

UNIVERSAL STAINLESS & ALLOY PRODUCTS INC
Form 10-Q
May 10, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2011

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

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, 2011, there were 7,104,314 shares of the Registrant's Common Stock issued and outstanding.

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UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

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 but not limited to 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 and concentrated customer base; the receipt, pricing and timing of future customer orders; changes in product mix; the historically cyclical aerospace market; the limited number of raw material and energy suppliers and significant fluctuations that may occur in raw material and energy prices; global economic and market factors; the ability to attract and retain skilled personnel; 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 safety and environmental regulations; the ultimate outcome of the Company's current and future litigation matters; 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, results of operations, and cash flows. 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 Three-month period ended March 31,	
	2011	2010
Net sales	\$ 59,811	\$ 34,679
Cost of products sold	49,013	29,760
Selling and administrative expenses	3,830	2,660
Operating income	6,968	2,259
Interest expense	(125)	(96)
Income before income tax provision	6,843	2,163
Income tax provision	2,395	736
Net income	\$ 4,448	\$ 1,427
Earnings per common share Basic	\$ 0.65	\$ 0.21
Earnings per common share Diluted	\$ 0.64	\$ 0.21
Weighted-average shares of Common Stock outstanding		
Basic	6,813,020	6,773,337
Diluted	6,952,162	6,840,783

*The accompanying notes are an integral part of these consolidated condensed financial statements.***UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.****CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME**

(Dollars in thousands)

(Unaudited)

*Three Months Ended
March 31,*

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	2011	2010
Net income	\$ 4,448	\$ 1,427
Net change in fair value of		
Interest rate swap	52	(79)
Nickel hedge contracts		(40)
Tax effect	(19)	45
Comprehensive income	\$ 4,481	\$ 1,353

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, Except Per Share Information)

	March 31, 2011 (Unaudited)	December 31, 2010 (Derived from audited statements)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 30,535	\$ 34,944
Accounts receivable (less allowance for doubtful accounts of \$2,101 and \$2,134 respectively)	35,856	29,273
Inventory, net	80,010	69,710
Other current assets	7,198	5,661
Total current assets	153,599	139,588
Property, plant and equipment, net	72,291	71,581
Other assets	1,464	1,499
Total assets	\$ 227,354	\$ 212,668
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Trade accounts payable	\$ 28,640	\$ 20,022
Outstanding checks in excess of bank balance	754	544
Accrued employment costs	3,916	5,488
Current portion of long-term debt	2,794	2,833
Accrued income tax	2,537	47
Other current liabilities	713	558
Total current liabilities	39,354	29,492
Long-term debt	7,320	7,990
Deferred taxes	15,770	15,276
Other liabilities	235	287
Total liabilities	62,679	53,045
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; 7,104,314 and 7,094,314 shares issued	7	7
Additional paid-in capital	41,912	41,341

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Retained earnings	124,824	120,376
Treasury Stock at cost; 282,850 common shares held	(1,919)	(1,919)
Accumulated other comprehensive loss	(149)	(182)
Total stockholders' equity	164,675	159,623
Total liabilities and stockholders' equity	\$ 227,354	\$ 212,668

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)

	For the Three-month period ended March 31,	
	2011	2010
Cash flows from operating activities:		
Net income	\$ 4,448	\$ 1,427
Adjustments to reconcile to net cash used in operating activities:		
Depreciation and amortization	1,461	1,329
Loss on retirement of property, plant and equipment		17
Deferred income tax	(512)	31
Stock-based compensation expense	400	286
Tax benefit from share-based payment arrangements	(72)	(8)
Changes in assets and liabilities:		
Accounts receivable, net	(6,583)	(6,598)
Inventory, net	(10,300)	(12,877)
Trade accounts payable	8,618	11,123
Net change in outstanding checks in excess of bank balance	210	(600)
Accrued employment costs	(1,572)	1,204
Accrued income tax	2,664	695
Other, net	(466)	614
 Net cash used in operating activities	 (1,704)	 (3,357)
Cash flows from investing activities:		
Proceeds from sale of fixed assets		17
Capital expenditures	(2,167)	(1,090)
 Net cash used in investing activities	 (2,167)	 (1,073)
Cash flows from financing activities:		
Long-term debt repayments	(709)	(103)
Proceeds from issuance of common stock	99	10
Tax benefit from share-based payment arrangements	72	8
 Net cash used in financing activities	 (538)	 (85)
 Net decrease in cash and cash equivalents	 (4,409)	 (4,515)
Cash and cash equivalents at beginning of period	34,944	42,349
 Cash and cash equivalents at end of period	 \$ 30,535	 \$ 37,834

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Supplemental disclosure of cash flow information:

Interest paid, net of amount capitalized	\$	120	\$	92
Income taxes paid, net of refunds received	\$	170	\$	

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

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The accompanying unaudited consolidated condensed financial statements of operations for the three-month periods ended March 31, 2011 and 2010, balance sheets as of March 31, 2011 and December 31, 2010, and statements of cash flows for the three-month periods ended March 31, 2011 and 2010, 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 regulations, 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, 2010 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 March 31, 2011 and December 31, 2010 and the consolidated results of operations and of cash flows for the three-month periods ended March 31, 2011 and 2010, 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 2011 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 is as follows:

	For the Three-month period ended March 31,	
	2011	2010
Weighted-average number of shares of Common Stock outstanding	6,813,020	6,773,337
Effect of dilutive securities	139,142	