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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

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**FORM 10-Q**

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

**For the Quarterly Period Ended September 30, 2019**

**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)

Securities registered pursuant to Section 12(b) of the Exchange Act:

<u>Title of Each Class</u>	<u>Trading Symbol</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, par value \$0.001 per share	USAP	The NASDAQ Stock Market, LLC

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 every Interactive Data File required to be submitted 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 such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company
Emerging growth company	<input type="checkbox"/>	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of October 21, 2019, there were 8,787,837 shares of the Registrant's common stock outstanding.

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**Universal Stainless & Alloy Products, Inc.**  
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**Part I. FINANCIAL INFORMATION**  
**Item 1. FINANCIAL STATEMENTS**

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

**CONSOLIDATED STATEMENTS OF OPERATIONS**

(Dollars in Thousands, Except Per Share Information)

(Unaudited)

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Net sales	\$ 56,568	\$ 69,056	\$ 187,836	\$ 198,864
Cost of products sold	51,260	58,631	166,052	167,472
Gross margin	5,308	10,425	21,784	31,392
Selling, general and administrative expenses	4,525	5,131	15,095	16,187
Operating income	783	5,294	6,689	15,205
Interest expense and other financing costs	1,045	966	2,980	3,440
Other income, net	(452)	(48)	(421)	(690)
Income before income taxes	190	4,376	4,130	12,455
Provision (benefit) for income taxes	(577)	460	55	2,376
Net income	<u>\$ 767</u>	<u>\$ 3,916</u>	<u>\$ 4,075</u>	<u>\$ 10,079</u>
Net income per common share - Basic	<u>\$ 0.09</u>	<u>\$ 0.45</u>	<u>\$ 0.46</u>	<u>\$ 1.27</u>
Net income per common share - Diluted	<u>\$ 0.09</u>	<u>\$ 0.44</u>	<u>\$ 0.46</u>	<u>\$ 1.23</u>
Weighted average shares of common stock outstanding				
Basic	8,787,837	8,699,953	8,780,590	7,931,783
Diluted	8,879,441	8,952,749	8,870,240	8,166,759

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

**UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Dollars in Thousands)  
(Unaudited)

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Net income	\$ 767	\$ 3,916	\$ 4,075	\$ 10,079
Other comprehensive income (loss), net of tax				
Adoption of ASU 2018-02	-	-	(21)	-
Unrealized gain on foreign currency contracts	58	5	145	113
Comprehensive income	<u>\$ 825</u>	<u>\$ 3,921</u>	<u>\$ 4,199</u>	<u>\$ 10,192</u>

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

**CONSOLIDATED BALANCE SHEETS**

(Dollars in Thousands, Except Per Share Information)

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
	<u>(Unaudited)</u>	
<b>ASSETS</b>		
Current assets:		
Cash	\$ 1,204	\$ 3,696
Accounts receivable (less allowance for doubtful accounts of \$295)	36,422	32,618
Inventory, net	140,672	134,738
Other current assets	<u>5,756</u>	<u>3,756</u>
Total current assets	184,054	174,808
Property, plant and equipment, net	175,962	177,844
Other long-term assets	<u>1,002</u>	<u>668</u>
Total assets	<u>\$ 361,018</u>	<u>\$ 353,320</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 32,154	\$ 44,379
Accrued employment costs	3,830	7,939
Current portion of long-term debt	3,929	3,907
Other current liabilities	<u>912</u>	<u>2,929</u>
Total current liabilities	40,825	59,154
Long-term debt, net	62,155	42,839
Deferred income taxes	12,097	11,481
Other long-term liabilities, net	<u>3,283</u>	<u>2,835</u>
Total liabilities	118,360	116,309
Stockholders' equity:		
Senior preferred stock, par value \$0.001 per share; 1,980,000 shares authorized; 0 shares issued and outstanding	-	-
Common stock, par value \$0.001 per share; 20,000,000 shares authorized; 9,082,116 and 9,045,345 shares issued, respectively	9	9
Additional paid-in capital	94,548	93,100
Other comprehensive income	125	1
Retained earnings	150,287	146,191
Treasury stock, at cost; 294,279 and 292,855 common shares held, respectively	<u>(2,311)</u>	<u>(2,290)</u>
Total stockholders' equity	<u>242,658</u>	<u>237,011</u>
Total liabilities and stockholders' equity	<u>\$ 361,018</u>	<u>\$ 353,320</u>

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOW

(Dollars in Thousands)  
(Unaudited)

	Nine months ended September 30,	
	2019	2018
<b>Operating Activities:</b>		
Net income	\$ 4,075	\$ 10,079
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	14,235	14,460
Deferred income tax	577	2,327
Share-based compensation expense	1,100	1,046
Changes in assets and liabilities:		
Accounts receivable, net	(3,804)	(19,195)
Inventory, net	(7,628)	(7,890)
Accounts payable	(9,728)	(3,964)
Accrued employment costs	(4,109)	2,595
Income taxes	(56)	(36)
Other, net	(3,735)	1,307
Net cash (used in) provided by operating activities	(9,073)	729
<b>Investing Activity:</b>		
Capital expenditures	(13,308)	(13,211)
Net cash used in investing activity	(13,308)	(13,211)
<b>Financing Activities:</b>		
Borrowings under revolving credit facility	145,688	347,395
Payments on revolving credit facility	(123,097)	(351,918)
Proceeds under New Markets Tax Credit financing	-	2,835
Payments on term loan facility, finance leases, and notes	(3,424)	(11,821)
Payments of financing costs	-	(1,105)
Proceeds from public offering, net of cash expenses	-	32,246
Proceeds from the exercise of stock options	327	834
Net cash provided by financing activities	19,494	18,466
Net (decrease) increase in cash and restricted cash	(2,887)	5,984
Cash and restricted cash at beginning of period	4,091	207
Cash and restricted cash at end of period	<u>\$ 1,204</u>	<u>\$ 6,191</u>

The following table reconciles cash and restricted cash above to the Consolidated Balance Sheets

	<u>September 30, 2019</u>	<u>September 30, 2018</u>
Cash	\$ 1,204	\$ 33
Restricted cash included in other long-term assets	-	6,158
Total cash and restricted cash	<u>\$ 1,204</u>	<u>\$ 6,191</u>

Amounts included in restricted cash represent those funds required to be used pursuant to the construction of a new bar cell unit at the Company's Dunkirk, NY facility. These funds were obtained pursuant to the terms of the New Markets Tax Credit Program.

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

**UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(Dollars in Thousands, Except Per Share Information)  
(Unaudited)

	Common shares outstanding	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury shares	Treasury stock
<i>For the nine months ended September 30, 2019</i>							
<b>Balance at December 31, 2018</b>	8,752,490	\$ 9	\$ 93,100	\$ 146,191	\$ 1	292,855	\$ (2,290)
Common stock issuance under							
Employee Stock Purchase Plan	9,270	-	128	-	-	-	-
Exercise of stock options	4,050	-	41	-	-	-	-
Share-based compensation	6,401	-	432	-	-	-	-
Net loss on derivative instruments	-	-	-	-	(67)	-	-
Adoption of ASU 2018-02	-	-	-	21	(21)	-	-
Net income	-	-	-	1,222	-	-	-
<b>Balance at March 31, 2019</b>	<u>8,772,211</u>	<u>\$ 9</u>	<u>\$ 93,701</u>	<u>\$ 147,434</u>	<u>\$ (87)</u>	<u>292,855</u>	<u>\$ (2,290)</u>
Common stock issuance under							
Employee Stock Purchase Plan	11,182	-	152	-	-	-	-
Exercise of stock options	600	-	17	-	-	-	-
Share-based compensation	3,844	-	357	-	-	1,424	(21)
Net gain on derivative instruments	-	-	-	-	154	-	-
Net income	-	-	-	2,086	-	-	-
<b>Balance at June 30, 2019</b>	<u>8,787,837</u>	<u>\$ 9</u>	<u>\$ 94,227</u>	<u>\$ 149,520</u>	<u>\$ 67</u>	<u>294,279</u>	<u>\$ (2,311)</u>
Common stock issuance under							
Employee Stock Purchase Plan	-	-	(11)	-	-	-	-
Share-based compensation	-	-	332	-	-	-	-
Net gain on derivative instruments	-	-	-	-	58	-	-
Net income	-	-	-	767	-	-	-
<b>Balance at September 30, 2019</b>	<u>8,787,837</u>	<u>\$ 9</u>	<u>\$ 94,548</u>	<u>\$ 150,287</u>	<u>\$ 125</u>	<u>294,279</u>	<u>\$ (2,311)</u>

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

**UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(Dollars in Thousands, Except Per Share Information)  
(Unaudited)

	Common shares outstanding	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury shares	Treasury stock
<i>For the nine months ended September 30, 2018</i>							
<b>Balance at December 31, 2017</b>	7,257,787	\$ 8	\$ 58,514	\$ 135,529	\$ (93)	292,855	\$ (2,290)
Common stock issuance under							
Exercise of stock options	4,550	-	54	-	-	-	-
Share-based compensation	2,848	-	401	-	-	-	-
Capital investment	-	-	33	-	-	-	-
Net loss on derivative instruments	-	-	-	-	(58)	-	-
Net income	-	-	-	2,125	-	-	-
<b>Balance at March 31, 2018</b>	<u>7,265,185</u>	<u>\$ 8</u>	<u>\$ 59,002</u>	<u>\$ 137,654</u>	<u>\$ (151)</u>	<u>292,855</u>	<u>\$ (2,290)</u>
Common stock issuance under							
Employee Stock Purchase Plan	7,922	-	149	-	-	-	-
Exercise of stock options	5,375	-	59	-	-	-	-
Public offering	1,408,163	1	32,253	-	-	-	-
Share-based compensation	-	-	351	-	-	-	-
Net gain on derivative instruments	-	-	-	-	166	-	-
Net income	-	-	-	4,038	-	-	-
<b>Balance at June 30, 2018</b>	<u>8,686,645</u>	<u>\$ 9</u>	<u>\$ 91,814</u>	<u>\$ 141,692</u>	<u>\$ 15</u>	<u>292,855</u>	<u>\$ (2,290)</u>
Common stock issuance under							
Exercise of stock options	38,345	-	572	-	-	-	-
Public offering	-	-	(7)	-	-	-	-
Share-based compensation	-	-	368	-	-	-	-
Net gain on derivative instruments	-	-	-	-	5	-	-
Net income	-	-	-	3,916	-	-	-
<b>Balance at September 30, 2018</b>	<u>8,724,990</u>	<u>\$ 9</u>	<u>\$ 92,747</u>	<u>\$ 145,608</u>	<u>\$ 20</u>	<u>292,855</u>	<u>\$ (2,290)</u>

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



## 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 (collectively, “Universal,” “we,” “us,” “our,” or the “Company”), manufacture and market semi-finished and finished specialty steel products, including stainless steel, nickel alloys, tool steel and certain other alloyed steels. Our manufacturing process involves melting, remelting, heat treating, hot and cold rolling, forging, machining and cold drawing of semi-finished and finished specialty steels. Our products are sold to service centers, forgers, rerollers, original equipment manufacturers and wire redrawers. Our customers further process our products for use in a variety of industries, including the aerospace, power generation, oil and gas, heavy equipment, and general industrial 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. Although the December 31, 2018 consolidated balance sheet data was derived from the audited financial statements, it does not include all disclosures required by U.S. GAAP. However, we believe that the disclosures are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with our most recently audited financial statements and the notes thereto included in our Annual Report on Form 10-K as filed with the Securities and Exchange Commission. In the opinion of management, the accompanying financial statements include all adjustments necessary to present a fair presentation of the consolidated financial statements for the periods shown. Interim results are not necessarily indicative of the operating results for the full fiscal year or any future period. The preparation of these financial statements in conformity with U.S. GAAP requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. Actual results may differ from our estimates. The consolidated financial statements include our accounts and the accounts of our wholly-owned subsidiaries. We also consolidate, regardless of our ownership percentage, variable interest entities (each a “VIE”) for which we are deemed to have a controlling financial interest. All intercompany transactions and balances have been eliminated.

When we obtain an economic interest in an entity, we evaluate the entity to determine if the entity is a VIE, and if we are deemed to be a primary beneficiary. As a part of our evaluation, we are required to qualitatively assess if we are the primary beneficiary of the VIE based on whether we hold the power to direct those matters that most significantly impacted the activities of the VIE and the obligation to absorb losses or the right to receive the benefits of the VIE that could potentially be significant. Refer to Note 7, New Markets Tax Credit Financing Transaction, for a description of the VIE’s included in our consolidated financial statements.

#### ***Recently Adopted Accounting Pronouncements***

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02 “Leases (Topic 842),” which amends existing accounting standards for leases. The ASU requires lessees to recognize most leases on their balance sheet as a lease liability with a corresponding right-of-use asset. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. The criteria for evaluating are similar to those applied in current lease accounting. The Company adopted the ASU effective January 1, 2019. The adoption resulted in the recognition of current and noncurrent lease liabilities and corresponding right-of-use assets on the balance sheet, which did not have a material impact on the consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, “Income Statement – Reporting Comprehensive Income,” that permits companies the option to reclassify stranded tax effects caused by the 2017 U.S. Tax Cuts and Jobs Act from accumulated other comprehensive income to retained earnings. Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The Company adopted the ASU effective January 1, 2019 and recorded the reclassification to retained earnings as of the effective date of the adoption. The adoption did not have a material impact on the consolidated financial statements.

#### ***Recently Issued Accounting Pronouncements***

The Company considers the applicability and impact of all ASUs. Recently issued ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, “Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement,” which will modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, including the removal of certain disclosure requirements. The amendments in the ASU are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted upon issuance of the ASU. An entity is permitted to early adopt any removed or modified disclosures upon issuance of the ASU and delay adoption of the additional disclosures until the effective date. We are currently evaluating the impact of this guidance on our consolidated financial statements and will adopt on or before January 1, 2020.

**Note 2: Net income per Common Share**

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

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
<i>(dollars in thousands, except per share amounts)</i>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
<b>Numerator:</b>				
Net income	\$ 767	\$ 3,916	\$ 4,075	\$ 10,079
<b>Denominator:</b>				
Weighted average number of shares of common stock outstanding (A)	8,787,837	8,699,953	8,780,590	7,931,783
Weighted average effect of dilutive share-based compensation	<u>91,604</u>	<u>252,796</u>	<u>89,650</u>	<u>234,976</u>
Diluted weighted average number of shares of common stock outstanding	<u>8,879,441</u>	<u>8,952,749</u>	<u>8,870,240</u>	<u>8,166,759</u>
<b>Net income per common share:</b>				
Net income per common share - Basic	<u>\$ 0.09</u>	<u>\$ 0.45</u>	<u>\$ 0.46</u>	<u>\$ 1.27</u>
Net income per common share - Diluted	<u>\$ 0.09</u>	<u>\$ 0.44</u>	<u>\$ 0.46</u>	<u>\$ 1.23</u>

(A) The three and nine months ended September 30, 2019 and the three months ended September 30, 2018 include 1,408,163 shares in the aggregate issued on May 25 and June 5, 2018 as part of an underwritten public offering by the Company. The impact of this common stock issuance on the weighted average number of shares outstanding for the nine months ended September 30, 2018 is approximately 658,000.

On May 25, 2018, the Company completed an underwritten, public offering involving the issuance and sale by the Company of 1,224,490 shares of common stock at a public offering price of \$24.50 per share. In addition, the Company granted the underwriters a 30-day option to purchase up to an additional 183,673 shares of common stock. On June 1, 2018, the underwriters exercised the option in full, and an additional 183,673 shares of common stock were issued and sold on June 5, 2018. The public offering resulted in gross proceeds to the Company of approximately \$34.5 million, or \$32.2 million net of the underwriting discount and other offering fees and expenses. We used the net proceeds from the public offering to repay amounts outstanding under the Company's revolving credit facility.

We had options to purchase 609,750 and 236,000 shares of common stock outstanding at a weighted average price of \$26.71 and \$34.53 for the three months ended September 30, 2019 and 2018, respectively, which were excluded in the computation of diluted net income per common share. We had options to purchase 609,750 and 261,000 shares of common stock outstanding at a weighted average price of \$26.71 and \$33.86 for the nine months ended September 30, 2019 and 2018, respectively, which were excluded in the computation of diluted net income per common share. These options were not included in the computation of diluted net income per common share because their exercise prices were greater than the average market price of our common stock.

**Note 3: Revenue Recognition**

The Company's revenues are primarily comprised of sales of products. Revenue is recognized when the Company satisfies its performance obligation under the contract by transferring the promised product to its customer that obtains control of the product. A performance obligation is a promise in a contract to transfer a distinct product to a customer. Most of the Company's contracts have a single performance obligation, as the promise to transfer products or services is not separately identifiable from other promises in the contract and, therefore, not distinct.

Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring products. As such, revenue is recorded net of returns, allowances, customer discounts, and incentives. Sales and other taxes are excluded from revenues. Invoiced shipping and handling costs are included in revenue.

The Company's revenue is primarily from products transferred to customers at a point in time. The Company recognizes revenue at the point in time in which the customer obtains control of the product, which is generally when product title passes to the customer upon shipment.

We have determined that there are certain customer agreements involving production of specified product grades and shapes that require revenue to be recognized over time, in advance of shipment, due to there being no alternative use for these grades and shapes without significant economic loss. Also, the Company maintains an enforceable right to payment including a normal profit margin from the customer in the event of contract termination. Contract assets related to services performed, not yet billed of \$2.2 million and \$1.0 million are included in Accounts Receivable in the Consolidated Balance Sheets at September 30, 2019 and December 31, 2018, respectively.

The Company has elected the following practical expedients allowed under Accounting Standards Codification Topic 606:

- Shipping costs are not considered to be separate performance obligations.
- Performance obligations are satisfied within one year from a given reporting date; consequently, we omit disclosure of the transaction price apportioned to remaining performance obligations on open orders.

The following summarizes our revenue by melt type:

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Net sales:				
Specialty alloys	\$ 47,730	\$ 58,325	\$ 154,511	\$ 161,048
Premium alloys (A)	8,043	9,152	30,227	33,035
Conversion services and other sales	795	1,579	3,098	4,781
Total net sales	<u>\$ 56,568</u>	<u>69,056</u>	<u>\$ 187,836</u>	<u>198,864</u>

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

#### Note 4: 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, cobalt, vanadium and copper. Our semi-finished and finished steel products are work-in-process in various stages of production or are finished products waiting to be shipped to our customers. Operating materials are primarily comprised of forge dies and production molds and rolls that are consumed over their useful lives. During the nine months ended September 30, 2019 and 2018, we amortized these operating materials in the amount of \$1.7 million in each period. 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 net realizable value 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:

<i>(in thousands)</i>	<b>September 30,</b>	<b>December 31,</b>
	<b>2019</b>	<b>2018</b>
Raw materials and starting stock	\$ 10,206	\$ 9,555
Semi-finished and finished steel products	120,094	115,627
Operating materials	13,482	12,515
Gross inventory	143,782	137,697
Inventory reserves	(3,110)	(2,959)
Total inventory, net	<u>\$ 140,672</u>	<u>\$ 134,738</u>

#### Note 5: Leases

The Company periodically enters into leases in its normal course of business. At September 30, 2019, the leases in effect were primarily related to mobile and other production equipment. The term of our leases is generally 60 months or less, and the leases do not have significant restrictions, covenants, or other nonstandard terms.

We adopted the guidance effective in Leases (Topic 842) on January 1, 2019. Adoption of this guidance did not change the balance sheet recognition of our finance leases or the income statement recognition of our finance or operating leases. As a result of adopting the guidance, the Company recorded lease liabilities and right-of-use assets related to its operating leases. The impact at adoption was immaterial to the Company's consolidated financial statements.

Right-of-use assets and lease liabilities are recorded at the present value of minimum lease payments. For our operating leases, the assets are included in Other long-term assets on the consolidated balance sheet at September 30, 2019 and are amortized within operating income over the respective lease terms. The long-term component of the lease liability is included in Other long-term liabilities, net, and the current component is included in Other current liabilities. During the nine months ended September 30, 2019, the Company entered into three new lease agreements accounted for as operating leases.

For our finance leases, the assets are included in Property, plant and equipment, net on the consolidated balance sheets and are depreciated over the respective lease terms which range from three to five years. The long-term component of the lease liability is included in Long-term debt and the current component is included in Current portion of long-term debt. The Company did not enter into any material new lease agreements accounted for as a finance lease during the nine months ended September 30, 2019 and 2018.

As of September 30, 2019, future minimum lease payments applicable to operating and finance leases were as follows:

	<u>Operating Leases</u>	<u>Finance Leases</u>
2019	\$ 53	\$ 150
2020	207	583
2021	184	471
2022	173	56
2023 and thereafter	84	15
Total minimum lease payments	<u>\$ 701</u>	<u>\$ 1,275</u>
Less amounts representing interest	(43)	(125)
Present value of minimum lease payments	<u>\$ 658</u>	<u>\$ 1,150</u>
Less current obligations	(211)	(500)
Total long-term lease obligations, net	<u><u>\$ 447</u></u>	<u><u>\$ 650</u></u>
Weighted-average remaining lease term	4 years	2 years

Right-of-use assets recorded to the consolidated balance sheet at September 30, 2019 were \$0.7 million for operating leases and \$0.8 million for finance leases. For the three and nine months ended September 30, 2019, the amortization of finance lease assets was \$0.1 million and \$0.4 million, respectively, and was included in cost of products sold in the Consolidated Statements of Operations.

The Company elected the practical expedient allowed under Leases (Topic 842) to exclude leases with a term of 12 months or less from the calculation of our lease liabilities and right-of-use assets.

In determining the lease liability and corresponding right-of-use asset for each lease, the Company calculated the present value of future lease payments using the interest rate implicit in the lease, when available, or the Company's incremental borrowing rate. The incremental borrowing rate was determined with reference to the interest rate applicable under our senior secured revolving credit facility discussed in Note 6, as this facility is collateralized by a first lien on substantially all of the assets of the Company and its term is similar to the term of our leases.

#### **Note 6: Long-Term Debt**

Long-term debt consisted of the following:

<i>(in thousands)</i>	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Revolving credit facility	\$ 40,795	\$ 18,204
Notes	17,000	19,000
Term loan	8,571	9,643
Finance leases	<u>1,150</u>	<u>1,502</u>
Total debt	67,516	48,349
Less: current portion of long-term debt	(3,929)	(3,907)
Less: deferred financing costs	<u>(1,432)</u>	<u>(1,603)</u>
Long-term debt, net	<u><u>\$ 62,155</u></u>	<u><u>\$ 42,839</u></u>

#### **Credit Facility**

On August 3, 2018, we entered into the First Amended and Restated Revolving Credit, Term Loan and Security Agreement ("Credit Agreement") with PNC Bank, National Association, as administrative agent and co-collateral agent, Bank of America, N.A., as co-collateral agent, and PNC Capital Markets LLC, as sole lead arranger and sole bookrunner. The Credit Agreement amended the prior Revolving Credit, Term Loan and Security Agreement ("Prior Agreement"), and provides for a senior secured revolving credit facility not to exceed \$110.0 million ("Revolving Credit Facility") and a senior secured term loan facility ("Term Loan") in the amount of \$10.0 million (together with the Revolving Credit Facility, the "Facilities"). The Company was in compliance with all the applicable financial covenants prior to the August 3, 2018 amendment to the Credit Agreement and through September 30, 2019.

The Facilities, which expire August 3, 2023 (the "Expiration Date"), are collateralized by a first lien in substantially all of the assets of the company and its subsidiaries, except that no real property is collateral under the Facilities other than Company's real property in North Jackson, Ohio.

Availability under the Credit Agreement is based on eligible accounts receivable and inventory. Further, the Company must maintain undrawn availability under the Credit Agreement of at least an amount equal to payments due on the notes issued in connection with the acquisition of the North Jackson facility, as defined in the Credit Agreement, plus 12.5% of the maximum borrowing amount of \$110.0 million "(Minimum

Liquidity”). At September 30, 2019, there were no payments due on the notes relevant to the Minimum Liquidity calculation. This requirement exists until the Notes are paid in full, refinanced or extended.

The Company is required to pay a commitment fee of 0.25% based on the daily unused portion of the Revolving Credit Facility.

With respect to the Term Loan, the Company pays quarterly installments of the principal of approximately \$0.4 million, plus accrued and unpaid interest, on the first day of each fiscal quarter beginning after September 30, 2018. To the extent not previously paid, the Term Loan will become due and payable in full on the Expiration Date.

Amounts outstanding under the Facilities, at the Company’s option, will bear interest at either a base rate or a LIBOR based rate, in either case calculated in accordance with the terms of the Credit Agreement. Interest under the Credit Agreement is payable monthly. We elected to use the LIBOR based rate for the majority of the debt outstanding under the Facilities for the three months ended September 30, 2019, which was 3.86% on our Revolving Credit Facility and 4.36% for the Term Loan.

The Credit Agreement contains customary affirmative and negative covenants. If a triggering event occurs as defined in the Credit Agreement, the Company must maintain a fixed charge coverage ratio of not less than 1.10 to 1.0 measured on a rolling four quarter basis and calculated in accordance with the terms of the Credit Agreement.

At September 30, 2019, we had Credit Agreement related net deferred financing costs of approximately \$0.8 million. For the nine months ended September 30, 2019, we amortized \$0.2 million of those deferred financing costs.

During 2018, \$6.7 million was drawn on the Revolving Credit Facility to fund cash restricted for use related to the New Markets Tax Credit (“NMTC”) Financing Transaction. NMTC related restricted cash receipts totaling approximately \$8.0 million in 2018 and \$0.4 million in 2019 were applied to the Company’s Revolving Credit Facility, described in Note 7.

#### **Notes**

In connection with the acquisition of the North Jackson facility, in August 2011, we issued \$20.0 million in aggregate principal amount of Notes to the sellers of the North Jackson facility as partial consideration of the acquisition.

On January 21, 2016, the Company entered into Amended and Restated Notes in the aggregate principal amount of \$20.0 million, each in favor of Gorbert Inc. (“Holder”). The Company’s obligations under the Notes are collateralized by a second lien on the same assets of the Company that collateralize the obligations of the Company under the Facilities. The Holder had the right to elect at any time on or prior to August 17, 2017 to convert all or any portion of the outstanding principal amount of the Notes. The Holder’s conversion rights expired and are no longer subject to exercise.

The Notes were originally scheduled to mature on March 17, 2019. On March 30, 2018, the Company provided notification of its intent to extend the maturity date to March 17, 2020 in accordance with the terms of the Notes. Upon the Company’s extension of the maturity date of the Notes to March 17, 2020, principal payments in the aggregate of \$2.0 million were made in March 2019.

On March 18, 2019, the Company provided notification of its intent to extend the maturity date to March 17, 2021 in accordance with the terms of the Notes. Extending the maturity date of the Notes to March 17, 2021 would require a principal payment in the aggregate amount of \$2.0 million to be made in March 2020. In conjunction with the intended extension of the maturity date of the Notes, \$2.0 million has been classified within current portion of long-term debt.

In accordance with the terms of the Notes, the Notes have borne interest at a rate of 6.0% per year since August 17, 2017. All accrued and unpaid interest is payable quarterly in arrears on each September 18, December 18, March 18 and June 18.

#### **Note 7: New Markets Tax Credit Financing Transaction**

On March 9, 2018, the Company entered into a qualified New Markets Tax Credit financing program with PNC New Markets Investment Partners, LLC and Boston Community Capital, Inc. related to a new mid-size bar cell capital project at the Company’s Dunkirk, NY facility. PNC New Markets Investment Partners, LLC made a capital contribution and the Company made a loan to Dunkirk Investment Fund, LLC (“Investment Fund”) under the qualified NMTC program. Through this financing transaction, the Company secured low interest financing and the potential for other future benefits related to its mid-size bar cell capital project.

In connection with the NMTC financing program, the Company loaned \$6.7 million aggregate principal amount (“Leverage Loan”) due in March 2048, to the Investment Fund. Additionally, PNC New Markets Investment Partners, LLC contributed \$3.5 million to the Investment Fund, and as such, PNC New Markets Investment Partners, LLC is entitled to substantially all tax and other benefits derived from the NMTC. The Investment Fund then contributed the proceeds to a community development entity (“CDE”). The CDE then loaned the funds, on similar terms, as the Leverage Loan to Dunkirk Specialty Steel, LLC, a wholly-owned subsidiary of the Company. The CDE loan proceeds are restricted for use on the mid-size bar cell capital project.

The NMTC is subject to 100 percent recapture for a period of seven years as provided in the Internal Revenue Code. The Company is required to comply with various regulations and contractual provisions that apply to the NMTC arrangement. Non-compliance with applicable requirements could result in projected tax benefits not being realized and, therefore, require the Company to indemnify PNC New Markets Investment Partners, LLC for any loss or recapture of NMTCs related to the financing until the Company's obligation to deliver tax benefits is relieved. The Company does not anticipate any credit recaptures will be required in connection with this arrangement. This transaction also includes a put/call provision whereby the Company may be obligated or entitled to repurchase PNC New Markets Investment Partners, LLC's interest in the Investment Fund. The Company believes that PNC New Markets Investment Partners, LLC will exercise the put option in March 2025, at the end of the recapture period. The value attributed to the put/call is negligible.

Direct costs incurred in structuring this financing transaction totaled \$0.7 million. These costs were deferred and are amortized over the term of the loans.

The Company has determined that the Investment Fund and CDE are each a VIE, and that it is the primary beneficiary of each VIE. This conclusion was reached based on the following:

- The ongoing activities of the VIE, collecting and remitting interest and fees, and NMTC compliance were all considered in the initial design and are not expected to significantly affect economic performance throughout the life of the VIE;
- Contractual arrangements obligate the Company to comply with NMTC rules and regulations and provide various other guarantees to the Investment Fund and CDE;
- PNC New Markets Investment Partners, LLC lacks a material interest in the underlying economics of the project; and
- The Company is obligated to absorb losses of the VIE.

Because the Company is the primary beneficiary of each VIE, these entities have been included in the Company's Consolidated Financial Statements.

As of September 30, 2019 and December 31, 2018, the Company recorded \$2.8 million as Other long-term liabilities related to the funds contributed to the Investment Fund by PNC New Markets Investment Partners, LLC.

#### **Note 8: Fair Value Measurement**

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

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

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

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

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

The carrying amounts of our cash, accounts receivable and accounts payable approximated fair value at September 30, 2019 and December 31, 2018 due to their short-term maturities (Level 1). The fair value of the Term Loan and Revolving Credit facility at September 30, 2019 and December 31, 2018 approximated the carrying amount as the interest rate is based upon floating short-term interest rates (Level 2). The fair value of our Notes was approximately \$16.9 million at September 30, 2019 and \$18.8 million December 31, 2018 (Level 2).

#### **Note 9: 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 10: 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 ("ETR"), increased or decreased for the tax effect of discrete items.

For the nine months ended September 30, 2019 and 2018, our estimated annual effective tax rates applied to ordinary income were 11.2% and 18.5%, respectively. The difference between the statutory rate and the projected annual ETR of 11.2% for 2019 is primarily due to research and development credits.

Discrete items during the nine months ended September 30, 2019 reduced tax expense by \$0.4 million, primarily due to increased research and development tax credits. Including the effect of discrete items, our ETR for the nine months ended September 30, 2019 was 1.3%.

Including the effect of discrete items, our ETR for the nine months ended September 30, 2018 was 19.1%. The difference between the estimated annual ETR of 18.5% and the quarterly rate of 19.1% for the nine months ended September 30, 2018 was primarily related to the expiration of fully vested stock options partially offset by research and development credits.

**Note 11: Derivatives and Hedging**

The Company invoices certain customers in foreign currencies. In order to mitigate the risks associated with fluctuations in exchange rates with the US Dollar, the Company entered into foreign exchange forward contracts during 2019 and 2018 for a portion of these sales, and has designated these contracts as cash flow hedges.

At September 30, 2019, the notional value of contracts was \$5.2 million and a related accumulated unrealized gain of \$0.1 million was recorded in other comprehensive income.

At December 31, 2018, the notional value of contracts was \$7.4 million, and the related unrealized gain recorded in other comprehensive income was less than \$0.1 million.

## 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, 2018, 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," "project," or 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.

### 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 rollers, 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, heavy equipment and general industrial markets. We also perform conversion services on materials supplied by customers.

Sales in the third quarter of 2019 were \$56.6 million, a decrease of \$14.4 million, or 20.3%, from the second quarter of 2019. During this period, sales to our largest end market, aerospace, decreased \$8.5 million, or 17.1%. Sales decreased in all our end markets compared to the second quarter.

Compared to the third quarter of 2018, sales in the third quarter of 2019 decreased \$12.5 million, or 18.1%. Aerospace sales increased by \$3.6 million, or 9.6%, and power generation by \$0.2 million, or 6.3%. These increases were offset by decreases in our other end markets, as oil & gas decreased \$3.3 million, or 36.7%, heavy equipment decreased \$9.1 million, or 67.6%, general industrial decreased \$3.1 million, or 60.7%, and conversion services and other sales decreased \$0.8 million, or 49.7%.

During the third quarter of 2019, our sales of premium alloy products, which we define as all vacuum induction melt products, represented \$8.0 million, or 14.2% of total sales. This was a decrease compared to the record \$12.8 million premium alloy sales in the second quarter of 2019, and a decrease compared to \$9.2 million of premium alloy sales in the third quarter of 2018. Our premium alloy products are primarily sold to the aerospace end market.

Our backlog, before surcharges, at September 30, 2019 was \$118.3 million, an increase of \$1.4 million, or 1.2%, compared to June 30, 2019, and an increase of \$6.8 million, or 6.1%, compared to September 30, 2018.

The Company's gross margin for the third quarter of 2019 was \$5.3 million, or 9.4% of net sales, compared to \$9.1 million, or 12.8% of net sales, for the second quarter of 2019 and \$10.4 million, or 15.1% of net sales, for the third quarter of 2018. Gross margin in the third quarter of 2019 was negatively impacted by lower shipping volume, surcharge misalignment in certain products, and product mix. The lower volume was in part due to a fire at our North Jackson facility at the end of the second quarter, which impacted the timing of production and shipments in the third quarter. In addition to the delayed sales, the Company incurred \$0.5 million in increased operations cost as a result of the fire, in addition to the \$0.2 million incurred during the second quarter. A portion these costs negatively impacted gross margin in the third quarter.

Selling, General and Administrative ("SG&A") expenses were \$4.5 million, or 8.0% of net sales, in the third quarter 2019 compared to \$5.6 million, or 7.9% of net sales, in the second quarter of 2019 and \$5.1 million, or 7.4% of net sales, in the third quarter of 2018. SG&A decreased compared to both comparison periods due primarily to a decrease in employee incentive compensation accruals.

The Company's net income was \$0.8 million for the third quarter of 2019 compared to \$2.1 million for the second quarter of 2019 and \$3.9 million in the third quarter of 2018.



**Results of Operations**

Three months ended September 30, 2019 as compared to the three months ended September 30, 2018:

<i>(in thousands, except shipped ton information)</i>	Three months ended September 30,					
	2019		2018		Dollar / ton variance	Percentage variance
	Amount	Percentage of net sales	Amount	Percentage of net sales		
Net sales:						
Stainless steel	\$ 42,459	75.1 %	\$ 46,447	67.3 %	\$ (3,988)	(8.6)%
High-strength low alloy steel	8,206	14.5	5,751	8.3	2,455	42.7
Tool steel	4,263	7.5	13,130	19.0	(8,867)	(67.5)
High-temperature alloy steel	845	1.5	2,149	3.1	(1,304)	(60.7)
Conversion services and other sales	795	1.4	1,579	2.3	(784)	(49.7)
Total net sales	56,568	100.0	69,056	100.0	(12,488)	(18.1)
Cost of products sold	51,260	90.6	58,631	84.9	(7,371)	(12.6)
Gross margin	5,308	9.4	10,425	15.1	(5,117)	(49.1)
Selling, general and administrative expenses	4,525	8.0	5,131	7.4	(606)	(11.8)
Operating income	783	1.4	5,294	7.7	(4,511)	(85.2)
Interest expense	989	1.7	906	1.3	83	9.2
Deferred financing amortization	56	0.1	60	0.1	(4)	(6.7)
Other expense (income), net	(452)	(0.8)	(48)	(0.1)	404	NM
Income before income taxes	190	0.4	4,376	6.4	(4,186)	(95.7)
Provision (benefit) for income taxes	(577)	(1.0)	460	0.7	(1,037)	(225.4)
Net income	\$ 767	1.4 %	\$ 3,916	5.7 %	\$ (3,149)	(80.4)
Tons shipped	9,776		12,385		(2,609)	(21.1)
Sales dollars per shipped ton	\$ 5,786		\$ 5,576		\$ 210	3.8%

**Market Segment Information**

<i>(in thousands)</i>	Three months ended September 30,					
	2019		2018		Dollar variance	Percentage variance
	Amount	Percentage of net sales	Amount	Percentage of net sales		
Net sales:						
Service centers	\$ 38,693	68.4 %	\$ 49,889	72.2 %	\$ (11,196)	(22.4)%
Original equipment manufacturers	4,862	8.6	4,981	7.2	(119)	(2.4)
Rerollers	6,629	11.7	6,530	9.5	99	1.5
Forgers	5,589	9.9	6,077	8.8	(488)	(8.0)
Conversion services and other sales	795	1.4	1,579	2.3	(784)	(49.7)
Total net sales	\$ 56,568	100.0 %	\$ 69,056	100.0 %	\$ (12,488)	(18.1)%

## Melt Type Information

<i>(in thousands)</i>	Three months ended September 30,					
	2019		2018		Dollar variance	Percentage variance
	Amount	Percentage of net sales	Amount	Percentage of net sales		
Net sales:						
Specialty alloys	\$ 47,730	84.4 %	\$ 58,325	84.5 %	\$ (10,595)	(18.2)%
Premium alloys (A)	8,043	14.2	9,152	13.3	(1,109)	(12.1)
Conversion services and other sales	795	1.4	1,579	2.2	(784)	(49.7)
Total net sales	<u>\$ 56,568</u>	<u>100.0 %</u>	<u>\$ 69,056</u>	<u>100.0 %</u>	<u>\$ (12,488)</u>	<u>(18.1)%</u>

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

The majority of our products are sold to service centers 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, which they will in-turn sell to the ultimate end market customer.

## End Market Information

<i>(in thousands)</i>	Three months ended September 30,					
	2019		2018		Dollar variance	Percentage variance
	Amount	Percentage of net sales	Amount	Percentage of net sales		
Net sales:						
Aerospace	\$ 40,876	72.3 %	\$ 37,302	54.0 %	\$ 3,574	9.6%
Power generation	2,884	5.0	2,714	3.9	170	6.3
Oil & gas	5,653	10.0	8,926	12.9	(3,273)	(36.7)
Heavy equipment	4,352	7.7	13,423	19.4	(9,071)	(67.6)
General industrial, conversion services and other sales	2,803	5.0	6,691	9.8	(3,888)	(58.1)
Total net sales	<u>\$ 56,568</u>	<u>100.0 %</u>	<u>\$ 69,056</u>	<u>100.0 %</u>	<u>\$ (12,488)</u>	<u>(18.1)%</u>

### Net sales:

Net sales for the three months ended September 30, 2019 decreased \$12.5 million, or 18.1%, compared to the three months ended September 30, 2018. This reflects a decrease in consolidated shipment volume of 21.1% and an increase in average sales dollar per shipped ton of 3.8%. The increase in sales dollars per ton is primarily the result of product mix.

Product sales to the aerospace and power generation end markets increased, while sales to our other end markets decreased. As a percent of sales, our premium alloy sales increased to 14.2% of total sales for the three months ended September 30, 2019 compared to 13.3% for the three months ended September 30, 2018.

### Gross margin:

As a percent of sales, our gross margin for the three months ended September 30, 2019 was 9.4% compared to 15.1% for the three months ended September 30, 2018. The decrease is largely a result of lower production associated with longer than planned downtime on critical equipment and surcharge misalignment.

### Selling, general and administrative expenses:

Our SG&A expenses consist primarily of employee costs, which include salaries, payroll taxes and benefit related costs, professional services, stock compensation and insurance costs. SG&A expenses decreased by \$0.6 million in the three months ended September 30, 2019 compared to the three months ended September 30, 2018. The decrease is primarily due to a decrease in employee incentive compensation accruals.

### Interest expense and other financing costs:

Interest expense for the three months ended September 30, 2019 totaled \$1.0 million, compared to \$0.9 million for the three months ended September 30, 2018.

### Other income

Other income for the three months ended September 30, 2019 totaled \$0.5 million and included insurance proceeds of \$0.4 million related to a fire at our Dunkirk facility that occurred in 2017.

**Income tax provision:**

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 ("ETR"), increased or decreased for the tax effect of discrete items.

Including the effect of discrete items, we recorded an income tax benefit for the three months ended September 30, 2019, primarily due to increased research and development tax credits.

Including the effect of discrete items, our ETR for the three months ended September 30, 2018 was 10.5%. Discrete items in three months ended September 30, 2018 were less favorable than 2019, primarily due to lower research and development credit benefits.

**Net income:**

For the three months ended September 30, 2019, the Company recorded net income of \$0.8 million, or \$0.09 per diluted share, compared to \$3.9 million, or \$0.44 per diluted share, for the three months ended September 30, 2018.

Nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018:

<i>(in thousands, except shipped ton information)</i>	<b>Nine months ended September 30,</b>					
	<b>2019</b>		<b>2018</b>		<b>Dollar / ton variance</b>	<b>Percentage variance</b>
	<b>Amount</b>	<b>Percentage of net sales</b>	<b>Amount</b>	<b>Percentage of net sales</b>		
Net sales:						
Stainless steel	\$ 136,557	72.7 %	\$ 136,580	68.7 %	\$ (23)	(0.0) %
High-strength low alloy steel	27,035	14.4	16,339	8.2	10,696	65.5
Tool steel	17,756	9.5	31,537	15.9	(13,781)	(43.7)
High-temperature alloy steel	3,390	1.8	9,627	4.8	(6,237)	(64.8)
Conversion services and other sales	3,098	1.6	4,781	2.4	(1,683)	(35.2)
Total net sales	187,836	100.0	198,864	100.0	(11,028)	(5.5)
Cost of products sold	166,052	88.4	167,472	84.2	(1,420)	(0.8)
Gross margin	21,784	11.6	31,392	15.8	(9,608)	(30.6)
Selling, general and administrative expenses	15,095	8.0	16,187	8.1	(1,092)	(6.7)
Operating income	6,689	3.6	15,205	7.7	(8,516)	(56.0)
Interest expense	2,809	1.5	3,245	1.6	(436)	(13.4)
Deferred financing amortization	171	0.1	195	0.1	(24)	(12.3)
Other expense (income), net	(421)	(0.2)	(690)	(0.3)	269	(39.0)
Income before income taxes	4,130	2.2	12,455	6.3	(8,325)	(66.8)
Provision (benefit) for income taxes	55	-	2,376	1.2	(2,321)	(97.7)
Net income	<u>\$ 4,075</u>	<u>2.2 %</u>	<u>\$ 10,079</u>	<u>5.1 %</u>	<u>\$ (6,004)</u>	59.6
Tons shipped	<u>31,656</u>		<u>34,681</u>		<u>(3,025)</u>	(8.7)
Sales dollars per shipped ton	<u>\$ 5,934</u>		<u>\$ 5,734</u>		<u>\$ 200</u>	3.5 %

## Market Segment Information

<i>(in thousands)</i>	Nine months ended September 30,					
	2019		2018		Dollar variance	Percentage variance
	Amount	Percentage of net sales	Amount	Percentage of net sales		
Net sales:						
Service centers	\$ 129,996	69.2 %	\$ 139,152	70.0 %	\$ (9,156)	(6.6) %
Original equipment manufacturers	19,318	10.3	15,232	7.6	4,086	26.8
Rerollers	20,016	10.7	23,188	11.7	(3,172)	(13.7)
Forgers	15,408	8.2	16,511	8.3	(1,103)	(6.7)
Conversion services and other sales	3,098	1.6	4,781	2.4	(1,683)	(35.2)
Total net sales	<u>\$ 187,836</u>	<u>100.0 %</u>	<u>\$ 198,864</u>	<u>100.0 %</u>	<u>\$ (11,028)</u>	<u>(5.5) %</u>

## Melt Type Information

<i>(in thousands)</i>	Nine months ended September 30,					
	2019		2018		Dollar variance	Percentage variance
	Amount	Percentage of net sales	Amount	Percentage of net sales		
Net sales:						
Specialty alloys	\$ 154,511	82.3 %	\$ 161,048	81.0 %	\$ (6,537)	(4.1) %
Premium alloys (A)	30,227	16.1	33,035	16.6	(2,808)	(8.5)
Conversion services and other sales	3,098	1.6	4,781	2.4	(1,683)	(35.2)
Total net sales	<u>\$ 187,836</u>	<u>100.0 %</u>	<u>\$ 198,864</u>	<u>100.0 %</u>	<u>\$ (11,028)</u>	<u>(5.5) %</u>

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

The majority of our products are sold to service centers 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, which they will in-turn sell to the ultimate end market customer.

## End Market Information

<i>(in thousands)</i>	Nine months ended September 30,					
	2019		2018		Dollar variance	Percentage variance
	Amount	Percentage of net sales	Amount	Percentage of net sales		
Net sales:						
Aerospace	\$ 132,818	70.7 %	\$ 113,742	57.2 %	\$ 19,076	16.8 %
Power generation	8,588	4.5	7,337	3.7	1,251	17.1
Oil & gas	18,767	10.0	25,211	12.7	(6,444)	(25.6)
Heavy equipment	17,973	9.6	32,506	16.3	(14,533)	(44.7)
General industrial, conversion services and other sales	9,690	5.2	20,068	10.1	(10,378)	(51.7)
Total net sales	<u>\$ 187,836</u>	<u>100.0 %</u>	<u>\$ 198,864</u>	<u>100.0 %</u>	<u>\$ (11,028)</u>	<u>(5.5) %</u>

**Net sales:**

Net sales for the nine months ended September 30, 2019 decreased \$11.0 million, or 5.5%, compared to the nine months ended September 30, 2018.

This reflects a decrease in consolidated shipment volume of 8.7% and an increase in average sales dollar per shipped ton of 3.5%. The increase in sales dollars per ton is primarily the result of product mix.

Product sales to the aerospace and power generation end markets increased, while sales to our other end markets decreased. During the nine months ended September 30, 2019, premium alloy sales decreased by \$2.8 million, or 8.5%, compared to the nine months ended September 30, 2018. As a percent of sales, our premium alloy sales decreased to 16.1% for the period.

**Gross margin:**

Our gross margin, as a percent of sales, was 11.6% for the nine months ended September 30, 2019 compared to 15.8% for the nine months ended September 30, 2018. The decrease in our gross margin is largely a result of slower recovery in customer surcharges, lower production associated with longer than planned downtime on critical equipment and product mix.

**Selling, general and administrative expenses:**

Our SG&A expenses consist primarily of employee costs, which include salaries, payroll taxes and benefit related costs, legal and accounting services, stock compensation and insurance costs. SG&A expenses decreased by \$1.1 million in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. The decrease is primarily due to a decrease in employee incentive compensation accruals.

**Interest expense and other financing costs:**

Interest expense for the nine months ended September 30, 2019 totaled \$2.8 million, compared to \$3.2 million for the nine months ended September 30, 2018. Deferred financing amortization was \$0.2 million for the nine months ended September 30, 2019 and 2018.

**Other income**

Other income for the nine months ended September 30, 2019 included insurance proceeds of \$0.4 million related to a fire at our Dunkirk facility that occurred in 2017. Other income for the nine months ended September 30, 2018 included \$0.7 million related to a favorable legal settlement.

**Income tax provision:**

Discrete items during the nine months ended September 30, 2019 reduced tax expense by \$0.4 million, primarily due to increased research and development tax credits. Including the effect of discrete items, our ETR for the nine months ending September 30, 2019 was 1.3%.

Including the effect of discrete items, our ETR for the nine months ended September 30, 2018 was 19.1%. Discrete items for the nine months ended September 30, 2018 were less favorable than 2019 due primarily to lower research and development credit benefits.

**Net income:**

For the nine months ended September 30, 2019, the Company recorded net income of \$4.1 million, or \$0.46 per diluted share, compared to \$10.1 million, or \$1.23 per diluted share, for the nine months ended September 30, 2018.

**Liquidity and Capital Resources**

Historically, we have financed our operations through cash provided by operating activities and borrowings on our credit facilities.

On May 25, 2018, the Company completed an underwritten, public offering involving the issuance and sale by the Company of 1,224,490 shares of common stock at a public offering price of \$24.50 per share. In addition, the Company granted the underwriters a 30-day option to purchase up to an additional 183,673 shares of common stock. On June 1, 2018, the underwriters exercised the option in full, and an additional 183,673 shares of common stock were issued and sold on June 5, 2018. The public offering resulted in gross proceeds to the Company of approximately \$34.5 million, or \$32.2 million net of the underwriting discount and other offering fees and expenses. We used the net proceeds from the public offering to repay amounts outstanding under the Company's credit facility.

On March 9, 2018, the Company entered into a qualified NMTC financing program with PNC New Markets Investment Partners, LLC and Boston Community Capital, Inc. related to a new mid-size bar cell capital project at the Company's Dunkirk, NY facility. PNC New Markets Investment Partners, LLC made a capital contribution and the Company made a loan to Dunkirk Investment Fund, LLC ("Investment Fund") under the NMTC program. Through this financing transaction, the Company secured low interest financing and the potential for other future benefits related to its mid-size bar cell capital project.

In connection with the NMTC financing program, the Company loaned \$6.7 million aggregate principal amount ("Leverage Loan") due in March 2048, to the Investment Fund. Additionally, PNC New Markets Investment Partners, LLC contributed \$3.5 million to the Investment Fund, and as such, PNC New Markets Investment Partners, LLC is entitled to substantially all tax and other benefits derived from the NMTC. The Investment Fund then contributed the proceeds to a community development entity ("CDE"). The CDE then loaned the funds, on similar terms, as the Leverage Loan to Dunkirk Specialty Steel, LLC, a wholly-owned subsidiary of the Company. The CDE loan proceeds are restricted for use on the mid-size bar cell capital project. The Company determined that the Investment Fund and CDE are each a VIE; refer to Note 7 to the unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q for further details.

The economic effect of the NMTC transactions described above is that the Company secured low cost financing for its mid-size bar cell project.

***Net cash provided by (used in) operating activities:***

During the nine months ended September 30, 2019, net cash used in operating activities was \$9.1 million. Our net income, adjusted for non-cash expenses, generated \$20.0 million. We utilized \$21.2 million of cash for managed working capital, which we define as net accounts receivable, plus inventory and minus accounts payable. Accounts receivable increased \$3.8 million due to the timing of sales and collections, and accounts payable decreased \$9.7 million due to the timing of purchasing activity. We used \$7.6 million in the growth of inventory to support our order backlog. In addition, we utilized \$7.9 million of cash from other assets and liabilities, primarily decreased down payments from customers and decreased accruals for employee related costs.

During the nine months ended September 30, 2018, net cash provided by operating activities was \$0.7 million. Our net income, adjusted for non-cash expenses, generated \$27.9 million. We utilized \$31.0 million of cash from managed working capital, which we define as net accounts receivable, plus inventory and minus accounts payable. Accounts receivable increased \$19.2 million due to the increase in sales in the third quarter of 2018 compared to the fourth quarter of 2017. Inventories used \$7.9 million in support of the increased backlog and \$4.0 million decrease in accounts payable. Accrued Employment Costs increased \$2.6 million primarily due to increased variable compensation expenses.

***Net cash used in investing activities:***

During the nine months ended September 30, 2019, we used \$13.3 million in cash for capital expenditures compared to \$13.2 million for the nine months ended September 30, 2018. Approximately \$3.8 million of the current year to date capital expenditures were payments related to the mid-size bar cell capital project at our Dunkirk, NY facility.

***Net cash provided by financing activities:***

Net cash provided by financing activities was \$19.5 million for the nine months ended September 30, 2019. The change was driven by our capital expenditures and managed working capital needs.

Net cash provided by financing activities was \$18.5 million for the nine months ended September 30, 2018. The change was driven by \$32.2 million of proceeds from the equity offering which we used to repay amounts outstanding under the Company's Revolving Credit Facility, net of higher working capital levels and borrowings related to the mid-size bar cell capital project at our Dunkirk, NY facility. These borrowings were done in conjunction with utilization of the NMTC financing program, described in Note 7 to the unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q.

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.

***Raw materials***

The cost of raw materials represents approximately 40% of the cost of products sold in the first nine months of 2019 and 2018. The major raw materials used in our operations include nickel, chrome, molybdenum, vanadium and carbon scrap. We continuously monitor market price fluctuations of key raw materials. We maintain sales price surcharge mechanisms on certain of our products, priced at time of order or shipment, to mitigate the risk of substantial raw material cost fluctuations. The market values for these raw materials and others continue to fluctuate based on supply and demand, market disruptions and other factors.

***Credit Facility***

On August 3, 2018, we entered into the First Amended and Restated Revolving Credit, Term Loan and Security Agreement ("Credit Agreement") with PNC Bank, National Association, as administrative agent and co-collateral agent, Bank of America, N.A., as co-collateral agent, and PNC Capital Markets LLC, as sole lead arranger and sole bookrunner. The Credit Agreement amended the prior Revolving Credit, Term Loan and Security Agreement ("Prior Agreement"), and provides for a senior secured revolving credit facility not to exceed \$110.0 million ("Revolving Credit Facility") and a senior secured term loan facility ("Term Loan") in the amount of \$10.0 million (together with the Revolving Credit Facility, the "Facilities"). The Company was in compliance with all the applicable financial covenants prior to the August 3, 2018 amendment to the Credit Agreement and through September 30, 2019.

The Facilities, which expire on August 3, 2023 (the "Expiration Date"), are collateralized by a first lien in substantially all of the assets of the Company and its subsidiaries, except that no real property is collateral under the Facilities other than Company's real property in North Jackson, Ohio.

Availability under the Credit Agreement is based on eligible accounts receivable and inventory. Further, the Company must maintain undrawn availability under the Credit Agreement of at least an amount equal to payments due on the notes issued in connection with the acquisition of the North Jackson facility, as defined in the Credit Agreement, plus 12.5% of the maximum borrowing amount of \$110.0 million ("Minimum Liquidity"). At September 30, 2019, there were no payments due on the notes relevant to the Minimum Liquidity calculation. This requirement exists until the Notes are paid in full, refinanced or extended.

The Company is required to pay a commitment fee of 0.25% based on the daily unused portion of the Revolving Credit Facility.

With respect to the Term Loan, the Company pays quarterly installments of the principal of approximately \$0.4 million, plus accrued and unpaid interest, on the first day of each fiscal quarter beginning after September 30, 2018. To the extent not previously paid, the Term Loan will become due and payable in full on the Expiration Date.

Amounts outstanding under the Facilities, at the Company's option, will bear interest at either a base rate or a LIBOR based rate, in either case calculated in accordance with the terms of the Credit Agreement. Interest under the Credit Agreement is payable monthly. We elected to use the LIBOR based rate for the majority of the debt outstanding under the Facilities for the three months ended September 30, 2019, which was 3.86% on our Revolving Credit Facility and 4.36% for the Term Loan.

The Credit Agreement contains customary affirmative and negative covenants. If a triggering event occurs as defined in the Credit Agreement, the Company must maintain a fixed charge coverage ratio of not less than 1.10 to 1.0 measured on a rolling four quarter basis and calculated in accordance with the terms of the Credit Agreement.

At September 30, 2019, we had Credit Agreement related net deferred financing costs of approximately \$0.8 million. For the nine months ended September 30, 2019, we amortized \$0.2 million of those deferred financing costs.

During 2018, \$6.7 million was drawn on the Revolving Credit Facility to fund cash restricted for use related to the New Markets Tax Credit ("NMTC") Financing Transaction. NMTC related restricted cash receipts totaling \$8.0 million in 2018 and \$0.4 million in 2019 were applied to the Company's Revolving Credit Facility, described in Note 7 to the unaudited consolidated financial statements included in the Quarterly Report on Form 10-Q.

#### **Notes**

In connection with the acquisition of the North Jackson facility, in August 2011, we issued \$20.0 million in aggregate principal amount of Notes to the sellers of the North Jackson facility as partial consideration of the acquisition.

On January 21, 2016, the Company entered into Amended and Restated Notes in the aggregate principal amount of \$20.0 million, each in favor of Gorbett Inc. ("Holder"). The Company's obligations under the Notes are collateralized by a second lien on the same assets of the Company that collateralize the obligations of the Company under the Facilities. The Holder had the right to elect at any time on or prior to August 17, 2017 to convert all or any portion of the outstanding principal amount of the Notes. The Holder's conversion rights expired and are no longer subject to exercise.

The Notes were originally scheduled to mature on March 17, 2019. On March 30, 2018, the Company provided notification of its intent to extend the maturity date to March 17, 2020 in accordance with the terms of the Notes. Upon the Company's extension of the maturity date of the Notes to March 17, 2020, principal payments in the aggregate of \$2.0 million were made in March 2019.

On March 18, 2019, the Company provided notification of its intent to extend the maturity date to March 17, 2021 in accordance with the terms of the Notes. Extending the maturity date of the Notes to March 17, 2021 would require a principal payment in the aggregate amount of \$2.0 million to be made in March 2020. In conjunction with the intended extension of the maturity date of the Notes, \$2.0 million has been classified within current portion of long-term debt.

In accordance with the terms of the Notes, the Notes have borne interest at a rate of 6.0% per year since August 17, 2017. All accrued and unpaid interest is payable quarterly in arrears on each September 18, December 18, March 18 and June 18.

#### **Leases**

The Company periodically enters into leases in its normal course of business. We adopted the guidance effective in Leases (Topic 842) on January 1, 2019. As a result of adopting the guidance, the Company recorded lease liabilities and right-of-use assets related to its operating leases to the consolidated balance sheet at the present value of minimum lease payments. The assets are included in Other long-term assets in the consolidated balance sheet at September 30, 2019 and are amortized over the respective terms, which are five years or less. The long term component of the lease liability is recorded in Other long-term liabilities, net and the current component is included in Other current liabilities. During the nine months ended September 30, 2019, the Company entered into three new lease agreements accounted for as operating leases.

The accounting for finance leases did not change. The right-of-use assets and lease liabilities for finance leases are recorded at the present value of minimum lease payments. The assets are included in Property, plant and equipment, net on the consolidated balance sheets and are depreciated over the respective lease terms. The long-term component of the lease liability is included in Long-term debt and the current component is included in Current portion of long-term debt. During the nine months ended September 30, 2019 and 2018, the Company did not enter into any material new lease agreements accounted for as a finance lease.

#### **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, 2018, except as provided in this Form 10-Q in "Management's Discussion and Analysis of Financial Condition and Results of Operations."

#### **Item 4. CONTROLS AND PROCEDURES**

The Company's management, including the Company's Chairman, President and Chief Executive Officer and its Vice President of Finance, Chief Financial Officer and Treasurer, performed an evaluation of the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the Company's Chairman, President and Chief Executive Officer and its Vice President of Finance, Chief Financial Officer and Treasurer concluded that, as of the end of the fiscal period covered by this quarterly report, the Company's disclosure controls and procedures are effective. During the fiscal quarter ended September 30, 2019, 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, 2018.

**Item 1A. RISK FACTORS**

In addition to the other information set forth in this Quarterly Report on Form 10-Q, the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2018 could materially affect our business, financial conditions or future results. Those risk factors are not the only risks facing us. Additional risks and uncertainties not currently known or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or operating results. We believe that there have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018.

**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**

Not Applicable.



**Item 6. EXHIBITS**

<b>Exhibit Number</b>	<b>Exhibit</b>
31.1	<a href="#"><u>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).</u></a>
31.2	<a href="#"><u>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).</u></a>
32.1	<a href="#"><u>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).</u></a>
101	The following financial information from this Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2019, 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 Comprehensive Income; (iv) the Consolidated Statements of Cash Flows; the Consolidated Statements of Shareholders' Equity; and (v) 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: October 23, 2019

/s/ Dennis M. Oates

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

/s/ Christopher T. Scanlon

Christopher T. Scanlon  
Vice President of Finance,  
Chief Financial Officer and Treasurer  
(Principal Financial and Accounting Officer)

## CERTIFICATION

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 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.
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of 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: October 23, 2019

/s/ Dennis M. Oates

Dennis M. Oates

Chairman, President and Chief Executive Officer

(Principal Executive Officer)

## CERTIFICATION

I, Christopher T. Scanlon, 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 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 of internal control over financial reporting, to the registrant's auditors and the audit committee of 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: October 23, 2019

/s/ Christopher T. Scanlon

Christopher T. Scanlon  
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 September 30, 2019 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.

Date: October 23, 2019

/s/ Dennis M. Oates

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

Date: October 23, 2019

/s/ Christopher T. Scanlon

Christopher T. Scanlon  
Vice President of Finance,  
Chief Financial Officer and Treasurer  
(Principal Financial and Accounting Officer)

