31, 2015, 3.50 to 1.00 for the period June 30, 2015 to September 30, 2015, 3.25 to 1.00 at December 31, 2015 and 3.00 to 1.00 from March 31, 2016 through maturity. We were required to maintain a fixed charge coverage ratio of 1.0 to 1.0 for the third quarter of 2014, and we will be required to maintain a fixed charge coverage of 1.1 to 1.0 from the fourth quarter of 2014 to maturity. We were in compliance with all our covenants at September 30, 2014 and December 31, 2013.

In connection with the acquisition of the North Jackson facility, in August 2011, we issued \$20.0 million in convertible notes (the "Notes") to the sellers of the North Jackson facility as partial consideration of the acquisition. The Notes are subordinated obligations and rank junior to the Facilities. The Notes bear interest at a fixed rate of 4.0% per annum, payable in cash semi-annually in arrears on each June 18 and December 18, beginning on December 18, 2011. Unless earlier converted, the Notes mature and the unpaid principal balance is due on August 17, 2017. The Notes and any accrued and unpaid interest are convertible into shares of our common stock at the option of the holder at an initial conversion price of \$47.1675 per share of common stock. The conversion price associated with the Notes may be adjusted in certain circumstances. We may prepay any outstanding Notes, in whole or in part, during a fiscal quarter if our share price is greater than 140% of the then current conversion price for at least 20 of the trading days in the 30 consecutive trading day period ending on the last trading day of the immediately preceding quarter.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has reviewed its market risk and believes there are no significant changes from that disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, except as provided in this Form 10-Q in "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 4. CONTROLS AND PROCEDURES

The Company's management, including the Company's Chairman, President and Chief Executive Officer and its Vice President of Finance, Chief Financial Officer and Treasurer, performed an evaluation of the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the Company's Chairman, President and Chief Executive Officer and its Vice President of Finance, Chief Financial Officer and Treasurer concluded that, as of the end of the fiscal period covered by this quarterly report, the Company's disclosure controls and procedures are effective. During the fiscal quarter ended September 30, 2014, there were no changes in the Company's internal control over financial reporting which have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

There are no material changes from the legal proceedings disclosed in Item 3. of the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

Item 1A. RISK FACTORS

There are no material changes from the risk factors disclosed in Item 1A. of the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not Applicable.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

Exhibit

Number Exhibit

- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

101 The following financial information from this Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2014, formatted in XBRL (Extensible Business Reporting Language) and filed electronically herewith: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Cash Flows; and (iv) the Notes to the Consolidated Financial Statements (filed herewith).

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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.

Date: October 29, 2014

/s/ Dennis M. Oates
Dennis M. Oates
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

/s/ Michael D. Bornak
Michael D. Bornak
Vice President of Finance,
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)