

**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

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.

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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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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.

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	<u>3,344</u>	<u>2,740</u>
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	<u>2,749</u>	<u>2,418</u>
Total assets	<u>\$374,223</u>	<u>\$ 376,266</u>
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	<u>1,303</u>	<u>735</u>
Total current liabilities	27,867	17,516
Long-term debt	102,498	105,242
Deferred income taxes	<u>44,765</u>	<u>55,227</u>
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	<u>(2,153)</u>	<u>(2,153)</u>
Total stockholders' equity	<u>199,093</u>	<u>198,281</u>
Total liabilities and stockholders' equity	<u>\$374,223</u>	<u>\$ 376,266</u>

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

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	<u>\$ 115</u>	<u>\$ 378</u>
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.

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	<u>\$20,268</u>

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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	
	March 31,	
	2013	2012
Numerator:		
Net income	\$ 40	\$ 6,286
Adjustment for interest expense on convertible notes (A)	—	105
Net income, as adjusted	<u>\$ 40</u>	<u>\$ 6,391</u>
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)	—	427,459
Weighted average number of shares of Common Stock outstanding, as adjusted	<u>7,063,703</u>	<u>7,433,086</u>
Net income per common share:		
Net income per common share – Basic	<u>\$ 0.01</u>	<u>\$ 0.92</u>
Net income per common share – Diluted	<u>\$ 0.01</u>	<u>\$ 0.86</u>

(A) An adjustment for interest expense on convertible notes of \$124 and the weighted average effect of the assumed conversion of convertible notes of 427,759 shares was excluded from the net income per share calculation for the three months ended March 31, 2013, as a result of being antidilutive.

There were 143,925 and 19,150 stock options outstanding, which were excluded from the computation of diluted net income per common share, at an average price of \$38.72 and \$41.27 at March 31, 2013 and 2012, respectively. These outstanding options were not included in the computation of diluted net income per common share because their respective exercise prices were greater than the average market price of the Common Stock.

Note 4 – Inventory

The major classes of inventory were as follows:

<i>(in thousands)</i>	March 31,	December 31,
	2013	2012
Raw materials and supplies	\$ 6,278	\$ 7,431
Semi-finished and finished steel products	83,368	80,731
Operating materials	8,361	7,587
Total inventory, net	<u>\$ 98,007</u>	<u>\$ 95,749</u>

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Note 5 – Long-Term Debt

Long-term debt consisted of the following:

<i>(in thousands)</i>	<u>March 31, 2013</u>	<u>December 31, 2012</u>
Revolving credit facility	\$ 59,350	\$ 64,350
Term loan	20,000	20,000
Convertible notes	20,000	20,000
Swing loan credit facility	5,398	2,392
	<u>104,748</u>	<u>106,742</u>
Less current portion of long-term debt	<u>2,250</u>	<u>1,500</u>
Long-term debt	<u>\$102,498</u>	<u>\$ 105,242</u>

Amended Credit Facility

On August 18, 2011, the Company entered into a Credit Agreement (the “Credit Agreement”) which provides for a senior secured revolving credit facility (the “Revolver”) and a senior secured term loan facility (the “Term Loan” and together with the Revolver, the “Facilities”). On March 19, 2012, the Company entered into the First Amendment to Credit Agreement and on March 29, 2013, the Company entered into the Second Amendment to Credit Agreement (together with the Credit Agreement and the First Amendment to Credit Agreement, the “Amended Credit Agreement”). The Amended Credit Agreement provides for a \$105.0 million Revolver and a \$20.0 million Term Loan. PNC Bank, National Association serves as Administrative Agent with respect to the Facilities. The First Amendment to Credit Agreement extended the expiration date from August 2016 to March 2017, provided additional availability under the Facilities and reduced fees and interest rates. The Second Amendment to Credit Agreement provides additional flexibility under the Credit Agreement’s covenants. The Facilities are collateralized by substantially all of the assets of the Company and its subsidiaries, except that no real property other than the North Jackson facility is collateral under the Facilities. Universal Stainless & Alloy Products, Inc., Dunkirk Specialty Steel, LLC and North Jackson Specialty Steel, LLC are co-borrowers under the Facilities. The co-borrowers’ obligations under the Facilities have been guaranteed by USAP Holdings, Inc. In conjunction with the amendments to the Credit Agreement, the Company recorded additional deferred financing costs of \$475,000 and \$348,000 during the three months ended March 31, 2013 and 2012, respectively. Deferred financing costs are included on the condensed consolidated balance sheets as a component of other long-term assets.

At any time prior to August 18, 2015, the Company may make up to two requests to increase the maximum aggregate principal amount of borrowings under the Revolver by at least \$10.0 million, with the maximum aggregate principal amount of borrowings under the Revolver not to exceed \$130.0 million in any event. The Company is 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 does not exceed \$105.0 million at any given time. The Term Loan is payable in quarterly installments in the principal amount of \$750,000 beginning on July 1, 2013, with the balance of the Term Loan payable in full on March 19, 2017.

Amounts outstanding under the Facilities, at the Company’s 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 Amended Credit Agreement. The Company elected to use the LIBOR Option during the three months ended March 31, 2013, which was 2.2% at March 31, 2013. Interest on the Facilities is payable monthly.

The Amended Credit Agreement requires the Company to maintain a leverage ratio not exceeding a ratio decreasing from 3.75 to 1.00 to 2.75 to 1.00 during the term of the Facilities. Additionally, the Company is required to maintain a fixed charge coverage ratio not less than a ratio increasing from 1.10 to 1.00 to 1.20 to 1.00 during the term of the Facilities. At March 31, 2013, the Company was obligated to maintain a leverage ratio of not exceeding 3.75 to 1.00 and a fixed charge coverage ratio not less than 1.10 to 1.00. The Company was in compliance with all covenants contained in the Amended Credit Agreement at March 31, 2013 and December 31, 2012.

Convertible Notes

In connection with the acquisition of the North Jackson facility, on August 18, 2011, the Company 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 of the Company 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

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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 the Company's 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. The Company may prepay any outstanding Notes, in whole or in part on any date after August 17, 2014 during a fiscal quarter if the Company's share price is greater than 140% of the current conversion price for at least twenty of the trading days in the thirty consecutive trading day period ending on the last trading day of the immediately preceding quarter.

Note 6 – Fair Value Measurements

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. The Company's 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.

Financial instruments include cash, accounts receivable, other current assets, accounts payable, short-term debt and other current liabilities. The carrying amounts of these financial instruments approximated fair value at March 31, 2013 and December 31, 2012 due to their short-term maturities. The fair value of the Term Loan, Revolver and swing loans at March 31, 2013 and December 31, 2012 approximated the carrying amount as the interest rate is based upon floating short-term interest rates (Level 2). At March 31, 2013 and December 31, 2012, the fair value of the Notes approximated the carrying amount (Level 2).

Note 7 – Commitments and Contingencies

From time to time, various lawsuits and claims have been or may be asserted against the Company 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 its financial condition, or liquidity or a material impact on its results of operations is remote, although the resolution of one or more of these matters may have a material adverse effect on its 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.

For the three months ended March 31, 2013 and 2012, the estimated annual effective tax rate applied to ordinary income was 33.7% and 35.0%, respectively. The effective tax rate for the three months ended March 31, 2013, which reflects federal and state taxable income, includes a net discrete tax benefit of \$368,000 for research and development tax credits. The effective tax rate for the three months ended March 31, 2012 was positively affected by the benefit of \$441,000 for state income taxes, which was considered to be a discrete tax item. Including the effect of the discrete tax items, the Company's effective tax rate (benefit) for the three months ended March 31, 2013 and 2012 was (108.1)% and 30.2%, respectively.

Note 9 – Escrow Agreement

On August 18, 2011, the Company entered into an escrow agreement with the sellers of the North Jackson facility, pursuant to which \$2.5 million of the purchase price of the North Jackson facility was placed in escrow. The escrow agreement remains effective while resolution of claims is completed.

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

Overview

The following Management Discussion and Analysis ("MD&A") is intended to help the reader understand the results of operations and financial condition of Universal Stainless & Alloy Products, Inc. ("the "Company"). This MD&A is provided as a supplement to, and should be read in conjunction with, our condensed consolidated financial statements and the accompanying notes to the condensed consolidated financial statements.

We manufacture and market semi-finished and finished specialty steel products, including stainless steel, 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 rerollers, forgers, service centers, 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 products. We also perform conversion services on materials supplied by customers that lack certain of our production capabilities or are subject to their own capacity constraints.

We recognized net income for the three months ended March 31, 2013 of \$40,000, or \$0.01 per diluted share, compared with net income of \$6.3 million, or \$0.86 per diluted share, for the first quarter of 2012.

Our net sales decreased from a record \$74.6 million for the three months ended March 31, 2012 to \$49.1 million for the current quarter. This \$25.5 million, or 34%, decrease is largely due to decreased volume recognized in the current quarter. Tons shipped decreased by 31% in the current quarter when compared to the prior year first quarter.

Our backlog decreased from \$51.7 million at December 31, 2012 to \$46.6 million at March 31, 2013. This 10% reduction is primarily a result of our sales for the first quarter of 2013 exceeding our order entry activity.

Our cost of products sold decreased from \$60.3 million for the first quarter of 2012 to \$44.5 million in the current quarter. This \$15.8 million, or 26%, decrease is due to the aforementioned 34% decrease in net sales.

Selling and administrative ("S&A") expenses decreased slightly from \$4.6 million in the first quarter of 2012 to \$4.5 million in the current quarter. However, primarily as a result of the reduction in sales during the current quarter when compared to the prior year first quarter, our S&A expense as a percentage of net sales increased from 6% for the quarter ended March 31, 2012 to 9% for the current quarter.

Our effective tax rate (benefit) for the three months ended March 31, 2013 and 2012 was (108.1)% and 30.2%, respectively. The effective tax rate for the first quarter of 2013 includes a discrete tax benefit of \$0.4 million for research and development tax credits. The effective tax rate for the first quarter of 2012 includes a discrete tax benefit of \$0.4 million for certain state tax benefits recognized in the quarter. Excluding the discrete tax benefit, our estimated annual effective tax rate on ordinary income for 2013 is 33.7%.

As a result of the North Jackson acquisition, our operating facilities have become more integrated, resulting in our chief operating decision maker ("CODM") viewing the Company as one unit. During the quarter ended March 31, 2013, our 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 CODM, we commenced reporting to one reportable segment beginning with the three months ended March 31, 2013.

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Results of Operations

Three months ended March 31, 2013 as compared to the three months ended March 31, 2012

An analysis of our operations for the three months ended March 31, 2013 and 2012 is as follows:

<i>(in thousands)</i>	Three months ended	
	March 31,	
	2013	2012
Net sales:		
Stainless steel	\$35,477	\$60,126
Tool steel	4,984	4,305
High-strength low alloy steel	6,593	6,238
High-temperature alloy steel	1,270	2,441
Conversion services	740	1,467
Other sales	71	37
Total net sales	49,135	74,614
Material cost of sales	25,815	37,269
Operation cost of sales	18,674	23,070
Selling and administrative expenses	4,479	4,583
Operating income	<u>\$ 167</u>	<u>\$ 9,692</u>
Tons Shipped	<u>9,626</u>	<u>14,034</u>

Market Segment Information

<i>(in thousands)</i>	Three months ended	
	March 31,	
	2013	2012
Net sales:		
Service centers	\$32,509	\$41,656
Forgers	6,629	13,719
Rerollers	5,502	10,996
Original equipment manufacturers	3,684	6,739
Conversion services	740	1,467
Other sales	71	37
Total net sales	<u>\$49,135</u>	<u>\$74,614</u>

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Melt Type Information

<i>(in thousands)</i>	Three months ended	
	March 31,	
	2013	2012
Net sales:		
Specialty alloys	\$46,122	\$69,497
Premium alloys (A)	2,202	3,613
Conversion services	740	1,467
Other sales	71	37
Total net sales	<u>\$49,135</u>	<u>\$74,614</u>

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

Net sales for the three months ended March 31, 2013 decreased \$25.5 million, or 34%, as compared to the similar period in 2012. The decrease reflects a 31% decrease in consolidated shipments. Our shipments of oil and gas products, aerospace products, power generation products and conversion services decreased by 62%, 32%, 50% and 46%, respectively, in the quarter ended March 31, 2013 over the first quarter of 2012. These decreases were partially offset by increases in first quarter 2013 shipments of heavy equipment and general industrial products of 56% and 62%, respectively, when compared to the same period in 2012. We believe that the decrease in our sales during the first quarter of 2013 is largely a result of inventory adjustments being made by our customers.

Cost of products sold, as a percentage of net sales, was 91% and 81% for the three months ended March 31, 2013 and 2012, respectively. Our operations costs, which include certain infrastructure costs such as overhead and depreciation, increased on a percentage of sales basis from 31% for the quarter ended March 31, 2012 to 38% for the current quarter. We have placed a substantial amount of fixed assets in service over the past four quarters, primarily at our North Jackson facility, which has increased our depreciation expense. The higher depreciation expense, coupled with developing production at our North Jackson facility, had a negative impact on our operations costs as a percentage of sales in the current period. Our operation costs for the current quarter were further negatively impacted by additional costs incurred during the period for refining our manufacturing processes on new products and achieving industry and customer approvals. Additionally, our material costs as a percentage of sales, increased slightly from 50% for the quarter ended March 31, 2012 to 53% for the current quarter.

S&A expenses decreased by \$0.1 million in the three months ended March 31, 2013 as compared to the similar period in 2012. On a percentage of sales basis however, our S&A expenses increased from 6% during the first quarter of 2012 to 9% in the current quarter. The increase on a percentage of sales basis is a result of maintaining comparable S&A expenses between periods with the aforementioned 34% reduction in sales.

Liquidity and Capital Resources

We have financed our operating activities through cash on hand at the beginning of the period, cash provided by operations and cash provided through our credit facilities. Working capital decreased \$12.6 million to \$117.3 million at March 31, 2013 from \$129.9 million at December 31, 2012. Our accounts payable balance increased \$10.0 million, as a result of increased production during the current quarter when compared to the quarter ended December 31, 2012. Our accounts receivable balance increased \$5.0 million as a result of the 4% increase in sales for the three months ended March 31, 2013 in comparison to the three months ended December 31, 2012.

Cash received from sales of \$44.2 million and \$63.9 million represent the primary source of cash from operations for the three months ended March 31, 2013 and 2012, respectively. The primary uses of cash for the quarter ended March 31, 2013 were raw material purchases of \$10.2 million, employment costs of \$9.3 million, capital expenditures of \$2.4 million and utilities of \$3.0 million. For the same period in 2012, the primary uses of cash were raw material purchases of \$31.3 million, employment costs of \$16.3 million, capital expenditures of \$5.0 million and utilities of \$3.6 million. Our other uses of cash, the largest of which is cash for production supplies, plant maintenance, outside conversion services, insurance, taxes and freight, typically increase or decrease in relation to production volume. During the quarter ended March 31, 2012, we received a federal tax refund of \$4.5 million.

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We continuously monitor market price fluctuations of key raw materials. The following table reflects the average market values per pound for selected months during the last 16-month period.

	March 2013	December 2012	March 2012	December 2011
Nickel	\$ 7.59	\$ 7.90	\$ 8.49	\$ 8.23
Chrome	\$ 1.03	\$ 0.98	\$ 1.18	\$ 1.10
Molybdenum	\$10.99	\$ 11.38	\$14.20	\$ 13.42
Carbon scrap	\$ 0.18	\$ 0.17	\$ 0.21	\$ 0.21

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

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 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 average costs per pound of nickel, chrome, molybdenum, and carbon scrap for the first quarter of 2013 were \$7.85, \$1.02, \$11.39, and \$0.17, respectively. Average costs per pound of nickel, chrome, molybdenum, and carbon scrap for the same period in 2012 were \$8.92, \$1.15, \$14.23, and \$0.22, respectively.

While the material surcharge mechanism is designed to offset modest fluctuations in raw material prices, it cannot immediately absorb significant spikes in raw material prices. There can be no assurance that the raw material surcharge mechanism will completely offset immediate changes in our raw material costs. A significant decline in raw material prices within a short period of time could have a material adverse effect on our financial results.

We had capital expenditures for the quarter ended March 31, 2013 totaling \$3.6 million, of which \$1.2 million were included in accounts payable, compared to \$9.7 million of capital expenditures, with \$4.7 million in accounts payable, for the same period in 2012. The most significant capital expenditures incurred during the periods presented related to the North Jackson build out, which totaled \$2.3 million and \$7.4 million during the quarters ended March 31, 2013 and 2012, respectively.

On August 18, 2011, we entered into a Credit Agreement (the "Credit Agreement") which provides for a senior secured revolving credit facility (the "Revolver") and a senior secured term loan facility (the "Term Loan" and together with the Revolver, the "Facilities"). On March 19, 2012, we entered into the First Amendment to Credit Agreement and on March 29, 2013, we entered into the Second Amendment to Credit Agreement (together with the Credit Agreement and the First Amendment to Credit Agreement, the "Amended Credit Agreement"). The Amended Credit Agreement provides for a \$105.0 million Revolver and a \$20.0 million Term Loan. PNC Bank, National Association serves as Administrative Agent with respect to the Facilities. The First Amendment to Credit Agreement extended the expiration date from August 2016 to March 2017, provided additional availability under the Facilities and reduced fees and interest rates. The Second Amendment to Credit Agreement provides additional flexibility under the Credit Agreement's covenants. The Facilities are collateralized by substantially all of the assets of the Company and its subsidiaries, except that no real property other than North Jackson is collateral under the Facilities. Universal Stainless & Alloy Products, Inc., Dunkirk Specialty Steel, LLC and North Jackson Specialty Steel, LLC are co-borrowers under the Facilities. The co-borrowers' obligations under the Facilities have been guaranteed by USAP Holdings, Inc.

At any time prior to August 18, 2015, we may make up to two requests to increase the maximum aggregate principal amount of borrowings under the Revolver by at least \$10.0 million, with the maximum aggregate principal amount of borrowings under the Revolver not to exceed \$130.0 million in any event. 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 does not exceed \$105.0 million under the Revolver at any given time. The Term Loan is payable in quarterly installments in the principal amount of \$750,000 beginning on July 1, 2013, with the balance of the Term Loan payable in full on March 19, 2017.

Amounts outstanding under the Facilities other than swing loans under the Revolver, 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 Amended Credit Agreement. We elected to use the LIBOR Option during the three months ended March 31, 2013, which was 2.2% at March 31, 2013. Interest on the Facilities is payable monthly.

The Amended Credit Agreement requires that we maintain a leverage ratio not exceeding a ratio decreasing from 3.75 to 1.00 to 2.75 to 1.00 during the term of the Facilities. Additionally, we are required to maintain a fixed charge coverage ratio not less than a ratio increasing from 1.10 to 1.00 to 1.20 to 1.00, during the term of the Facilities. At March 31, 2013, we were obligated to maintain a

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leverage ratio of not exceeding 3.75 to 1.00 and a fixed charge coverage ratio not less than 1.10 to 1.00. We were in compliance with all covenants contained in the Amended Credit Agreement at March 31, 2013.

In connection with the North Jackson acquisition on August 18, 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, after August 17, 2014 during a fiscal quarter if our share price is greater than 140% of the 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.

We expect to meet all of our short-term liquidity requirements resulting from operations and current capital investment plans with internally generated funds and borrowings under the Revolver. At March 31, 2013, we had \$40.3 million in availability under the Revolver.

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, 2012, 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 March 31, 2013 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, 2012.

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, 2012.

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.

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Item 6. EXHIBITS

<u>Exhibit Number</u>	<u>Exhibit</u>
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 March 31, 2013, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Condensed Consolidated Balance Sheets; (ii) the Condensed Consolidated Statements of Operations; (iii) the Condensed Consolidated Statements of Cash Flows; and (iv) the Notes to the Condensed Consolidated Financial Statements (filed herewith).

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.

May 10, 2013

/s/ Dennis M. Oates

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

/s/ Douglas M. McSorley

Douglas M. McSorley
Vice President of Finance,
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Dennis M. Oates, certify that:

1. I have reviewed this report on Form 10-Q of Universal Stainless & Alloy Products, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2013

/s/ Dennis M. Oates

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

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Douglas M. McSorley, certify that:

1. I have reviewed this report on Form 10-Q of Universal Stainless & Alloy Products, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2013

/s/ Douglas M. McSorley

Douglas M. McSorley
Vice President of Finance,
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Universal Stainless & Alloy Products, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned, in the capacities and on the dates indicated below, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 10, 2013

/s/ Dennis M. Oates

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

/s/ Douglas M. McSorley

Douglas M. McSorley
Vice President of Finance,
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

