

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, 1998

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 0-25032

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 office, including zip code)

(412) 257-7600
(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 / X / No / /

The number of shares outstanding of the registrant's classes of common stock as of July 31, 1998:

Title of Class	Shares Outstanding
Common Stock, \$1.00 par value	6,315,450

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

This Quarterly Report on Form 10-Q contains historical information and forward-looking statements. Forward-looking statements are included in this Form 10-Q pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. They involve known and unknown risks and uncertainties that may cause the Company's actual results to differ from the discussions of future performance included herein. In the context of forward-looking information provided in this Form 10-Q and in other reports, please refer to the discussion of risk factors detailed in, as well as the other information contained in, the Company's filings with the Securities and Exchange Commission during the past 12 months.

	INDEX	PAGE NO.
PART I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements	
	Consolidated Condensed Statements of Operations	2
	Consolidated Condensed Balance Sheets	3
	Consolidated Condensed Statements of Cash Flows	4
	Notes to the Consolidated Condensed Financial Statements	5
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	7
PART II.	OTHER INFORMATION	
Item 4.	Submission of Matters to a Vote of Security Holders	9
Item 6.	Exhibits and Reports on Form 8-K	9
SIGNATURES		10

1

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-Months Ended June 30		For the Six-Months Ended June 30	
	1998	1997	1998	1997
	-----	-----	-----	-----
Net sales	\$21,163	\$20,809	\$43,512	\$39,580
Cost of products sold	17,332	16,414	35,799	31,473
Selling and administrative expenses	1,336	1,301	2,476	2,442
Operating income	2,495	3,094	5,237	5,665
Other income (expenses), net	(58)	(2)	75	(16)
Income before taxes	2,437	3,092	5,312	5,649
Income taxes	902	1,145	1,966	2,091
	-----	-----	-----	-----
Net Income	\$1,535	\$1,947	\$3,346	\$3,558
	=====	=====	=====	=====
Earnings per common share				
Basic	\$0.24	\$0.31	\$0.53	\$0.57
	=====	=====	=====	=====
Diluted	\$0.24	\$0.31	\$0.52	\$0.56
	=====	=====	=====	=====

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

2

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS
(Dollars in Thousands)

	June 30, 1998 (Unaudited)	December 31, 1997
ASSETS		
Current assets		
Cash and cash equivalents	\$ 178	\$ 177
Accounts receivable (less allowance for doubtful accounts of \$328 and \$298)	16,780	14,503
Inventory	16,607	15,471
Prepaid Expenses	950	894
	-----	-----
Total current assets	34,515	31,045
Property, plant and equipment, net	31,376	24,887
Other assets	246	219
	-----	-----
Total assets	\$66,137 =====	\$56,151 =====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Trade accounts payable	\$ 8,008	\$ 8,001
Current portion of long-term debt	410	338
Accrued employment costs	1,623	1,704
Other current liabilities	245	916
	-----	-----
Total current liabilities	10,286	10,959
Long-term debt	11,962	5,441
Deferred taxes	2,533	1,983
	-----	-----
Total liabilities	24,781	18,383
	-----	-----
Commitments and contingencies	--	--
Stockholders' equity		
Senior Preferred Stock, par value \$.001 per share; liquidation value \$100 per share; 2,000,000 shares authorized and 0 shares issued and outstanding	--	--
Common Stock, par value \$.001 per share; 10,000,000 shares authorized; 6,315,450 and 6,290,823 shares issued and outstanding	6	6
Additional paid-in capital	25,758	25,516
Retained earnings	15,592	12,246
	-----	-----
Total stockholders' equity	41,356	37,768
	-----	-----
Total liabilities and stockholders' equity	\$66,137 =====	\$56,151 =====

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

3

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)
(Unaudited)

	For the Six-Months Ended June 30	
	1998	1997
	----	----
Cash flow from operating activities:		
Net Income	\$ 3,346	\$ 3,558
Adjustments to reconcile to net cash used by operating activities:		
Depreciation and amortization	686	498
Deferred taxes	550	161
Changes in assets and liabilities:		
Accounts receivable, net	(2,277)	(5,628)
Inventory	(1,136)	(5,814)
Accounts payable and bank overdrafts	7	4,308
Accrued employment costs	(81)	250
Other, net	(624)	984
	-----	-----
Net cash provided by (used in) operating activities	471	(1,683)
	-----	-----
Cash flow from investing activities:		
Capital expenditures	(7,229)	(2,887)
	-----	-----
Net cash used in investing activities	(7,229)	(2,887)
	-----	-----
Cash Flow from financing activities:		
Borrowings from long-term debt	6,346	500
Proceeds from issuance of Common Stock	215	26
Net borrowing under revolving line of credit	427	546
Long-term debt payments	(180)	(138)
Deferred financing costs	(49)	(12)
	-----	-----
Net cash provided by financing activities	6,759	922
	-----	-----
Net increase (decrease) in cash and cash equivalents	1	(3,648)
Cash and cash equivalents at beginning of period	177	4,219
	-----	-----
Cash and cash equivalents at end of period	\$ 178	\$ 571
	=====	=====
Supplemental disclosure of cash flow information:		
Interest paid	\$ 286	\$ 94
Income taxes paid	\$ 1,730	\$ 1,749

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

- 1) Universal Stainless & Alloy Products, Inc. (the "Company"), was incorporated in 1994 for the principal purpose of acquiring substantially

all of the idled equipment and related assets located at the Bridgeville, Pennsylvania, production facility of Armco, Inc. in August 1994.

The accompanying unaudited, consolidated condensed financial statements of operations for the three- and six-month period ended June 30, 1998 and 1997, balance sheets as of June 30, 1998 and December 31, 1997, and statements of cash flows for the six-month periods ended June 30, 1998 and 1997 have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, these statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 1997. In the opinion of management, the accompanying unaudited, condensed consolidated financial statements contain all adjustments, all of which were of a normal recurring nature, necessary to present fairly, in all material respects, the consolidated results of operations and of cash flows for the periods ended June 30, 1998 and 1997, and are not necessarily indicative of the results to be expected for the full year.

- 2) Effective January 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," which requires companies to disclose information regarding comprehensive income and its components. Comprehensive income is defined as a change in equity resulting from nonowner sources. The Company does not have any material adjustments to net income in order to derive comprehensive income; accordingly, comprehensive income has not been presented in the accompanying consolidated condensed financial statements.
- 3) 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 Six-Months Ended June 30		For the Three-Months Ended June 30	
	1998	1997	1998	1997
	----	----	----	----
Weighted average number of shares of Common Stock outstanding	6,303,356	6,283,734	6,311,203	6,283,773
Assuming exercise of stock options and warrants reduced by the number of shares which could have been purchased with the proceeds from exercise of such stock options and warrants	102,355	55,974	61,539	83,904
	-----	-----	-----	-----
Weighted average number of shares of Common Stock outstanding, as adjusted	6,405,711	6,339,708	6,372,742	6,367,677
	=====	=====	=====	=====

- 4) The major classes of inventory are as follows (dollars in thousands):

	JUNE 30, 1998	DECEMBER 31, 1997
Raw materials and supplies	\$ 2,988	\$ 2,869
Semi-finished steel products	11,152	10,569
Operating materials	2,647	2,033
	=====	=====
Total inventory	\$16,607	\$15,471
	=====	=====

- 5) Property, plant and equipment consists of the following (dollars in thousands):

	JUNE 30, 1998	DECEMBER 31, 1997
Land and land improvements	\$ 869	\$ 832
Buildings	1,711	1,699
Machinery and equipment	23,532	21,418
Construction in progress	7,701	2,726
	-----	-----
	33,813	26,675
Accumulated depreciation	(2,437)	(1,788)
	-----	-----
Property, plant and equipment, net	\$31,376	\$24,887
	=====	=====

- 6) The Company has reviewed the status of its environmental contingencies and believes there are no significant changes from that disclosed in Form 10-K for the year ended December 31, 1997.

6

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

RESULTS OF OPERATIONS

Net sales by product line and cost of products sold for the three- and six-month periods ended June 30, 1998 and 1997 were as follows (dollars in thousands):

	Three-Month Period Ended June 30		Six-Month Period Ended June 30	
	1998	1997	1998	1997
	-----	-----	-----	-----
Net sales				
Stainless steel	\$16,006	\$15,644	\$31,692	\$30,367
Tool steel	1,709	2,334	4,693	4,375
High temperature alloy steel	1,311	816	2,645	1,142
Conversion services	1,216	1,148	2,540	2,290
Other	921	867	1,942	1,406
	-----	-----	-----	-----
Total net sales	\$21,163	\$20,809	\$43,512	\$39,580
	-----	-----	-----	-----
Cost of products sold				
Raw materials	8,231	8,505	16,954	16,188
Other	9,101	7,909	18,852	15,285
	-----	-----	-----	-----
Total cost of products sold	17,332	16,414	35,799	31,473
	-----	-----	-----	-----
Selling and administrative expenses	1,336	1,301	2,476	2,442
	-----	-----	-----	-----
Operating income	\$ 2,495	\$ 3,094	\$ 5,237	\$ 5,665
	=====	=====	=====	=====

THREE- AND SIX-MONTH PERIODS ENDED JUNE 30, 1998 AS COMPARED TO THE SIMILAR

PERIODS IN 1997

The increase in net sales for the three- and six-month periods ended June 30, 1998 as compared to the similar periods in 1997 reflects increased shipments of stainless steel reroll products and bar mill products for the forging and service center market segments. This increase was partially offset by lower selling prices primarily due to lower nickel prices and imports.

Cost of products sold, as a percentage of net sales, was 81.9% and 78.9% for the three-month periods ended June 30, 1998 and 1997, respectively, and was 82.3% and 79.5% for the six-month periods ended June 30, 1998 and 1997, respectively. This increase is primarily due to pricing pressures from imports, lagging raw material cost reductions and increased energy costs. Selling and administrative expenses remained relatively constant between 1997 and 1998.

Other income (expense), net was \$(2,000) and \$(58,000) for the three-month periods ended June 30, 1997 and 1998, respectively. The decrease is primarily due to interest expense associated with increased borrowings under the Company's revolving line of credit to fund working capital needs. Other income (expense), net was \$(16,000) and \$75,000 for the six-month periods ended June 30, 1997 and 1998, respectively. The increase is primarily due to a \$200,000 government grant related to the Company's expansion of its Bridgeville operations which was partially offset by an increase in interest expense.

7

The effective income tax rate utilized in the three- and six-month periods ended June 30, 1998 and 1997 was 37.0%.

FINANCIAL CONDITION

The Company has financed its 1998 operating activities to date through cash flows from operations, borrowings and cash on hand at the beginning of the period. The ratio of current assets to current liabilities increased from 2.8:1 at December 31, 1997 to 3.4:1 at June 30, 1998. The percentage of debt to capitalization 13% at December 31, 1997 to 23% at June 30, 1998 primarily due to the funding of capital expenditures from the \$15.0 million term loan from PNC Bank during 1998.

Accounts receivable, net increased by \$2.3 million for the six-month period ended June 30, 1998 as compared to an increase of \$5.6 million for the six-month period ended June 30, 1997. Inventory increased by \$1.1 million for the six-month period ended June 30, 1998 as compared to an increase of \$5.8 million for the six-month period ended June 30, 1997. Trade accounts payable remained constant for the six-month period ended June 30, 1998 as compared to an increase of \$4.3 million for the six-month period ended June 30, 1997. Each of these increases can be primarily attributed to the continued growth of the Company's business.

The Company's capital expenditures approximated \$7.2 million for the six-month period ended June 30, 1998, which primarily related to the construction of a round bar finishing facility located at the Bridgeville Facility. At June 30, 1998, the Company had outstanding purchase commitments in addition to the expenditures incurred to date of approximately \$5.3 million. These expenditures are expected to be funded substantially from internally generated funds and the \$15.0 million term loan from PNC Bank.

The Company anticipates that it will continue to fund its 1998 working capital requirements and its capital expenditures primarily from funds generated from operations and borrowings. The Company's long-term liquidity requirements, including capital expenditures, are expected to be financed by a combination of internally generated funds, borrowings and other sources of external financing if needed.

1998 OUTLOOK

Pricing pressure from imports is expected to continue to negatively impact the Company's financial results until the impact of filed trade cases takes effect. The 1998 second half results are expected to benefit from increased production at the bar mill, the start-up of the round bar finishing facility and manufacturing cost reduction initiatives.

YEAR 2000

The Company is engaged in a program to modernize and replace its computerized production control and management information systems. Although not the primary product of the program, the new systems will be designed to avoid any Year 2000 problems. The Company is also inquiring of its suppliers and others as to their own Year 2000 compliance. There can be no assurance that the Company will successfully avoid any Year 2000 problems.

PART II. OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

The Annual Meeting of Stockholders of Universal Stainless & Alloy Products, Inc. was held on May 20, 1998, for the purpose of electing a board of directors and approving the appointment of auditors. Proxies for meeting were solicited pursuant to section 14(a) of the Securities Exchange Act of 1934 and there was no solicitation in opposition to management's solicitation.

All of the management's nominees for directors as listed in the proxy statement were elected by the following vote:

	Shares Voted "For"	Shares "Withheld"	Shares Not Voted
D. Dunn	4,351,987	7,200	1,951,989
G. Keane	4,352,987	6,200	1,951,989
C. McAninch	4,316,287	42,900	1,951,989
U. Toledano	4,352,134	7,053	1,951,989
D. Wise	4,352,987	6,200	1,951,989

The appointment of PriceWaterhouseCoopers LLP as independent auditor was approved by the following vote:

Shares Voted "For"	Shares Voted "Against"	Shares "Abstaining"	Shares Not Voted
4,319,487	39,400	300	1,951,989

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits

27.1 Financial Data Schedule

b. The Company filed no reports on Form 8-K for the quarter ended June 30, 1998.

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.

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

Date: August 11, 1998 /S/ CLARENCE M. MCANNICH

 Clarence M. McAnnich
 President and Chief Executive Officer

Date: August 11, 1998 /S/ RICHARD M. UBINGER

Richard M. Ubinger
Chief Financial Officer and Treasurer
(Principal Accounting Officer)

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<LEGEND>

This schedule contains summary financial information extracted from the June 30, 1998 Financial Statements included in the Company's Form 10-Q and is qualified in its entirety by reference to such Form 10-Q.

</LEGEND>

<CIK>

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UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

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