



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 27, 2015, there were 7,090,663 shares of the Registrant's common stock outstanding.

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Part I. FINANCIAL INFORMATION

Item 1. FINANCIAL INFORMATION

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in Thousands, Except Per Share Information)

(Unaudited)

|  | Three months ended<br>March 31, |           |
|--|---------------------------------|-----------|
|  | 2015                            | 2014      |
| Net sales                                    | \$ 55,983                       | \$ 46,667 |
| Cost of products sold                        | 50,273                          | 40,607    |
| Gross margin                                 | 5,710                           | 6,060     |
| Selling, general and administrative expenses | 4,694                           | 4,628     |
| Operating income                             | 1,016                           | 1,432     |
| Interest expense and other financing costs   | (782)                           | (863)     |
| Other (expense) income, net                  | (44)                            | 4         |
| Income before income taxes                   | 190                             | 573       |
| Provision for income taxes                   | 65                              | 1,072     |
| Net income (loss)                            | \$ 125                          | \$ (499)  |
| Net income (loss) per common share - Basic   | \$ 0.02                         | \$ (0.07) |
| Net income (loss) per common share - Diluted | \$ 0.02                         | \$ (0.07) |

|   |           |           |
|---|-----------|-----------|
| Weighted average shares of common stock outstanding |           |           |
| Basic   | 7,054,469 | 7,014,836 |
| Diluted   | 7,093,951 | 7,014,836 |

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

## UNIVERSAL STAINLESS &amp; ALLOY PRODUCTS, INC.

## CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)

|  | March 31,<br>2015 | December 31,<br>2014                    |
|--|-------------------|---|
|  | (Unaudited)       | (Derived from<br>audited<br>statements) |
| <b>ASSETS</b>  |                   |   |
| Current assets:  |                   |   |
| Cash   | \$ 223            | \$ 142                                  |
| Accounts receivable (less allowance for doubtful accounts of \$9 and \$17, respectively) | 33,498            | 29,057                                  |
| Inventory, net   | 98,437            | 101,070                                 |
| Deferred income taxes  | 9,683             | 9,683                                   |
| Other current assets   | 3,692             | 2,681                                   |
| Total current assets   | 145,533           | 142,633                                 |
| Property, plant and equipment, net   | 198,988           | 199,795                                 |
| Goodwill   | 20,268            | 20,268                                  |
| Other long-term assets   | 1,635             | 1,861                                   |
| Total assets   | \$ 366,424        | \$ 364,557                              |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                   |   |
| Current liabilities:   |                   |   |
| Accounts payable   | \$ 23,237         | \$ 25,009                               |
| Accrued employment costs   | 3,709             | 6,011                                   |
| Current portion of long-term debt  | 3,000             | 3,000                                   |
| Other current liabilities  | 993               | 861                                     |
| Total current liabilities  | 30,939            | 34,881                                  |
| Long-term debt   | 88,821            | 83,875                                  |
| Deferred income taxes  | 42,108            | 42,108                                  |
| Other long-term liabilities  | 65                | 63                                      |
| Total liabilities  | 161,933           | 160,927                                 |
| Commitments and contingencies (Note 7)   |                   |   |
| Stockholders' equity:  |                   |   |

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|  |            |            |
|--|------------|------------|
| 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; 7,383,518 and 7,371,018 shares issued, respectively | 7          | 7          |
| Additional paid-in capital   | 53,546     | 52,810     |
| Retained earnings  | 153,228    | 153,103    |
| Treasury stock, at cost; 292,855 common shares held  | (2,290)    | (2,290)    |
| Total stockholders' equity   | 204,491    | 203,630    |
| Total liabilities and stockholders' equity   | \$ 366,424 | \$ 364,557 |

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

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## UNIVERSAL STAINLESS &amp; ALLOY PRODUCTS, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOW

(Dollars in Thousands)

(Unaudited)

|  | Three months ended<br>March 31, |          |
|--|---------------------------------|----------|
|  | 2015                            | 2014     |
| <b>Operating Activities:</b>   |                                 |          |
| Net income (loss)  | \$ 125                          | \$ (499) |
| Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities: |                                 |          |
| Depreciation and amortization  | 4,555                           | 4,208    |
| Deferred income tax  | -                               | 733      |
| Share-based compensation expense   | 539                             | 525      |
| Changes in assets and liabilities:   |                                 |          |
| Accounts receivable, net   | (4,441)                         | (6,615)  |
| Inventory, net   | 2,093                           | (8,990)  |
| Accounts payable   | (1,772)                         | 12,449   |
| Accrued employment costs   | (2,302)                         | 765      |
| Income taxes   | (100)                           | 520      |
| Other, net   | (777)                           | (897)    |
| Net cash (used in) provided by operating activities  | (2,080)                         | 2,199    |
| <b>Investing Activity:</b>   |                                 |          |
| Capital expenditures   | (2,982)                         | (1,322)  |
| Net cash used in investing activity  | (2,982)                         | (1,322)  |
| <b>Financing Activities:</b>   |                                 |          |
| Borrowings under revolving credit facility   | 35,312                          | 15,056   |
| Payments on revolving credit facility  | (29,616)                        | (16,045) |
| Payments on term loan facility   | (750)                           | (750)    |
| Proceeds from the issuance of common stock   | 197                             | 648      |
| Net cash provided by (used in) financing activities  | 5,143                           | (1,091)  |

|                                 |        |       |
|---------------------------------|--------|-------|
| Net increase (decrease) in cash | 81     | (214) |
| Cash at beginning of period     | 142    | 307   |
| Cash at end of period           | \$ 223 | \$ 93 |

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 & 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 consolidated 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 consolidated 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.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“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, 2017, 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.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs." ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The new guidance is effective for annual reporting periods beginning after December 15, 2015, including interim reporting periods within that reporting period, and early application is permitted. We are currently evaluating the impact that this standard will have on our consolidated financial statements.



## 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:

| (dollars in thousands, except per share amounts)                               | Three months ended<br>March 31, |           |
|--|---------------------------------|-----------|
|  | 2015                            | 2014      |
| Numerator:   |                                 |           |
| Net income (loss)  | \$ 125                          | \$ (499)  |
| Adjustment for interest expense on convertible notes (A)                       | -                               | -         |
| Net income (loss), as adjusted   | \$ 125                          | \$ (499)  |
| Denominator:   |                                 |           |
| Weighted average number of shares of common stock outstanding                  | 7,054,469                       | 7,014,836 |
| Weighted average effect of dilutive stock options and other stock compensation | 39,482                          | -         |
| Weighted average number of shares of common stock outstanding, as adjusted     | 7,093,951                       | 7,014,836 |
| Net income (loss) per common share:  |                                 |           |
| Net income (loss) per common share - Basic                                     | \$ 0.02                         | \$ (0.07) |
| Net income (loss) per common share - Diluted                                   | \$ 0.02                         | \$ (0.07) |

(A) An adjustment for interest expense on convertible notes was excluded from the net income (loss) per share calculation for the three months ended March 31, 2015 and 2014, as a result of the convertible notes being antidilutive.

We had options to purchase 562,300 and 249,800 shares of common stock outstanding at an average price of \$33.97 and \$37.04, which were excluded in the computation of diluted net income (loss) per common share for the three months ended March 31, 2015 and 2014, respectively. 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. The calculation of diluted earnings per share for the three months ended March 31, 2015 and 2014 excluded 427,459 shares for the assumed conversion of convertible notes as a result of being anti-dilutive. In addition, the calculation of diluted earnings per share for the three months ended March 31, 2014 excluded 93,752 shares for the assumed exercise of stock options and restricted stock under our share incentive plans, as a result of being in a net loss position.



## Note 3: Inventory

Our raw material and starting stock inventory is 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 three months ended March 31, 2015 and 2014, we amortized these operating materials in the amount of \$540,000 and \$405,000, 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. Inventories consisted of the following:

| (in thousands)                            | March 31,<br>2015 | December 31,<br>2014 |
|---|-------------------|----------------------|
| Raw materials and starting stock          | \$ 9,060          | \$ 8,943             |
| Semi-finished and finished steel products | 81,978            | 84,816               |
| Operating materials                       | 8,968             | 8,759                |
| Gross inventory                           | 100,006           | 102,518              |
| Inventory reserves                        | (1,569)           | (1,448)              |
| Total inventory, net                      | \$ 98,437         | \$ 101,070           |

## Note 4: Goodwill

We 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 March 31, 2015, 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)                          | March<br>31,<br>2015 | December<br>31,<br>2014 |
|---|----------------------|-------------------------|
| Revolving credit facility               | \$ 53,350            | \$ 51,350               |
| Convertible notes                       | 20,000               | 20,000                  |
| Term loan                               | 14,750               | 15,500                  |
| Swing loan credit facility              | 3,721                | 25                      |
| <br>Total debt                          | <br>91,821           | <br>86,875              |
| Less: current portion of long-term debt | (3,000)              | (3,000)                 |
| <br>Long-term debt                      | <br>\$ 88,821        | <br>\$ 83,875           |
| Credit Facility                         |                      |                         |

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 (“Borrowing Base”) 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 our Borrowing Base. 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 three months ended March 31, 2015, which was 2.18% at March 31, 2015. Interest on the Facilities is payable monthly.

We are required to maintain a leverage ratio not exceeding a ratio decreasing from 3.75 to 1.00 at 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 are also required to maintain a fixed charge coverage ratio of 1.1 to 1.0 to maturity. We were in compliance with all our covenants at March 31, 2015 and December 31, 2014.

#### 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 March 31, 2015 and December 31, 2014 due to their short-term maturities (Level 1). The fair value of the Term Loan, Revolver and swing loans at March 31, 2015 and December 31, 2014 approximated the carrying amount as the interest rate is based upon floating short-term interest rates (Level 2). At March 31, 2015 and December 31, 2014, the fair value of our Notes was approximately \$20.5 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.

For the three months ended March 31, 2015 and 2014, our estimated annual effective tax rates applied to ordinary income was 34.9% and 35.4%, respectively.

Including the effect of discrete items, our effective tax rate for the three months ended March 31, 2015 and 2014 was 34.2% and 187.1%, respectively. The effective tax rate for the three months ended March 31, 2014 was reflective of a net discrete tax expense of \$869,000. The \$869,000 of discrete tax expense primarily includes tax expense of \$596,000 associated with the New York state tax rate reduction to 0% for New York qualified manufacturers, and tax expense of \$247,000 associated with a Pennsylvania tax settlement related to certain expenses which had been deducted for state income tax purposes during the 2005-2007 tax years.

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, 2014, 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 & gas and general industrial markets. We also perform conversion services on materials supplied by customers.

We continued to see increased sales for our products in the first quarter of 2015, as our revenues increased to \$56.0 million, an increase of \$9.3 million, or 20%, compared to the first quarter of 2014 and an increase of almost 6% from the fourth quarter of 2014. Net sales increased in all of our targeted end markets compared with the first quarter of 2014, with aerospace sales up 26%, power generation sales up 35%, oil & gas sales up 44% and heavy equipment sales up 1%. Compared with the fourth quarter of 2014, our aerospace net sales increased 5%, power generation sales were up 26% and oil & gas sales were up 30%, while heavy equipment net sales were 31% lower sequentially. During the first quarter of 2015, our sales of premium alloy products, which we define as all vacuum induction melt ("VIM") products, reached a record high for us in both sales dollars and as a percent of net sales, representing \$5.0 million, or 9.0%, of total net sales, compared to \$2.7 million, or 5.8% of total net sales, in the first quarter of 2014, and \$3.6 million, or 6.7%, of total net sales, in the fourth quarter of 2014. Our premium alloy products are primarily sold to the aerospace end market. Our backlog at March 31, 2015, before surcharges, was \$58.5 million, or 4.2% lower than the fourth quarter of 2014, as bookings were consistent with the fourth quarter of 2014. With falling raw material commodity prices that began late last year, especially nickel, and the sudden drop in carbon scrap pricing that occurred during the first quarter of 2015, we are experiencing a misalignment of surcharges compared to the material costs of products shipped in the first quarter of 2015 that were produced in prior periods. In addition to severely cold conditions in the first quarter that hampered our operations, we also experienced higher than normal scrap rates in the first quarter of 2015, related in part to research and development. As a result of these factors, we experienced a decline in our first quarter 2015 gross margin as a percentage of net sales to 10.2% compared to

gross margins of 13.0% and 16.8% for the first and fourth quarters of 2014, respectively. Our selling, general and administrative costs were \$4.7 million for the first quarter of 2015, or flat compared with the first quarter of 2014, but were \$1.1 million, or 19% lower than the fourth quarter of 2014, due primarily to lower variable compensation expense.

With a lower backlog and uncertainty in the oil & gas market, we believe that our second quarter 2015 sales will be somewhat lower than the first quarter of 2015. Given current business conditions, we are taking pro-active measures to reduce our overall operating costs as well as reducing our inventory levels over the coming quarter as we remain diligent in managing our working capital requirements. At the same time, we will 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 the first half of 2015 will be challenging with the impact of lower oil & gas market demand and until we see a better alignment of our material costs with lower surcharges, we continue to see customers buying to their needs.

## Results of Operations

Three months ended March 31, 2015 as compared to the three months ended March 31, 2014

| (in thousands, except shipped ton information) | Three months ended March 31, |                         |           |                         |                       |        | Percentage variance |
|--|------------------------------|-------------------------|-----------|-------------------------|-----------------------|--------|---------------------|
|  | 2015                         |                         | 2014      |                         | Dollar / ton variance |        |                     |
|  | Amount                       | Percentage of net sales | Amount    | Percentage of net sales |                       |        |                     |
| Net sales:                                     |                              |                         |           |                         |                       |        |                     |
| Stainless steel                                | \$ 44,398                    | 79.3 %                  | \$ 36,627 | 78.5 %                  | \$ 7,771              | 21.2   | %                   |
| High-strength low alloy steel                  | 5,278                        | 9.5                     | 3,795     | 8.1                     | 1,483                 | 39.1   |                     |
| Tool steel                                     | 3,807                        | 6.8                     | 3,672     | 7.9                     | 135                   | 3.7    |                     |
| High-temperature alloy steel                   | 1,418                        | 2.5                     | 1,220     | 2.6                     | 198                   | 16.2   |                     |
| Conversion services and other sales            | 1,082                        | 1.9                     | 1,353     | 2.9                     | (271)                 | (20.0) |                     |
| Total net sales                                | 55,983                       | 100.0                   | 46,667    | 100.0                   | 9,316                 | 20.0   |                     |
| Cost of products sold                          | 50,273                       | 89.8                    | 40,607    | 87.0                    | 9,666                 | 23.8   |                     |
| Gross margin                                   | 5,710                        | 10.2                    | 6,060     | 13.0                    | (350)                 | (5.8)  |                     |
| Selling, general and administrative expenses   | 4,694                        | 8.4                     | 4,628     | 9.9                     | 66                    | 1.4    |                     |
| Operating income                               | 1,016                        | 1.8                     | 1,432     | 3.1                     | (416)                 | 29.1   |                     |
| Interest expense                               | (622)                        | (1.1)                   | (698)     | (1.5)                   | 76                    | 10.9   |                     |
| Deferred financing amortization                | (160)                        | (0.3)                   | (165)     | (0.4)                   | 5                     | 3.0    |                     |
| Other (expense) income, net                    | (44)                         | (0.1)                   | 4         | -                       | (48)                  | NM     |                     |
| Income before income taxes                     | 190                          | 0.3                     | 573       | 1.2                     | (383)                 | 66.8   |                     |
| Provision for income taxes                     | 65                           | 0.1                     | 1,072     | 2.3                     | (1,007)               | (93.9) |                     |
| Net income (loss)                              | \$ 125                       | 0.2 %                   | \$ (499)  | (1.1) %                 | \$ 624                | 125.1  |                     |
| Tons shipped                                   | 9,892                        |                         | 9,325     |                         | 567                   | 6.1    | %                   |
| Sales dollars per shipped ton                  | \$ 5,659                     |                         | \$ 5,005  |                         | \$ 654                | 13.1   | %                   |

NM – Not meaningful

## Market Segment Information

| (in thousands)                      | Three months ended March 31, |                               |           |                               |                    |                        |
|-------------------------------------|------------------------------|-------------------------------|-----------|-------------------------------|--------------------|------------------------|
|                                     | 2015                         |                               | 2014      |                               | Dollar<br>variance | Percentage<br>variance |
|                                     | Amount                       | Percentage<br>of net<br>sales | Amount    | Percentage<br>of net<br>sales |                    |                        |
| Net sales:                          |                              |                               |           |                               |                    |                        |
| Service centers                     | \$ 37,412                    | 66.8 %                        | \$ 28,791 | 61.7 %                        | \$ 8,621           | 29.9 %                 |
| Original equipment manufacturers    | 6,945                        | 12.4                          | 3,916     | 8.4                           | 3,029              | 77.3                   |
| Rerollers                           | 6,657                        | 11.9                          | 6,225     | 13.3                          | 432                | 6.9                    |
| Forgers                             | 3,887                        | 7.0                           | 6,382     | 13.7                          | (2,495)            | (39.1)                 |
| Conversion services and other sales | 1,082                        | 1.9                           | 1,353     | 2.9                           | (271)              | (20.0)                 |
| Total net sales                     | \$ 55,983                    | 100.0 %                       | \$ 46,667 | 100.0 %                       | \$ 9,316           | 20.0 %                 |

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## Melt Type Information

| (in thousands)                      | Three months ended March 31, |                         |           |                         |                 |                     |
|-------------------------------------|------------------------------|-------------------------|-----------|-------------------------|-----------------|---------------------|
|                                     | 2015                         |                         | 2014      |                         | Dollar variance | Percentage variance |
|                                     | Amount                       | Percentage of net sales | Amount    | Percentage of net sales |                 |                     |
| Net sales:                          |                              |                         |           |                         |                 |                     |
| Specialty alloys                    | \$ 49,862                    | 89.1 %                  | \$ 42,616 | 91.3 %                  | \$ 7,246        | 17.0 %              |
| Premium alloys (A)                  | 5,039                        | 9.0                     | 2,698     | 5.8                     | 2,341           | 86.8                |
| Conversion services and other sales | 1,082                        | 1.9                     | 1,353     | 2.9                     | (271)           | (20.0)              |
| Total net sales                     | \$ 55,983                    | 100.0 %                 | \$ 46,667 | 100.0 %                 | \$ 9,316        | 20.0 %              |

(A) Premium alloys represent all 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 March 31, |                         |           |                         |                 |                     |
|---|------------------------------|-------------------------|-----------|-------------------------|-----------------|---------------------|
|   | 2015                         |                         | 2014      |                         | Dollar variance | Percentage variance |
|   | Amount                       | Percentage of net sales | Amount    | Percentage of net sales |                 |                     |
| Net sales:  |                              |                         |           |                         |                 |                     |
| Aerospace   | \$ 33,761                    | 60.3 %                  | \$ 26,707 | 57.2 %                  | \$ 7,054        | 26.4 %              |
| Power generation  | 7,324                        | 13.1                    | 5,415     | 11.6                    | 1,909           | 35.3                |
| Oil & gas   | 6,101                        | 10.9                    | 4,249     | 9.1                     | 1,852           | 43.6                |
| Heavy equipment   | 3,992                        | 7.1                     | 3,959     | 8.5                     | 33              | 0.8                 |
| General industrial, conversion services and other sales | 4,805                        | 8.6                     | 6,337     | 13.6                    | (1,532)         | (24.2)              |
| Total net sales   | \$ 55,983                    | 100.0 %                 | \$ 46,667 | 100.0 %                 | \$ 9,316        | 20.0 %              |

Net sales:

Net sales for the three months ended March 31, 2015 increased \$9.3 million, or 20.0%, as compared to the three months ended March 31, 2014. Our sales dollars per shipped ton increased by 13.1% from the three months ended March 31, 2014 to the three months ended March 31, 2015. The increase in both sales and sales dollars per shipped



ton is primarily the result of a more favorable product mix. As noted in the table above, product sales to all of our end markets, except general industrial and conversion services, increased as overall business conditions in most of our end markets improved during the first quarter of 2015 when compared to the first three months of 2014. During the three months ended March 31, 2015, we recognized a \$2.3 million, or 86.8%, increase in premium alloy sales when compared to the three months ended March 31, 2014. Our premium alloy product sales, which are primarily to the aerospace end market, have a higher average selling price than our specialty alloy product sales. In addition, our first quarter 2015 net sales increase reflects a 6.1% increase in consolidated shipments for the three months ended March 31, 2015, compared to the same prior year period.

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Gross margin:

Our gross margin, as a percentage of sales, was 10.2% and 13.0% for the three months ended March 31, 2015 and 2014, respectively. The decline in our gross margin for the three months ended March 31, 2015 as compared to the three months ended March 31, 2014 is largely a result of the misalignment in surcharges as a result of falling raw material prices and also due to higher scrap rates. Approximately 69% of our first quarter 2015 sales were melted during the second half of 2014. The material costs associated with these products sold in the first quarter of 2015, which are calculated at the time of production, were considerably higher than our offsetting first quarter surcharges, which are calculated at the time of shipment. For example, nickel, a significant component in many of our products decreased on average 15% from the costs incurred melting this material in the second half of 2014 to those used to calculate our surcharges for the first quarter of 2015. Our first quarter of 2015 was also negatively impacted by higher scrap rates than what we incurred during the first quarter of 2014.

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. Our SG&A expenses for the quarter ended March 31, 2015 were consistent with those incurred during the first quarter of 2014. As a percentage of sales, our SG&A expenses decreased to 8.4% during the three months ended March 31, 2015 from 9.9% for the three months ended March 31, 2014.

Interest expense and deferred financing amortization:

Our interest expense and other financing costs decreased 9.4% to \$782,000 for the three months ended March 31, 2015 from \$863,000 for the three months ended March 31, 2014. These costs include deferred financing amortization of \$160,000 and \$165,000 for the three months ended March 31, 2015 and 2014, respectively. The overall decrease is primarily due to lower interest rates incurred on our debt in 2015 when compared to 2014. Our interest rates are determined by a LIBOR-based rate plus an applicable margin based upon our quarterly leverage ratio.

Provision for income taxes:

For the three months ended March 31, 2015 and 2014, our estimated annual effective tax rates applied to ordinary income were 34.9% and 35.4%, respectively.

Including the effect of discrete tax items, our effective tax rates for the three months ended March 31, 2015 and 2014 were 34.2% and 187.1%, respectively. The effective tax rate for the three months ended March 31, 2014 was reflective of a net discrete tax expense of \$869,000. The \$869,000 of discrete tax expense primarily includes tax expense of \$596,000 associated with the New York state tax rate reduction to 0% for New York qualified manufacturers, and tax expense of \$247,000 associated with a Pennsylvania tax settlement related to certain expenses which had been deducted for state income tax purposes during the 2005-2007 tax years.

Net income (loss):

Our net income (loss) increased to \$125,000, or \$0.02 per diluted share, for the three months ended March 31, 2015 from a net loss of \$(499,000), or \$(0.07) per diluted share, for the three months ended March 31, 2014 for the reasons stated above.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“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, 2017, 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.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs." ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The new guidance is effective for annual reporting periods beginning after December 15, 2015, including interim reporting periods within that reporting period, and early application is 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.

Net cash (used in) provided by operating activities:

During the quarter ended March 31, 2015, our operating activities used \$2.1 million of cash. Our net income adjusted for non-cash expenses generated approximately \$5.2 million of cash. This was offset by an increase in our managed working capital. Our managed working capital, defined as net accounts receivable plus net inventory minus accounts payable, increased by \$3.6 million to \$108.7 million compared to \$105.1 million at December 31, 2014. Our net accounts receivable balance increased, primarily as a result of a 5.7% increase in net sales for the quarter ended March 31, 2015 compared to the quarter ended December 31, 2014, resulting in a use of cash of \$4.4 million. Our accounts payable balance decreased by \$1.8 million to \$23.2 million as of March 31, 2015 from \$25.0 million as of December 31, 2014, due to decreased capital expenditures and the timing of vendor payments. Our inventory levels decreased during the first quarter of 2015 due to management's focus on reducing our inventory balance as well as lower raw material costs, resulting in a source of cash of \$2.1 million. In addition, during the first quarter of 2015 the reduction in our accrued employment costs, primarily the result of the payout of our 2014 variable incentive compensation during the quarter, resulted in a use of cash of \$2.3 million.

During the quarter ended March 31, 2014, we generated net cash from operating activities of \$2.2 million. The net increase in our accounts payable and other accruals and assets provided \$12.8 million in cash which was offset by the increase in our net inventory and net accounts receivable which used \$9.0 million and \$6.6 million of cash, respectively. In addition, during the quarter ended March 31, 2014, our net loss adjusted for non-cash expenses generated approximately \$5.0 million of cash.

Net cash used in investing activity:

During the current quarter, we used \$3.0 million in cash for capital expenditures compared to \$1.3 million during the quarter ended March 31, 2014. We believe that overall capital expenditures in 2015 will be similar to 2014 spending levels, but we will continue to monitor and modulate it based upon the current and forecasted business conditions.

Net cash provided by (used in) financing activities:

During the three months ended March 31, 2015, our financing activities provided \$5.1 million in cash. Net cash provided from borrowings under our credit facility was approximately \$4.9 million. Additionally, we received \$197,000 in receipts from the exercise of stock options. Our borrowings increased primarily due to the timing of vendor payments and the payout of our 2014 variable incentive compensation.

During the three months ended March 31, 2014, we used \$1.1 million in cash for our financing activities. Of that amount, approximately \$1.7 million of our cash was utilized to reduce our bank debt. This outflow was partially offset by the receipt of \$648,000 from the exercise of stock options.

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 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 16-month period:

|              | March<br>2015 | December<br>2014 | March<br>2014 | December<br>2013 |
|--------------|---------------|------------------|---------------|------------------|
| Nickel       | \$ 6.23       | \$ 7.22          | \$ 7.10       | \$ 6.31          |
| Chrome       | \$ 1.12       | \$ 1.12          | \$ 1.12       | \$ 1.04          |
| Molybdenum   | \$ 8.28       | \$ 9.53          | \$ 10.13      | \$ 9.73          |
| Carbon scrap | \$ 0.11       | \$ 0.16          | \$ 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 (“Borrowing Base”) 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 our Borrowing Base. 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 three months ended March 31, 2015, which was 2.18% at March 31, 2015. Interest on the Facilities is payable monthly.

We are required to maintain a leverage ratio not exceeding a ratio decreasing from 3.75 to 1.00 at 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 also required to maintain a fixed charge coverage ratio of 1.1 to 1.0 to maturity. We were in compliance with all our covenants at March 31, 2015.

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, 2014, 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, 2015 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, 2014.

### 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, 2014.

### 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 March 31, 2015, 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).

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: April 29, 2015

/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)

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