UNIVERSAL STAINLESS & ALLOY PRODUCTS INC
Form 10-Q
October 24, 2018

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, 2018

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 | 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)

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, if any, 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 18, 2018, there were 8,724,990 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, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net sales | $69,056 | $50,887 | $198,864 | $152,369 |
| Cost of products sold | 58,631 | 45,423 | 167,472 | 135,494 |
| Gross margin | 10,425 | 5,464 | 31,392 | 16,875 |
| Selling, general and administrative expenses | 5,131 | 4,448 | 16,187 | 13,676 |
| Operating income (loss) | 5,294 | 1,016 | 15,205 | 3,199 |
| Interest expense and other financing costs | 966 | 1,122 | 3,440 | 3,209 |
| Other (income) expense, net | (48) | (23) | (690) | (43) |
| Income (loss) before income taxes | 4,376 | (83) | 12,455 | 33 |
| Provision (benefit) for income taxes | 460 | 176 | 2,376 | 283 |
| Net income (loss) | $3,916 | $(259) | $10,079 | $(250) |
| Net income (loss) per common share - Basic | $0.45 | $(0.04) | $1.27 | $(0.03) |
| Net income (loss) per common share - Diluted | $0.44 | $(0.04) | $1.23 | $(0.03) |
| Weighted average shares of common stock outstanding | | | | |
| Basic | 8,699,953 | 7,228,277 | 7,931,783 | 7,221,426 |
| Diluted | 8,952,749 | 7,228,277 | 8,166,759 | 7,221,426 |

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Dollars in Thousands)

(Unaudited)

| | Three months ended September 30, 2018 | Three months ended September 30, 2017 | Nine months ended September 30, 2018 | Nine months ended September 30, 2017 |
|---|---|---|---|---|
| Net income (loss) | $ 3,916 | $ (259) | $ 10,079 | $ (250) |
| Other comprehensive income (loss), net of tax | | | | |
| Unrealized income (loss) on foreign currency contracts | 5 | (46) | 113 | (99) |
| Comprehensive income (loss) | $ 3,921 | $ (305) | 10,192 | (349) |

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UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands, Except Per Share Information)

(Unaudited)

| | September 30, 2018 (Unaudited) | December 31, 2017 (Derived from audited statements) |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash | $ 33 | $ 207 |
| Accounts receivable (less allowance for doubtful accounts of $295 and $456, respectively) | 44,185 | 24,990 |
| Inventory, net | 122,839 | 116,663 |
| Other current assets | 3,068 | 4,404 |
| Total current assets | 170,125 | 146,264 |
| Property, plant and equipment, net | 174,446 | 174,444 |
| Other long-term assets | 6,681 | 523 |
| Total assets | $ 351,252 | $ 321,231 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ 30,129 | $ 34,898 |
| Accrued employment costs | 6,595 | 4,075 |
| Current portion of long-term debt | 3,896 | 4,707 |
| Other current liabilities | 1,171 | 1,268 |
| Total current liabilities | 41,791 | 44,948 |
| Long-term debt, net | 58,563 | 75,006 |
| Deferred income taxes | 11,964 | 9,605 |
| Other long-term liabilities, net | 2,840 | 4 |
| Total liabilities | 115,158 | 129,563 |
| Stockholders' equity: | | |
| Senior preferred stock, par value $0.001 per share; 1,980,000 shares authorized; 0 shares issued and outstanding | - | - |
| | 9 | 8 |

| | | |
|---|---|---|
| Common stock, par value $0.001 per share; 20,000,000 shares authorized; 9,017,845 and 7,550,642 shares issued, respectively | | |
| Additional paid-in capital | 92,747 | 58,514 |
| Other comprehensive income (loss) | 20 | (93) |
| Retained earnings | 145,608 | 135,529 |
| Treasury stock, at cost; 292,855 common shares held | (2,290) | (2,290) |
| Total stockholders' equity | 236,094 | 191,668 |
| Total liabilities and stockholders' equity | $ 351,252 | $ 321,231 |

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, 2018 | 2017 |
|---|---|---|
| Operating Activities: | | |
| Net income (loss) | $10,079 | $(250) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 14,460 | 14,032 |
| Deferred income tax | 2,327 | 318 |
| Share-based compensation expense | 1,046 | 1,367 |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | (19,195) | (7,122) |
| Inventory, net | (7,890) | (16,693) |
| Accounts payable | (3,964) | 10,666 |
| Accrued employment costs | 2,595 | (922) |
| Income taxes | (36) | (131) |
| Other, net | 1,307 | (399) |
| Net cash provided by operating activities | 729 | 866 |
| Investing Activity: | | |
| Capital expenditures | (13,211) | (4,699) |
| Net cash used in investing activity | (13,211) | (4,699) |
| Financing Activities: | | |
| Borrowings under revolving credit facility | 347,395 | 240,750 |
| Payments on revolving credit facility | (351,918) | (232,909) |
| Proceeds under New Markets Tax Credit financing | 2,835 | - |
| Payments on term loan facility, capital leases, and notes | (11,821) | (3,908) |
| Payments of financing costs | (1,105) | - |
| Proceeds from public offering, net of cash expenses | 32,246 | - |
| Proceeds from exercise of stock options | 834 | 104 |
| Net cash provided by financing activities | 18,466 | 4,037 |
| Net increase in cash and restricted cash | 5,984 | 204 |
| Cash and restricted cash at beginning of period | 207 | 75 |

| | | |
|---|---|---|
| Cash and restricted cash at end of period | $6,191 | $279 |

The following table provides a reconciliation of cash and restricted cash reported within the Consolidated Balance Sheets that sums to the total of the same such amounts shown in the Consolidated Statements of Cash Flow.

| | September 30, 2018 | September 30, 2017 |
|---|---|---|
| Cash | $ 33 | $ 279 |
| Restricted cash included in other long-term assets | 6,158 | - |
| Total cash and restricted cash | $ 6,191 | $ 279 |

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

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Nature of Business and Basis of Presentation

Universal Stainless & Alloy Products, Inc., and its wholly-owned subsidiaries (“Universal”, “we”, “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. 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 6, New Markets Tax Credit Financing Transaction, for a description of the VIE’s included in our consolidated financial statements.

Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”), which supersedes the revenue recognition requirements in ASC 605, “Revenue Recognition.” ASU 2014-09 is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue, cash flows arising from customer contracts, including significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. The Company adopted the provisions of ASU 2014-09 on January 1, 2018, using the modified retrospective approach. Revenue from the Company's product sales continue to generally be recognized when products are shipped (i.e. point in time). As such, the adoption of ASU 2014-09 had no material effect on revenue, gross margin or operating income; however, the Company has now presented the disclosures required by this new standard, refer to Note 3.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash," or ("ASU 2016-18"). ASU 2016-18 is intended to clarify how entities present restricted cash in the statement of cash flows. The guidance requires entities to show the changes in the total of cash and cash equivalents and restricted cash in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash in the statement of cash flows. When cash and cash equivalents and restricted cash are presented in more than one line item on the balance sheet, the guidance requires a reconciliation of the totals in the statement of cash flows to the related captions in the balance sheet. This reconciliation can be presented either on the face of the statement of cash flows or in the notes to the financial statements. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017 and is to be applied retrospectively. We adopted ASU 2016-18 in the first quarter of 2018 and applied the guidance retrospectively to our prior period Consolidated Statements of Cash Flow.

Recently Issued Accounting Pronouncements

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

In February 2016, the FASB issued ASU 2016-2 "Leases (Topic 842)". The ASU requires lessees to recognize most leases on their balance sheet as a right-of-use asset and a lease liability. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. The criteria for evaluating are similar to those applied in current lease accounting. This guidance is effective for annual and interim reporting periods beginning after December 15, 2018 with early adoption permitted. We are currently evaluating the impact of this guidance on our financial statements and will adopt on January 1, 2019.

In February 2018, the FASB issued ASU 2018-02, "Income Statement – Reporting Comprehensive Income," that will permit companies the option to reclassify stranded tax effects caused by the newly-enacted U.S. Tax Cuts and Jobs Act from accumulated other comprehensive income to retained earnings. Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. Adoption of the ASU will be optional, and companies will need to disclose if it elects not to adopt the ASU. The ASU will be effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption will be permitted, including adoption in any interim period, for financial statements that have not yet been issued or made available for issuance. Entities will have the option to apply the amendments retrospectively or to record the reclassification as of the beginning of the period of adoption. We are currently evaluating the impact of this guidance on our financial statements and will adopt on January 1, 2019.

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

Note 2: Net income (loss) per Common Share

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

| (dollars in thousands, except per share amounts) | Three months ended September 30, 2018 | 2017 | Nine months ended September 30, 2018 | 2017 |
|---|---|---|---|---|
| Numerator: | | | | |
| Net income (loss) | $ 3,916 | $ (259) | $ 10,079 | $ (250) |
| Denominator: | | | | |
| Weighted average number of shares of common stock outstanding (A) | 8,699,953 | 7,228,277 | 7,931,783 | 7,221,426 |
| Weighted average effect of dilutive stock options and other stock compensation | 252,796 | - | 234,976 | - |
| Weighted average number of shares of common stock outstanding, as adjusted | 8,952,749 | 7,228,277 | 8,166,759 | 7,221,426 |

| | | | | |
|---|---|---|---|---|
| Net income (loss) per common share: | | | | |
| Net income (loss) per common share - Basic | $ 0.45 | $ (0.04 ) | $ 1.27 | $ (0.03 ) |
| Net income (loss) per common share - Diluted | $ 0.44 | $ (0.04 ) | $ 1.23 | $ (0.03 ) |

(A) Calculation includes weighted average of 1,408,163 shares in the aggregate issued on May 25 and June 5, 2018 as part of an underwritten public offering by the Company.

On May 25, 2018, the Company completed an underwritten, public offering involving the issuance and sale by the Company of 1,224,490 shares of common stock at a public offering price of $24.50 per share. In addition, the Company granted the underwriters a 30-day option to purchase up to an additional 183,673 shares of common stock. On June 1, 2018, the underwriters exercised the option in full, and an additional 183,673 shares of common stock were issued and sold on June 5, 2018. The public offering resulted in gross proceeds to the Company of approximately $34.5 million, or $32.2 million net of the underwriting discount and other offering fees and expenses. We used the net proceeds from the public offering to repay amounts outstanding under the Company's revolving credit facility. The public offering's impact on the weighted average number of shares for the three and nine months ending September 30, 2018 is 1.4 million shares and 0.7 million shares, respectively.

We had options to purchase 236,000 and 495,675 shares of common stock outstanding at a weighted average price of $34.53 and $31.74 for the three months ended September 30, 2018 and 2017 which were excluded in the computation of diluted net income (loss) per common share for the three months ended September 30, 2018 and 2017, respectively. We had options to purchase 261,000 and 566,075 shares of common stock outstanding at an average price of $33.86 and $30.21 which were excluded in the computation of diluted net income (loss) per common share for the nine months ended September 30, 2018 and 2017, respectively. These outstanding options were not included in the computation of diluted net income (loss) per common share because their exercise prices were greater than the average market price of our common stock. The calculation of diluted net loss per common share for the three months ended September 30, 2017 excluded 121,750 shares, for the assumed exercise of stock options as a result of being in a net loss position. The calculation of diluted net loss per common share for the nine months ended September 30, 2017 excluded 99,638 shares, for the assumed exercise of stock options as a result of being in a net loss position. In addition, for the three and nine months ended September 30, 2017, the calculation of diluted net loss per share excluded 39,216 and 29,101 shares, respectively, for the assumed issuance of stock for restricted stock units 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.

The Company has evaluated the impact of the new revenue recognition standard on individual customer contracts. 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. Over-time recognition is a change from prior accounting, which was point-in-time for these products.

The adoption of ASU 2014-09, using the modified retrospective approach, had no material effect on revenue, gross margin or operating income. Additionally, on January 1, 2018 the adoption had an immaterial impact on the Company's Consolidated Balance Sheets. As of September 30, 2018, the adoption created contract assets related to services performed, not yet billed. These amounts are included in Accounts Receivable in the Consolidated Balance Sheets as of September 30, 2018. Contract assets recorded as of September 30, 2018 totaled $1.6 million. The Company does not have any material contract liabilities as of September 30, 2018.

The Company has elected the following practical expedients allowed under ASU 2014-09:

- 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 | Nine Months Ended September 30, |
|---|---|---|

| | 30, 2018 | 2017 | 2018 | 2017 |
|---|---|---|---|---|
| Net sales: | | | | |
| Specialty alloys | $ 58,325 | 42,511 | $ 161,048 | 130,287 |
| Premium alloys (A) | 9,152 | 7,364 | 33,035 | 19,967 |
| Conversion services and other sales | 1,579 | 1,012 | 4,781 | 2,115 |
| Total net sales | $ 69,056 | 50,887 | $ 198,864 | 152,369 |

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

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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 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, 2018 and 2017, we amortized these operating materials in the amount of $1.7 million and $1.5 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. Inventories consisted of the following:

| (in thousands) | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Raw materials and starting stock | $ 11,448 | $ 8,527 |
| Semi-finished and finished steel products | 102,189 | 99,820 |
| Operating materials | 11,973 | 10,850 |
| Gross inventory | 125,610 | 119,197 |
| Inventory reserves | (2,771) | (2,534) |
| Total inventory, net | $ 122,839 | $ 116,663 |

Note 5: Long-Term Debt

Long-term debt consisted of the following:

| (in thousands) | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Revolving credit facility | $ 33,500 | $ 38,024 |
| Notes | 19,000 | 19,000 |
| Term loan | 10,000 | 21,541 |
| Capital leases | 1,618 | 1,897 |
| Total debt | 64,118 | 80,462 |
| Less: current portion of long-term debt | (3,896) | (4,707) |

| | | |
|---|---|---|
| Less: deferred financing costs | (1,659) | (749) |
| Long-term debt, net | $ 58,563 | $ 75,006 |

Credit Facility

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

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

Availability under the Credit Agreement is based on eligible accounts receivable and inventory. Further, the Company must maintain undrawn availability under the Credit Agreement of at least an amount equal to payments due on the notes issued in connection with the acquisition of the North Jackson facility (collectively, the “Notes”), plus 12.5% of the maximum borrowing amount of $110.0 million. This requirement exists until the Notes are paid in full, refinanced or extended.

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

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

Amounts outstanding under the Facilities, at the Company's option, will bear interest at either a base rate or a LIBOR based rate, in either case calculated in accordance with the terms of the Credit Agreement. Interest under the Credit Agreement is payable monthly. We elected to use the LIBOR based rate for the majority of the debt outstanding under the Facilities for the three months ended September 30, 2018, which was 3.61% on our Revolving Credit Facility and 4.11% for the Term Loan.

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

At September 30, 2018, we had Credit Agreement related net deferred financing costs of approximately $1.0 million. For the nine months ended September 30, 2018, we amortized $0.2 million of deferred financing costs.

$6.7 million was drawn on the Revolving Credit Facility to fund cash restricted for use related to the New Markets Tax Credit ("NMTC") Financing Transaction. As of September 30, 2018, NMTC related restricted cash receipts totaling $2.2 million were applied to the Company's Revolving Credit Facility, described in Note 6.

Notes

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

On January 21, 2016, the Company entered into Amended and Restated Notes in the aggregate principal amount of $20.0 million, each in favor of Gorbert Inc. ("Holder"). The Company's obligations under the Notes are collateralized by a second lien on the same assets of the Company that collateralize the obligations of the Company under the Facilities.

The Notes were originally scheduled to mature on March 17, 2019. On March 30, 2018, the Company provided notification of its intent to extend the maturity date to March 17, 2020 in accordance with the terms of the Notes.

Upon the Company's extension of the maturity date of the Notes to March 17, 2020, principal payments in the aggregate of $2.0 million will be required to be made in March 2019. In conjunction with the intended extension of the maturity date of the Notes, $2.0 million has been classified within current portion of long-term debt.

Additionally, the Company has the option to further extend the maturity date of the Notes to March 17, 2021. Extending the maturity date of the Notes to March 17, 2021 would require a principal payment in the aggregate amount of $2.0 million to be made in March 2020.

The Notes bore interest at a rate of 5.0% per year through and including August 17, 2017 and bear a rate of 6.0% per year from and after August 18, 2017. Through and including June 18, 2017, all accrued and unpaid interest was payable semi-annually in arrears on each June 18 and December 18. After June 18, 2017, all accrued and unpaid interest is payable quarterly in arrears on each September 18, December 18, March 18 and June 18.

The Holder had the right to elect at any time on or prior to August 17, 2017 to convert all or any portion of the outstanding principal amount of the Notes. The Holder's conversion rights expired and are no longer subject to exercise.

Capital Leases

The Company enters into capital lease arrangements. The capital assets and obligations 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 which range from three to five years. The long-term component of the capital lease obligations is included in Long-term debt and the current component is included in Current portion of long-term debt. During the nine months ended September 30, 2018, the Company entered into a new capital lease agreement for which the net present value of the minimum lease payments, at inception, was not significant. During the nine months ended September 30, 2017, the Company entered into capital lease agreements for which the net present value of the minimum lease payments, at inception, was $0.4 million. These amounts have been excluded from the Consolidated Statements of Cash Flows as they are non-cash.

As of September 30, 2018, future minimum lease payments applicable to capital leases were as follows:

| | |
|---|---|
| 2018 | $151 |
| 2019 | 605 |
| 2020 | 583 |
| 2021 | 471 |
| 2022 | 56 |
| 2023 | 16 |
| Total minimum capital lease payments | $1,882 |
| Less amounts representing interest | (264) |
| Present value of net minimum capital lease payments | $1,618 |
| Less current obligation | (467) |