

**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 September 30, 2020

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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
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 14, 2020, there were 8,829,732 shares of the Registrant's common stock outstanding.

Universal Stainless & Alloy Products, Inc.
Table of Contents

	<u>DESCRIPTION</u>	<u>PAGE NO.</u>
PART I.	<u>FINANCIAL INFORMATION</u>	1
Item 1.	<u>Financial Statements</u>	1
	<u>Consolidated Statements of Operations</u>	1
	<u>Consolidated Statements of Comprehensive (Loss) Income</u>	2
	<u>Consolidated Balance Sheets</u>	3
	<u>Consolidated Statements of Cash Flow</u>	4
	<u>Consolidated Statements of Shareholders' Equity</u>	5
	<u>Notes to the Unaudited Consolidated Financial Statements</u>	6
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	13
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	20
Item 4.	<u>Controls and Procedures</u>	20
PART II.	<u>OTHER INFORMATION</u>	21
Item 1.	<u>Legal Proceedings</u>	21
Item 1A.	<u>Risk Factors</u>	21
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	21
Item 3.	<u>Defaults Upon Senior Securities</u>	21
Item 4.	<u>Mine Safety Disclosures</u>	21
Item 5.	<u>Other Information</u>	21
Item 6.	<u>Exhibits</u>	22
	<u>SIGNATURES</u>	23

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in Thousands, Except Per Share Information)

(Unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Net sales	\$ 37,434	\$ 56,568	\$ 148,407	\$ 187,836
Cost of products sold	41,861	51,260	145,988	166,052
Gross margin	(4,427)	5,308	2,419	21,784
Selling, general and administrative expenses	4,153	4,525	15,458	15,095
Operating (loss) income	(8,580)	783	(13,039)	6,689
Interest expense and other financing costs	642	1,045	2,401	2,980
Other income, net	(288)	(452)	(302)	(421)
(Loss) income before income taxes	(8,934)	190	(15,138)	4,130
(Benefit) provision for income taxes	(1,934)	(577)	(3,396)	55
Net (loss) income	\$ (7,000)	\$ 767	\$ (11,742)	\$ 4,075
Net (loss) income per common share - Basic	\$ (0.79)	\$ 0.09	\$ (1.33)	\$ 0.46
Net (loss) income per common share - Diluted	\$ (0.79)	\$ 0.09	\$ (1.33)	\$ 0.46
Weighted average shares of common stock outstanding				
Basic	8,829,732	8,787,837	8,813,880	8,780,590
Diluted	8,829,732	8,879,441	8,813,880	8,870,240

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(Dollars in Thousands)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Net (loss) income	\$ (7,000)	\$ 767	\$ (11,742)	\$ 4,075
Other comprehensive income (loss), net of tax				
Adoption of ASU 2018-02	-	-	-	(21)
Unrealized (loss) gain on foreign currency contracts	(63)	58	32	145
Comprehensive (loss) income	<u>\$ (7,063)</u>	<u>\$ 825</u>	<u>\$ (11,710)</u>	<u>\$ 4,199</u>

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands, Except Per Share Information)

	September 30, 2020 <u>(Unaudited)</u>	December 31, 2019
ASSETS		
Current assets:		
Cash	\$ 58	\$ 170
Accounts receivable (less allowance for doubtful accounts of \$203 and \$295, respectively)	26,451	35,595
Inventory, net	120,947	147,402
Other current assets	4,824	8,300
Total current assets	152,280	191,467
Property, plant and equipment, net	168,623	176,061
Other long-term assets	997	871
Total assets	<u>\$ 321,900</u>	<u>\$ 368,399</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 12,443	\$ 40,912
Accrued employment costs	3,235	4,449
Current portion of long-term debt	16,690	3,934
Other current liabilities	1,664	830
Total current liabilities	34,032	50,125
Long-term debt, net	43,879	60,411
Deferred income taxes	7,609	10,962
Other long-term liabilities, net	3,739	3,765
Total liabilities	89,259	125,263
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; 9,124,011 and 9,093,715 shares issued, respectively	9	9
Additional paid-in capital	96,197	94,982
Accumulated other comprehensive income (loss)	1	(31)
Retained earnings	138,745	150,487
Treasury stock, at cost; 294,279 common shares held	(2,311)	(2,311)
Total stockholders' equity	232,641	243,136
Total liabilities and stockholders' equity	<u>\$ 321,900</u>	<u>\$ 368,399</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,	
	2020	2019
Operating Activities:		
Net (loss) income	\$ (11,742)	\$ 4,075
Adjustments for non-cash items:		
Depreciation and amortization	14,721	14,235
Deferred income tax	(3,380)	577
Share-based compensation expense	1,129	1,100
Changes in assets and liabilities:		
Accounts receivable, net	9,144	(3,804)
Inventory, net	25,093	(7,628)
Accounts payable	(25,399)	(9,728)
Accrued employment costs	(1,214)	(4,109)
Income taxes	207	(56)
Other	4,045	(3,735)
Net cash provided by (used in) operating activities	12,604	(9,073)
Investing Activity:		
Capital expenditures	(8,480)	(13,308)
Net cash used in investing activity	(8,480)	(13,308)
Financing Activities:		
Borrowings under revolving credit facility	101,559	145,688
Payments on revolving credit facility	(112,498)	(123,097)
Proceeds from Paycheck Protection Program Note	10,000	-
Payments on term loan facility, finance leases, and notes	(3,383)	(3,424)
Issuance of common stock under share-based plans	86	327
Net cash (used in) provided by financing activities	(4,236)	19,494
Net decrease in cash and restricted cash	(112)	(2,887)
Cash and restricted cash at beginning of period	170	4,091
Cash and restricted cash at end of period	<u>\$ 58</u>	<u>\$ 1,204</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)
(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, 2020</i>							
Balance at December 31, 2019	8,799,436	\$ 9	\$ 94,982	\$ 150,487	\$ (31)	294,279	\$ (2,311)
Share-based compensation	3,680	-	511	-	-	-	-
Net gain on derivative instruments	-	-	-	-	120	-	-
Net loss	-	-	-	(1,411)	-	-	-
Balance at March 31, 2020	<u>8,803,116</u>	<u>\$ 9</u>	<u>\$ 95,493</u>	<u>\$ 149,076</u>	<u>\$ 89</u>	<u>294,279</u>	<u>\$ (2,311)</u>
Common stock issuance under							
Employee Stock Purchase Plan	11,884	-	86	-	-	-	-
Share-based compensation	14,732	-	323	-	-	-	-
Net loss on derivative instruments	-	-	-	-	(25)	-	-
Net loss	-	-	-	(3,331)	-	-	-
Balance at June 30, 2020	<u>8,829,732</u>	<u>\$ 9</u>	<u>\$ 95,902</u>	<u>\$ 145,745</u>	<u>\$ 64</u>	<u>294,279</u>	<u>\$ (2,311)</u>
Share-based compensation	-	-	295	-	-	-	-
Net loss on derivative instruments	-	-	-	-	(63)	-	-
Net loss	-	-	-	(7,000)	-	-	-
Balance at September 30, 2020	<u>8,829,732</u>	<u>\$ 9</u>	<u>\$ 96,197</u>	<u>\$ 138,745</u>	<u>\$ 1</u>	<u>294,279</u>	<u>\$ (2,311)</u>
<i>For the nine months ended September 30, 2019</i>							
Balance at December 31, 2018	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	-	-	-
Balance at March 31, 2019	<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	-	-	-
Balance at June 30, 2019	<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	-	-	-
Balance at September 30, 2019	<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.

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, 2019 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 VIEs included in our consolidated financial statements.

Recently Adopted Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2018-13, “Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement,” which modifies 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 adopted this guidance as of January 1, 2020 and the adoption did not have a material impact on our consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, “Income Taxes - Simplifying the Accounting for Income Taxes (Topic 740),” which simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments in this ASU also improve consistency and simplify other areas of Topic 740 by clarifying and amending existing guidance. The amendments in this ASU will be applied using different approaches depending on what the specific amendment relates to and, for public entities, are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. An entity is permitted to early adopt the guidance, and we early adopted ASU 2019-12 as of January 1, 2020. The adoption did not have a material impact on our consolidated financial statements.

Recently Issued Accounting Pronouncements

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

Note 2: Net (loss) 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 September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Numerator:				
Net (loss) income	\$ (7,000)	\$ 767	\$ (11,742)	\$ 4,075
Denominator:				
Weighted average number of shares of common stock outstanding	8,829,732	8,787,837	8,813,880	8,780,590
Weighted average effect of dilutive share-based compensation	-	91,604	-	89,650
Diluted weighted average number of shares of common stock outstanding	8,829,732	8,879,441	8,813,880	8,870,240
Net (loss) income per common share:				
Net (loss) income per common share - Basic	\$ (0.79)	\$ 0.09	\$ (1.33)	\$ 0.46
Net (loss) income per common share - Diluted	\$ (0.79)	\$ 0.09	\$ (1.33)	\$ 0.46

We had options to purchase 821,025 and 609,750 shares of common stock outstanding at a weighted average price of \$21.71 and \$26.71 for the three months ended September 30, 2020 and 2019, respectively, which were excluded in the computation of diluted net (loss) income per common share. We had options to purchase 791,025 and 609,750 shares of common stock outstanding at a weighted average price of \$22.23 and \$26.71 for the nine months ended September 30, 2020 and 2019, respectively, which were excluded in the computation of diluted net (loss) income per common share. These options were not included in the computation of diluted net (loss) income per common share because their exercise prices were greater than the average market price of our common stock. In addition, the calculation of diluted net (loss) per share excluded 510 shares and 4,803 shares, for the three and nine months ended September 30, 2020, respectively, for the assumed exercise of stock options as a result of being in a net loss position.

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 and not yet billed of \$2.2 million are included in Accounts Receivable in the Consolidated Balance Sheets at September 30, 2020 and December 31, 2019.

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:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Net sales:				
Specialty alloys	\$ 27,847	\$ 47,730	\$ 116,869	\$ 154,511
Premium alloys (A)	9,165	8,043	29,271	30,227
Conversion services and other sales	422	795	2,267	3,098
Total net sales	<u>\$ 37,434</u>	<u>56,568</u>	<u>\$ 148,407</u>	<u>187,836</u>

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

Note 4: Inventory

Our raw material and starting stock inventory primarily includes 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 primarily include forge dies and production molds and rolls that are consumed over their useful lives. During the nine months ended September 30, 2020 and 2019, we amortized these operating materials in the amount of \$1.4 million and \$1.7 million, respectively. This expense is recorded as a component of cost of products sold on the consolidated statements of operations and included as a part of our total depreciation and amortization on the consolidated statements of cash flows.

Inventory is stated at the lower of cost or 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.

Due to lower activity levels at our production facilities caused by the COVID-19 pandemic, management revised its accounting estimates for the absorption of costs into inventory. As a result, \$4.3 million of fixed overhead costs were not absorbed into inventory and \$2.1 million of negative operating efficiency variances were incurred. The total impact of \$6.4 million was charged directly to expense in the quarter.

Inventories consisted of the following:

(in thousands)	September 30, 2020	December 31, 2019
Raw materials and starting stock	\$ 9,510	\$ 9,815
Semi-finished and finished steel products	103,606	127,713
Operating materials	12,210	13,090
Gross inventory	125,326	150,618
Inventory reserves	(4,379)	(3,216)
Total inventory, net	<u>\$ 120,947</u>	<u>\$ 147,402</u>

Note 5: Leases

The Company periodically enters into leases in its normal course of business. At September 30, 2020, 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 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 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 entered into one new lease agreement accounted for as an operating lease during the third quarter of 2020.

As of September 30, 2020, future minimum lease payments applicable to operating and finance leases were as follows:

	<u>Operating Leases</u>	<u>Finance Leases</u>
2020	\$ 72	\$ 82
2021	269	319
2022	258	278
2023	165	242
2024	70	225
2025	3	112
Total minimum lease payments	<u>\$ 837</u>	<u>\$ 1,258</u>
Less amounts representing interest	<u>(38)</u>	<u>(165)</u>
Present value of minimum lease payments	<u>\$ 799</u>	<u>\$ 1,093</u>
Less current obligations	<u>(270)</u>	<u>(261)</u>
Total long-term lease obligations, net	<u>\$ 529</u>	<u>\$ 832</u>
Weighted-average remaining lease term	3.3 years	3.8 years

Right-of-use assets recorded to the consolidated balance sheet at September 30, 2020 were \$0.8 million for operating leases and \$0.7 million for finance leases. For the three and nine months ended September 30, 2020, the amortization of finance lease assets was \$0.1 million and \$0.3 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, 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>	<u>September 30, 2020</u>	<u>December 31, 2019</u>
Revolving credit facility	\$ 28,541	\$ 39,480
Notes	15,000	17,000
Paycheck Protection Program Note	10,000	-
Term loan	7,143	8,215
Finance leases	<u>1,093</u>	<u>1,026</u>
Total debt	61,777	65,721
Less: current portion of long-term debt	(16,690)	(3,934)
Less: deferred financing costs	<u>(1,208)</u>	<u>(1,376)</u>
Long-term debt, net	<u>\$ 43,879</u>	<u>\$ 60,411</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 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 at all reporting periods through September 30, 2020.

The Facilities, which expire on August 3, 2023 (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. 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, 2020, 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, 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, 2020, which was 1.91% on our Revolving Credit Facility and 2.41% 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, 2020, we had Credit Agreement related net deferred financing costs of approximately \$0.6 million. For the nine months ended September 30, 2020, we amortized approximately \$0.2 million of those deferred financing costs.

Paycheck Protection Program Term Note

On April 16, 2020, the Company entered into a promissory note, dated April 15, 2020, with PNC Bank, National Association (“PNC”), evidencing an unsecured loan with a principal amount of \$10.0 million made to the Company pursuant to the Paycheck Protection Program (“PPP Term Note”) under the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”). The PPP Term Note is guaranteed by the United States Small Business Administration.

The PPP Term Note bears interest at a fixed annual rate of 1.00%, with the first six months of interest deferred. Beginning in November 2020, the Company will make 18 equal monthly payments of principal and interest with the final payment due in April 2022. The PPP Term Note may be accelerated upon the occurrence of an event of default.

The proceeds may be used to maintain payroll or make certain covered interest payments, lease payments and utility payments. Under the terms of the CARES Act, the Company may be granted forgiveness for all or a portion of loan granted under the PPP, with such forgiveness to be determined, subject to limitations, based on the use of the loan proceeds for payment of payroll costs and any payments of certain covered interest, lease and utility payments.

The Company applied for forgiveness of the PPP Term Note during the third quarter of 2020. The Company anticipates forgiveness of the entire amount of the PPP Term Note; however, we are unable to estimate the timing of the completion of the forgiveness process. We have elected to classify the entire principal balance of the PPP Term Note within Long-term debt, net on the consolidated balance sheet as of September 30, 2020. Under the existing terms of the PPP Term Note, if no forgiveness were granted approximately \$6.1 million of the principal amount would be due within twelve months.

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 (the “Notes”), 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. Upon the Company’s extension of the maturity date of the Notes to March 17, 2021, principal payments in the aggregate of \$2.0 million were made in March 2020.

There are no further extension options remaining, and the remaining aggregate principal balance of the Notes outstanding of \$15.0 million has been classified within Current portion of long-term debt as of September 30, 2020.

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 (“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 September 30, 2020 and December 31, 2019, 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 March 2025, at the end of the recapture period, 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 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.

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, 2020 and December 31, 2019 due to their short-term maturities (Level 1). The fair value of the Term Loan and Revolving Credit facility at September 30, 2020 and December 31, 2019 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 \$15.0 million at September 30, 2020 and \$16.9 million at December 31, 2019 (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 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 nine months ended September 30, 2020 and 2019, our estimated annual effective tax rates applied to ordinary income were 23.7% and 11.2%, respectively. The difference between the federal statutory rate of 21.0% and the projected annual ETR of 23.7% for 2020 is primarily due to research and development credits.

Discrete items during the nine months ended September 30, 2020 and 2019 were not significant, and our ETR for each period was 22.4% and 1.3%, 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 US Dollar, the Company entered into foreign exchange forward contracts during 2020 and 2019 for a portion of these sales, and has designated these contracts as cash flow hedges.

At September 30, 2020, the notional value of contracts was \$1.4 million, and the related accumulated unrealized gain included in other comprehensive loss was less than \$0.1 million.

At December 31, 2019, the notional value of contracts was \$4.9 million, and the related unrealized loss recorded in other comprehensive income was less than \$0.1 million.

Note 12: Subsequent Events

There are many uncertainties regarding the currently ongoing coronavirus ("COVID-19") pandemic, and the Company continues to closely monitor the impact of the pandemic on all aspects of its business, including how it will continue to impact its customers, employees, suppliers, vendors, business partners and distribution channels. We are unable to predict the impact that COVID-19 will have on our future financial position and operating results due to numerous uncertainties. The Company expects to continue to assess the evolving impact of the COVID-19 pandemic and intends to make adjustments to its responses accordingly.

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, 2019, 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, 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 2020 were \$37.4 million, a decrease of \$15.0 million, or 28.7%, from the second quarter of 2020. During this period, sales to our largest end market, aerospace, decreased \$12.0 million, or 32.3%, and sales to each of our other end markets also decreased. Compared to the third quarter of 2019, sales decreased by \$19.1 million, or 33.8%. This decrease was attributable to each of our end markets except for general industrial and heavy equipment, which increased \$0.9 million, or 42.9%, and \$0.3 million, or 7.1%, respectively.

The decrease in sales is a result of the current significant challenges facing all our end markets caused primarily by the COVID-19 pandemic. The most significant direct impact on our business has been the slowdown in the global commercial airline industry, which is the largest driver of the decline in sales for our aerospace end market.

During the third quarter of 2020, our sales of premium alloy products, which we define as all vacuum induction melt products, represented \$9.2 million, or 24.5% of total sales. As a percent of sales, this was an increase compared to both the second quarter of 2020 and the third quarter of 2019. Our premium alloy products are primarily sold to the aerospace end market.

Total company backlog, before surcharges, at the end of the third quarter of 2020 was \$54.8 million, a decrease of \$64.3 million, or 54.0%, compared to the end of 2019. The decrease in the backlog is due to a decline in new order entry caused by the COVID-19 pandemic.

Our gross margin for the third quarter was negative \$4.4 million, or negative 11.8% of net sales. The negative gross margin in the current quarter was primarily due to direct charges associated with lower activity levels. Due to the lower activity levels at our production facilities caused by the COVID-19 pandemic, management revised its accounting estimates for the absorption of costs into inventory. As a result, \$4.3 million of fixed overhead costs were not absorbed into inventory and \$2.1 million of negative operating efficiency variances were incurred. The total impact of \$6.4 million was charged directly to expense in the quarter.

Selling, General and Administrative ("SG&A") expenses were \$4.2 million, or 11.1% of net sales, in the third quarter of 2020 compared to \$5.4 million, or 10.3% of net sales, in the second quarter of 2020 and \$4.5 million, or 8.0% of net sales, in the third quarter of 2019. Although increased as a percent of sales, SG&A expenses have decreased for the second consecutive quarter due primarily to strategic actions to reduce spending.

The Company's net loss for the quarter was \$7.0 million, compared to a net loss of \$3.3 million for the second quarter of 2020 and net income of \$0.8 million for the third quarter of 2019. Net loss for the third quarter, as adjusted for the fixed cost absorption charge of \$3.3 million (net of tax) and a gain on receipt of insurance proceeds of \$0.2 million (net of tax), totaled \$3.9 million.

COVID-19 Pandemic

While the Company's four plants continued to operate throughout the third quarter, COVID-19 related challenges continued to negatively impact the efficiency of our operations. These challenges are expected to continue in the fourth quarter and into 2021. The far-reaching impacts of the pandemic have impacted and will continue to impact the Company's backlog, end markets, overall operations, cash flows and financial results.

The scope and nature of these impacts, most of which are beyond the Company's control, continue to evolve, and the outcome is uncertain. The ultimate extent of the effects of the COVID-19 pandemic on the Company, and the end markets we serve, is highly uncertain and will depend on future developments. As such, the effects could exist for an extended period, even after the pandemic may end.

Results of Operations

Three months ended September 30, 2020 compared to the three months ended September 30, 2019:

<i>(in thousands, except shipped ton information)</i>	Three months ended September 30,					
	2020		2019		Dollar / ton variance	Percentage variance
	Amount	Percentage of net sales	Amount	Percentage of net sales		
Net sales	\$ 37,434	100.0	\$ 56,568	100.0	(19,134)	(33.8)
Cost of products sold	41,861	111.8	51,260	90.6	(9,399)	(18.3)
Gross margin	(4,427)	(11.8)	5,308	9.4	(9,735)	(183.4)
Selling, general and administrative expenses	4,153	11.1	4,525	8.0	(372)	(8.2)
Operating (loss) income	(8,580)	(22.9)	783	1.4	(9,363)	NM
Interest expense	586	1.6	989	1.7	(403)	(40.7)
Deferred financing amortization	56	0.1	56	0.1	-	-
Other expense, net	(288)	(0.8)	(452)	(0.8)	(164)	36.3
(Loss) income before income taxes	(8,934)	(23.8)	190	0.4	(9,124)	NM
(Benefit) provision for income taxes	(1,934)	(5.2)	(577)	(1.0)	(1,357)	235.2
Net (loss) income	<u>\$ (7,000)</u>	<u>(18.6)%</u>	<u>\$ 767</u>	<u>1.4%</u>	<u>\$ (7,767)</u>	NM
Tons shipped	6,046		9,776		(3,730)	(38.2)
Sales dollars per shipped ton	\$ 6,192		\$ 5,786		\$ 406	7.0%

Market Segment Information

<i>(in thousands)</i>	Three months ended September 30,					
	2020		2019		Dollar variance	Percentage variance
	Amount	Percentage of net sales	Amount	Percentage of net sales		
Net sales:						
Service centers	\$ 25,983	69.4%	\$ 38,693	68.4%	\$ (12,710)	(32.8)%
Original equipment manufacturers	4,405	11.8	4,862	8.6	(457)	(9.4)
Rerollers	3,173	8.5	6,629	11.7	(3,456)	(52.1)
Forgers	3,451	9.2	5,589	9.9	(2,138)	(38.3)
Conversion services and other sales	422	1.1	795	1.4	(373)	(46.9)
Total net sales	<u>\$ 37,434</u>	<u>100.0%</u>	<u>\$ 56,568</u>	<u>100.0%</u>	<u>\$ (19,134)</u>	<u>(33.8)%</u>

Melt Type Information

<i>(in thousands)</i>	Three months ended September 30,					
	2020		2019		Dollar variance	Percentage variance
	Amount	Percentage of net sales	Amount	Percentage of net sales		
Net sales:						
Specialty alloys	\$ 27,847	74.4%	\$ 47,730	84.4%	\$ (19,883)	(41.7)%
Premium alloys (A)	9,165	24.5	8,043	14.2	1,122	14.0
Conversion services and other sales	422	1.1	795	1.4	(373)	(46.9)
Total net sales	<u>\$ 37,434</u>	<u>100.0%</u>	<u>\$ 56,568</u>	<u>100.0%</u>	<u>\$ (19,134)</u>	<u>(33.8)%</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,					
	2020		2019		Dollar variance	Percentage variance
	Amount	Percentage of net sales	Amount	Percentage of net sales		
Net sales:						
Aerospace	\$ 25,138	67.2%	\$ 40,876	72.3%	\$ (15,738)	(38.5)%
Power generation	1,590	4.2	2,884	5.1	(1,294)	(44.9)
Oil & gas	2,755	7.4	5,653	10.0	(2,898)	(51.3)
Heavy equipment	4,662	12.5	4,352	7.7	310	7.1
General industrial, conversion services and other sales	3,289	8.7	2,803	4.9	486	17.3
Total net sales	<u>\$ 37,434</u>	<u>100.0%</u>	<u>\$ 56,568</u>	<u>100.0%</u>	<u>\$ (19,134)</u>	<u>(33.8)%</u>

Net sales:

Net sales for the three months ended September 30, 2020 decreased \$19.1 million, or 33.8%, compared to the same quarter in the prior year. This is driven by a decrease in tons shipped, primarily in our aerospace and oil and gas end markets. The decrease in aerospace is a result of the current significant challenges facing the commercial airline industry caused primarily by the COVID-19 pandemic. The decrease in oil and gas is primarily a result of a general decline in demand in the sector caused by the COVID-19 pandemic.

Gross margin:

As a percent of sales, our gross margin for the three months ended September 30, 2020 was negative 11.8% compared to positive 9.4% for the three months ended September 30, 2019. The decrease is primarily the result of direct charges associated with lower activity levels and actions taken in response to the economic downturn in our largest end markets. The direct charges totaled \$6.4 million and included \$4.3 million of excess fixed costs that were not absorbed into inventory and \$2.1 million of negative operating efficiency variances incurred.

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 \$0.4 million for the three months ended September 30, 2020 compared to the same period in the prior year. The decrease was driven by strategic actions to reduce spending and a decrease in employee-related costs, partially offset by an increase in the cost of business insurance.

Interest expense and other financing costs:

Interest expense totaled approximately \$0.6 million for the three months ended September 30, 2020, compared with \$1.0 million for the same period in the prior year. Interest expense was lower due to lower interest rates on our debt and lower average outstanding debt levels.

Income tax (benefit) 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 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.

Our estimated annual effective tax rate applied to ordinary income at September 30, 2020 was 23.7%. The difference between the statutory rate and the projected annual ETR is primarily due to research and development credits. Our ETR for the quarter was 21.6%, which is lower than the projected annual ETR primarily due to discrete expense for the expiration of stock options.

Our estimated annual effective tax rate applied to ordinary income at September 30, 2019 was 11.2%. 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.

Net (loss) income:

For the three months ended September 30, 2020, the Company recorded a net loss of \$7.0 million, or \$0.79 per diluted share, compared to net income of \$0.8 million, or \$0.09 per diluted share, for the three months ended September 30, 2019.

Nine months ended September 30, 2020 compared to the nine months ended September 30, 2019:

<i>(in thousands, except shipped ton information)</i>	Nine months ended September 30,					
	2020		2019		Dollar / ton variance	Percentage variance
	Amount	Percentage of net sales	Amount	Percentage of net sales		
Total net sales	\$ 148,407	100.0	\$ 187,836	100.0	(39,429)	(21.0)
Cost of products sold	145,988	98.4	166,052	88.4	(20,064)	(12.1)
Gross margin	2,419	1.6	21,784	11.6	(19,365)	(88.9)
Selling, general and administrative expenses	15,458	10.4	15,095	8.0	363	2.4
Operating (loss) income	(13,039)	(8.8)	6,689	3.6	(19,728)	(294.9)
Interest expense	2,232	1.5	2,809	1.5	(577)	(20.5)
Deferred financing amortization	169	0.1	171	0.1	(2)	(1.2)
Other income, net	(302)	(0.2)	(421)	(0.2)	119	(28.3)
(Loss) income before income taxes	(15,138)	(10.2)	4,130	2.2	(19,268)	(466.5)
(Benefit) provision for income taxes	(3,396)	(2.3)	55	-	(3,451)	NM
Net (loss) income	\$ (11,742)	(7.9) %	\$ 4,075	2.2 %	\$ (15,817)	388.1
Tons shipped	25,153		31,656		(6,503)	(20.5)
Sales dollars per shipped ton	\$ 5,900		\$ 5,934		\$ (34)	(0.6) %

Market Segment Information

<i>(in thousands)</i>	Nine months ended September 30,					
	2020		2019		Dollar variance	Percentage variance
	Amount	Percentage of net sales	Amount	Percentage of net sales		
Net sales:						
Service centers	\$ 103,877	70.0 %	\$ 129,996	69.2 %	\$ (26,119)	(20.1) %
Original equipment manufacturers	16,624	11.2	19,318	10.3	(2,694)	(13.9)
Rerollers	13,612	9.2	20,016	10.7	(6,404)	(32.0)
Forgers	12,027	8.1	15,408	8.2	(3,381)	(21.9)
Conversion services and other sales	2,267	1.5	3,098	1.6	(831)	(26.8)
Total net sales	\$ 148,407	100.0 %	\$ 187,836	100.0 %	\$ (39,429)	(21.0) %

Melt Type Information

<i>(in thousands)</i>	Nine months ended September 30,					
	2020		2019		Dollar variance	Percentage variance
Amount	Percentage of net sales	Amount	Percentage of net sales			
Net sales:						
Specialty alloys	\$ 116,869	78.8 %	\$ 154,511	82.3 %	\$ (37,642)	(24.4) %
Premium alloys (A)	29,271	19.7	30,227	16.1	(956)	(3.2)
Conversion services and other sales	2,267	1.5	3,098	1.6	(831)	(26.8)
Total net sales	<u>\$ 148,407</u>	<u>100.0 %</u>	<u>\$ 187,836</u>	<u>100.0 %</u>	<u>\$ (39,429)</u>	<u>(21.0) %</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,					
	2020		2019		Dollar variance	Percentage variance
Amount	Percentage of net sales	Amount	Percentage of net sales			
Net sales:						
Aerospace	\$ 104,686	70.5 %	\$ 132,818	70.7 %	\$ (28,132)	(21.2) %
Power generation	5,923	4.0	8,588	4.5	(2,665)	(31.0)
Oil & gas	10,778	7.3	18,767	10.0	(7,989)	(42.6)
Heavy equipment	16,364	11.0	17,973	9.6	(1,609)	(9.0)
General industrial, conversion services and other sales	10,656	7.2	9,690	5.2	966	10.0
Total net sales	<u>\$ 148,407</u>	<u>100.0 %</u>	<u>\$ 187,836</u>	<u>100.0 %</u>	<u>\$ (39,429)</u>	<u>(21.0) %</u>

Net sales:

Net sales for the nine months ended September 30, 2020 decreased \$39.4 million, or 21.0%, compared to the nine months ended September 30, 2019. This is primarily due to a decrease in consolidated shipment volume of 20.5%. The decrease in volume is driven by significant challenges facing the end markets in which we participate, most notably aerospace and oil & gas. Challenges in our aerospace end market are primarily related to the decline in the commercial airline industry caused by the COVID-19 pandemic. The decrease in oil and gas is primarily a result of a cyclical decline in demand for our products in line with a decline in worldwide oil prices, which has also been exacerbated by the COVID-19 pandemic.

Gross margin:

Our gross margin, as a percent of sales, was 1.6% for the nine months ended September 30, 2020 compared to 11.6% for the nine months ended September 30, 2019. The decrease is primarily the result of direct charges associated with lower activity levels, actions taken in response to the economic downturn in our largest end markets, 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, professional services, stock compensation and insurance costs. SG&A expenses increased by \$0.4 million for the nine months ended September 30, 2020 compared to the same period in the prior year. The increase is primarily due to higher business insurance costs and employee severance costs, partially offset by lower employee incentive compensation accruals.

Interest expense and other financing costs:

Interest expense for the nine months ended September 30, 2020 was \$0.6 million lower than the same period in the prior year due to lower interest rates on our debt and lower average outstanding debt levels.

Income tax provision:

For the nine months ended September 30, 2020 and 2019, our estimated annual effective tax rates applied to ordinary income were 23.7% and 11.2%, respectively. The difference between the federal statutory rate of 21.0% and the projected annual ETR of 23.7% for 2020 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 ending September 30, 2019 was 1.3%

Net income:

For the nine months ended September 30, 2020, the Company recorded a net loss of \$11.7 million, or \$1.33 per diluted share, compared to net income of \$4.1 million, or \$0.46 per diluted share, for the nine months ended September 30, 2019.

Liquidity and Capital Resources

Historically, we have financed our operations through cash provided by operating activities and borrowings on our credit facilities. At September 30, 2020, we maintained approximately \$44.1 million of remaining availability under our revolving credit facility.

We currently believe that our cash flows from continuing operations and available borrowing capacity 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. This belief is based in part on the continued benefits of strategic cost savings and spend reduction actions implemented by the Company.

Net cash used in operating activities:

During the nine months ended September 30, 2020, net cash provided by operating activities was \$12.6 million. Our net loss, after adjustments for non-cash expenses, generated \$0.7 million. We generated \$8.6 million of cash from managed working capital, which we define as net accounts receivable, plus inventory and minus accounts payable. Accounts receivable decreased due to lower sales, and both inventory and accounts payable decreased due to lower melt activity levels and lower purchasing related to strategic spend reduction initiatives. In addition, we generated \$3.3 million of cash from other assets and liabilities, primarily due to cash received from insurance claims.

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. 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.

Net cash used in investing activities:

During the nine months ended September 30, 2020, we used \$8.5 million of cash for capital expenditures, compared to \$13.3 million for the same period in the prior year. 2020 capital spending is expected to approximate \$9.0 million to \$10.0 million.

Net cash provided by financing activities:

Net cash used in financing activities was \$4.2 million for the nine months ended September 30, 2020. This includes the proceeds from our \$10.0 million PPP Term Note (as defined below) received during the second quarter.

Net cash provided by financing activities was \$19.5 million for the nine months ended September 30, 2019 and was driven by borrowings under our revolving credit facility to fund capital expenditures and managed working capital needs.

Raw materials

The cost of raw materials represents approximately 45 and 40% of the cost of products sold in the first nine months of 2020 and 2019, respectively. The major raw materials used in our operations include nickel, molybdenum, vanadium, chrome and carbon scrap. We maintain sales price surcharge mechanisms 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. Over time, our surcharge mechanisms 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.

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 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 at all reporting periods through September 30, 2020.

The Facilities, which expire on August 3, 2023 (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. 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, 2020, 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, 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, 2020, which was 1.91% on our Revolving Credit Facility and 2.41% 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, 2020, we had Credit Agreement related net deferred financing costs of approximately \$0.6 million. For the nine months ended September 30, 2020, we amortized approximately \$0.2 million of those deferred financing costs.

Paycheck Protection Program Term Note

On April 16, 2020, the Company entered into a promissory note, dated April 15, 2020, with PNC Bank, National Association (“PNC”), evidencing an unsecured loan with a principal amount of \$10.0 million made to the Company pursuant to the Paycheck Protection Program (“PPP Term Note”) under the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”). The PPP Term Note is guaranteed by the United States Small Business Administration.

The PPP Term Note bears interest at a fixed annual rate of 1.00%, with the first six months of interest deferred. Beginning in November 2020, the Company will make 18 equal monthly payments of principal and interest with the final payment due in April 2022. The PPP Term Note may be accelerated upon the occurrence of an event of default.

The proceeds may be used to maintain payroll or make certain covered interest payments, lease payments and utility payments. Under the terms of the CARES Act, the Company may be granted forgiveness for all or a portion of loan granted under the PPP, with such forgiveness to be determined, subject to limitations, based on the use of the loan proceeds for payment of payroll costs and any payments of certain covered interest, lease and utility payments.

The Company applied for forgiveness of the PPP Term Note during the third quarter of 2020. The Company anticipates forgiveness of the entire amount of the PPP Term Note; however, we are unable to estimate the timing of the completion of the forgiveness process. We have elected to classify the entire principal balance of the PPP Term Note within Long-term debt, net on the consolidated balance sheet as of September 30, 2020. Under the existing terms of the PPP Term Note, if no forgiveness were granted approximately \$6.7 million of the principal amount would be due within twelve months.

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 (the “Notes”), 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. Upon the Company’s extension of the maturity date of the Notes to March 17, 2021, principal payments in the aggregate of \$2.0 million were made in March 2020.

There are no further extension options remaining, and the remaining aggregate principal balance of the Notes outstanding of \$15.0 million has been classified within Current portion of long-term debt as of September 30, 2020.

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.

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, 2019, 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 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, 2020, 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, 2019.

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, 2019 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, 2019, except for the additional factor described below.

Our business and operations, and the operations of our customers and suppliers, have been and are expected to continue to be adversely impacted by the COVID-19 pandemic.

The recent outbreak of COVID-19 has been declared by the World Health Organization to be a "pandemic" and has spread across the world, including the United States and many countries where the Company sells its products or sources raw materials.

Our operations and financial performance have been negatively impacted by the COVID-19 pandemic that has caused, and is expected to continue to cause, a global slowdown of economic activity, disruptions in global supply chains and significant volatility and disruption of financial markets. Because the severity, magnitude and duration of the COVID-19 pandemic and its economic consequences are uncertain, rapidly changing and difficult to predict, the COVID-19 pandemic's impact on our operations and financial performance cannot be determined at this time. Further, the ultimate impact of the COVID-19 pandemic on our operations and financial performance depends on many factors that are not within our control, including, but not limited to, governmental, business and individuals' actions that have been and continue to be taken in response to the pandemic (including restrictions on travel and transport and workforce pressures); the impact of the pandemic and actions taken in response on global and regional economies, travel and economic activity; general economic uncertainty in key global markets and financial market volatility; global economic conditions and levels of economic growth; commodity prices; and the pace of recovery when the COVID-19 pandemic subsides.

Notwithstanding our continued operations, we have experienced, and expect to continue experiencing, lower demand and volume for our products, including delivery and shipping delays and deferrals directly and indirectly to the COVID-19 pandemic that have adversely impacted, and are expected to continue to adversely impact, our businesses. For example, a significant portion of the sales result from products sold to customers in the commercial aerospace industry. In recent months, several commercial aerospace companies have announced cost-cutting and other measures in response to declining demand stemming from the COVID-19 pandemic, including measures to reduce inventory and/or downward adjustments to their production rates. Likewise, the COVID-19 pandemic has exacerbated declines in consumer activity and supply issues in the oil & gas end market. We expect that the longer the period of economic and global supply chain and disruption continues, the more material the adverse impact will be on our business operations, financial performance and results of operations.

As the impact of the COVID-19 pandemic on the economy and our operations evolves, we will continue to assess our liquidity position in relation to our anticipated future liquidity needs. Under the terms of our Credit Agreement, our borrowing availability is based on eligible accounts receivable and inventory, which have been reduced to lower levels as a result of the challenging economic environment we have faced during the COVID-19 pandemic, and which may continue to be reduced as the COVID-19 pandemic persists. Also, a continued worldwide disruption could materially affect our future access to our sources of liquidity, financial condition, capitalization and capital investments. In the event of a sustained market deterioration, we may need additional liquidity, which would require us to evaluate available alternatives and take appropriate actions. Additionally, a prolonged period of generating lower cash from operations could adversely affect our financial condition and the achievement of our strategic objectives. Conditions in the financial and credit markets also may limit the availability of funding or increase the cost of funding, which could adversely affect our business, financial position and results of operations.

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	<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>
31.2	<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>
32.1	<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>
101	The following financial information from this Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2020, formatted in inline 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).
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: October 21, 2020

/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 21, 2020

/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 21, 2020

/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, 2020 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 21, 2020

/s/ Dennis M. Oates

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

Date: October 21, 2020

/s/ Christopher T. Scanlon

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