

UNIVERSAL STAINLESS & ALLOY PRODUCTS INC  
Form 10-Q  
August 08, 2008  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**FORM 10-Q**

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

For the Quarterly Period Ended June 30, 2008

OR

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

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-25032

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

(Exact name of Registrant as specified in its charter)

**DELAWARE**  
(State or other jurisdiction of  
incorporation or organization)

**25-1724540**  
(IRS Employer  
Identification No.)

**600 Mayer Street**

**Bridgeville, PA 15017**

(Address of principal executive offices, including zip code)

**(412) 257-7600**

(Registrant's telephone number, including area code)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

As of July 31, 2008, there were 6,727,677 shares of the Registrant's Common Stock issued and outstanding.

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

*Management's Discussion and Analysis and other sections of this Quarterly Report on Form 10-Q contain forward-looking statements that reflect the current views of Universal Stainless & Alloy Products, Inc. (the Company) with respect to future events and financial performance. Statements looking forward in time, including statements regarding future growth, cost savings, expanded production capacity, broader product lines, greater capacity to meet customer quality reliability, price and delivery needs, enhanced competitive posture, effect of new accounting pronouncements and no material financial impact from litigation or contingencies are included in this Quarterly Report on Form 10-Q pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995.*

*The Company's actual results may be affected by a wide range of factors including future compliance with Section 404 of the Sarbanes-Oxley Act of 2002; the concentrated nature of the Company's customer base to date and the Company's dependence on its significant customers; the receipt, pricing and timing of future customer orders; changes in product mix; the limited number of raw material and energy suppliers and significant fluctuations that may occur in raw material and energy prices; the Company's reliance on the continuing operation of critical manufacturing equipment; risks associated with labor matters; the Company's ongoing requirement for continued compliance with safety and environmental regulations; and the ultimate outcome of the Company's current and future litigation matters. Many of these factors are not within the Company's control and involve known and unknown risks and uncertainties that may cause the Company's actual results in future periods to be materially different from any future performance suggested herein. Any unfavorable change in the foregoing or other factors could have a material adverse effect on the Company's business, financial condition and results of operations. Further, the Company operates in an industry sector where securities values may be volatile and may be influenced by economic and other factors beyond the Company's control.*

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**Table of Contents****Part I. FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.****CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS**

(Dollars in Thousands, Except Per Share Information)

(Unaudited)

	For the Three-month period ended June 30,		For the Six-month period ended June 30,	
	2008	2007	2008	2007
Net sales	\$ 63,482	\$ 62,056	\$ 120,327	\$ 118,295
Cost of products sold	53,018	49,442	99,797	92,462
Selling and administrative expenses	2,634	3,407	5,709	5,961
Operating income	7,830	9,207	14,821	19,872
Interest expense	(27)	(195)	(55)	(422)
Other income	62	6	149	10
Income before taxes	7,865	9,018	14,915	19,460
Income tax provision	2,595	3,156	4,922	6,811
Net income	\$ 5,270	\$ 5,862	\$ 9,993	\$ 12,649
Earnings per share Basic	\$ 0.79	\$ 0.88	\$ 1.49	\$ 1.91
Earnings per share Diluted	\$ 0.77	\$ 0.87	\$ 1.47	\$ 1.87
Weighted average shares of Common Stock outstanding				
Basic	6,707,523	6,642,655	6,685,368	6,631,981
Diluted	6,819,546	6,774,553	6,795,514	6,767,855

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

**Table of Contents****UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.****CONSOLIDATED CONDENSED BALANCE SHEETS***(Dollars in Thousands)*

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
	<b>(Unaudited)</b>	<b>(Derived from audited statements)</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 13,067	\$ 10,648
Accounts receivable (less allowance for doubtful accounts of \$347 and \$311, respectively)	34,634	27,501
Inventory	72,399	65,572
Deferred taxes	2,683	2,683
Other current assets	2,898	2,854
Total current assets	125,681	109,258
Property, plant and equipment, net	57,357	54,271
Other assets	920	767
Total assets	\$ 183,958	\$ 164,296
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities		
Trade accounts payable	\$ 20,819	\$ 13,983
Outstanding checks in excess of bank balance	3,912	2,064
Accrued employment costs	4,941	5,307
Current portion of long-term debt	395	383
Other current liabilities	1,004	1,600
Total current liabilities	31,071	23,337
Long-term debt	1,247	1,453
Deferred taxes	10,399	9,904
Total liabilities	42,717	34,694
Commitments and contingencies		
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; 10,000,000 shares authorized; 6,998,472 and 6,930,294 shares issued	7	7
Additional paid-in capital	36,758	35,112
Retained earnings	106,135	96,142
Treasury Stock at cost; 270,795 common shares held	(1,659)	(1,659)
Total stockholders' equity	141,241	129,602
Total liabilities and stockholders' equity	\$ 183,958	\$ 164,296

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

**Table of Contents****UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.****CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOW**

(Dollars in Thousands)

(Unaudited)

	<b>For the Six-month period ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 9,993	\$ 12,649
<b>Adjustments to reconcile to net cash provided by operating activities:</b>		
Depreciation and amortization	2,008	1,822
Deferred income tax increase (decrease)	304	(318)
Stock based compensation expense	413	208
Tax benefit from share-based payment arrangements	(511)	(982)
<b>Changes in assets and liabilities:</b>		
Accounts receivable, net	(7,133)	(5,849)
Inventory	(6,827)	(9,558)
Trade accounts payable	6,836	5,182
Accrued employment costs	(366)	806
Other, net	216	166
<b>Net cash provided by operating activities</b>	<b>4,933</b>	<b>4,126</b>
<b>Cash flow from investing activities:</b>		
Capital expenditures	(5,401)	(2,906)
<b>Net cash used in investing activities</b>	<b>(5,401)</b>	<b>(2,906)</b>
<b>Cash flows from financing activities:</b>		
Revolving line of credit net repayments		(8,174)
Long-term debt repayments	(194)	(1,180)
Increase in outstanding checks in excess of bank balance	1,848	4,129
Proceeds from the issuance of common stock	722	975
Tax benefit from share-based payment arrangements	511	982
<b>Net cash provided by (used in) financing activities</b>	<b>2,887</b>	<b>(3,268)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>2,419</b>	<b>(2,048)</b>
Cash and cash equivalents at beginning of period	10,648	2,909
<b>Cash and cash equivalents at end of period</b>	<b>\$ 13,067</b>	<b>\$ 861</b>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ 45	\$ 454
Income taxes paid, net of refunds received	\$ 3,906	\$ 7,225

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





**Table of Contents****UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.****NOTES TO THE UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS****Note 1 Basis of Presentation**

The accompanying unaudited consolidated condensed financial statements of operations for the three- and six-month periods ended June 30, 2008 and 2007, balance sheets as of June 30, 2008 and December 31, 2007, and statements of cash flows for the six-month periods ended June 30, 2008 and 2007, have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. Accordingly, these statements should be read in conjunction with the audited financial statements, and notes thereto, as of and for the year ended December 31, 2007 included in the Company's Annual Report on Form 10-K. In the opinion of management, the accompanying unaudited, consolidated condensed financial statements contain all adjustments, all of which were of a normal, recurring nature, necessary to present fairly, in all material respects, the consolidated financial position at June 30, 2008 and December 31, 2007 and the consolidated results of operations and of cash flows for the periods ended June 30, 2008 and 2007, and are not necessarily indicative of the results to be expected for the full year.

Certain prior year amounts have been reclassified to conform to the 2008 presentation.

**Note 2 Common Stock**

The reconciliation of the weighted average number of shares of Common Stock outstanding utilized for the earnings per common share computations are as follows:

	For the Three-month period ended June 30,		For the Six-month period ended June 30,	
	2008	2007	2008	2007
Weighted average number of shares of Common Stock outstanding	6,707,523	6,642,655	6,685,368	6,631,981
Effect of dilutive securities	112,023	131,898	110,146	135,874
Weighted average number of shares of Common Stock outstanding, as adjusted	6,819,546	6,774,553	6,795,514	6,767,855

**Note 3 Inventory**

The major classes of inventory are as follows:

<i>(dollars in thousands)</i>	June 30, 2008	December 31, 2007
Raw materials and supplies	\$ 14,602	\$ 8,309
Semi-finished and finished steel products	55,688	55,404
Operating materials	2,109	1,859
Total inventory	\$ 72,399	\$ 65,572

**Table of Contents****Note 4 Property, Plant and Equipment**

Property, plant and equipment consists of the following:

<i>(dollars in thousands)</i>	<b>June 30, 2008</b>	<b>December 31, 2007</b>
Land and land improvements	\$ 2,323	\$ 2,208
Buildings	11,025	10,371
Machinery and equipment	69,926	66,432
Construction in progress	4,967	4,571
	88,241	83,582
Accumulated depreciation	(30,884)	(29,311)
Property, plant and equipment, net	\$ 57,357	\$ 54,271

**Note 5 Long-Term Debt**