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, 2022

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	**25-1724540**
(State or other jurisdiction of incorporation or organization)	**(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:

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, par value $0.001 per share		The Nasdaq Stock Market, LLC
Preferred Stock Purchase Rights	USAP	The Nasdaq Stock Market, LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

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

Large accelerated filer	☐	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 October 24, 2022, there were 8,977,953 shares of the Registrant's common stock outstanding.

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

Item 1. **FINANCIAL STATEMENTS**

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in Thousands, Except Per Share Information)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2022	**2021**	**2022**	**2021**
Net sales	$ 46,196	$ 37,169	$ 145,914	$ 112,709
Cost of products sold	43,218	34,862	134,144	108,486
Gross margin	2,978	2,307	11,770	4,223
Selling, general and administrative expenses	5,279	5,010	15,605	15,392
Operating loss	(2,301)	(2,703)	(3,835)	(11,169)
Interest expense and other financing costs	1,221	539	2,800	1,581
Gain on extinguishment of debt	-	(10,000)	-	(10,000)
Other (income) expense, net	(599)	9	(625)	32
(Loss) income before income taxes	(2,923)	6,749	(6,010)	(2,782)
Income taxes	(1,626)	(1,141)	(1,661)	(3,650)
Net (loss) income	$ (1,297)	$ 7,890	$ (4,349)	$ 868
Net (loss) income per common share - Basic	$ (0.14)	$ 0.88	$ (0.49)	$ 0.10
Net (loss) income per common share - Diluted	$ (0.14)	$ 0.87	$ (0.49)	$ 0.10
Weighted average shares of common stock outstanding				
Basic	8,975,331	8,917,858	8,960,830	8,902,484
Diluted	8,975,331	9,082,371	8,960,830	9,050,847

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,	
	2022	**2021**	**2022**	**2021**
Net (loss) income	$ (1,297)	$ 7,890	$ (4,349)	$ 868
Other comprehensive income, net of tax				
Unrealized gain on derivatives	159	26	455	46
Comprehensive (loss) income	$ (1,138)	$ 7,916	$ (3,894)	$ 914

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, 2022 (Unaudited)	December 31, 2021
ASSETS		
Current assets:		
Cash	$ 66	$ 118
Accounts receivable (less allowance for doubtful accounts of $201 and $201, respectively)	23,130	21,192
Inventory, net	158,867	140,684
Other current assets	10,231	8,567
Total current assets	192,294	170,561
Property, plant and equipment, net	159,519	159,162
Other long-term assets	860	909
Total assets	$ 352,673	$ 330,632
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 33,334	$ 24,000
Accrued employment costs	3,968	4,303
Current portion of long-term debt	2,392	2,392
Other current liabilities	1,219	943
Total current liabilities	40,913	31,638
Long-term debt, net	84,193	66,852
Deferred income taxes	911	2,461
Other long-term liabilities, net	3,206	3,360
Total liabilities	129,223	104,311
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; 8,975,331 and 8,938,091 shares issued, respectively	9	9
Additional paid-in capital	96,653	95,590
Accumulated other comprehensive income	455	40
Retained earnings	126,333	130,682
Total stockholders' equity	223,450	226,321
Total liabilities and stockholders' equity	$ 352,673	$ 330,632

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, 2022	Nine months ended September 30, 2021
Operating Activities:		
Net (loss) income	$ (4,349)	$ 868
Adjustments for non-cash items:		
Depreciation and amortization	14,520	14,419
Gain on extinguishment of debt	-	(10,000)
Deferred income tax	(1,675)	(3,646)
Share-based compensation expense	1,001	833
Changes in assets and liabilities:		
Accounts receivable, net	(1,938)	(1,611)
Inventory, net	(19,342)	(25,500)
Accounts payable	7,255	16,525
Accrued employment costs	(335)	2,955
Income taxes	21	5
Other	(1,470)	281
Net cash used in operating activities	(6,312)	(4,871)
Investing Activity:		
Capital expenditures	(10,974)	(6,514)
Net cash used in investing activity	(10,974)	(6,514)
Financing Activities:		
Borrowings under revolving credit facility	102,098	89,070
Payments on revolving credit facility	(83,260)	(69,804)
Proceeds from term loan facility	-	8,571
Payments on term loan facility, finance leases, and notes	(1,666)	(16,116)
Issuance of common stock under share-based plans	62	118
Payments of financing costs	-	(539)
Net cash provided by financing activities	17,234	11,300
Net decrease in cash	(52)	(85)
Cash at beginning of period	118	164
Cash at end of period	$ 66	$ 79

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)
For the nine months ended September 30, 2022					
Balance at December 31, 2021	8,938,091	$ 9	$ 95,590	$ 130,682	$ 40
Share-based compensation	19,362	-	409	-	-
Net gain on derivative instruments	-	-	-	-	135
Net loss	-	-	-	(1,615)	-
Balance at March 31, 2022	8,957,453	$ 9	$ 95,999	$ 129,067	$ 175
Common stock issuance under					
Employee Stock Purchase Plan	9,870	-	62	-	-
Share-based compensation	8,008	-	286	-	-
Net gain on derivative instruments	-	-	-	-	121
Net loss	-	-	-	(1,437)	-
Balance at June 30, 2022	8,975,331	$ 9	$ 96,347	$ 127,630	$ 296
Share-based compensation	-	-	306	-	-
Net gain on derivative instruments	-	-	-	-	159
Net loss	-	-	-	(1,297)	-
Balance at September 30, 2022	8,975,331	$ 9	$ 96,653	$ 126,333	$ 455
For the nine months ended September 30, 2021					
Balance at December 31, 2020	8,883,788	$ 9	$ 94,276	$ 131,440	$ (45)
Share-based compensation	11,034	-	309	-	-
Net gain on derivative instruments	-	-	-	-	15
Net loss	-	-	-	(4,529)	-
Balance at March 31, 2021	8,894,822	$ 9	$ 94,585	$ 126,911	$ (30)
Common stock issuance under					
Employee Stock Purchase Plan	11,271	-	71	-	-
Other share-based plans	5,272	-	47	-	-
Share-based compensation	6,493	-	272	-	-
Net gain on derivative instruments	-	-	-	-	5
Net loss	-	-	-	(2,493)	-
Balance at June 30, 2021	8,917,858	$ 9	$ 94,975	$ 124,418	$ (25)
Share-based compensation	-	-	252	-	-
Net gain on derivative instruments	-	-	-	-	26
Net income	-	-	-	7,890	-
Balance at September 30, 2021	8,917,858	$ 9	$ 95,227	$ 132,308	$ 1

The accompanying notes are an integral part of these 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, 2021 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

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 consolidated financial statements.

Note 2: Net (loss) income per Common Share

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

(dollars in thousands, except per share amounts)	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Numerator:				
Net (loss) income	$ (1,297)	$ 7,890	$ (4,349)	$ 868
Denominator:				
Weighted average number of shares of common stock outstanding	8,975,331	8,917,858	8,960,830	8,902,484
Weighted average effect of dilutive share-based compensation	-	164,513	-	148,363
Diluted weighted average number of shares of common stock outstanding	8,975,331	9,082,371	8,960,830	9,050,847
Net loss per common share:				
Net (loss) income per common share - Basic	$ (0.14)	$ 0.88	$ (0.49)	$ 0.10
Net (loss) income per common share - Diluted	$ (0.14)	$ 0.87	$ (0.49)	$ 0.10

We had options to purchase 719,875 and 680,550 shares of common stock outstanding at a weighted average price of $18.48 and $22.15 for the three months ended September 30, 2022 and 2021, respectively, which were excluded in the computation of diluted net (loss) income per common share. We had options to purchase 716,375 and 700,550 shares of common stock outstanding at a weighted average price of $18.55 and $21.83 for the nine months ended September 30, 2022 and 2021, 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 for the three and nine months ended September 30, 2022, respectively, excluded 14,919 and 20,119 shares 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 $1.7 million and $2.2 million are included in Accounts Receivable in the Consolidated Balance Sheets at September 30, 2022 and December 31, 2021, respectively.

The Company has elected the following practical expedients allowed under Accounting Standard Codification ("ASC") 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,	
	2022	**2021**	**2022**	**2021**
Net sales:				
Specialty alloys	$ 37,308	$ 30,973	$ 118,352	$ 92,359
Premium alloys (A)	7,986	5,936	25,707	19,383
Conversion services and other sales	902	260	1,855	967
Total net sales	$ 46,196	37,169	$ 145,914	112,709

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

Note 4: Inventory

Our raw material and starting stock inventory is primarily comprised of ferrous and non-ferrous scrap metal and alloys such as nickel, chrome, molybdenum, cobalt, vanadium and copper. Our semi-finished and finished steel products are work-in-process in various stages of production or are finished products waiting to be shipped to our customers.

Operating materials are primarily comprised of forge dies and production molds and rolls that are consumed over their useful lives. During the nine months ended September 30, 2022 and 2021, we amortized these operating materials in the amount of $1.2 million and $1.3 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 low activity levels at our production facilities caused by the COVID-19 pandemic, management revised its accounting estimates for the absorption of costs into inventory during 2020. As a result, $1.5 million of fixed overhead costs were not absorbed into inventory and were charged directly to expense and $1.5 million of negative operating efficiency variances were incurred during the three months ended September 30, 2021. There has not been any charge in the current year related to overall activity levels; however, the Company experienced a liquid metal spill at our Bridgeville plant during April 2022. The consolidated statement of operations for the three months ended June 30, 2022 included $3.6 million of net expense related to the liquid metal spill, of which $1.3 million represents fixed overhead costs charged directly to expense due to the impact of the spill on our activity levels. The $3.6 million of expense is net of a $1.5 million insurance recovery received during the period. There were no direct charges of fixed overheads to the consolidated statement of operations for the three months ended March 31, 2022 or September 30, 2022.

Inventories consisted of the following:

(in thousands)	**September 30, 2022**	**December 31, 2021**
Raw materials and starting stock	$ 18,888	$ 12,263
Semi-finished and finished steel products	129,733	122,396
Operating materials	13,660	10,620
Gross inventory	162,281	145,279
Inventory reserves	(3,414)	(4,595)
Total inventory, net	$ 158,867	$ 140,684

Note 5: Leases

The Company periodically enters into leases in its normal course of business. At September 30, 2022, 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.

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 operating lease and one new finance lease agreement during the third quarter of 2022.

As of September 30, 2022, future minimum lease payments applicable to operating and finance leases were as follows:

	Operating Leases	Finance Leases
2022	$ 87	$ 78
2023	266	280
2024	170	265
2025	36	155
2026 & 2027	23	20
Total minimum lease payments	582	798
Less amounts representing interest	(18)	(73)
Present value of minimum lease payments	564	725
Less current obligations	(294)	(250)
Total long-term lease obligations, net	$ 270	$ 475
Weighted-average remaining lease term	2.3 years	2.7 years

Right-of-use assets recorded to the consolidated balance sheet at September 30, 2022 were $0.6 million for operating leases and $0.8 million for finance leases. For the nine months ended September 30, 2022, the amortization of finance lease assets was $0.2 million and was included in cost of products sold in the Consolidated Statements of Operations.

The Company applies 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 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:

(in thousands)	**September 30, 2022**	**December 31, 2021**
Revolving credit facility	$ 74,835	$ 55,997
Term loan	12,321	13,929
Finance leases	725	783
Total debt	87,881	70,709
Less: current portion of long-term debt	(2,392)	(2,392)
Less: deferred financing costs	(1,296)	(1,465)
Long-term debt, net	$ 84,193	$ 66,852

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").

The Company was in compliance with all the applicable financial covenants on December 31, 2021 and September 30, 2022.

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. That requirement can be overcome if the Company maintains a fixed charge coverage ratio of not less than 1.10 to 1.0 measured on a rolling two-quarter basis and calculated in accordance with the terms of the Credit Agreement.

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.

As of September 30, 2022, amounts outstanding under the Facilities, at the Company's option, bore 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 nine months ended September 30, 2022, which ranged between 5.00% and 7.75% for our Revolving Credit Facility and was 5.69% for the Term Loan.

We incurred $0.5 million in additional financing costs in conjunction with the execution of the Credit Agreement, which were recorded to the consolidated balance sheet at June 30, 2021 and will be amortized to interest expense over the life of the Credit Agreement. At September 30, 2022, we had total Credit Agreement related net deferred financing costs of approximately $1.3 million. For the nine months ended September 30, 2022, we amortized $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, evidencing an unsecured loan with a principal amount of $10.0 million made to the Company pursuant to the Paycheck Protection Program (the "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 proceeds could 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 was eligible for 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 PPP Term Note incurred interest at a fixed annual rate of 1.00%, with the first six months of interest deferred. According to the terms of the PPP Term Note, the Company would begin to make 18 equal monthly payments of principal and interest in November 2020 with the final payment due in April 2022. The Company did not make any principal or interest payments related to the PPP Term Note.

The Company applied for forgiveness of the PPP Term Note during the third quarter of 2020. In July 2021, PNC Bank notified the Company that forgiveness of the note was granted by the United States Small Business Administration. Accordingly, the PPP Term Note was forgiven in its entirety, including all related accrued interest. In the third quarter of 2021, we recognized forgiveness of the PPP Term Note and recorded a corresponding gain on extinguishment of debt in the Consolidated Statement of Operations for the period.

Notes

In connection with the acquisition of the North Jackson facility in 2011, we issued $20.0 million in convertible notes to the sellers of the facility as partial consideration in the transaction, which were retired in 2021.

On January 21, 2016, the Company entered into the amended and restated notes in the aggregate principal amount of $20.0 million (the "Notes"), each in favor of Gorbert Inc. ("Holder"). The Company's obligations under the Notes were 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 Notes were originally scheduled to mature on March 17, 2019. In 2019, the Company extended the maturity date to March 17, 2020 in accordance with the terms of the Notes. In 2020, the Company extended the maturity date to March 17, 2021 in accordance with the terms of the Notes. The Company made partial principal payments on the notes upon extension, and an aggregate principal amount of $15.0 million remained outstanding at the 2021 maturity date. On March 17, 2021, the Company paid the remaining principal balance and all applicable interest to settle the notes obligation.

The Notes had an applicable interest at a rate of 6.0% per year from August 17, 2017 until the time they were paid off. All accrued and unpaid interest was payable quarterly in arrears on September 18, December 18, March 18 and June 18 of each year.

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, 2022 and December 31, 2021, 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 variable interest entity ("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, 2022 and December 31, 2021 due to their short-term maturities (Level 1). The fair value of the Term Loan and Revolving Credit Facility at September 30, 2022 and December 31, 2021 approximated the carrying amount as the interest rate is based upon floating short-term interest 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 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, 2022 and 2021, our estimated annual effective tax rates applied to ordinary income were 30.9% and 136.9%, respectively. The difference between the federal statutory rate of 21.0% and the projected annual ETR in the current year is primarily due to research and development credits. The difference between the federal statutory rate and the estimated annual effective tax rate in 2021 is primarily due to the non-taxable gain on extinguishment of debt recorded in 2021 based on forgiveness of the PPP loan.

Discrete items during the nine months ended September 30, 2022 totaled approximately $0.2 million of expense primarily from the expiration of stock options, and the ETR for the first nine months of the year was 27.8%. Discrete items for the first nine months of the prior year were not significant and the ETR was 131.2%.

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 $3.7 million and $2.5 million at September 30, 2022 and December 31, 2021, respectively, and a related unrealized gain of $0.2 million was recorded in accumulated other comprehensive income at each date.

Additionally, 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 forward interest rate swap was designated as a cash flow hedge. The notional amount of the contract at its inception and December 31, 2021 was $16 million and steps down throughout the term. The notional amount of the contract at September 30, 2022 was $10 million. The contract had related unrealized gain recorded in accumulated other comprehensive income of $0.2 and less than $0.1 million at September 30, 2022 and December 31, 2021, respectively.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains or incorporates forward looking statements within the meaning of the Private Securities Reform Act of 1995, which involves risks and uncertainties. The following information should be read in conjunction with the unaudited consolidated financial information and the notes thereto included in this Quarterly Report on Form 10-Q. You should not place undue reliance on these forward looking statements. Actual events or results may differ materially due to competitive factors and other factors referred to in Part 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2021, 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.

A liquid metal spill occurred during operations at the Company's Bridgeville Electric Arc Melting facility at the beginning of the second quarter. The spill was caused by a breakthrough at the bottom of a furnace shell. Clean up and repair caused approximately seven weeks of down time at the melt operation. While all other operations continued to function as normal, the spill disrupted productivity throughout the plant due to its impact on production flow. Despite the many challenges presented by the spill, clean up and repair activities were completed timely, and we returned to production within the second quarter.

Residual impacts of the spill and other challenges related to our supply chain and labor force caused headwinds that negatively impacted our third quarter results. Sales in the third quarter of 2022 were $46.2 million, a decrease of $6.0 million, or 11.4%, from the second quarter of 2022. During this period, sales to our largest end market, aerospace, decreased $4.0 million, or 7.6%. Sales decreased in all our end markets compared to the second quarter of 2022, except for general industrial.

Total company backlog, before surcharges, at the end of the third quarter was $246.3 million, an increase of $23.6 million, or 10.6%, compared to the second quarter of 2022. This is the result of strong order-entry throughout 2022 as demand for our products remains high despite our price increases and lengthening lead times.

During the quarter, our sales of premium alloy products, which we define as all vacuum induction melt products, totaled $8.0 million and comprised 17.3% of total sales. This was a decrease compared to $8.8 million in the second quarter of 2022, but an increase from $5.9 million of sales in the third quarter of 2021. Our premium alloy products are primarily sold to the aerospace end market.

Our gross margin for the third quarter was $3.0 million, or 6.4% of net sales. This included continued negative impacts of the previously reported liquid metal spill that occurred in April, and negative misalignment between our selling prices and materials cost of sales recognized during the quarter due to falling commodity prices. Gross margin in the quarter included a benefit of $0.6 million related to a grant awarded from the Aviation Manufacturing Jobs Protection ("AMJP") Program. The gross margin percentage is a decrease from 9.1% of net sales in the second quarter of 2022, due in part to the negative misalignment described above and less of an AMJP benefit in our current quarter results, and is an increase from 6.2% of net sales in the third quarter of 2021. The second quarter of 2022 included a $1.8 million AMJP benefit. We continue to see margin headwinds related to labor shortages, rising input costs, and various supply chain challenges, including interruptions in service, parts and supplies availability.

COVID-19 Pandemic

While the Company's four plants have continued to operate throughout the pandemic, COVID-19 related challenges negatively impacted the efficiency of our operations. These challenges continued in the third quarter and may continue in future periods. These factors may have additional significant impacts on 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, remains highly uncertain and will depend on future developments and, as such, effects could exist for an extended period, even after the pandemic may end.

Results of Operations

Three months ended September 30, 2022 as compared to the three months ended September 30, 2021:

(in thousands, except shipped ton information)	Three months ended September 30, 2022		2021			
	Amount	Percentage of net sales	Amount	Percentage of net sales	Dollar variance	Percentage variance
Net sales	$ 46,196	100.0%	$ 37,169	100.0%	$ 9,027	24.3%
Cost of products sold	43,218	93.6	34,862	93.8	8,356	24.0
Gross margin	2,978	6.4	2,307	6.2	671	29.1
Selling, general and administrative expenses	5,279	11.4	5,010	13.5	269	5.4
Operating loss	(2,301)	(5.0)	(2,703)	(7.3)	402	(14.9)
Interest expense	1,165	2.5	483	1.3	682	141.2
Deferred financing amortization	56	0.1	56	0.2	-	-
Gain on extinguishment of debt	-	-	(10,000)	(26.9)	10,000	**(100.0)**
Other (income) expense, net	(599)	(1.3)	9	-	(608)	NM
(Loss) income before income taxes	(2,923)	(6.3)	6,749	18.1	(9,672)	NM
Income taxes (benefit)	(1,626)	(3.5)	(1,141)	(3.1)	(485)	42.5
Net (loss) income	$ (1,297)	(2.8)%	$ 7,890	21.2%	$ (9,187)	(116.4)

Market Segment Information

(in thousands)	Three months ended September 30, 2022		2021			
	Amount	Percentage of net sales	Amount	Percentage of net sales	Dollar variance	Percentage variance
Net sales:						
Service centers	$ 33,382	72.3%	$ 26,333	70.8%	$ 7,049	26.8%
Original equipment manufacturers	3,986	8.6	3,336	9.0	650	19.5
Rerollers	3,386	7.3	4,722	12.7	(1,336)	(28.3)
Forgers	4,540	9.8	2,518	6.8	2,022	80.3
Conversion services and other	902	2.0	260	0.7	642	246.9
Total net sales	$ 46,196	100.0%	$ 37,169	100.0%	$ 9,027	24.3%

Melt Type Information

(in thousands)	Three months ended September 30,					
	2022		2021			
	Amount	Percentage of net sales	Amount	Percentage of net sales	Dollar variance	Percentage variance
Net sales:						
Specialty alloys	$ 37,308	80.7%	$ 30,973	83.3%	$ 6,335	20.5%
Premium alloys (A)	7,986	17.3	5,936	16.0	2,050	34.5
Conversion services and other	902	2.0	260	0.7	642	246.9
Total net sales	$ 46,196	100.0%	$ 37,169	100.0%	$ 9,027	24.3%

(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

(in thousands)	Three months ended September 30,					
	2022		2021			
	Amount	Percentage of net sales	Amount	Percentage of net sales	Dollar variance	Percentage variance
Net sales:						
Aerospace	$ 31,664	68.5%	$ 22,253	59.9%	$ 9,411	42.3%
Power generation	1,553	3.4	847	2.3	706	83.4
Oil & gas	3,706	8.0	4,041	10.9	(335)	(8.3)
Heavy equipment	6,225	13.5	7,614	20.5	(1,389)	(18.2)
General industrial, conversion services and other	3,048	6.6	2,414	6.4	634	26.3
Total net sales	$ 46,196	100.0%	$ 37,169	100.0%	$ 9,027	24.3%

Net sales:

Net sales for the three months ended September 30, 2022 increased $9.0 million, or 24.3%, compared to the same period in the prior year. This was driven by both higher shipment volume and a strong pricing environment as reflected by the increase in average sales dollars per shipped ton.

Gross margin:

As a percent of sales, our gross margin for the three months ended September 30, 2022 was 6.4% compared to 6.2% for the three months ended September 30, 2021. The increase includes higher average selling prices and higher costs due to inflationary pressures on substantially all of our production inputs since the prior year comparison period.

Selling, general and administrative expenses:

Our selling, general and administrative ("SG&A") expenses consist primarily of employee costs, which include salaries, payroll taxes and benefit related costs, professional services, stock compensation and insurance costs. SG&A expenses increased by $0.3 million for the three months ended September 30, 2022 compared to the same period in the prior year.

Interest expense and other financing costs:

Interest expense totaled approximately $1.2 million in the third quarter of 2022 compared to $0.5 million in the third quarter of 2021. The increase reflects higher debt levels and the impact of higher variable interest rates paid on our revolving credit facility debt.

Income tax benefit:

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 rates applied to ordinary income were 30.9% and 136.9% at September 30, 2022 and 2021, respectively. The difference between the federal statutory rate of 21.0% and the projected annual ETR in 2022 is primarily due to research and development credits, and in 2021 is primarily due to the non-taxable gain on extinguishment of debt recorded in 2021 based on forgiveness of the PPP loan.

Net (loss) income:

For the three months ended September 30, 2022, the Company recorded a net loss of $1.3 million, or $0.14 per diluted share, compared to net income of 7.9 million, or $0.87 per diluted share, for the three months ended September 30, 2021.

Nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021:

(in thousands, except shipped ton information)	Nine months ended September 30, 2022 Amount	2022 Percentage of net sales	2021 Amount	2021 Percentage of net sales	Dollar variance	Percentage variance
Net sales	$ 145,914	100.0 %	$ 112,709	100.0 %	33,205	29.5 %
Cost of products sold	134,144	91.9	108,486	96.3	25,658	23.7
Gross margin	11,770	8.1	4,223	3.7	7,547	178.7
Selling, general and administrative expenses	15,605	10.7	15,392	13.7	213	1.4
Operating loss	(3,835)	(2.6)	(11,169)	(10.0)	7,334	(65.7)
Interest expense	2,632	1.8	1,413	1.3	1,219	86.3
Deferred financing amortization	168	0.1	168	0.1	-	-
Gain on extinguishment of debt	-	-	(10,000)	(8.9)	10,000	(100.0)
Other expense (income), net	(625)	(0.4)	32	-	-	NM
(Loss) income before income taxes	(6,010)	(4.1)	(2,782)	(2.5)	(3,228)	116.0
Income taxes (benefit)	(1,661)	(1.1)	(3,650)	(3.2)	1,989	(54.5)
Net (loss) income	$ (4,349)	(3.0) %	$ 868	0.7 %	$ (5,217)	NM

Market Segment Information

(in thousands)	Nine months ended September 30, 2022 Amount	2022 Percentage of net sales	2021 Amount	2021 Percentage of net sales	Dollar variance	Percentage variance
Net sales:						
Service centers	$ 103,575	71.0 %	$ 80,185	71.1 %	$ 23,390	29.2 %
Original equipment manufacturers	12,872	8.8	10,916	9.7	1,956	17.9
Rerollers	14,783	10.1	13,629	12.1	1,154	8.5
Forgers	12,829	8.8	7,012	6.2	5,817	83.0
Conversion services and other sales	1,855	1.3	967	0.9	888	91.8
Total net sales	$ 145,914	100.0 %	$ 112,709	100.0 %	$ 33,205	29.5 %

Melt Type Information

(in thousands)	Nine months ended September 30, 2022 Amount	2022 Percentage of net sales	2021 Amount	2021 Percentage of net sales	Dollar variance	Percentage variance
Net sales:						
Specialty alloys	$ 118,352	81.1 %	$ 92,359	81.9 %	$ 25,993	28.1 %
Premium alloys (A)	25,707	17.6	19,383	17.2	6,324	32.6
Conversion services and other sales	1,855	1.3	967	0.9	888	91.8
Total net sales	$ 145,914	100.0 %	$ 112,709	100.0 %	$ 33,205	29.5 %

(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 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

(in thousands)	Nine months ended September 30, 2022				2021							
		Amount	Percentage of net sales			Amount	Percentage of net sales			Dollar variance	Percentage variance	
Net sales:												
Aerospace	$	97,439	66.8	%	$	65,798	58.4	%	$	31,641	48.1	%
Power generation		5,074	3.5			3,453	3.1			1,621	46.9	
Oil & gas		12,725	8.7			11,045	9.8			1,680	15.2	
Heavy equipment		21,504	14.7			24,967	22.2			(3,463)	(13.9)	
General industrial, conversion services and other sales		9,172	6.3			7,446	6.5			1,726	23.2	
Total net sales	$	145,914	100.0	%	$	112,709	100.0	%	$	33,205	29.5	%

Net sales:

Net sales for the nine months ended September 30, 2022 increased $33.2 million, or 29.5%, compared to the nine months ended September 30, 2021. This reflects higher average selling prices on approximately the same shipment volume in the two periods.

Gross margin:

Our gross margin was 8.1% of sales for the nine months ended September 30, 2022 compared to 3.7% for the nine months ended September 30, 2021. The increase is primarily the result of a decrease in direct charges associated with lower activity levels due to the economic downturn, as well as the benefit of operating efficiencies at our facilities within the cost of products sold during the period and higher sales prices. Our gross margin in the current period also includes the negative impacts of a liquid metal spill at our Bridgeville plant that occurred in April 2022, partly offset by the benefits of the AMJP grant awarded to the Company.

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 $0.2 million for the nine months ended September 30, 2022 compared to the same period in the prior year.

Interest expense and other financing costs:

Interest expense totaled approximately $2.7 million in the first nine months of 2022 compared to $1.4 million in the first nine months of 2021. The increase reflects higher interest rates as well as higher overall average debt levels.

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

For the nine months ended September 30, 2022 and 2021, our estimated annual effective tax rates applied to ordinary income were 30.9% and 136.9%, respectively. The difference between the federal statutory rate of 21.0% and the projected annual ETR in 2022 is primarily due to research and development credits, and in 2021 is primarily due to the non-taxable gain on extinguishment of debt recorded in 2021 based on forgiveness of the PPP loan.

Net (loss) income:

For the nine months ended September 30, 2022, the Company recorded a net loss of $4.3 million, or $0.49 per diluted share, compared to net income of $0.9 million, or $0.10 per diluted share, for the same period in the prior year.

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, 2022, we maintained approximately $22 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 used in operating activities:

During the nine months ended September 30, 2022, net cash of $6.3 million was used in operating activities. Our net loss, after adjustments for non-cash expenses, generated $9.5 million. We used $13.7 million of cash from managed working capital, which we define as net accounts receivable, plus inventory, minus accounts payable, minus other current liabilities. Accounts receivable decreased $1.9 million due to lower sales sequentially. Inventory grew in support of our record backlog and used $19.3 million in cash. An increase in accounts payable provided $7.3 million in cash, partially offsetting the impact of increased inventory. We also used $2.1 million of cash from other assets and liabilities.

In February 2022, the Company entered into an agreement with the Department of Transportation ("DOT") under the Aviation Manufacturing Jobs Protection ("AMJP") Program for a grant of up to $3.6 million, and received the first installment of $1.8 million. The Company expects to receive additional funds from the DOT after completion of the service period upon final confirmation from the DOT of the Company's compliance with the terms of the agreement. The additional amount we will receive was conditioned upon the Company committing to not furlough or lay off a defined group of employees during the six-month period of performance between February 2022 and August 2022. The total estimated grant benefit is recognized over the six-month performance period as a reduction to cost of sales. During the nine months ended September 30, 2022, the Company recognized approximately $3.4 million as a reduction in cost of sales. The earned portion of the grant that is not yet received is recorded within Other current assets on the Consolidated Balance Sheet as of September 30, 2022.

During the nine months ended September 30, 2021, net cash of $4.9 million was used in operating activities. Our net income, after adjustments for non-cash expenses, generated $2.5 million. We used $12.3 million of cash for managed working capital, which we define as net accounts receivable, plus inventory, minus accounts payable, minus other current liabilities. Accounts receivable increased due to higher sales in the 2021 third quarter compared to the 2020 fourth quarter, while inventory increased $25.5 million. The increase in inventory reflects higher raw material prices, robust raw material purchases to mitigate supply disruptions, and increased work in process to support backlog growth. Accounts payable increased $16.5 million, in line with the increased production activity compared to the end of 2020, and other current liabilities decreased $1.7 million. We also generated $3.2 million of cash from all other operating activities.

Net cash used in investing activities:

During the nine months ended September 30, 2022, we used $11.0 million of cash for capital expenditures, compared to $6.5 million for the same period in the prior year. The company expects capital expenditures in the fourth quarter of 2022 to increase compared to the third quarter, as we continue to complete projects that were delayed due to parts availability and other supply chain challenges.

Net cash provided by financing activities:

Net cash provided by financing activities was $17.2 million for the nine months ended September 30, 2022, compared to $11.3 million for the same period in the prior year. The increase was due to higher working capital requirements primarily driven by increased business activity, consistent with our higher sales and backlog.

Raw materials

The cost of raw materials represents approximately 40% to 50% of the cost of products sold in the first nine months of 2022 and 2021. The major raw materials used in our operations include nickel, molybdenum, vanadium, chrome, iron and carbon scrap. The average price of substantially all our major raw materials, including iron, nickel, molybdenum, vanadium, and chrome, increased in 2021 compared with 2020, and for the nine months ended September 30, 2022 compared with the same period in 2021.

We maintain sales price surcharge 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 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 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 replaces our Prior Credit Agreement, and 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").

The Company was in compliance with all the applicable financial covenants on December 31, 2021 and September 30, 2022.

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. That requirement can be overcome if the Company maintains a fixed charge coverage ratio of not less than 1.10 to 1.0 measured on a rolling two-quarter basis and calculated in accordance with the terms of the Credit Agreement.

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.

As of September 30, 2022, amounts outstanding under the Facilities, at the Company's option, bore 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, 2022, which ranged between 5.00% and 7.75% for our Revolving Credit Facility and was 5.69% for the Term Loan.

We incurred $0.5 million in additional financing costs in conjunction with the execution of the Credit Agreement, which were recorded to the consolidated balance sheet at June 30, 2021 and will be amortized to interest expense over the life of the Credit Agreement. At September 30, 2022, we had total Credit Agreement related net deferred financing costs of approximately $1.3 million. For the nine months ended September 30, 2022, we amortized $0.2 million of those deferred financing costs.

On October 19, 2022, we entered into an amendment to the Credit Agreement (the "Amendment") effective September 30, 2022. The Amendment amended the Credit Agreement to, among other things, (i) increase the inventory sublimit maximum used to determine borrowing availability under the Revolving Credit Facility from $75.0 million to $80.0 million through and including March 31, 2023, subject to the overall borrowing availability maximum of $105.0 million under the Revolving Credit Facility; (ii) allow the Company the election to use up to $5.0 million of collateral that otherwise would not be available as a result of the inventory sublimit for the purposes of calculating compliance with its minimum borrowing availability requirements under the Revolving Credit Facility through and including March 31, 2023; and (iii) replace the LIBOR benchmark interest rates in the Credit Agreement with SOFR benchmark interest rates.

Paycheck Protection Program Term Note

On April 16, 2020, the Company entered into a promissory note, dated April 15, 2020, with PNC Bank, evidencing an unsecured loan with a principal amount of $10.0 million made to the Company pursuant to the Paycheck Protection Program (the "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 proceeds could 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 was eligible for 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 PPP Term Note incurred interest at a fixed annual rate of 1.00%, with the first six months deferred. According to the terms of the PPP Term Note, the Company would begin to make 18 equal monthly payments of principal and interest on any unforgiven portion of the Note in November 2020 with the final payment due in April 2022. The Company did not make any principal or interest payments related to the PPP Term Note.

The Company applied for forgiveness of the PPP Term Note during the third quarter of 2020. In July 2021, PNC Bank notified the Company that forgiveness of the note was granted by the United States Small Business Administration. Accordingly, the PPP Term Note was forgiven in its entirety, including all related accrued interest. In the third quarter of 2021, we recognized forgiveness of the PPP Term Note and recorded a corresponding gain on extinguishment of debt in the Consolidated Statement of Operations for the period.

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, which were retired in 2021.

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 Gorbert Inc. ("Holder"). The Company's obligations under the Notes were 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 Notes were originally scheduled to mature on March 17, 2019. In 2019, the Company extended the maturity date to March 17, 2020 in accordance with the terms of the Notes. In 2020, the Company extended the maturity date to March 17, 2021 in accordance with the terms of the Notes. The Company made partial principal payments on the notes upon extension, and an aggregate principal amount of $15.0 million remained outstanding at the 2021 maturity date. On March 17, 2021, the Company paid the remaining principal balance and all applicable interest to settle the notes obligation.

The Notes had an applicable interest at a rate of 6.0% per year from August 17, 2017 until the time they were paid off. All accrued and unpaid interest was payable quarterly in arrears on September 18, December 18, March 18 and June 18 of each year.

Leases

The Company periodically enters into leases in its normal course of business. Operating lease liabilities and right-of-use assets are recorded to the Consolidated Balance Sheets at the present value of minimum lease payments. The assets are included in Other long-term assets in the Consolidated Balance Sheets and are amortized over the respective terms, which are five years or less. The long-term component of the lease liability is recorded in Other long-term liabilities, net and the current component is included in Other current liabilities.

The right-of-use assets and lease liabilities for finance leases are recorded at the present value of minimum lease payments. The assets are included in Property, plant and equipment, net on the Consolidated Balance Sheets and are depreciated over the respective lease terms. The long-term component of the lease liability is included in Long-term debt and the current component is included in Current portion of long-term debt.

The Company entered one new operating lease and one new finance lease agreements during the third quarter of 2022.

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, 2021, 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 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 Chairman, 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 effective. During the fiscal quarter ended September 30, 2022, 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, 2021.

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, 2021 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, 2021.

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, 2022, formatted in XBRL (Extensible Business Reporting Language) and filed electronically herewith: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Comprehensive Loss; (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 28, 2022

/s/ Dennis M. Oates

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

Date: October 28, 2022

/s/ Steven V. DiTommaso

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

Exhibit 31.1

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 28, 2022

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

Exhibit 31.2

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: October 28, 2022

/s/ Steven V. DiTommaso

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

Exhibit 32.1

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, 2022 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 28, 2022

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

Date: October 28, 2022

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