

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 1996
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 offices, including zip code)

(412) 257-7600
(Telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:

Title of Class
Common Stock

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

As of September 30, 1996, there were 6,270,000 shares of the Registrant's
Common Stock issued and outstanding.

424412.1

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

This Quarterly Report on Form 10-Q contains historical information and
forward-looking statements. Statements looking forward in time 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 use the Company's actual results in future periods to be materially different from any future performance suggested 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.

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Part I.	Financial Information
Item 1.	Financial Statements

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in Thousands, except per share information)
(Unaudited)

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	1996 ----	1995 ----	1996 ----	1995 ----
Net Sales	\$16,708	\$9,961	\$43,882	\$34,482
Cost of products sold	13,005	8,719	35,336	30,106
	-----	-----	-----	-----
Gross profit	3,703	1,242	8,546	4,376
Selling and administrative expenses	1,184	1,019	3,558	2,529
	-----	-----	-----	-----
Operating income	2,519	223	4,988	1,847
Interest and other income	21	29	186	101
	-----	-----	-----	-----
Interest and other financing costs	(36)	(108)	(97)	(310)
	-----	-----	-----	-----

Income before taxes	2,504	144	5,077	1,638
Income taxes	952	(238)	1,929	164
	-----	-----	-----	-----
Net income	\$1,552	\$382	\$3,148	\$1,474
	=====	=====	=====	=====
Net income per share of Common Stock	\$0.25	\$0.08	\$0.50	\$0.32
	=====	=====	=====	=====
Weighted average number of shares of Common Stock outstanding	6,270,000	4,570,000	6,270,000	4,563,628
	=====	=====	=====	=====

The accompanying notes are an integral part of these financial statements

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UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

	September 30, 1996 (Unaudited)	December 31, 1995
ASSETS		
Current assets		
Cash and cash equivalents	\$1,819	\$10,038
Accounts receivable (less allowance for doubtful accounts of \$223 and \$178)	12,769	7,832
Inventory (Note 2)	10,885	7,105
Prepaid Expenses	571	470
	-----	-----
Total current assets	26,044	25,445
	-----	-----
Property, plant and equipment	15,287	6,928
Accumulated depreciation	(559)	(264)
	-----	-----
Net property, plant and equipment	14,728	6,664
	-----	-----
Other assets	575	328
	-----	-----
Total assets	\$41,347	\$32,437
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Trade accounts payable	\$6,929	\$4,085
Bank overdrafts	1,400	992
Current portion of long-term debt	144	73
Accrued employment costs	1,480	687
Other current liabilities	1,484	547
	-----	-----
Total current liabilities	11,437	6,384
Long-term debt	1,171	462
	-----	-----
Total liabilities	12,608	6,846
	-----	-----
Commitments and contingencies (Note 3)	--	--
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; 6,270,000 shares issued and outstanding	6	6
Additional paid-in capital	25,338	25,338
Retained earnings	3,395	247
	-----	-----
Total stockholders' equity	28,739	25,591
	-----	-----
Total liabilities and stockholders' equity	\$41,347	\$32,437
	=====	=====

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

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UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)
(Unaudited)

	For the Nine Months Ended	
	September 30, 1996	September 30, 1995
Cash flow from operating activities:		
Net income	\$3,148	\$1,474
Adjustments to reconcile to net cash used by operating activities:		
Depreciation and amortization	351	201
Changes in assets and liabilities:		
Accounts receivable, net	(4,937)	(5,185)
Inventory	(3,780)	(1,424)
Accounts payable and bank overdrafts	3,252	1,981
Accrued employment costs	793	397
Other, net	593	(84)
	-----	-----
Net cash used by operating activities	(580)	(2,640)
	-----	-----
Cash flows from investing activities:		
Acquisition of assets through purchase agreement (Note 3)	--	(859)
Capital expenditures	(8,124)	(2,005)
	-----	-----
Net cash used by investing activities	(8,124)	(2,864)
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	600	--
Proceeds from issuance of Common Stock	--	353
Net borrowing under revolving line of credit	--	4,229
Long-term debt payments	(90)	(7)
Deferred financing costs	(25)	(15)
	-----	-----
Net cash provided by financing activities	485	4,560
	-----	-----
Net decrease in cash	(8,219)	(944)
Cash at beginning of period	10,038	1,123
	-----	-----
Cash at end of period	\$1,819	\$179
	=====	=====
Supplemental disclosure of cash flow information:		
Interest paid	\$52	\$242
Income taxes paid	\$938	\$225

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1) Universal Stainless & Alloy Products, Inc. (the "Company") was incorporated in June 1994, and is the successor by merger (the "Merger") to a corporation incorporated in January 1994, for the principal purpose of acquiring substantially all of the idled equipment and related assets (the "Assets") located at the Bridgeville, Pennsylvania, production facility of Armco, Inc. ("Armco"). On August 15, 1994, the Company entered into an Asset Purchase Agreement (the "Asset Agreement") with Armco to purchase the Assets.

On June 2, 1995, the Company and Armco entered into an Asset and Real Property Purchase Agreement (the "Purchase Agreement") pursuant to which the Company agreed to buy the precision rolled products business (the "PRP Business") and the vacuum arc remelting equipment (the "VAR Assets") of Armco's Cytemp Division located in Titusville, Pennsylvania (the "PRP Division").

The accompanying unaudited, condensed consolidated financial statements of operations for the three- and nine-month periods ended September 30, 1996 and 1995, balance sheets at September 30, 1996 and December 31, 1995, and statement of cash flows for the nine-month periods ended September 30, 1996 and 1995 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 period ended December 31, 1995. 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 September 30, 1996 and 1995, and are not necessarily indicative of the results to be expected for the full year.

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

	September 30, 1996 -----	December 31, 1995 -----
Raw materials and supplies	\$1,922	\$1,473
Semi-finished steel products	7,155	4,278
Operating materials	1,808	1,354
	-----	-----
Total inventory	\$10,885 =====	\$7,105 =====

3) The Company has reviewed the status of its environmental contingencies and believes there are no material changes from that disclosed in Form 10-K for the year ended December 31, 1995.

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 nine-month periods ended September 30, 1996 and 1995 were as follows (dollars in thousands):

	Three-month period ended September 30,		Nine-month period ended September 30,	
	1996	1995	1996	1995
Net sales				
Stainless steel	\$13,562	\$8,876	\$34,071	\$27,904
Tool steel	1,617	403	5,977	3,359
Conversion services	966	525	2,696	2,414
Other	563	157	1,138	805
	-----	-----	-----	-----
Total net sales	\$16,708	\$9,961	\$43,882	\$34,482
	-----	-----	-----	-----
Cost of products sold				
Raw materials	6,747	4,853	17,727	18,006
Other	6,258	3,866	17,609	12,100
	-----	-----	-----	-----
Total cost of products sold	13,005	8,719	35,336	30,106
	-----	-----	-----	-----
Gross profit	\$3,703	\$1,242	\$8,546	\$4,376
	-----	-----	-----	-----

THREE- AND NINE- MONTH PERIODS ENDED SEPTEMBER 30, 1996 VS. THREE- AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 1995

The increase in net sales for the three- and nine-month periods ended September 30, 1996 as compared to the similar periods in 1995 reflects the June 1995 acquisition of the PRP Business and VAR Assets, and an increase in shipments of stainless steel within the reroller and original equipment manufacturer market segments. The 1995 third quarter and nine-month periods sales and earnings were unfavorably impacted by the approximately six-week production halt of the universal rolling mill at the Bridgeville facility in July and August of last year.

Cost of products sold, as a percent of net sales, was 77.8% and 87.5% for the three-month periods ended September 30, 1996 and 1995, respectively, and was 80.5% and 87.3% for the nine-month periods ended September 30, 1996 and 1995, respectively. This improvement is primarily due to lower acquisition costs for the Company's primary raw materials, improved manufacturing yields, and the absence of the production halt described above, which were partially offset by the level of manufacturing required by the mix of products sold in 1996.

Selling and administrative expenses increased from \$1,019,000 and \$2,529,000 in the three- and nine-month periods ended September 30, 1995 to \$1,184,000 and \$3,558,000 in the three- and nine-month periods ended September 30, 1996. The increase primarily relates to insurance costs and the addition of personnel as a result of the continued growth of the business, including the June 1995 acquisition of the PRP Business and VAR Assets.

Interest and other income decreased in the three-month period ended September 30, 1996 in comparison to the same period in 1995. Interest and other income increased in the nine-month period ended September 30, 1996 in comparison to the same period in 1995. These changes are primarily due to cash available for investing purposes during the respective periods. The increased cash availability in 1996 is directly related to the sale of 1,700,000

shares of Common Stock in a public offering completed in November 1995. The public offering proceeds have been utilized to fund the Company's capital

expenditure program. In addition, the Company was not required to borrow funds under its \$6.5 million revolving line of credit which resulted in a decrease in interest and other financing costs from \$108,000 and \$310,000 in the three- and nine-month periods ended September 30, 1995 to \$36,000 and \$97,000 in the three- and nine-month periods ended September 30, 1996.

The effective income tax rate utilized in the three- and nine-month periods ended September 30, 1996 was 38.0%. The effective income tax rate utilized for the nine-month period ended September 30, 1995 was reduced from 27.0% to 10.0%, reflecting the impact of the production halt at the Bridgeville facility during the 1995 third quarter. The lower effective income tax rate in 1995 reflects the recognition of the benefit of net operating loss carryforwards generated in 1994.

Financial Condition

The Company has primarily financed its 1996 activities to date through cash flows from operations and cash on hand at the beginning of the period. The ratio of current assets to current liabilities decreased from 4.0:1 at December 31, 1995 to 2:3:1 at September 30, 1996 primarily due to the funding of capital expenditures during 1996.

Accounts receivable, net increased by \$4.9 million for the nine-month period ended September 30, 1996 as compared to an increase of \$5.2 million for the nine-month period ended September 30, 1995. Inventory increased by \$3.8 million for the nine-month period ended September 30, 1996 as compared to an increase of \$1.4 million for the nine-month period ended September 30, 1995. Accounts payable and bank overdrafts increased by \$3.3 million for the nine-month period ended September 30, 1996 as compared to an increase of \$2.0 million for the nine-month period ended September 30, 1995. Each of these increases can be primarily attributed to the continued growth of the business since its formation in August 1994.

The increase in long term debt is due to the issuance of a \$400,000 loan from the Commonwealth of Pennsylvania's Business Infrastructure Development Program in March 1996 and a \$200,000 loan from the Commonwealth of Pennsylvania's Economic Development Program in April 1996. The Company also entered into a \$270,000, 5-year capital lease for mobile equipment in June 1996.

The Company maintains a \$6.5 million revolving credit facility through April 1998. In addition, the Company continues to seek low-interest government financing opportunities to supplement the liquidity available to fund its capital expenditures. In August 1996, the Company executed a commitment letter with the County of Allegheny's Department of Development to enter into a \$1.5 million, 10-year loan agreement at a 6% interest rate. In November 1996, the Company executed a commitment letter with the Commonwealth of Pennsylvania Department of Community and Economic Development to enter into a \$500,000, 7-year loan agreement at a 6% interest rate. The Company expects to execute final loan documents during the 1996 fourth quarter.

Capital Expenditure Program

The Company's capital expenditures approximated \$8.1 million in the nine-month period ended September 30, 1996, bringing aggregate expenditures under its 1995-96 capital expenditures program to \$10.2 million. At September 30, 1996, the Company has outstanding purchase commitments of approximately \$3.8 million. The roller leveler, utilized to flatten plate products, was delivered and placed into operation in August 1996. Planned projects at the Company's Melt Shop and Universal Rolling Mill are in process and are expected to be completed early in 1997.

1996 Outlook

The Company is experiencing increased demand from the power generation sector, which is expected to generate sales growth within the original equipment manufacturers market segment. While the Company's volume of reroll product

<ARTICLE>

5

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS AS OF SEPTEMBER 30, 1996 AND THE CONDENSED CONSOLIDATED BALANCE SHEETS FOR THE QUARTER ENDED SEPTEMBER 30, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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