

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2024

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 001-39467



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
Preferred Stock Purchase Rights		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 Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

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 July 22, 2024, there were 9,237,953 shares of the Registrant's common stock outstanding.



true

Universal Stainless & Alloy Products, Inc.
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Part I. FINANCIAL INFORMATION**Item 1. FINANCIAL STATEMENTS****UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Dollars in Thousands, Except Per Share Information)

(Unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2024	2023	2024	2023
Net sales	\$ 82,759	\$ 69,015	\$ 160,396	\$ 134,880
Cost of products sold	61,746	59,167	124,716	117,308
Gross margin	21,013	9,848	35,680	17,572
Selling, general and administrative expenses	8,164	6,755	15,573	13,030
Operating income	12,849	3,093	20,107	4,542
Interest expense and other financing costs	1,902	2,045	3,951	4,077
Other expense (income), net	22	5	36	(37)
Income before income taxes	10,925	1,043	16,120	502
Income taxes	2,060	148	3,118	119
Net income	\$ 8,865	\$ 895	\$ 13,002	\$ 383
Net income per common share - Basic	\$ 0.96	\$ 0.10	\$ 1.41	\$ 0.04
Net income per common share - Diluted	\$ 0.90	\$ 0.10	\$ 1.33	\$ 0.04
Weighted average shares of common stock outstanding				
Basic	9,209,721	9,066,150	9,196,556	9,061,011
Diluted	9,843,471	9,272,660	9,754,741	9,210,841

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in Thousands)

(Unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2024	2023	2024	2023
Net income	\$ 8,865	\$ 895	\$ 13,002	\$ 383
Other comprehensive income (loss), net of tax				
Unrealized gain (loss) on derivatives	16	(124)	47	(270)
Comprehensive income	<u>\$ 8,881</u>	<u>\$ 771</u>	<u>\$ 13,049</u>	<u>\$ 113</u>

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands, Except Per Share Information)

	June 30, 2024	December 31, 2023
	(Unaudited)	*
ASSETS		
Current assets:		
Cash	\$ 1	\$ 394
Accounts receivable (less expected credit losses of \$34 in each period, respectively)	44,919	39,034
Inventory	149,093	144,700
Other current assets	13,316	11,693
Total current assets	207,329	195,821
Property, plant and equipment, net	158,882	159,636
Other long-term assets	1,825	1,233
Total assets	<u>\$ 368,036</u>	<u>\$ 356,690</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 36,916	\$ 34,855
Accrued employment costs	4,707	6,492
Current portion of long-term debt	3,810	3,733
Other current liabilities	2,096	829
Total current liabilities	47,529	45,909
Long-term debt, net	74,480	81,846
Deferred income taxes	2,675	2
Other long-term liabilities, net	2,867	2,891
Total liabilities	127,551	130,648
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Senior preferred stock, par value \$0.001 per share; 1,980,000 shares authorized; zero shares issued and outstanding	-	-
Common stock, par value \$0.001 per share; 20,000,000 shares authorized; 9,237,953 and 9,185,307 shares issued, respectively	9	9
Additional paid-in capital	100,031	98,637
Accumulated other comprehensive loss	(76)	(123)
Retained earnings	140,521	127,519
Total stockholders' equity	240,485	226,042
Total liabilities and stockholders' equity	<u>\$ 368,036</u>	<u>\$ 356,690</u>

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

** Derived from audited financial statements*

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

(Dollars in Thousands)

(Unaudited)

	Six months ended	
	June 30,	
	2024	2023
Operating Activities:		
Net income	\$ 13,002	\$ 383
Adjustments for non-cash items:		
Depreciation and amortization	10,180	9,643
Deferred income tax	2,667	(19)
Share-based compensation expense	974	672
Changes in assets and liabilities:		
Accounts receivable, net	(5,885)	(335)
Inventory, net	(5,291)	1,716
Accounts payable	3,692	(1,633)
Accrued employment costs	(1,785)	819
Other, net	(21)	(69)
Net cash provided by operating activities	17,533	11,177
Investing Activity:		
Payments for property, plant and equipment	(10,926)	(6,932)
Net cash used in investing activity	(10,926)	(6,932)
Financing Activities:		
Net repayment of borrowings under revolving credit facility	(5,576)	(4,542)
Proceeds from stock issued under share-based plans	420	75
Repayments of term loan facility and finance leases	(1,844)	(1,753)
Net cash used in financing activities	(7,000)	(6,220)
Net decrease in cash	(393)	(1,975)
Cash at beginning of period	394	2,019
Cash at end of period	\$ 1	\$ 44

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Dollars in Thousands)

(Unaudited)

	Common shares outstanding	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive (loss) income	Total shareholders' equity
<i>For the six months ended June 30, 2024</i>						
Balance at December 31, 2023	9,185,307	\$ 9	\$ 98,637	\$ 127,519	\$ (123)	\$ 226,042
Exercise of stock options	4,500	-	66	-	-	66
Share-based compensation	-	-	454	-	-	454
Other comprehensive income, net of tax	-	-	-	-	31	31
Net income	-	-	-	4,137	-	4,137
Balance at March 31, 2024	<u>9,189,807</u>	<u>\$ 9</u>	<u>\$ 99,157</u>	<u>\$ 131,656</u>	<u>\$ (92)</u>	<u>\$ 230,730</u>
Employee Stock Purchase Plan	15,572	-	255	-	-	\$ 255
Exercise of stock options	10,677	-	99	-	-	99
Share-based compensation	21,897	-	520	-	-	520
Other comprehensive income, net of tax	-	-	-	-	16	16
Net income	-	-	-	8,865	-	8,865
Balance at June 30, 2024	<u>9,237,953</u>	<u>\$ 9</u>	<u>\$ 100,031</u>	<u>\$ 140,521</u>	<u>\$ (76)</u>	<u>\$ 240,485</u>
<i>For the six months ended June 30, 2023</i>						
Balance at December 31, 2022	9,049,748	\$ 9	\$ 97,002	\$ 122,609	\$ 133	\$ 219,753
Share-based compensation	10,920	-	361	-	-	361
Other comprehensive (loss), net of tax	-	-	-	-	(146)	(146)
Net loss	-	-	-	(512)	-	(512)
Balance at March 31, 2023	<u>9,060,668</u>	<u>\$ 9</u>	<u>\$ 97,363</u>	<u>\$ 122,097</u>	<u>\$ (13)</u>	<u>\$ 219,456</u>
Employee Stock Purchase Plan	10,280	-	64	-	-	\$ 64
Exercise of stock options	1,250	-	11	-	-	11
Share-based compensation	15,172	-	311	-	-	311
Other comprehensive (loss), net of tax	-	-	-	-	(124)	(124)
Net income	-	-	-	895	-	895
Balance at June 30, 2023	<u>9,087,370</u>	<u>\$ 9</u>	<u>\$ 97,749</u>	<u>\$ 122,992</u>	<u>\$ (137)</u>	<u>\$ 220,613</u>

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: 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 condensed 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, 2023 condensed consolidated balance sheet data was derived from the audited consolidated 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 condensed consolidated financial statements should be read in conjunction with our most recently audited consolidated 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 condensed consolidated financial statements include all adjustments necessary to present a fair presentation of the condensed 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 condensed 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. 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 VIEs included in our condensed consolidated financial statements.

Recently Adopted Accounting Pronouncements

None.

Recently Issued Accounting Pronouncements

The Company considers the applicability and impact of all Accounting Standards Updates (“ASUs”). Recently issued ASUs not listed were assessed and were determined not applicable, or are expected to have minimal impact on our condensed consolidated financial statements.

Note 2: Net Income Per Common Share

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

<i>(dollars in thousands, except per share amounts)</i>	Three months ended		Six months ended	
	June 30,		June 30,	
	2024	2023	2024	2023
Numerator:				
Net income	\$ 8,865	\$ 895	\$ 13,002	\$ 383
Denominator:				
Weighted average number of shares of common stock outstanding	9,209,721	9,066,150	9,196,556	9,061,011
Weighted average effect of dilutive share-based compensation	633,750	206,510	558,185	149,830
Diluted weighted average number of shares of common stock outstanding	<u>9,843,471</u>	<u>9,272,660</u>	<u>9,754,741</u>	<u>9,210,841</u>
Net income per common share:				
Net income per common share - Basic	<u>\$ 0.96</u>	<u>\$ 0.10</u>	<u>\$ 1.41</u>	<u>\$ 0.04</u>
Net income per common share - Diluted	<u>\$ 0.90</u>	<u>\$ 0.10</u>	<u>\$ 1.33</u>	<u>\$ 0.04</u>

The weighted average effect of dilutive share-based compensation was determined using the treasury stock method in all periods, and includes 349,670 shares for the effect of stock options outstanding and 284,080 shares for the effect of unvested restricted stock outstanding for the three month period ended June 30, 2024. For the six month period ended June 30, 2024, the calculation includes 292,918 shares for the effect of stock options outstanding and 265,267 shares for the effect of unvested restricted stock outstanding.

There were options to purchase 15,000 and 560,650 shares of common stock outstanding at a weighted average price of \$31.27 and \$19.74 for the three months ended June 30, 2024 and 2023, respectively, which were excluded from the computation of diluted net income per common share. There were options to purchase 72,500 and 577,150 shares of common stock outstanding at a weighted average price of \$27.15 and \$19.49 for the six months ended June 30, 2024 and 2023, respectively, which were also excluded from the computation of diluted net income per common share. These options were excluded because their exercise prices were greater than the average market price of our common stock during each period.

Note 3: Revenue Recognition

The Company's revenues primarily include 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 over-time revenue recognition, in advance of shipment, as there is no alternative use for the product without significant economic loss, and the Company maintains an enforceable right to payment including a normal profit margin from the customer in the event of contract termination. The revenue is measured based on inputs expended in proportion to the total inputs the entity expects to expend to completely satisfy the performance obligation. The Company had revenue subject to over-time recognition of \$4.2 million and \$4.0 million during the six months ended June 30, 2024 and 2023, respectively, and \$1.8 million and \$2.2 million during the three months ended June 30, 2024 and 2023, respectively.

The timing of revenue recognition, customer billings, and cash collections resulted in contract assets related to services performed and not yet billed of \$2.4 million and \$2.0 million at June 30, 2024 and December 31, 2023, respectively. The Company recorded these contract assets within Accounts Receivable in the Condensed Consolidated Balance Sheets at each date.

We expect to satisfy all performance obligations related to revenue recognized in advance of shipment at June 30, 2024 within the next 12 months.

The Company has elected the following practical expedients allowed under Accounting Standard Codification ("ASC") 606, *Revenue from Contracts with Customers* ("ASC 606"):

- Shipping of products is not considered a separate performance obligation.
- 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:

<i>(in thousands)</i>	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Net sales:				
Specialty alloys	\$ 61,583	\$ 54,947	\$ 117,838	\$ 102,496
Premium alloys (A)	20,715	12,866	40,808	30,522
Conversion services and other sales	461	1,202	1,750	1,862
Total net sales	<u>\$ 82,759</u>	<u>\$ 69,015</u>	<u>\$ 160,396</u>	<u>\$ 134,880</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, chromium, 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 six months ended June 30, 2024 and 2023, we amortized these operating materials in the amount of \$0.9 million and \$0.9 million, respectively, and during the three months ended June 30, 2024 and 2023, \$0.4 million and \$0.5 million, respectively. This expense is recorded as a component of cost of products sold in the condensed consolidated statements of operations and included as a part of our total depreciation and amortization on the condensed consolidated statement 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.

Inventory consisted of the following:

<i>(in thousands)</i>	June 30, 2024	December 31, 2023
Raw materials and starting stock	\$ 18,845	\$ 15,124
Semi-finished and finished steel products	114,963	117,039
Operating materials	18,747	15,967
Gross inventory	152,555	148,130
Inventory reserves	(3,462)	(3,430)
Total inventory	<u>\$ 149,093</u>	<u>\$ 144,700</u>

Note 5: Leases

The Company periodically enters into leases in its normal course of business. At June 30, 2024 and December 31, 2023, the leases in effect were primarily related to mobile equipment and other production equipment. The term of our leases is generally 72 months or less, and the leases do not have significant restrictions, covenants, or other nonstandard terms.

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 condensed consolidated balance sheets 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. For our finance leases, the assets are included in Property, plant and equipment, net on the condensed consolidated balance sheets and are depreciated over the respective lease terms which range from three to six 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 new lease agreements in the first six months of 2024. The Company entered into one new finance lease agreement in the first quarter of 2023.

As of June 30, 2024, future minimum lease payments applicable to operating and finance leases were as follows:

<i>(in thousands)</i>	<u>Operating Leases</u>	<u>Finance Leases</u>
Remainder of 2024	\$ 73	\$ 977
2025	36	1,841
2026	21	1,714
2027	2	1,570
2028	-	1,114
Total minimum lease payments	132	7,216
Less amounts representing interest	(3)	(1,368)
Present value of minimum lease payments	129	5,848
Less current obligations	(96)	(1,403)
Total long-term lease obligations, net	\$ 33	\$ 4,445
Weighted-average remaining lease term (in years)	1.4	3.7

Right-of-use assets recorded to the condensed consolidated balance sheet at June 30, 2024, net of accumulated amortization, were \$0.1 million for operating leases and \$5.8 million for finance leases. For the six months ended June 30, 2024, the amortization of finance lease assets was \$0.4 million and was included in cost of products sold in the condensed consolidated statements of operations. For the three months ended June 30, 2024, the amortization of finance lease assets was \$0.2 million and was included in cost of products sold in the condensed consolidated statements of operations. Right-of-use assets recorded to the condensed consolidated balance sheet at December 31, 2023, net of accumulated amortization, were \$0.2 million for operating leases and \$6.5 million for finance leases.

The unamortized portion of the \$5.2 million lease component of our VAR expansion financing arrangement is included in the right-of-use asset total, while the sale and leaseback component of that agreement is excluded. The sale and leaseback component is accounted for as a loan secured by the related equipment, as it did not meet the criteria for sale accounting under ASC 842, *Leases* ("ASC 842"). This financing agreement was executed in December 2022 and had a \$7.0 million total original principal amount, original term of 72 months, and implicit interest rate of approximately 11.2%. The weighted average interest rate on all our financing leases is approximately 10.0%.

The Company applies the practical expedient allowed under ASC 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 revolving credit facility discussed in Note 6, Long-Term Debt, 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>	June 30, 2024	December 31, 2023
Revolving credit facility	\$ 63,408	\$ 68,984
Term loan	8,572	9,643
Sale and leaseback financing liability	1,426	1,539
Finance leases	5,848	6,508
Total debt	79,254	86,674
Less: current portion of long-term debt	(3,810)	(3,733)
Less: deferred financing costs	(964)	(1,095)
Long-term debt, net	<u>\$ 74,480</u>	<u>\$ 81,846</u>

Credit Facility

On March 17, 2021, we entered into the Second Amended and Restated Revolving Credit, Term Loan and Security Agreement (the "Credit Agreement"), with PNC Bank, National Association, as administrative agent and co-collateral agent (the "Agent"), Bank of America, N.A., as co-collateral agent ("Bank of America"), the Lenders (as defined in the Credit Agreement) party thereto from time to time and PNC Capital Markets LLC, as sole lead arranger and sole bookrunner. The Credit Agreement provides for a senior secured revolving credit facility in an aggregate principal amount not to exceed \$105.0 million ("Revolving Credit Facility") and a senior secured term loan facility ("Term Loan") in the amount of \$15.0 million (together with the Revolving Credit Facility, the "Facilities"). At June 30, 2024, we maintained approximately, \$41.6 million of remaining availability under the Revolving Credit Facility.

At June 30, 2024, we had total Credit Agreement related net deferred financing costs of approximately \$0.4 million. For the six months ended June 30, 2024 and 2023, we amortized approximately \$0.1 million of deferred financing costs, and for the three months ended June 30, 2024 and 2023, we amortized approximately \$0.1 million and \$0.1 million, respectively.

The Credit Agreement requires the Company to maintain compliance with all the applicable financial covenants throughout the term of the Credit Agreement. As of June 30, 2024, we are in compliance with all applicable financial covenants.

The Facilities, which expire on March 17, 2026 (the "Expiration Date"), are collateralized by a first lien on 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. The Company must maintain undrawn availability under the Credit Agreement of at least \$11.0 million until it maintains a fixed charge coverage ratio ("FCCR") of not less than 1.1 to 1.0 measured on a rolling two-quarter basis, calculated in accordance with the terms of the Credit Agreement. The Company achieved its second consecutive quarter of its FCCR greater than 1.1 for the period December 31, 2023 and has since maintained the ratio above the required level.

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 \$0.5 million, plus accrued and unpaid interest, on the first day of each fiscal quarter beginning after June 30, 2021. 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, bear interest at the current SOFR rate plus a spread, calculated in accordance with the terms of the Credit Agreement. Interest under the Credit Agreement is payable monthly. We elected to use the SOFR based rate for the majority of the debt outstanding under the Facilities for the six months ended June 30, 2024, which approximated 7.9% for commitments under our Revolving Credit Facility and 8.4% for the Term Loan.

Note 7: New Markets Tax Credit Financing Transaction

On March 9, 2018, the Company entered into a qualified New Markets Tax Credit (“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 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.

As of June 30, 2024 and December 31, 2023, the Company recorded \$2.8 million within Other long-term liabilities related to this transaction, which represents the funds contributed to the Investment Fund by PNC New Markets Investment Partners, LLC.

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 the second half of 2024, resulting in a gain of \$2.8 million at that time. 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 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 condensed consolidated financial statements.

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 fair value of the Term Loan and Revolving Credit Facility at June 30, 2024 and December 31, 2023 approximated the carrying amount as the interest rate is based upon observable market interest rates (Level 2). The fair values of foreign currency forward contracts and our interest rate swap discussed in Note 11, Derivatives and Hedging, at June 30, 2024 and December 31, 2023 were determined using observable market swap rates (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 forecasted full year 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 includes 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 six months ended June 30, 2024 and 2023, our estimated annual effective tax rates applied to ordinary income were 20.0% and 10.4%, respectively. In all periods, the projected annual ETR differs from the federal statutory rate of 21.0% primarily due to the impact of research and development credits. State taxes are not a significant component of the rate.

Discrete items during the six months ended June 30, 2024 and 2023 were related to share-based compensation items and totaled approximately \$0.1 million of a benefit and \$0.1 million of expense, respectively. The ETR for each period was 19.3% and 23.7%, respectively. Discrete items during the three months ended June 30, 2024 and 2023 were not significant and the ETR for each period was 18.9% and 14.2% respectively.

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 U.S. Dollar, the Company entered into foreign exchange forward contracts to mitigate the foreign currency risk related to a portion of these sales, and has designated these contracts as cash flow hedges.

The notional value of contracts was \$4.0 million and \$4.8 million at June 30, 2024 and December 31, 2023, respectively.

The Company recorded an unrealized loss in accumulated other comprehensive income (loss) of approximately \$0.1 million at both June 30, 2024 and December 31, 2023 related to the contracts.

The Company entered into a forward interest rate swap contract during 2020 to fix the interest rate on a portion of its variable-rate debt from January 1, 2021 to June 30, 2023. The interest rate swap was designated as a cash flow hedge. The notional amount of the contract was \$5 million during the first half of 2023 until it matured on June 30, 2023.

Note 12: Related Parties

None.

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 condensed 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, 2023, 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 service centers, forgers, rerollers, and original equipment manufacturers. Our customers further process our products for use in a variety of industries, including the aerospace, energy, heavy equipment and general industrial markets. We also perform conversion services on material supplied by our customers.

Sales in the second quarter of 2024 were \$82.8 million, which is the highest total in company history, surpassing its record \$79.8 million reported in the fourth quarter of 2023, and 20% higher than the second quarter 2023 total of \$69.0 million. Our largest end market, aerospace, totaled \$68.6 million, or 82.9% of total sales. Aerospace and defense applications are driving high demand for the Company's premium alloys and finished bar products.

Total Company backlog at June 30, 2024, before surcharges applied at the time of shipment, was \$296.5 million. We maintain a healthy level of order entry and a strong total backlog resulting from sustained high demand for our products.

Sales of premium alloy products, which we define as all vacuum induction melt products, totaled \$20.7 million in the second quarter of 2024 compared to a record \$21.1 million in the fourth quarter of 2023, and \$12.9 million in the second quarter of 2023. We expect premium alloy sales to continue to grow in the foreseeable future.

Our gross margin for the second quarter of 2024 established a new company record at \$21.0 million, or 25.4% of net sales, an increase from 18.9% in the first quarter of 2023 and 14.3% in the second quarter of 2023. Our gross margin expansion reflects the impact of our cost improvement initiatives, higher base prices, and higher mix of aerospace market sales. The record gross margin drove higher operating income of \$12.8 million and net income of \$8.9 million for the quarter, or \$0.90 per diluted share.

Results of Operations
Three months ended June 30, 2024 as compared to the three months ended June 30, 2023:

<i>(in thousands)</i>	Three months ended June 30,					
	2024		2023		Dollar variance	Percentage variance
	Amount	Percentage of net sales	Amount	Percentage of net sales		
Net sales	\$ 82,759	100.0%	\$ 69,015	100.0%	\$ 13,744	19.9%
Cost of products sold	61,746	74.6	59,167	85.7	2,579	4.4
Gross margin	21,013	25.4	9,848	14.3	11,165	113.4
Selling, general and administrative expenses	8,164	9.9	6,755	9.8	1,409	20.9
Operating income	12,849	15.5	3,093	4.5	9,756	315.4
Interest expense	1,902	2.3	2,045	3.0	(143)	(7.0)
Other expense (income), net	22	-	5	-	17	340.0
Income before income taxes	10,925	13.2	1,043	1.5	9,882	NM
Income taxes	2,060	2.5	148	0.2	1,912	NM
Net income	<u>\$ 8,865</u>	<u>10.7%</u>	<u>\$ 895</u>	<u>1.3%</u>	<u>\$ 7,970</u>	NM
Tons shipped	7,505		8,186		(681)	(8.3)

Market Segment Information

<i>(in thousands)</i>	Three months ended June 30,					
	2024		2023		Dollar variance	Percentage variance
	Amount	Percentage of net sales	Amount	Percentage of net sales		
Net sales:						
Service centers	\$ 61,589	74.3%	\$ 53,837	78.1%	\$ 7,752	14.4%
Original equipment manufacturers	6,778	8.2	3,868	5.6	2,910	75.2
Rerollers	2,866	3.5	3,682	5.3	(816)	(22.2)
Forgers	11,065	13.4	6,426	9.3	4,639	72.2
Conversion services and other	461	0.6	1,202	1.7	(741)	(61.6)
Total net sales	<u>\$ 82,759</u>	<u>100.0%</u>	<u>\$ 69,015</u>	<u>100.0%</u>	<u>\$ 13,744</u>	19.9%

Melt Type Information

<i>(in thousands)</i>	Three months ended June 30,					
	2024		2023		Dollar variance	Percentage variance
	Amount	Percentage of net sales	Amount	Percentage of net sales		
Net sales:						
Specialty alloys	\$ 61,583	74.4%	\$ 54,947	79.7%	\$ 6,636	12.1%
Premium alloys (A)	20,715	25.0	12,866	18.6	7,849	61.0
Conversion services and other	461	0.6	1,202	1.7	(741)	(61.6)
Total net sales	<u>\$ 82,759</u>	<u>100.0%</u>	<u>\$ 69,015</u>	<u>100.0%</u>	<u>\$ 13,744</u>	19.9%

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

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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 June 30,					
	2024			2023		
	Amount	Percentage of net sales	Amount	Percentage of net sales	Dollar variance	Percentage variance
Net sales:						
Aerospace	\$ 68,628	82.9%	\$ 51,262	74.3%	\$ 17,366	33.9%
Energy	5,143	6.2	4,384	6.4	759	17.3
Heavy equipment	5,202	6.3	8,928	12.9	(3,726)	(41.7)
General industrial, conversion services and other	3,786	4.6	4,441	6.4	(655)	(14.7)
Total net sales	<u>\$ 82,759</u>	<u>100.0%</u>	<u>\$ 69,015</u>	<u>100.0%</u>	<u>\$ 13,744</u>	<u>19.9%</u>

Net sales:

Net sales for the three months ended June 30, 2024 increased \$13.7 million, or 19.9%, compared to the same period in the prior year. This reflects higher base prices and a higher mix of finished bar, premium, and aerospace products. The increase in our base selling prices applies to substantially all our products, but is highest in our aerospace end market and driven by strong demand.

Gross margin:

As a percent of sales, our gross margin for the three months ended June 30, 2024 was 25.4% compared to 14.3% for the same period in the prior year. The increase includes higher base selling prices and cost improvements.

Selling, general and administrative expenses:

Our selling, general and administrative (“SG&A”) expenses consist primarily of employee-related costs, which include salaries, payroll taxes and benefit related costs, insurance costs and professional services. SG&A expenses increased by \$1.4 million for the three months ended June 30, 2024 compared to the same period in the prior year due to increases in insurance costs and employee-related costs.

Interest expense and other financing costs:

Interest expense totaled approximately \$1.9 million in the second quarter of 2024 compared to \$2.0 million in the second quarter of 2023.

Income taxes:

Management estimates the annual effective income tax rate quarterly based on forecasted full year 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 includes 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 three months ended June 30, 2024 and 2023, our estimated annual effective tax rates applied to ordinary income were 20.0% and 10.4%, respectively. In both periods, the projected annual ETR differs from the federal statutory rate of 21.0% primarily due to the impact of research and development credits. Discrete items were related to share-based compensation items and the ETR for each period was 18.9% and 14.2%, respectively.

Net income:

For the three months ended June 30, 2024, the Company earned net income of \$8.9 million, or \$0.90 per diluted share, compared to a net income of \$0.9 million, or \$0.10 per diluted share, for the three months ended June 30, 2023.

Six months ended June 30, 2024 as compared to the six months ended June 30, 2023:

<i>(in thousands)</i>	Six months ended June 30,					
	2024		2023		Dollar variance	Percentage variance
	Amount	Percentage of net sales	Amount	Percentage of net sales		
Net sales	\$ 160,396	100.0%	\$ 134,880	100.0%	25,516	18.9%
Cost of products sold	124,716	77.8	117,308	87.0	7,408	6.3
Gross margin	35,680	22.2	17,572	13.0	18,108	103.1
Selling, general and administrative expenses	15,573	9.7	13,030	9.7	2,543	19.5
Operating income	20,107	12.5	4,542	3.4	15,565	342.7
Interest expense	3,951	2.5	4,077	3.0	(126)	(3.1)
Other income, net	36	-	(37)	-	73	(197.3)
Income before income taxes	16,120	10.0	502	0.4	15,618	NM
Income taxes	3,118	1.9	119	0.1	2,999	NM
Net income	<u>\$ 13,002</u>	<u>8.1%</u>	<u>\$ 383</u>	<u>0.3%</u>	<u>\$ 12,619</u>	<u>NM</u>
Tons shipped	15,024		15,689		(665)	(4.2)

Market Segment Information

<i>(in thousands)</i>	Six months ended June 30,					
	2024		2023		Dollar variance	Percentage variance
	Amount	Percentage of net sales	Amount	Percentage of net sales		
Net sales:						
Service centers	\$ 119,860	74.7%	\$ 103,160	76.4%	\$ 16,700	16.2%
Original equipment manufacturers	13,632	8.5	8,076	6.0	5,556	68.8
Rerollers	6,243	3.9	10,327	7.7	(4,084)	(39.5)
Forgers	18,911	11.8	11,455	8.5	7,456	65.1
Conversion services and other sales	1,750	1.1	1,862	1.4	(112)	(6.0)
Total net sales	<u>\$ 160,396</u>	<u>100.0%</u>	<u>\$ 134,880</u>	<u>100.0%</u>	<u>\$ 25,516</u>	<u>18.9%</u>

Melt Type Information

<i>(in thousands)</i>	Six months ended June 30,					
	2024		2023		Dollar variance	Percentage variance
	Amount	Percentage of net sales	Amount	Percentage of net sales		
Net sales:						
Specialty alloys	\$ 117,838	73.5%	\$ 102,496	76.0%	\$ 15,342	15.0%
Premium alloys (A)	40,808	25.4	30,522	22.6	10,286	33.7
Conversion services and other sales	1,750	1.1	1,862	1.4	(112)	(6.0)
Total net sales	<u>\$ 160,396</u>	<u>100.0%</u>	<u>\$ 134,880</u>	<u>100.0%</u>	<u>\$ 25,516</u>	<u>18.9%</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>	Six months ended June 30,					
	2024		2023		Dollar variance	Percentage variance
	Amount	Percentage of net sales	Amount	Percentage of net sales		
Net sales:						
Aerospace	\$ 128,836	80.3%	\$ 100,220	74.2%	\$ 28,616	28.6%
Energy	11,156	7.0	10,222	7.6	934	9.1
Heavy equipment	11,050	6.9	15,859	11.8	(4,809)	(30.3)
General industrial, conversion services and other sales	9,354	5.8	8,579	6.4	775	9.0
Total net sales	\$ 160,396	100.0%	\$ 134,880	100.0%	\$ 25,516	18.9%

Net sales:

Net sales for the six months ended June 30, 2024 increased \$25.5 million, or 18.9%, compared to the same period in the prior year. This reflects higher base prices and a higher mix of finished bar, aerospace and premium products. The increase in our base selling prices applies to substantially all our products, but is highest in our aerospace end market and driven by strong demand.

Gross margin:

As a percent of sales, our gross margin for the six months ended June 30, 2024 was 22.2% compared to 13.0% for the same period in the prior year. The increase includes higher base selling prices and cost improvements.

Selling, general and administrative expenses:

Our selling, general and administrative (“SG&A”) expenses consist primarily of employee-related costs, which include salaries, payroll taxes and benefit related costs, insurance costs and professional services. SG&A expenses increased by \$2.5 million for the six months ended June 30, 2024 compared to the same period in the prior year due to increases in insurance costs and employee-related costs. SG&A expenses were 9.7% of net sales in each period.

Interest expense and other financing costs:

Interest expense totaled approximately \$4.0 million in the first six months of 2024 compared to \$4.1 million in the first six months of 2023.

Income taxes:

Management estimates the annual effective income tax rate quarterly based on forecasted full year 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 includes 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 six months ended June 30, 2024 and 2023, our estimated annual effective tax rates applied to ordinary income were 20.0% and 10.4%, respectively. In both periods, the projected annual ETR differs from the federal statutory rate of 21.0% primarily due to the impact of research and development credits. State taxes are not a significant component of the rate.

Discrete items during the six months ended June 30, 2024 and 2023 were related to share-based compensation items and totaled approximately \$0.1 million of a benefit and \$0.1 million of expense, respectively. The ETR for each period was 19.3% and 23.7%, respectively.

Net income:

For the six months ended June 30, 2024, the Company earned net income of \$13.0 million, or \$1.33 per diluted share, compared to a net income of \$0.4 million, or \$0.04 per diluted share, for the six months ended June 30, 2023.

Liquidity and Capital Resources

Historically, we have financed our operations through cash provided by operating activities and borrowings on our credit facilities. At June 30, 2024, we maintained approximately \$41.6 million of remaining availability under our revolving credit facility.

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.

Net cash provided by operating activities:

During the six months ended June 30, 2024, our operating activities generated \$17.5 million of cash. Our net income, after adjustments for non-cash expenses, generated \$26.8 million. This includes a use of \$7.5 million to grow our managed working capital, which we define as net accounts receivable, plus inventory, minus accounts payable. We used \$1.8 million from our other assets and liabilities.

During the six months ended June 30, 2023, our operating activities generated \$11.2 million of cash. Our net income, after adjustments for non-cash expenses, generated \$10.7 million. We used \$0.3 million on our managed working capital, which we define as net accounts receivable, plus inventory, minus accounts payable, and generated \$0.8 million from our other assets and liabilities.

Net cash used in investing activities:

During the six months ended June 30, 2024, we used \$10.9 million of cash for capital expenditures, compared to \$6.9 million for the same period in the prior year.

Net cash (used in) financing activities:

We used \$7.0 million of cash in financing activities for the six months ended June 30, 2024, primarily to make \$5.6 million in net payments on our revolving credit facility and \$1.8 million in payments on our term loan and finance leases.

Raw materials

The cost of raw materials represents approximately 40% to 45% of the cost of products sold in the first six months of 2024 and 2023. The major raw materials used in our operations include nickel, molybdenum, vanadium, chromium, iron and carbon scrap. We maintain a sales price surcharge within our product pricing to mitigate the risk of substantial raw material cost fluctuations. Over time, our surcharge will effectively offset changes in raw material costs; however, during a period of rising or falling prices the timing will cause variation between reporting periods.

Leases

The Company periodically enters into leases in its normal course of business. At June 30, 2024 and December 31, 2023, the leases in effect were primarily related to mobile equipment and other production equipment. The term of our leases is generally 72 months or less, and the leases do not have significant restrictions, covenants, or other nonstandard terms.

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 condensed consolidated balance sheets 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. For our finance leases, the assets are included in Property, plant and equipment, net on the condensed consolidated balance sheets and are depreciated over the respective lease terms which range from three to six 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 new leases during the six months ended June 30, 2024.

Credit Facility

On March 17, 2021, we entered into the Second Amended and Restated Revolving Credit, Term Loan and Security Agreement (the “Credit Agreement”), with PNC Bank, National Association, as administrative agent and co-collateral agent (the “Agent”), Bank of America, N.A., as co-collateral agent (“Bank of America”), the Lenders (as defined in the Credit Agreement) party thereto from time to time and PNC Capital Markets LLC, as sole lead arranger and sole bookrunner. The Credit Agreement provides for a senior secured revolving credit facility in an aggregate principal amount not to exceed \$105.0 million (“Revolving Credit Facility”) and a senior secured term loan facility (“Term Loan”) in the amount of \$15.0 million (together with the Revolving Credit Facility, the “Facilities”).

At June 30, 2024, we had total Credit Agreement related net deferred financing costs of approximately \$0.4 million. For the six months ended June 30, 2024 and 2023, we amortized approximately \$0.1 million of those deferred financing costs.

The Credit Agreement requires the Company to maintain compliance with all the applicable financial covenants throughout the term of the Credit Agreement. As of June 30, 2024, we are in compliance with all applicable financial covenants.

The Facilities, which expire on March 17, 2026 (the ‘Expiration Date’), are collateralized by a first lien on 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. The Company must maintain undrawn availability under the Credit Agreement of at least \$11.0 million until it maintains a fixed charge coverage ratio ("FCCR") of not less than 1.1 to 1.0 measured on a rolling two-quarter basis, calculated in accordance with the terms of the Credit Agreement. The Company achieved its second consecutive quarter of its FCCR greater than 1.1 for the period December 31, 2023 and has since maintained the ratio above the required level.

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 \$0.5 million, plus accrued and unpaid interest, on the first day of each fiscal quarter beginning after June 30, 2021. 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, bear interest at the current SOFR rate plus a spread, calculated in accordance with the terms of the Credit Agreement. Interest under the Credit Agreement is payable monthly. We elected to use the SOFR based rate for the majority of the debt outstanding under the Facilities for the six months ended June 30, 2024, which approximated 7.9% for commitments under our Revolving Credit Facility and 8.4% for the Term Loan.

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, 2023, except as provided in this Form 10-Q in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Part II. Item 1A. "Risk Factors."

Item 4. CONTROLS AND PROCEDURES

The Company's management, including the Company's President and Chief Executive Officer and its Vice President and Chief Financial Officer, performed an evaluation of the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the Company's President and Chief Executive Officer and its Vice President and Chief Financial Officer concluded that, as of the end of the fiscal period covered by this quarterly report, the Company's disclosure controls and procedures are not effective due to material weaknesses discussed in the Form 10-K as of December 31, 2023 filed in March 2024.

Our management has taken actions to remediate the material weaknesses in internal control over financial reporting, which include but are not limited to:

- Enhancement of its risk assessment and scoping process;
- Expansion of the internal audit team and scope of services;
- Enhancement of the design and operation of internal control procedures;
- Expanded documentation and evidence retention during its financial reviews;
- Additional training to ensure a clear understanding of risk assessment, control execution, and monitoring activities throughout the organization; and
- Continuing to expand the available resources at the Company with experience designing and implementing control activities.

We are committed to these enhancements, and believe they will ultimately remediate the material weaknesses; however, material weaknesses are not considered remediated until the new controls have been operational for a period of time, are tested, and management concludes that these controls are operating effectively. This remediation process may require additional resources and will require time to fully implement and execute.

During the fiscal quarter ended June 30, 2024, 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, 2023.

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, 2023 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, 2023.

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

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 June 30, 2024, formatted in Inline XBRL (Extensible Business Reporting Language) and filed electronically herewith: (i) the Condensed Consolidated Balance Sheets; (ii) the Condensed Consolidated Statements of Operations; (iii) the Condensed Consolidated Statements of Comprehensive Income (Loss); (iv) the Condensed Consolidated Statements of Cash Flows; the Condensed Consolidated Statements of Shareholders' Equity; and (v) the Notes to the Condensed Consolidated Financial Statements (filed herewith).
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in the Exhibit 101 attachments).

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: July 31, 2024

/s/ Christopher M. Zimmer

Christopher M. Zimmer
President and Chief Executive Officer
(Principal Executive Officer)

Date: July 31, 2024

/s/ Steven V. DiTommaso

Steven V. DiTommaso
Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

CERTIFICATION

I, Christopher M. Zimmer, 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: July 31, 2024

/s/ Christopher M. Zimmer

Christopher M. Zimmer

President and Chief Executive Officer

(Principal Executive Officer)

CERTIFICATION

I, Steven V. DiTommaso, 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: July 31, 2024

/s/ Steven V. DiTommaso

Steven V. DiTommaso

Vice President and Chief Financial Officer

(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 June 30, 2024 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: July 31, 2024

/s/ Christopher M. Zimmer

Christopher M. Zimmer
President and Chief Executive Officer
(Principal Executive Officer)

Date: July 31, 2024

/s/ Steven V. DiTommaso

Steven V. DiTommaso
Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)