

UNIVERSAL STAINLESS & ALLOY PRODUCTS INC  
Form 10-Q  
August 10, 2007  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

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**FORM 10-Q**

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

For the Quarterly Period Ended June 30, 2007

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

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**UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.**

(Exact name of Registrant as specified in its charter)

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**DELAWARE**  
(State or other jurisdiction of  
incorporation or organization)

600 Mayer Street  
Bridgeville, PA 15017

**25-1724540**  
(IRS Employer  
Identification No.)

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(Address of principal executive offices, including zip code)

(412) 257-7600

(Registrant's telephone number, including area code)

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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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 July 31, 2007, there were 6,656,753 shares outstanding of the Registrant's Common Stock, \$0.001 par value per share.

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*Management's Discussion and Analysis 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 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; the Company's reliance on the continuing operation of critical manufacturing equipment; risks associated with the negotiation of a new collective bargaining agreement with the hourly employees at the Dunkirk facility; the Company's ongoing requirement for continued compliance with environmental laws; compliance with newly promulgated workplace occupational exposure limit standards for hexavalent chromium in the stainless steel industry; and the ultimate outcome of the Company's current and future litigation matters. Many of these factors are not within the Company's control and involve known and unknown risks and uncertainties that may cause the Company's actual results in future periods to be materially different from any future performance suggested herein. Any unfavorable change in the foregoing or other factors could have a material adverse effect on the Company's business, financial condition and results of operations. Further, the Company operates in an industry sector where securities values may be volatile and may be influenced by economic and other factors beyond the Company's control.*

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

(Dollars in Thousands, Except Per Share Information)

(Unaudited)

	For the		For the	
	Three-month period ended		Six-month period ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Net sales	\$ 62,056	\$ 48,019	\$ 118,295	\$ 92,956
Cost of products sold	49,442	37,641	92,462	73,811
Selling and administrative expenses	3,407	2,879	5,961	5,135
Operating income	9,207	7,499	19,872	14,010
Interest expense	(195)	(269)	(422)	(535)
Other income	6	2	10	4
Income before taxes	9,018	7,232	19,460	13,479
Income tax provision	3,156	2,603	6,811	4,852
Net income	\$ 5,862	\$ 4,629	\$ 12,649	\$ 8,627
Earnings per share Basic	\$ 0.88	\$ 0.72	\$ 1.91	\$ 1.34
Earnings per share Diluted	\$ 0.87	\$ 0.70	\$ 1.87	\$ 1.31
Weighted average shares of Common Stock outstanding				
Basic	6,642,655	6,426,374	6,631,981	6,421,848
Diluted	6,774,553	6,615,204	6,767,855	6,588,813

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

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

(Dollars in Thousands)

	June 30, 2007	December 31, 2006
	(Unaudited)	(Derived from audited Statements)
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 861	\$ 2,909
Accounts receivable, (less allowance for doubtful accounts of \$397 and \$338, respectively)	39,157	33,308
Inventory	75,577	66,019
Deferred taxes	1,831	1,544
Other current assets	1,663	1,606
Total current assets	119,089	105,386
Property, plant and equipment, net	50,340	49,251
Other assets	739	584
Total assets	\$ 170,168	\$ 155,221
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities		
Trade accounts payable	\$ 18,305	\$ 13,123
Outstanding checks in excess of bank balance	7,556	3,427
Current portion of long-term debt	2,375	2,364
Accrued employment costs	4,927	4,121
Other current liabilities	1,124	1,902
Total current liabilities	34,287	24,937
Long-term debt	7,863	17,228
Deferred taxes	8,550	8,402
Total liabilities	50,700	50,567
Commitments and contingencies		
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; 6,927,548 and 6,839,543 shares issued, respectively	7	7
Additional paid-in capital	34,834	32,654
Retained earnings	86,287	73,638
Treasury Stock at cost; 270,795 and 270,469 common shares held, respectively	(1,660)	(1,645)
Total stockholders equity	119,468	104,654
Total liabilities and stockholders equity	\$ 170,168	\$ 155,221

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

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

(Dollars in Thousands)

(Unaudited)

	<b>For the Six-month period ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 12,649	\$ 8,627
<b>Adjustments to reconcile to net cash provided by operating activities:</b>		
Depreciation and amortization	1,822	1,639
Deferred income tax decrease	(318)	(271)
Stock based compensation expense	208	126
Excess tax benefits from share-based payment arrangements	(982)	(115)
<b>Changes in assets and liabilities:</b>		
Accounts receivable, net	(5,849)	(4,880)
Inventory	(9,558)	(7,731)
Trade accounts payable	5,182	1,081
Deferred revenue	199	3,942
Accrued employment costs	806	1,023
Other, net	(33)	698
<b>Net cash provided by operating activities</b>	<b>4,126</b>	<b>4,139</b>
<b>Cash flow from investing activities:</b>		
Capital expenditures	(2,906)	(5,290)
<b>Net cash used in investing activities</b>	<b>(2,906)</b>	<b>(5,290)</b>
<b>Cash flows from financing activities:</b>		
Revolving line of credit net (repayments) borrowings	(8,174)	714
Long-term debt repayments	(1,180)	(278)
Increase in outstanding checks in excess of bank balance	4,129	285
Proceeds from the issuance of common stock	975	207
Excess tax benefits from share-based payment arrangements	982	115
<b>Net cash (used in) provided by financing activities</b>	<b>(3,268)</b>	<b>1,043</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(2,048)</b>	<b>(108)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>2,909</b>	<b>620</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 861</b>	<b>\$ 512</b>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ 454	\$ 508
Income taxes paid, net of refunds received	\$ 7,225	\$ 4,535

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





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

The accompanying unaudited consolidated condensed financial statements of operations for the three- and six-month periods ended June 30, 2007 and 2006, balance sheets as of June 30, 2007 and December 31, 2006, and statements of cash flows for the six-month periods ended June 30, 2007 and 2006, have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulation, although the Company believes that the disclosures made are adequate to make the information not misleading. 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, 2006 included in the Company's Annual Report on Form 10-K. In the opinion of management, the accompanying unaudited, consolidated condensed financial statements contain all adjustments, all of which were of a normal, recurring nature, necessary to present fairly, in all material respects, the consolidated financial position at June 30, 2007 and December 31, 2006 and the consolidated results of operations and of cash flows for the periods ended June 30, 2007 and 2006, and are not necessarily indicative of the results to be expected for the full year.

Certain prior year amounts have been reclassified to conform to the 2007 presentation.

**Note 2 Common Stock**

The reconciliation of the weighted average number of shares of Common Stock outstanding utilized for the earnings per common share computations are as follows:

	For the		For the	
	Three-month period ended		Six-month period ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Weighted average number of shares of Common Stock outstanding	6,642,655	6,426,374	6,631,981	6,421,848
Effect of dilutive securities	131,899	188,830	135,874	166,965
Weighted average number of shares of Common Stock outstanding, as adjusted	6,774,553	6,615,204	6,767,855	6,588,813

**Note 3 New Accounting Pronouncement**

On January 1, 2007, the Company adopted the Financial Accounting Standards Board Staff Position entitled Accounting for Planned Major Maintenance Activities (FSP). The FSP amends an American Institute of Certified Public Accountants Industry Audit guide and is applicable to all industries that accrue for planned major maintenance activities. The FSP prohibits the use of the accrue-in-advance method of accounting for planned major maintenance costs, which was the policy the Company used to record planned plant outage costs on an interim basis within a fiscal year prior to 2007. Under the FSP, the Company will report results using the deferral method whereby material major equipment maintenance costs are capitalized as incurred and amortized into expense over the subsequent six-month period, while other maintenance costs are expenses as incurred. The cumulative effect of the accounting change is to increase the Company's retained earnings by \$106,000 and \$130,000 at December 31, 2006 and 2005, respectively. The retrospective application of the FSP is expected to change previously reported 2006 quarterly financial data by the following amounts:

	Increase (Decrease) in Previously Reported Amounts For the 2006 Three-Month Period Ended				
	March 31	June 30	September 30	December 31	Total
<i>(dollars in thousands, except per share amounts)</i>					

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Cost of products sold	\$ 150	\$ 51	\$ 2	\$ (243)	\$ 40
Net income	96	33	1	(154)	(24)
Earnings per common share:					
Basic	\$ 0.02	\$ 0.00	\$ 0.00	\$ (0.03)	\$ (0.01)
Diluted	\$ 0.02	\$ 0.00	\$ 0.00	\$ (0.03)	\$ (0.01)

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**Note 4 Inventory**

The major classes of inventory are as follows (dollars in thousands):

	June 30, 2007	December 31, 2006
Raw materials and supplies	\$ 12,556	\$ 9,558
Semi-finished and finished steel products		