UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED)
For the Fiscal Year Ended December 31, 1996

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

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	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 Act:
None

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

Title of Class
Common Stock, $0.001 par value

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (ss.229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of the voting stock held by non-affiliates of the registrant on March 25, 1997, based on the closing price of these shares of $9 7/8 on that date, was $54,149,602. For the purposes of this disclosure only, the registrant has assumed that its directors, executive officers, and beneficial owners of 5% or more of the registrant's Common Stock are the affiliates of the registrant.

As of March 25, 1997, there were 6,283,734 shares of the Registrant's Common Stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Annual Report to Stockholders for the year ended December 31, 1996, and definitive Proxy Statement for the Annual Meeting of Stockholders scheduled to be held May 21, 1997, are incorporated by reference into Parts II and III of this Form 10-K.

TABLE OF CONTENTS

- -

PART I

ITEM 1. BUSINESS

General

Universal Stainless & Alloy Products, Inc. (the "Company"), manufactures and markets semi-finished and precision cold-rolled products, including stainless steel, tool steel and certain other alloyed steels. The Company's products are sold to rerollers, forgers, service centers and original equipment manufacturers. The Company's products are then finished by its customers and marketed for use primarily in the heavy equipment manufacturing, power generation and aerospace industries. The Company also provides conversion services on materials supplied by customers that lack certain of the Company's production facilities or that are subject to their own capacity constraints.

While the Company operates in a manner characteristic of a mini-mill, emphasizing a low operating cost structure, efficient use of production and management personnel and flexible production capabilities, the Company's extensive range of manufacturing equipment allows it to achieve product breadth and quality similar to that of a large, integrated specialty steel producer. The Company's products are manufactured in a wide variety of grades, widths and gauges in response to customer specifications. The Company is capable of fabricating semi-finished specialty steel products that include both long products (ingots, blooms, billets and bars), which are used by customers to produce bar, rod and wire, and flat rolled products (slabs and plates), which are used by customers to produce fine-gauge plate, sheet and strip products. The Company also produces customized shapes that are cold rolled from purchased coiled strip, flat bar or extruded bar.

The Company was incorporated in Delaware on June 27, 1994. On July 29, 1994, the Company completed a stock-for-stock merger with a corporation of the same name organized in Pennsylvania in January 1994 (the "Pennsylvania Corporation"), for the principal purpose of acquiring from Armco, Inc. (Armco), and operating substantially all of the equipment and related assets (the "Assets") of Armco's Stainless and Alloy Products Division ("ASAP"), formerly owned by Cyclops Industries, Inc. ("Cyclops"), that are located at Bridgeville, Pennsylvania (the "Bridgeville Facility"). Prior to the Merger, the Pennsylvania Corporation had no operating history and no material assets. Through August 15, 1994, the date the acquisition was consummated, the Company was solely involved in organizational and financing activities.

On June 2, 1995, the Company acquired its precision rolled products business from the Cytemp division of Armco (the "PRP Business"). Simultaneously, the Company acquired from the Cytemp division five vacuum-arc remelting furnaces and certain ancillary equipment that was not operationally related to the PRP Business and had been idled since January 1994.

Industry Overview

The specialty steel industry is a relatively small but distinct segment of the overall steel industry. According to the Specialty Steel Institute of North America (the "SSNA"), specialty steels are among the highest-valued steel products produced.

Specialty steels include stainless steels, high speed and tool steels, electrical steels, high temperature alloys and magnetic and electronic alloys. Specialty steels are made with a high alloy content, which enables their use in environments that demand exceptional hardness, toughness, strength and resistance to heat, corrosion or abrasion, or combinations thereof. Specialty steels generally must conform to more demanding customer specifications for consistency, straightness and surface finish than carbon steels.

The Company primarily manufactures stainless steel, tool steel, and certain other alloyed steels:

Stainless Steel. Stainless steel, which represents the largest part of the specialty steel market, contains elements such as nickel, chrome and molybdenum that give it unique qualities of resistance to rust, corrosion and heat, high strength, good wear characteristics, natural attractiveness, and ease of maintenance. Stainless steel is used, among other applications, in the automotive, aircraft and aerospace industries and in the manufacture of food handling, chemical processing, pollution control and medical and health equipment. The large number of applications for stainless steel has resulted in the development of a greater variety of stainless steel metallurgical grades than carbon steel.

Stainless steel was created in response to a need for materials that would provide better resistance to corrosion than carbon steel. Adding chrome to carbon steel makes it more rust and stain resistant and adding nickel to chrome stainless steel enhances the mechanical properties and fabrication characteristics of the steel. Stainless steel's resistance to many corrosive conditions, such as exposure to water, air, food and alkalis, is provided by a thin, transparent protective chrome oxide film that forms on its exterior. When this film is scratched, nicked or otherwise penetrated, a fresh film immediately forms to preserve the corrosion resistance.

Stainless steel is manufactured in different types, or grades, but each type contains at least 10% chrome, along with other elements that are added to develop specific properties. Depending on the quantity of the various elements present in a stainless steel alloy, it will have a metallurgical structure characteristic of one of three basic stainless steel groups-austenitic, martensitic or ferritic. The Company makes products in each of those groups, but most of the Company's products are in the austenitic category.

Austenitic stainless steels, unlike the other two groups of stainless steel alloys, contain 4-35% nickel. Austenitic stainless steels, which are non-magnetic, have outstanding ductility and can be cold worked so that the final condition attained has the most advantageous combination of strength and toughness. In addition, certain austenitic stainless steels may be used at temperatures from -200~C to 1,100~C and still maintain their formability and strength. These physical properties make austenitic stainless steels the most popular grades.

Martensitic stainless steels contain 10-18% chrome for corrosion resistance, can be hardened by heat treating to a wide variety of mechanical properties and are magnetic under all conditions. These steels are generally used where abrasion resistance and high strength are important requirements.

Ferritic stainless steels generally contain a similar amount of chrome as martensitic stainless steels but have a lower carbon content. However, chrome content in this stainless steel group can range as high as 27% for maximum oxidation resistance at high temperatures. As with the martensitic group, the addition of other elements to the basic alloy brings about special properties for particular end uses. Ferritic steels are also magnetic under all conditions. Ferritic stainless steels are less susceptible to stress corrosion cracking problems and are generally cheaper to produce than austenitic stainless steels because they do not contain nickel. However, because they do not contain nickel, ferritic stainless steels are less malleable than austenitic grades and have fewer applications.

Tool Steel. Tool steels contain elements of manganese, silicon, chrome and molybdenum to produce specific hardness characteristics that enable them to form, cut, shape and shear other materials in the manufacturing process. These hardness characteristics are brought out by heating and cooling at precise rates in the annealing process. Tool steels are utilized in the manufacture of metals, plastics, pharmaceuticals, electronics, optics and paper and aluminum extrusions.

High Strength Low Alloy Steel. High strength low alloy steel is a relative term that refers to those steels that maintain alloying elements that range in versatility. The alloy element of such steels as nickel, chrome and molybdenum typically exceed the alloy element of carbon steel but not that of high temperature alloy steel.

High Temperature Alloy Steel. These steels are designed to meet critical requirements of heat resistance and structural integrity. They generally have a very high nickel content relative to other types of specialty steels. High temperature alloy steels are manufactured for use generally in the aerospace industry.

Net sales by principal product line were as follows:

	1996	1995	1994
Stainless steel	$46,903,000	$38,292,000	$4,192,000
Tool steel	8,019,000	4,080,000	1,212,000
Conversion services	3,804,000	3,272,000	188,000
Other	1,532,000	1,348,000	151,000
	$60,258,000	$46,992,000	$5,743,000

Raw Materials

Scrap Metal

The Company's major raw material is ferrous scrap metal, which is generated principally from industrial, automotive, demolition and railroad sources and is purchased in the open market through a number of scrap brokers and dealers or by direct purchase. The Company purchases approximately 80% of its scrap metal from six principal domestic suppliers. The long-term demand for scrap metal and its importance to the domestic specialty steel industry may be expected to increase as steelmakers continue to expand scrap metal-based electric furnace capacity with additions to or replacements of existing integrated specialty steel manufacturing facilities that use iron ore, coke and limestone as their raw materials. The high quality of the Company's products requires use of premium grades of scrap metal, the supply of which is more limited. The Company has not experienced difficulty to date in purchasing adequate scrap metal for its production processes. The Company believes that adequate supplies of scrap metal will continue to be available in sufficient quantities for the foreseeable future. Raw material prices vary based on numerous factors, including quality, and are subject to frequent market fluctuations and future prices cannot be predicted with any degree of certainty.

Alloys

The Company purchases various materials for use as alloy additions, some of which come from Canada (principally nickel) and other foreign countries. Certain of those alloys (principally chrome) are supplied by South African manufacturers and any political disruptions in that country could interfere with the delivery of those materials.

The cost of scrap metal together with alloy additives is more than 50% of the Company's total cost of products sold. The Company has established arrangements with certain raw material suppliers that permit the Company to purchase certain raw materials at set prices for up to 30 to 90 days, which may protect the Company against short-term price increases in raw materials after it has agreed to manufacture products for its customers at specified prices, which reflect those set raw material prices.

PRP Business

The PRP Business' principal starting materials consist of metallic flat bar, extruded "near shaped" bar and coiled strip, which the Company cold rolls to customer specification to produce special shapes. The Company generally purchases those starting materials from steel strip coil suppliers, extruders, flat rolled producers and service centers. The Company believes that adequate supplies of starting material for the PRP Business will continue to be available in sufficient quantities for the foreseeable future.

The Company does not maintain any long-term written agreements with any of its raw material suppliers.

Energy Agreements

The production of steel requires the ready availability of substantial amounts of energy. Electricity is the major energy source consumed in the Company's operations. The Company believes that its energy arrangements allow it to compete effectively within its industry. The Company also uses natural gas in certain of its furnaces, and certain industrial and refining gases, including oxygen, nitrogen and argon, in connection with its AOD operations. A curtailment or interruption in energy supplies could adversely affect the performance of the Company, as could an increase in energy-related costs.

At the Bridgeville Facility, the Company purchases electricity from Duquesne Light Company ("DLC") pursuant to a five-year supply agreement entered into in July 1994, with one-year renewal options. Under that agreement, the Company has been granted significant reductions in DLC's posted base demand rates, particularly if, as the Company plans, it conducts its principal melting operations in off-peak hours, which for purposes of the DLC agreement are between 6 p.m. and 10 a.m. (16 hours) daily and up to 24 hours a day on weekends. The Company purchases natural gas from Columbia Energy Services Corporation on a month-to-month basis.

At the Titusville Facility, the Company purchases electricity from Pennsylvania Electric Company pursuant to a one-year supply agreement entered into in June 1995, with one-year renewal options. QSE&P, Inc., a wholly owned subsidiary of Quaker State Corporation, supplies all the Company's natural gas requirements at that location pursuant to a one-year supply agreement entered into in May 1995, which is eligible for renewal thereafter.

Air Products and Chemicals, Inc. supplies all the Company's liquid gas for industrial requirements for its AOD operations pursuant to a five-year agreement entered into in July 1994, which contains one-year renewal options.

Customers

As of March 24, 1997, the Company has approximately 140 active customers. The Company's principal customers are rerollers, forgers, service centers and original equipment manufacturers, which primarily include the power generation and aerospace industries. A principal element of the Company's business strategy is to seek new customers so that over time it will reduce its dependence on one or a small number of customers. For the year ended December 31, 1996, Talley Metals Technology, Inc., a subsidiary of Talley Industries, Inc., accounted for 44% of the Company's total net sales.

The Company's products are marketed directly to its customers by Company personnel, including the Company's President and Chief Executive Officer, its PRP Division General Manager, five full-time sales persons and two independent sales representatives. Many of the Company's current customers had pre-existing business relationships with the Company's management prior to the formation of the Company. In view of the relatively small number of prospective customers for the Company's customized products, the strong business relationships with its customers and the thorough product knowledge and substantial experience with actual and prospective customers of those management and marketing persons, the Company believes its sales force is adequate for its current and immediately foreseeable needs. The Company does not have any long-term written agreements with any of its customers.

Backlog

The Company manufactures products to meet specific customer orders, generally fulfilling orders in eight weeks or less, and consequently does not manufacture for inventory purposes. The Company's backlog of orders on hand as of March 24, 1997, was approximately $18.5 million as compared to approximately $11.0 million at the same time in 1996. Customer orders are generally subject to cancellation with the payment of a penalty charge prior to shipment. The Company's backlog may not be indicative of actual sales and therefore should not be used as a measure of future revenue.

Seasonality of Business

The Company's sales and earnings are influenced by seasonal factors. Results in each third fiscal quarter (three months ending September 30) are expected to be adversely affected by the Company's annual week-long plant vacation closing during the July 4 holiday period as well as vacation closings of many of its customers during that period. Results in each fourth fiscal quarter (three months ending December 31) are adversely affected by the Company's vacation closings during the Christmas holiday periods, as well as by the vacation closings of many of its customers during this period, and by order slowdowns as customers fulfill their annually budgeted inventory requirements.

Competition

The Company believes itself to be one of approximately 20 domestic manufacturers that produce specialty steel and one of approximately six domestic specialty steel manufacturers that produce special shapes. Of that number of firms that produce specialty steel, the Company believes six companies currently compete with the Company in the semi-finished specialty steel sector, although other specialty steel mills have the capability of producing, and hence competing with, some of or all the Company's semi-finished specialty steel products.

Major competitors of the Company in the semi-finished specialty steel market include fully integrated specialty steel producers such as Allegheny-Teledyne, Inc.; Carpenter Technology Corporation; AL Tech Specialty Steel Corporation; Republic Engineered Steels, Inc.; Slater Steels Corporation; and The Timken Company; and with respect to the special shapes market served by the PRP Business, competitors include Rathbone Precision Metals, Inc.; Precision Shapes, Inc.; and J.T. Slocomb Company. Although Electralloy, a subsidiary of G.O. Carlson Inc., and First Mississippi Steels, Inc. generally produce only stainless steel ingots, they can also compete with the Company by utilizing outside conversion services. Additionally, there are several smaller electric arc furnace melt shops that also produce specialty steel.

The principal methods of competition in the Company's markets are product quality, delivery capability, and service and price. Maintaining high standards of product quality while keeping production costs at competitive levels is essential to the Company's ability to compete in its markets. The ability of a manufacturer to respond quickly to customer orders currently is, and is expected to remain, important in the Company's semi-finished specialty steel market. The Company believes its universal rolling mill provides it with a competitive advantage as the only domestic mini-mill that can produce both long product (billets and blooms, used by customers to produce bar, rod and wire) and flat rolled product (slabs and plates, used by customers to produce fine gauge plate, sheet and strip products). Moreover, because the Company's focus is on the manufacture and supply of semi-finished specialty steel, the Company, unlike an integrated specialty steel mill, does not have to interrupt a production schedule devoted in part to the manufacture of finished products or non-specialty steel, in order to meet its customers' orders for semi-finished specialty steel products. The Company believes it has the ability to fill customers' orders in a shorter lead time for delivery of those products than a fully-integrated specialty steel mill currently can achieve, which provides it with another competitive advantage. The short lead time may also enable the Company to avoid maintaining a high level of inventory of raw materials, thereby reducing the Company's cost of production.

The domestic semi-finished specialty steel industry is frequently affected by economic conditions generally. Further, the Company also faces competition from producers of certain materials, particularly aluminum, composites and plastics, that compete with steel in many markets. In addition, many of the finished products sold by the Company's customers are in direct competition with finished products manufactured by foreign sources, a number of which are government owned and/or subsidized. Increases in levels of imported products could adversely affect future market prices and demand levels for the finished products manufactured by the Company's customers. Any competitive factor that adversely affects these markets could indirectly adversely affect the demand for the Company's semi-finished products.

Employee Relations

The Company considers the maintenance of good relations with its employees to be important to the successful conduct of its business. The Company has instituted profit sharing for all of its USWA Employees and has instituted equity ownership programs for all of its employees, in an effort to forge an alliance between its employees' interests and those of the Company's stockholders. At December 31, 1996, the Company had 153 employees at the Bridgeville Facility and 55 employees at the Titusville Facility, of whom 117 and 46 were USWA members located in Bridgeville and Titusville, respectively.

USWA Agreements

In connection with the Company's acquisition of the Bridgeville Facility from Armco, the Company and the USWA completed negotiation of a four-year comprehensive collective bargaining labor agreement that recognizes the USWA as the exclusive representative for the Company's hourly Bridgeville employees with respect to the terms and conditions of their employment. The Company believes that the USWA Agreement at Bridgeville contains certain wage, benefit and work rule terms more favorable to the Company than those contained in domestic specialty steel industry collective bargaining labor agreements generally. The terms include a decrease in the number of job classifications, a combining of jobs and the lack of a guarantee of a minimum number of work hours under the USWA Agreement at Bridgeville. The USWA Agreement at Bridgeville requires all employees to take yearly vacations during weeks when the Company is closed. Moreover, the Company is not obligated to contribute to any of the USWA multi-employer retirement and benefit plans. Also, the Company negotiated and has achieved in the USWA Bridgeville Agreement favorable terms as to overtime, work rules, seniority and vacations.

In connection with the PRP/VAR Agreement in 1995, the Company entered into a five-year collective bargaining agreement with the USWA covering employees at the Titusville Facility. That Agreement contains substantially similar terms to those included in the USWA Agreement at Bridgeville, but each of the USWA Agreements is separate and neither USWA Agreement is conditioned on the renewal of or compliance with the other USWA Agreement.

The Company's USWA Bridgeville employees share in the profit generated at the Bridgeville Facility in an aggregate amount equal to 8% of the Company's annual pre-tax profit in excess of $1.0 million generated at that location. The Company's USWA Titusville employees share in the profit generated at the Titusville Facility in an aggregate amount equal to 8% of the Company's annual pre-tax profit in excess of $500,000 generated at that location. Pre-tax annual profit for this purpose is defined as the Company's income before income taxes reduced by scheduled debt principal payments. The Company maintains separate 401(k) retirement plans for its union and salaried employees. Pursuant to each plan, beginning January 1, 1995, participants may elect to make pre-tax contributions to the plan, subject to certain limitations imposed under the Internal Revenue Code of 1986, as amended (the "Code"). The Company is required to make profit-sharing contributions to the plans as follows: $80 per month per participant in the salaried plan and $0.40 per hour of service worked per participant in the union plan. Company matching contributions are not permitted under the plans. The Company also provides health coverage for its union and salaried employees.

Armco also retained responsibility for any employee benefit obligations existing prior to August 15, 1994, with respect to persons previously employed at the Bridgeville Facility. In addition, Armco agreed to indemnify the Company up to $3.0 million in the aggregate with respect to any such liabilities that may arise prior to August 15, 2004, and with respect to any other non-environmental liabilities that may arise under the Agreement between the Company and Armco prior to August 15, 1997.

On October 6, 1994 and on May 22, 1996, the Company's Board of Directors adopted employee stock plans for the purpose of issuing 100 shares of Common Stock of the Company at no cost to eligible employees, which consist of non-executive employees not eligible for stock options under the 1994 Stock Incentive Plan. Pursuant to the employee stock plans, the Company issued 6,900 and 11,300 shares of the Company's Common Stock in 1994 and 1996, respectively. The costs of these issuances were recorded as compensation expense. These plans were terminated.

Employee Stock Purchase Plan Under the 1996 Employee Stock Purchase Plan (the "Plan"), the Company is authorized to issue up to 90,000 shares of Common Stock to its full-time employees, nearly all of whom are eligible to participate. Under the terms of the Plan, employees can choose as of January 1 and July 1 of each year to have up to 10% of their total earnings withheld to purchase up to 100 shares of the Company's Common Stock each six-month period. The purchase price of the stock is 85% of the lower of its beginning-of-the period or end-of-the-period market prices. At December 31, 1996, the end of the initial purchase period under the Plan, the Company issued 2,434 shares of Common Stock to 33 employees at $7.44 per share.

Safety

The Company has established and seeks to maintain appropriate safety standards and policies for its employees. To encourage plant safety, the USWA Agreements provide that employees will be entitled to receive ratably 50% of the savings, if any, of reduced workers' compensation premiums obtained by the Company.

Patents and Trademarks

The Company does not consider its business to be materially dependent on patent or trademark protection, and believes it owns or maintains effective licenses covering all the intellectual property used in its business. The Company seeks to protect its proprietary information by use of confidentiality and non-competition agreements with certain employees.

Risk Factors

The Company's business and results of operations are subject to a wide range of substantial business and economic factors discussed below, many of which are not within the Company's control.

Limited Operating History

The Company has only a limited operating history from which an evaluation of the Company's prospects may be made. Those prospects must be considered in light of the numerous risks, expenses, problems and difficulties frequently encountered in connection with the establishment of a business and the competitive environment in which the Company operates. See "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and "Financial Statements."

Significant Customer and Concentrated Customer Base

For the year ended December 31, 1996, the Company's largest customer, Talley Metals Technology, Inc., a subsidiary of Talley Industries, Inc., accounted for approximately 44% of the Company's net sales. The Company's five largest customers in the aggregate accounted for approximately 63% of net sales. An adverse change in, or termination of, the Company's relationship with one or more of its major customers could have a material adverse effect upon the Company. While the Company has approximately 140 active customers, the Company does not have long term written contracts with any of its customers, and customer orders are generally subject to cancellation with the payment of a penalty charge prior to delivery. In addition, there can be no assurance that the Company's current customers will continue to purchase product or services from the Company at current levels or that they will continue to maintain relationships with the Company. See "Business--Customers."

Reliance on Critical Manufacturing Equipment

The Company's manufacturing processes are dependent upon certain critical pieces of specialty steelmaking equipment, such as the Company's melt shop and universal rolling mill. In the event a critical piece of equipment should become inoperative as a result of unexpected equipment failure, there can be no assurance that the Company's operations would not be substantially curtailed. In that respect, in July and August 1995 the Company experienced an electrical component breakdown in a drive motor that resulted in an approximately six-week production halt of the universal rolling mill at the Bridgeville Facility. Unexpected interruptions in the Company's production capabilities could create fluctuations in the Company's sales and income. The average age of the Company's

equipment is more than ten years. There can be no assurance that a shutdown of the Company's facilities will not occur in the future or that a shutdown would not have a material adverse effect on the Company. See "Properties--Capital Expenditures and Facilities Maintenance Programs."

Competition

The Company competes with domestic mills that produce semi-finished specialty steel products and, with respect to certain parts of their product line, with domestic fully integrated specialty steel mills. The Company also experiences competition from foreign sources of semi-finished specialty steels. In addition, many of the finished products sold by the Company's customers are in direct competition with finished products manufactured by foreign sources, which may affect the demand for those customers' products. Any competitive factor that adversely affects the market for finished products manufactured by the Company's customers could indirectly adversely affect the demand for the Company's semi-finished products. Many of the Company's competitors are larger and have significantly greater resources than the Company, and a number have recently undergone restructurings and modernization programs designed to enhance their competitive positions. Additionally, the Company's products compete with products fashioned from alternative materials such as aluminum, composites and plastics, the production of which includes domestic and foreign enterprises with long operating histories and significant financial and other resources. Competition in the Company's field is intense and is expected to continue to be so in the foreseeable future. Also, a number of the Company's competitors are also customers for certain of the Company's products and services. There can be no assurance that the Company will be able to compete successfully in the future. See "Business--Competition."

Environmental Issues

The Company is subject to demanding federal, state and local environmental laws and regulations (the "Environmental Laws") governing, among other things, air emissions, waste water discharge and solid and hazardous waste disposal. The Company leases or owns certain real property and operates equipment previously owned and used in the manufacture of steel products by Armco. In connection with the Company's August 15, 1994 agreement with Armco to purchase substantially all the assets and related equipment of the Armco Stainless and Alloy Products Division located at the Bridgeville Facility and to lease the Bridgeville Facility, Armco agreed to retain responsibility for liabilities asserted against Armco under the Environmental Laws arising out of conditions existing prior to August 15, 1994, and to indemnify the Company up to $6.0 million in the aggregate over ten years from August 1994 with respect to any claims in connection with, or costs incurred by, the Company related to such liabilities. In connection with the Company's June 2, 1995 agreement with Armco to purchase the PRP Business, the VAR Assets and a parcel of real property located at Titusville, Pennsylvania, Armco agreed to indemnify the Company up to $3.0 million in the aggregate for liabilities under the Environmental Laws arising out of conditions on or under the Titusville property existing prior to June 2, 1995. Armco's obligation to indemnify the Company for any liabilities arising out of environmental conditions existing offsite as of June 2, 1995, is not subject to the $3.0 million limitation. The Titusville Facility is located in an industrial area where contamination by petroleum hydrocarbons is widespread.

Because the indemnification is the Company's exclusive remedy against Armco for a given environmental liability, the Company will be materially dependent upon that indemnity should any environmental liability arise. There can be no assurance that the indemnities from Armco will fully cover any or all environmental liabilities, and there can be no assurance that the Company will have the financial resources to discharge the liabilities if legally compelled to do so. Certain environmental conditions have been identified at the Bridgeville Facility that Armco in accordance with its agreement with the Company and pursuant to a consent decree between Armco and the Pennsylvania Department of Environmental Resources, is addressing at Armco's sole expense. There can be no assurance that Armco will satisfactorily complete the work required under the consent decree. There may be other environmental conditions at the Bridgeville Facility or at the Titusville Facility that have not been previously identified by regulatory authorities but that may later be determined to require remediation. The Company is not currently a party to any lawsuit or proceeding involving alleged violations of any Environmental Laws and believes that its business, operations and facilities are being operated in compliance in all material respects with applicable Environmental Laws. However, environmental laws and regulations have changed rapidly in recent years, and the Company may be subject to increasingly stringent environmental standards in the future. The Armco indemnities do not cover liability with respect to violations of the Environmental Laws or the existence of environmental conditions stemming from any changes, modifications or amendments to the Environmental Laws effective after

August 15, 1994, with respect to the Bridgeville Facility, or effective after June 2, 1999, with respect to the Titusville Facility, and there is no assurance that the Company will not incur any such liability. The Company anticipates that, from time to time, it will make capital expenditures in connection with environmental matters. It is impossible, however, currently to predict the amount of future expenditures that may be required in connection with environmental compliance. There can also be no assurance that additional future developments, administrative actions or liabilities relating to environmental matters will not have a material adverse effect on the Company's financial condition and results of operations. See "Business--Environmental Compliance."

Supply of Raw Materials and Cost of Raw Materials

The Company relies on a limited number of suppliers for its raw material needs. The Company does not maintain long-term supply agreements with any of its independent suppliers. If its supply of raw materials were interrupted, the Company might not be able to obtain sufficient quantities of raw materials, or obtain sufficient quantities of such materials at satisfactory prices, which, in either case, could adversely affect the Company's results of operations. Significant increases in the price of the Company's principal raw materials could adversely affect the Company's financial results. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business--Raw Materials."

Scrap metal is the principal raw material used in the Company's products. Scrap metal together with alloy additives, principally nickel, chrome and molybdenum, currently account for more than 50% of the Company's total cost of products sold. Scrap metal prices are affected by cyclical, seasonal and other market factors, and therefore future prices cannot be predicted with any degree of certainty. Consequently, scrap metal prices frequently fluctuate as a result of factors affecting the supply of scrap metal as well as the demand for steel. In addition, the supply of premium grades of scrap metal used by the Company is more limited than the supply of lower grades of scrap metal. Further, nickel and chrome, key ingredients in certain alloys produced by the Company and significant cost components, are available substantially only from foreign sources, some of which are located in countries that may be subject to unstable political and economic conditions. Those conditions might disrupt supplies or affect the prices of the raw materials used by the Company. There can be no assurance that the price of the Company's raw materials will remain at current levels. Furthermore, an increase in the price that the Company pays for its raw materials could have a material adverse effect on the results of operations of the Company. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business--Raw Materials."

ITEM 2. PROPERTIES

The Company leases its Bridgeville Facility and owns the Titusville Facility.

The Bridgeville Facility is leased pursuant to a long-term net lease from Armco for ten years from August 15, 1994, which includes the payment by the Company of real and personal property taxes, water and sewage charges, special assessment and insurance premiums associated therewith, with three five-year options to renew on the same terms at the sole discretion of the Company. The Armco Lease provides the Company with an option to purchase substantially all of the leased premises for $1 any time during the term of the Armco Lease prior to August 15, 2015. The building that houses the electro-slag remelting equipment, which is nearby, but not contiguously located, to the other facilities, is included in the ten-year initial lease term only. The Company anticipates relocating the equipment it owns in that facility in close proximity to the melt shop complex in an existing building prior to the expiration of that initial ten-year term. The Armco Lease is assignable with the written consent of Armco, which consent cannot be unreasonably withheld. The Company is responsible for compliance with all environmental laws related to the property subsequent to August 15, 1994, subject to liabilities Armco retained under the Asset Agreement and Armco's indemnification obligations.

The Bridgeville Facility consists of approximately 600,000 square feet of floor space on approximately 50 acres. The Titusville Facility consists of more than approximately 10 acres and includes seven separate buildings, including two principal buildings of approximately 265,000 square feet in total area. The following table sets forth information concerning the principal production and process components of the Company's business. Certain of the components contain more than one structure.

Capital Expenditures and Facilities Maintenance Programs

Steel production is generally considered to be a capital intensive industry. The Company believes it will continue to require capital from time to time to add new equipment and to repair or replace existing equipment to remain competitive and, in conjunction with a continuing rigorous maintenance program, to enable it to manufacture quality products and provide delivery and other support service assurances to its customers.

In January 1997, the Company completed a capital expenditures program at an aggregate cost to the Company of approximately $15.0 million. The funds for the capital expenditures program were expended primarily at the Bridgeville Facility, to a lesser extent at the Titusville Facility and in part to relocate certain equipment from Titusville to Bridgeville, primarily as set forth in the following table:

Location		Principal Additions and Improvements	Anticipated Results
BRIDGEVILLE			
	Melt Shop	Upgrade 50 ton electric arc furnace, AOD and overhead crane system.	Reduce melt time.
	Universal rolling mill complex	Modification to add high lift rolling capability; add plate descaler.	Permit production of rolled slab, large bloom and heavier plate products; improve yield and quality of rolled slab and plate products.
		Upgrade drive equipment, reheat furnaces and controls.	Improve production efficiency; reduce natural gas usage.
	Electro-slag remelting complex	Upgrade electrical and mechanical systems and controls.	Improve efficiency in the production of high temperature alloys for the power generation and aerospace industries.
	Overall plant	Add roller leveler and flattening press.	Flatten certain plate products, replacing previously outsourced operations.
		Add cutting equipment. Upgrade various systems and controls.	Permit large ingots to be cropped. Improve real-time operating control and information flow.
TITUSVILLE			
	PRP Area	Upgrade various equipment. Relocation and utilization of certain equipment.	Improve efficiency; lower production costs. Improve production flow and reduce costs.

The Company believes the capital expenditures program will improve its ability to retain its existing customers and attract new customers by enabling it to provide a wider range of high quality products, ensure timely delivery of its products and increase production flexibility.

Environmental Compliance

The Company is subject to demanding federal, state and local environmental laws and regulations (the "Environmental Laws"), including those governing discharges of pollutants into the air and water, the generation, handling and disposal of solid and hazardous substances and the remediation of contamination associated with generation, handling and disposal activities. The Company is subject periodically to environmental compliance reviews by various regulatory offices. Additionally, the Company monitors its compliance with Environmental Laws applicable to it and, accordingly, believes that it is currently in compliance with all laws and regulations in all material respects. The Company did not make during fiscal year 1996, and does not expect to make during fiscal year 1997, any expenditures for environmental control facilities, but could incur costs, which may be significant, related to environmental compliance at any time or from time to time in the future.

Bridgeville Facility

The Company has not incurred to date and does not anticipate incurring any remediation costs from environmental conditions at the Bridgeville Facility. The Company does not expect that any remediation that may be required at the Bridgeville Facility will have a material adverse effect on the Company's results of operations, liquidity or financial condition. The Company operates production and processing equipment, which it owns, on real property that is leased from Armco. Armco remains contractually obligated for environmental matters, including compliance with laws governing the removal of hazardous materials and the elimination of hazardous conditions, which stem from any operations or activities at the leased Bridgeville Facility prior to August 15, 1994. In addition, Armco has agreed to indemnify the Company against any liability arising as a result of any of those matters with respect to the Bridgeville Facility to the extent of $6.0 million in the aggregate until 2004 and has further agreed (subject to the indemnity limits) to pay up to $250,000 for each 30-day period and up to $1.0 million in reimbursement for certain non-recoverable operating costs should the Company's business be interrupted by reason of matters arising under Environmental Laws that stem from occurrences prior to August 15, 1994. Except as required by law or for the protection of public health or the safety of its employees, the Company is contractually prohibited from taking voluntary or discretionary action to accelerate or delay the timing, or increase the cost of, Armco's environmental obligations with respect to the Bridgeville Facility. Prior to entering into the Asset Agreement, Armco and the Company identified certain environmental conditions existing at the Bridgeville Facility, including asbestos in various structures, oils and electrical devices containing PCBs, that Armco or the Company has remediated at Armco's expense. Armco also remains responsible, without cost to the Company, for complying with a 1993

consent decree with the Pennsylvania Department of Environmental Resources pursuant to which it is remediating certain contamination at the universal rolling mill complex. That contamination stemmed from the release of oils affecting soil and water conditions due to inadequate wastewater treatment. The Company believes that Armco is in compliance with that consent decree and such remediation is not expected to adversely impact the Company's use of the facility. Pending the completion of the remediation by Armco, the Company is operating, and thereafter intends to operate, the universal rolling mill in a manner designed to avoid contamination. The Company's Bridgeville Facility includes an overhead and rooftop system (the "bag house") to remove waste gases generated by its melting operations. The bag house facility associated with that system collects oxides and non-metallic residue for reclaiming purposes. An independent reclaiming contractor purchases the oxides and non-metallic residue, removes the residue and converts it into metallic form for sale back to the Company as scrap metal. This reclaiming process enables the Company to dispose of the unwanted residue, while at the same time recovering some raw materials for the manufacture of semi-finished specialty steel.

Titusville Facility

The Company operates its production and processing equipment that was acquired from Armco on real property the Company owns. Armco has agreed to indemnify the Company to the extent of $3.0 million in the aggregate against liability for environmental matters, including compliance with laws governing the removal of hazardous materials and the elimination of hazardous conditions, which pertain to environmental conditions existing on or under the Titusville Facility prior to June 2, 1995. In addition, Armco has agreed to indemnify the Company for any liabilities arising out of environmental conditions existing offsite as of June

2, 1995, and that indemnification is not subject to the $3.0 million limitation. In connection with the PRP/VAR Agreement, the Company conducted a Phase I and Phase II environmental study (the "Study") of the parcel of real estate acquired by the Company, and the Company believes the amount and terms of Armco's indemnity are sufficient to protect the Company against environmental liabilities arising at the Titusville Facility from environmental conditions existing as of June 2, 1995. The Study revealed asbestos in certain areas adjacent to the Titusville Facility, which Armco has remediated at its expense, and some electrical equipment containing PCBs that the Company is remediating at its expense, which is not material. Additionally, the Study noted that as is typical of the Titusville, Pennsylvania area generally, there is regional soil and groundwater hydrocarbon contamination present at above applicable cleanup standards, reflecting the fact that this area contains natural petroleum deposits and that petroleum refining operations had been conducted nearby. Any contamination of this type on the Company's property flows from outside its boundaries, to the extent it is not indigenous to the underlying ground. The Company believes it unlikely that it or Armco will be required to provide cleanup at the Titusville Facility for the local hydrocarbon contamination or, if it were, the Company believes this action would be part of a large program addressing the entire area. To date, the Company has not been contacted by any environmental governmental authority concerning this matter. Notwithstanding Armco's indemnification obligations, with respect to the Titusville Facility, if the Company accelerates the timing or increases the cost of any environmental obligation retained by Armco except as required by law or for the protection of public health or the safety of its employees, the Company shall bear such accelerated or increased cost. If the Company accelerates the timing or increases the cost of any environmental obligation retained by Armco with respect to the Titusville Facility as a result of seeking financing or the sale of less than a controlling interest in the voting stock of the Company, such accelerated or increased cost shall be borne equally by Armco and the Company. Armco has agreed to allow the Company to operate the business and the assets at the Titusville Facility under Armco's National Pollution Discharge Elimination System permit pending issuance of a modified permit to the Company. Additionally, certain other processes that were employed by Armco, and certain facilities used by Armco that may have involved or been the site of activities that could have caused environmental pollution at the Titusville Facility, are not employed or used by the Company. There may be other environmental conditions that have not been identified by regulatory authorities but which may later be determined to require remediation.

The Company's exclusive remedies for reimbursement from Armco for losses stemming from pre-closing environmental conditions at each of the Bridgeville Facility and the Titusville Facility are the indemnities agreed to with respect to each of the facilities. There can be no assurance that those indemnities will fully cover all environmental liabilities, especially if the relevant regulatory authorities or others were to proceed solely against the Company with respect to those liabilities at the Bridgeville Facility that arise out of conditions existing prior to the commencement of the Armco Lease on August 15, 1994 (an event the Company believes is unlikely), and there can

be no assurance that the Company will have the financial resources to discharge those liabilities if legally compelled to do so. See "Risk Factors--Environmental Issues."

Based on the foregoing and the experience of its senior executives with respect to both Armco's and the Company's facilities and the equipment and processes employed at the Bridgeville Facility, and the results of the Phase I and Phase II environmental study of the Titusville Facility, the Company believes the amount and terms of the Armco indemnities are sufficient to protect the Company against environmental liabilities arising from environmental conditions prior to August 15, 1994, with respect to the Bridgeville Facility, and prior to June 2, 1995, with respect to the Titusville Facility.

ITEM 3. LEGAL PROCEEDINGS

There are no legal proceedings pending or, to the Company's best knowledge, threatened against the Company.

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

None during the fourth quarter of 1996.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Price Range of Common Stock

The Common Stock was accepted for trading on the NASDAQ National Market beginning on August 24, 1995, and from December 14, 1994, the Common Stock had traded on the NASDAQ Small Cap Market. The Common Stock has always traded under the symbol "USAP". The following table sets forth the range of high and low sale prices per share of Common Stock, as reported by the NASDAQ Small Cap Market and the NASDAQ National Market, as the case may be, for the periods indicated below:

	High	Low
Year 1996		
First quarter	$13-3/8	$ 9-1/4
Second quarter	$12-1/4	$ 8-1/2
Third quarter	$10-5/8	$ 8-3/4
Fourth quarter	$ 9-1/4	$ 8
Year 1995		
First quarter	$10-1/2	$ 8
Second quarter	$12-7/8	$ 9
Third quarter	$16	$11-1/4
Fourth quarter	$13	$ 9

On March 25, 1997, the last sale price of the Company's Common Stock as reported by the NASDAQ National Market was $10 per share. At that date, there were approximately 237 record holders of the Company's Common Stock.

Dividend Policy

The Company has never paid a cash dividend on its Common Stock and currently has no plans to pay dividends in the foreseeable future. The Company presently intends to retain its earnings, if any, to finance the development of its business. Any future dividend policy will be determined by the Company's Board of Directors, and the payment of any dividend in the future will be based upon conditions then existing, including the Company's earnings, financial condition and capital requirements, as well as such economic and other factors as the Board of Directors may deem relevant at the time. The PNC Agreement contains restrictions on the Company's ability to pay dividends on the Common Stock.

ITEM 6. SELECTED FINANCIAL DATA

Statement of operations data:

	Year Ended December 31		For the Preoperating and Operating Period Ended
	1996	1995	December 31, 1994
Net sales	$60,258	$46,992	$5,743
Income (loss) before extraordinary items	4,793	2,723	(1,842)
Extraordinary items (2)	--	__	(634)

Net income (loss)	4,793	2,723	(2,476)
Net income (loss) per share of Common Stock:			
Operations	$0.76	$0.57	($0.84)
Extraordinary items	--	--	($0.22)
Net income (loss)	$0.76	$0.57	($0.84)
	6,270,952		
Weighted average number of shares of Common Stock outstanding	6,270,952	4,745,384	2,935,646

Balance sheet data:

	December 31, 1996	1995	1994
Working capital	$15,981	$19,283	$6,857
Total assets	42,098	32,437	14,757
Long-term debt (2)	2,534	462	762
Total stockholders' equity (3)	30,497	25,591	8,875

- ---------------------------

1) The Company began operating the Bridgeville Facility on August 15, 1994, and initial shipments of semi-finished specialty steel were made on September 19, 1994. Due to significant differences between the operations conducted by Cyclops and Armco at the Bridgeville Facility and those conducted by the Company, financial data prior to such time is not comparable and therefore is not presented. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Pre-Acquisition Financial Information".
2) During 1994, the Company recorded an extraordinary loss in the early extinguishment of debt in connection with the retirement of the Armco Note, and the 8% Subordinated Note, and the early termination of a bank loan agreement.
3) In 1994, the Company completed an initial public offering of 1,625,000 shares of its Common Stock for net proceeds of $10,748,000. In 1995, the Company completed additional offerings, issuing 1,750,600 shares of its Common Stock for net proceeds of $13,993,000.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The information called for by this item is set forth on Pages 14 through 18 of the Annual Report to Stockholders for the year ended December 31, 1996, which are incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information called for by this item is set forth on Pages 19 through 34 of the Annual Report to Stockholders for the year ended December 31, 1996, which are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There were none.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information concerning the directors of the Company is set forth in the Proxy Statement (the "Proxy Statement") to be sent to stockholders in connection with the Company's Annual Meeting of Stockholders to be held on May 21, 1997, under the heading "Proposal No. 1--Election of Directors," which information is incorporated herein by reference.

The following table sets forth, as of December 31, 1996, certain information with respect to the executive officers of the Company:

NAME (AGE)	EXECUTIVE OFFICER SINCE	POSITION
Clarence M. McAninch (61)	1994	President and Chief Executive Officer
Bradford C. Bowman (47)	1996	Chief Operating Officer
Daniel J. DeCola, Sr. (44)	1994	Vice President, Operations
Richard M. Ubinger (37)	1994	Chief Financial Officer, Principal Accounting Officer and Treasurer
Paul A. McGrath (45)	1997	Secretary and General Counsel

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and executive officers, and persons who own more than 10% of the Company's Common Stock, to file with the Securities and Exchange Commission and the NASDAQ National Market System reports of ownership and changes in ownership of Common Stock and other equity securities of the Company. Officers, directors and greater than 10% stockholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on review of the copies of such reports furnished to the Company or written representations that no other reports are required, the Company believes that, during the 1996 fiscal year, all filing requirements applicable to its officers, directors and greater than 10% of beneficial owners were met except that one report filed by Mr. Ubinger was inadvertently filed late.

With the exception of the information specifically incorporated herein by reference, the Company's Proxy Statement is not to be deemed filed as part of this report for the purposes of this Item.

ITEM 11. EXECUTIVE COMPENSATION

The information concerning executive compensation is set forth in the Proxy Statement under the heading "Executive Compensation," which information is incorporated by reference. With the exception of the information specifically incorporated herein by reference, the Company's Proxy Statement is not to be deemed filed as part of this report for the purposes of this Item.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information concerning security ownership of certain beneficial owners and management is set forth in the Proxy Statement under the heading "Security Ownership of Certain Beneficial Owners and Management," which information is incorporated by reference. With the exception of the information specifically incorporated herein by reference, the Company's Proxy Statement is not to be deemed filed as part of this report for the purposes of this Item.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information concerning certain relationships and related transactions is set forth in the Proxy Statement under the heading "Certain Transactions," which information is incorporated by reference. With the exception of the information specifically incorporated herein by reference, the Company's Proxy Statement is not to be deemed filed as part of this report for the purposes of this Item.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

The following documents are filed as part of this Annual Report on Form 10-K:

1) Consolidated Financial Statements:
The consolidated financial statements, together with the report thereon of Price Waterhouse LLP, appearing on Pages 19 through 34 of the accompanying Annual Report to Stockholders, are incorporated by reference in this Form 10-K Annual Report.

2) Consolidated Financial Statement Schedules:

All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and have therefore been omitted.

3) Exhibits:

EXHIBIT NUMBER	DESCRIPTION
2.1*	Certificate of Merger, dated July 29, 1994, between Universal Stainless & Alloy Products, Inc., a Pennsylvania corporation, and the Company.
2.2*	Agreement and Plan of Merger, dated July 28, 1994, among Universal Stainless & Alloy Products, Inc., a Pennsylvania corporation, and the Company.
2.3**	Asset and Real Property Purchase Agreement, dated as of June 2, 1995, by and between Armco Inc. and the Company.
3.1*	Amended and Restated Certificate of Incorporation.
3.2*	By-laws of the Company.
4.1*	Specimen Copy of Stock Certificate for shares of Common Stock.

4.2*	Form of Representative's Warrant Agreement (including Form of Representative's Warrant Certificate).
10.1*	Base Contract for Sale of Natural Gas, dated July 1, 1993, by and between the Company and Columbia Energy Services Corporation.
10.2*	Electric Service Contract, dated July 27, 1994, by and between the Company and Duquesne Light Company, with Schedule of Rates.
10.3*	Product Supply Agreement, dated August 16, 1994, by and between Air Products and Chemicals, Inc., and the Company.
10.4*	Management Stock Disposition Agreement, dated July 28, 1994, by and between the Company and Daniel J. DeCola, Sr.
10.5*	Management Stock Disposition Agreement, dated July 28, 1994, by and between the Company and Clarence M. McAninch.
10.6*	Non-Management Stock Disposition Agreement, dated July 28, 1994, by and between the Company and Samuel P. Gerace, Sr.
10.7*	Securities Purchase Agreement, dated July 29, 1994, by and among the Company and Herbert V. Turk.
10.8*	Stockholders Agreement, dated as of August 1, 1994, by and among the Company and its existing stockholders.
10.9*	Lease Agreement, dated August 15, 1994, by and between Armco Inc. and the Company.
10.10*	Employment Agreement, dated August 15, 1994, by and between the Company and Daniel J. DeCola, Sr.
10.11*	Employment Agreement, dated August 15, 1994, by and between the Company and Clarence M. McAninch.
10.12*	Asset Purchase Agreement, dated August 15, 1994, by and between the Company and Armco Inc., as amended by letter agreement, dated October 5, 1994, by and between the Company and Armco Inc.
10.13*	Loan and Security Agreement, dated August 15, 1994, by and between the Company and Mellon Bank, N.A., as amended by letter agreement,

dated October 11, 1994.

10.14* Subordination and Intercreditor Agreement, dated August 15, 1994, by and among Armco Inc., the Company and Mellon Bank, N.A.

10.15* Subordination and Intercreditor Agreement, dated August 15, 1994, by and among Armco Inc., the Company and Herbert V. Turk.

10.16* Subordination and Intercreditor Agreement, dated August 15, 1994, by and among Herbert V. Turk, the Company and Mellon Bank, N.A.

10.17* Open-End Leasehold Mortgage and Security Agreement, dated August 15, 1994, by the Company, in favor of Mellon Bank, N.A.

10.18* Promissory Note, dated August 15, 1994, for the principal sum of $1,850,000.00, by the Company, in favor of Armco Inc.

10.19* Subordinated Note, dated August 15, 1994, for the principal sum of $2,000,000.00, by the Company, in favor of Herbert V. Turk.

10.20* Note, dated August 15, 1994, for the principal sum of $4,500,000.00, by the Company, in favor of Mellon Bank, N.A.

10.21* Security Agreement, dated August 15, 1994, by and between the Company and Armco Inc.

10.22* Junior Security Agreement, dated August 15, 1994, by and between the Company and Herbert V. Turk.

10.23* Surety Agreement, dated August 15, 1994, by Daniel J. DeCola, and Linda D. DeCola, in favor of Mellon Bank, N.A.

10.24* Surety Agreement, dated August 15, 1994, by Clarence M. McAninch and Kay L. McAninch, in favor of Mellon Bank, N.A.

10.25* 1994 Stock Incentive Plan.

10.26* Employee Stock Plan.

10.27* Letter Agreement, dated July 15, 1994, by and between the Company and Tradition (North America), Inc.

10.28* Collective Bargaining Agreement, dated August 24, 1994, by and between the Company and United Steelworkers of America.

10.29* Subscription Agreement, dated October 14, 1994, by and between Edelson Technology Partners III, L.P. and the Company.

10.30* Escrow Letter, dated November 22, 1994, between the Company and PNC Bank, National Association.

10.31* Credit Agreement, dated as of November 18, 1994, between the Company and PNC Bank, National Association, with Exhibits and Schedules.

10.32* Security Agreement and Collateral Assignment, dated as of November 18, 1994, by and between the Company and PNC Bank, National Association.

10.33* Note, dated as of November 18, 1994, by and between the Company and PNC Bank, National Association.

10.34* Landlord's Waiver, dated as of November 18, 1994, by Armco Inc. 10.35* Open-End Leasehold Mortgage, Collateral Assignment and Security Agreement dated as of November 18, 1994, by the Company in favor of PNC Bank, National Association. 10.36* Pledge and Security Agreement, dated as of November 18, 1994, between the Company and PNC Bank, National Association. 10.37** First Amendment to Credit Agreement and Waiver, dated as of March 30, 1995, by and between the Company and PNC Bank, National Association. 10.38** Second Amendment to Credit Agreement and Waiver, dated as of May 31, 1995, by and between the Company and PNC Bank, National Association. 10.39** Third Amendment to Credit Agreement and Waiver, dated as of August 25, 1995, by and between the Company and PNC Bank, National Association. 10.40** Fourth Amendment to Credit Agreement and Waiver, dated as of October 3, 1995, by and between the Company and PNC Bank, National Association. 10.41** Fifth Amendment to Credit Agreement and Waiver, dated as of October 9, 1995, by and between the Company and PNC Bank, National Association. 10.42** Collective Bargaining Agreement, dated May 3, 1995, by and between the Company and United Steelworkers of America.

10.43** Promissory note, dated June 2, 1995, by and between the Company and Armco Inc.

10.44** Security Agreement, dated as of June 2, 1995, by and between the Company and Armco Inc.

10.45** Mortgage, dated as of June 2, 1995, by and between the Company and Armco Inc.

10.46** Letter Agreement, dated July 6, 1995, by and between the Company and Commonwealth of Pennsylvania.

10.47** Loan Agreement, dated October 3, 1995, by and between the Company and Commonwealth of Pennsylvania.

10.48** Note, dated October 3, 1995, for the principal sum of $500,000, by the Company, in favor of the Commonwealth of Pennsylvania.

10.49** Security Agreement, dated October 3, 1995, by and between the Company and the Commonwealth of Pennsylvania.

10.50** Letter Agreement, dated June 30, 1995, by and between the Company and the Commonwealth of Pennsylvania.

10.51** Letter Agreement, dated September 20, 1995, by and between the Company and the Commonwealth of Pennsylvania.

10.52* Underwriting Agreement, dated December 14, 1995, among the Company and Keane Securities Co., Inc., as representatives of the several underwriters.

10.53** Form of Underwriting Agreement among the Company and Oppenheimer & Co., Inc., and Furman Selz Incorporated, as representatives of the several underwriters.

10.54*** First Amendment to Registration Rights Agreement, dated as of July 3, 1995, by and between the Company and Edelson Technology Partners III, L.P.

10.55 Employment Agreement, dated October 8, 1996, by and between the Company and Bradford C. Bowman.

13 Selected pages of the Company's 1996 Annual Report to Shareholders incorporated by reference into Part II of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996.

23.1 Consent of Price Waterhouse LLP.

24 Powers of Attorney (included on the signature page hereto).

27 Financial Data Schedule.

- ---------------------------

* Incorporated herein by reference to the exhibits filed with the Company's Registration Statement on Form S-1 (Registration No. 33-85310).

** Incorporated herein by reference to the exhibits filed with the Company's Registration Statement on Form S-1 (Registration No. 33-97896).

*** Incorporated herein by reference to the exhibits filed with the Company's Registration Statement on Form S-1 (Registration No. 33-98534).

b) No reports on Form 8-K were filed by the Company during the quarter ended December 31, 1994.

c) See Item 14(a)(3) above.

d) None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, on March 27, 1996.

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

By: /s/ Clarence M. McAninch
Clarence M. McAninch
President and Chief Executive Officer

POWER OF ATTORNEY

Each of the officers and directors of Universal Stainless & Alloy Products, Inc., whose signature appears below in so signing also makes, constitutes and appoints Clarence M. McAninch and Daniel J. DeCola, Sr., and each of them acting alone, his true and lawful attorney-in-fact, with full power of substitution, for him in any and all capacities, to execute and cause to be filed with the Securities Exchange Commission any and all amendment or amendments to this Report on Form 10-K, with exhibits thereto and other documents connected therewith and to perform any acts necessary to be done in order to file such documents, and hereby ratifies and confirms all that said attorney-in-fact or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities and Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ Clarence M. McAninch Clarence M. McAninch	President, Chief Executive Officer and Director	March 27, 1997
/s/ Bradford C. Bowman Bradford C. Bowman	Chief Operating Officer and Director	March 27, 1997
/s/ Daniel J. DeCola, Sr. Daniel J. DeCola, Sr.	Vice President, Operations Director	March 27, 1997
/s/ Richard M. Ubinger Richard M. Ubinger	Chief Financial Officer, Principal Accounting Officer and Treasurer	March 27, 1997
/s/ Udi Toledano Udi Toledano	Director	March 27, 1997
/s/ Orit Gadiesh Orit Gadiesh	Director	March 27, 1997
/s/ George F. Keane George F. Keane	Director	March 27, 1997
/s/ D. Leonard Wise D. Leonard Wise	Director	March 27, 1997

Exhibit Index

EXHIBIT NUMBER	DESCRIPTION
2.1*	Certificate of Merger, dated July 29, 1994, between Universal Stainless & Alloy Products, Inc., a Pennsylvania corporation, and

	the Company.
2.2*	Agreement and Plan of Merger, dated July 28, 1994, among Universal Stainless & Alloy Products, Inc., a Pennsylvania corporation, and the Company.
2.3**	Asset and Real Property Purchase Agreement, dated as of June 2, 1995, by and between Armco Inc. and the Company.
3.1*	Amended and Restated Certificate of Incorporation.
3.2*	By-laws of the Company.
4.1*	Specimen Copy of Stock Certificate for shares of Common Stock.
4.2*	Form of Representative's Warrant Agreement (including Form of Representative's Warrant Certificate).
10.1*	Base Contract for Sale of Natural Gas, dated July 1, 1993, by and between the Company and Columbia Energy Services Corporation.
10.2*	Electric Service Contract, dated July 27, 1994, by and between the Company and Duquesne Light Company, with Schedule of Rates.
10.3*	Product Supply Agreement, dated August 16, 1994, by and between Air Products and Chemicals, Inc., and the Company.
10.4*	Management Stock Disposition Agreement, dated July 28, 1994, by and between the Company and Daniel J. DeCola, Sr.
10.5*	Management Stock Disposition Agreement, dated July 28, 1994, by and between the Company and Clarence M. McAninch.
10.6*	Non-Management Stock Disposition Agreement, dated July 28, 1994, by and between the Company and Samuel P. Gerace, Sr.
10.7*	Securities Purchase Agreement, dated July 29, 1994, by and among the Company and Herbert V. Turk.
10.8*	Stockholders Agreement, dated as of August 1, 1994, by and among the Company and its existing stockholders.
10.9*	Lease Agreement, dated August 15, 1994, by and between Armco Inc. and the Company.
10.10*	Employment Agreement, dated August 15, 1994, by and between the Company and Daniel J. DeCola, Sr.
10.11*	Employment Agreement, dated August 15, 1994, by and between the Company and Clarence M. McAninch.
10.12*	Asset Purchase Agreement, dated August 15, 1994, by and between the Company and Armco Inc., as amended by letter agreement, dated October 5, 1994, by and between the Company and Armco Inc.
10.13*	Loan and Security Agreement, dated August 15, 1994, by and between the Company and Mellon Bank, N.A., as amended by letter agreement, dated October 11, 1994.
10.14*	Subordination and Intercreditor Agreement, dated August 15, 1994, by and among Armco Inc., the Company and Mellon Bank, N.A.
10.15*	Subordination and Intercreditor Agreement, dated August 15, 1994, by and among Armco Inc., the Company and Herbert V. Turk.
10.16*	Subordination and Intercreditor Agreement, dated August 15, 1994, by and among Herbert V. Turk, the Company and Mellon Bank, N.A.
10.17*	Open-End Leasehold Mortgage and Security Agreement, dated August 15, 1994, by the Company, in favor of Mellon Bank, N.A.
10.18*	Promissory Note, dated August 15, 1994, for the principal sum of $1,850,000.00, by the Company, in favor of Armco Inc.
10.19*	Subordinated Note, dated August 15, 1994, for the principal sum of $2,000,000.00, by the Company, in favor of Herbert V. Turk.
10.20*	Note, dated August 15, 1994, for the principal sum of $4,500,000.00, by the Company, in favor of Mellon Bank, N.A.
10.21*	Security Agreement, dated August 15, 1994, by and between the Company and Armco Inc.
10.22*	Junior Security Agreement, dated August 15, 1994, by and between the Company and Herbert V. Turk.
10.23*	Surety Agreement, dated August 15, 1994, by Daniel J. DeCola, and Linda D. DeCola, in favor of Mellon Bank, N.A.
10.24*	Surety Agreement, dated August 15, 1994, by Clarence M. McAninch and Kay L. McAninch, in favor of Mellon Bank, N.A.
10.25*	1994 Stock Incentive Plan.
10.26*	Employee Stock Plan.
10.27*	Letter Agreement, dated July 15, 1994, by and between the Company and Tradition (North America), Inc.
10.28*	Collective Bargaining Agreement, dated August 24, 1994, by and between the Company and United Steelworkers of America.
10.29*	Subscription Agreement, dated October 14, 1994, by and between Edelson Technology Partners III, L.P. and the Company.
10.30*	Escrow Letter, dated November 22, 1994, between the Company and PNC Bank, National Association.
10.31*	Credit Agreement, dated as of November 18, 1994, between the Company and PNC Bank, National Association, with Exhibits and Schedules.
10.32*	Security Agreement and Collateral Assignment, dated as of November 18, 1994, by and between the Company and PNC Bank, National Association.
10.33*	Note, dated as of November 18, 1994, by and between the Company and PNC Bank, National Association.
10.34*	Landlord's Waiver, dated as of November 18, 1994, by Armco Inc.
10.35*	Open-End Leasehold Mortgage, Collateral Assignment and Security Agreement dated as of November 18, 1994, by the Company in favor of PNC Bank, National Association.
10.36*	Pledge and Security Agreement, dated as of November 18, 1994, between the Company and PNC Bank, National Association.
10.37**	First Amendment to Credit Agreement and Waiver, dated as of March 30, 1995, by and between the Company and PNC Bank, National Association.
10.38**	Second Amendment to Credit Agreement and Waiver, dated as of May 31, 1995, by and between the Company and PNC Bank, National Association.
10.39**	Third Amendment to Credit Agreement and Waiver, dated as of August 25, 1995, by and between the Company and PNC Bank, National Association.
10.40**	Fourth Amendment to Credit Agreement and Waiver, dated as of October 3, 1995, by and between the Company and PNC Bank, National Association.
10.41**	Fifth Amendment to Credit Agreement and Waiver, dated as of October 9, 1995, by and between the Company and PNC Bank, National Association.
10.42**	Collective Bargaining Agreement, dated May 3, 1995, by and between the Company and United Steelworkers of America.
10.43**	Promissory note, dated June 2, 1995, by and between the Company and Armco Inc.
10.44**	Security Agreement, dated as of June 2, 1995, by and between the Company and Armco Inc.
10.45**	Mortgage, dated as of June 2, 1995, by and between the Company and Armco Inc.
10.46**	Letter Agreement, dated July 6, 1995, by and between the Company and Commonwealth of Pennsylvania.
10.47**	Loan Agreement, dated October 3, 1995, by and between the Company and Commonwealth of Pennsylvania.
10.48**	Note, dated October 3, 1995, for the principal sum of $500,000, by the Company, in favor of the Commonwealth of Pennsylvania.

10.49**	Security Agreement, dated October 3, 1995, by and between the Company and the Commonwealth of Pennsylvania.
10.50**	Letter Agreement, dated June 30, 1995, by and between the Company and the Commonwealth of Pennsylvania.
10.51**	Letter Agreement, dated September 20, 1995, by and between the Company and the Commonwealth of Pennsylvania.
10.52*	Underwriting Agreement, dated December 14, 1995, among the Company and Keane Securities Co., Inc., as representatives of the several underwriters.
10.53**	Form of Underwriting Agreement among the Company and Oppenheimer & Co., Inc., and Furman Selz Incorporated, as representatives of the several underwriters.
10.54***	First Amendment to Registration Rights Agreement, dated as of July 3, 1995, by and between the Company and Edelson Technology Partners III, L.P.
10.55	Employment Agreement, dated October 8, 1996, by and between the Company and Bradford C. Bowman.
13.1	Selected pages of the Company's 1996 Annual Report to Shareholders incorporated by reference into Part II of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996.
23.1	Consent of Price Waterhouse LLP.
24	Powers of Attorney (included on the signature page hereto).
27	Financial Data Schedule

- ---------------------------

* Incorporated herein by reference to the exhibits filed with the Company's Registration Statement on Form S-1 (Registration No. 33-85310).

** Incorporated herein by reference to the exhibits filed with the Company's Registration Statement on Form S-1 (Registration No. 33-97896).

*** Incorporated herein by reference to the exhibits filed with the Company's Registration Statement on Form S-1 (Registration No. 33-98534).

b) No reports on Form 8-K were filed by the Company during the quarter ended December 31, 1994.

c) See Item 14(a)(3) above.

d) None.

Exhibit 10.55

Universal Stainless & Alloy Products, Inc.
600 Mayer Street
Bridgeville, Pennsylvania 15017

October 8, 1996

Bradford Chris Bowman
38 Elora Drive, Unit #1
Hamilton, Ontario L9C7K3
CANADA

SUBJECT: EMPLOYMENT OFFER

Dear Brad:

It is with great pleasure that I am able to notify you that Universal Stainless & Alloy Products, Inc., is hereby offering you employment in the capacity of Chief Metallurgical Engineer.

This offer is contingent on your successfully completing a pre-employment physical, including drug and alcohol screening.

This offer is not an employment contract, is not for any specific period of time, and any employment resulting from such offer is considered to be employment at will.

This offer is made with the following provisions.

1) Annual Salary: $175,000.00 (US).
2) Bonus Plan: Same plan as President & CEO for 1997 calendar year
3) Stock Options: 40,000 options at time of employment vesting 1/3 per year for three years. 20,000 options on first anniversary vesting 1/3 per year for three years.
4) Pension Funding: $40.00 semi-monthly contributed to 401 K plan
5) Life Insurance: Equal to base annual salary
6) Health Insurance: Standard company program
7) Vacation: Two weeks after one year of service

8) Holidays: Eight holidays
9) One-time relocation assistance
   - A Reimbursement of reasonable costs to relocate personal household furnishings from your current residence to your new residence in the Pittsburgh area.
   - Reimbursement of temporary living expense for four (4) months (lodging & meals).
   - A Reimbursement for round-trip airfare between Pittsburgh, PA and Hamilton, Ontario twice a month for up to four (4) months.
   - Reimbursement for closing costs associated with the purchase of primary residence in the Pittsburgh area.
   - House hunting: Reimbursement two (2) family trips to Pittsburgh area to investigate housing market.
10) Involvement with the Board of Directors and membership on the Board subject to Corporate by-laws and stockholder approval.

11) If employment is terminated during the first year of employment by the Company without cause, employee is entitled to one year salary plus any unpaid bonus earned up to time of termination plus standard medical benefits for one year.

The above mentioned items are substantially the items that are material to the offer, but are not all-inclusive of the company's benefits and do not contain all provisions.

We would like your response no later than October 9, 1996, with an anticipated start date of October 15, 1996.

If you have any questions, please do not hesitate to call me at 412-257-7603.

Sincerely,

/s/ Paul A. McGrath
- -------------------
Paul A. McGrath
Director Employee Relations/General Counsel

hf

I hereby accept this offer of employment by Universal Stainless & Alloy Products, Inc.

/s/ Bradford C. Bowman
- ---------------------
(Signed)

Exhibit 13

Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

The Company was incorporated in June 1994 and is the successor by merger to a company (the "Former Company") of the same name, which was incorporated in Pennsylvania 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 (the "Bridgeville Facility") of Armco Inc. ("Armco"). The Assets had been idle since December 23, 1993. Prior to the merger, the Former Company had no operating history and no material assets.

On August 15, 1994, the Company completed its acquisition of the Assets. On September 9, 1994, the Company completed its first melt of semi-finished steel product, and initial shipments from the facility were made on September 19, 1994. On June 2, 1995, the Company acquired the precision rolled products business ("PRP Business") and five vacuum-arc remelting furnaces and certain ancillary equipment ("VAR Assets") from the Cytemp division of Armco, located in Titusville, Pennsylvania. The PRP Business involves primarily the manufacture of stationary parts for power generation and aerospace uses. The VAR Assets were a cost center of the Cytemp division with operations unrelated to the PRP Business.

Results of Operations

An analysis of the Company's operations is as follows (dollars in thousands):

	1996		1995		1994	
	Amount	%	Amount	%	Amount	%
Net sales						
Stainless steel	$46,903	77.8%	$38,292	81.5%	$ 4,192	73.0%
Tool steel	8,019	13.3	4,080	8.7	1,212	21.1
Conversion services	3,804	6.3	3,272	7.0	188	3.3
Other	1,532	2.6	1,348	2.8	151	2.6
Total net sales	60,258	100.0	46,992	100.0	5,743	100.0
Cost of products sold						
Raw materials	24,208	40.2	23,728	50.5	3,240	56.4
Other	23,986	39.8	16,591	35.3	2,232	38.9
Total cost of products sold	48,194	80.0	40,319	85.8	5,472	95.3
Plant startup costs	-	0.0	-	0.0	273	4.7
Gross profit (loss)	$12,064	20.0%	$ 6,673	14.2%	$ (2)	0.0%

Net sales by market segment are as follows (dollars in thousands):

	1996		1995		1994	
	Amount	%	Amount	%	Amount	%
Rerollers	$29,896	49.6%	$27,216	57.9%	$3,491	60.8%

Service centers	10,503	17.4	4,493	9.6	1,212	21.1
Original equipment manufacturers	8,168	13.6	4,062	8.6	-	-
Forgers	7,797	12.9	7,829	16.7	624	10.9
Conversion	3,804	6.3	3,272	7.0	188	3.3
Miscellaneous	90	0.2	120	0.2	228	3.9
	$60,258	100.0%	$46,992	100.0%	$5,743	100.0%

1996 Results as Compared to 1995 The increase in net sales in 1996 reflects the June 1995 acquisition of the PRP Business and VAR Assets, along with an increase in shipments of stainless steel to rerollers and original equipment manufacturers and of tool steel to service centers. The Company shipped approximately 40,300 tons in 1996, compared to shipments of 32,700 tons in 1995. The increase in net sales of stainless steels was achieved despite lower pricing of stainless steel long products due to competition from imports. The net sales increase to original equipment manufacturers reflects rising demand for the Company's products from the power generation sector, as well as the PRP Business acquisition, while the higher service center sales reflect an increase in the Company's tool steel customer base. The 1995 sales were unfavorably affected by the approximately six-week production halt of the universal rolling mill at the Bridgeville Facility in July and August of that year.

Cost of products sold, as a percentage of net sales, decreased in 1996 as compared to 1995 primarily due to lower acquisition costs for the Company's primary raw materials, an increase in tool steel shipments and an improved sales mix within the stainless steel product lines. The 1995 percentage was unfavorably affected by the universal rolling mill production halt described above.

Selling and administrative expenses increased from $3.5 million in 1995 to $4.5 million in 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 acquisition of the PRP Business and VAR Assets.

Interest and other income increased to $211,000 in 1996 in comparison to $177,000 in 1995, 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 were 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 $416,000 in 1995 to $131,000 in 1996.

The effective income tax rate utilized in 1996 was 37.0% in comparison to 8.1% in 1995. The lower effective income tax rate in 1995 reflects the recognition of the benefit from net operating loss carryforwards generated in 1994.

1995 Results as Compared to 1994 The increase in net sales in 1995 is directly related to the continued growth of the business since the Company's inception. The Company shipped approximately 32,700 tons in 1995, compared to shipments of 4,300 tons in 1994. Shipments were favorably affected by the June 2, 1995 acquisition of the PRP Business and the VAR Assets. Shipments were adversely affected by the approximately six-week

production halt, in July and August 1995, of the universal rolling mill at the Bridgeville Facility. Sales prices per ton improved in 1995 over 1994 primarily due to an improved sales mix within the stainless steel product line.

Cost of products sold, as a percent of sales, decreased in 1995 as compared to 1994 primarily due to increased volumes, the implementation of price surcharges to mitigate fluctuations in the market value of the Company's primary raw materials (basic scrap, nickel, chrome and molybdenum) and the improved sales mix within the stainless steel product line, complemented by a substantial increase in conversion services. The 1995 percentage was unfavorably affected by the universal rolling mill production halt described above.

During its startup phase, the Company purchased raw materials in order to support the production schedule developed from the order backlog. As a result of capital constraints placed on the Company due to cash outlays required prior to the December 1994 initial public offering, the Company did not have sufficient funds to purchase its raw material needs on its growing book of business that extended into mid-February 1995. These events occurred at a time when raw material costs were rapidly rising and were further exacerbated by various operational delays that occurred and were subsequently corrected during the plant "shakedown" period. Therefore, the timing of the raw material purchases caused the Company to produce orders at lower-than-expected margins in this early period. With a view to further developing its customer relationships, however, the Company decided to fulfill its order requirements at the originally established prices. Subsequently, the Company's selling price increases and surcharges helped offset raw material price increases in 1995. In addition, the Company completed negotiations with respect to certain raw material suppliers, resulting in arrangements that permit the Company to purchase certain raw materials at set prices for up to 30 to 90 days, which may provide short-term protection from increases in future raw material prices, although there can be no assurance in that regard.

The increase experienced in selling and administrative expenses between 1994 and 1995 was primarily due to the continued growth of the business, including the acquisition of the PRP Business and the VAR Assets.

Interest income was earned on the cash received from two public offerings that was invested in high-grade, short-term investments.

Interest and other financing costs primarily related to the cost of borrowed funds under the revolving line of credit and other debt instruments and the amortization of deferred financing costs associated with the negotiation and execution of loan agreements. The increase in 1995 was primarily due to increased borrowing activity prior to the Company's November 1995 public offering.

The effective income tax rate of 8.1% in 1995 was a direct result of the Company's ability to utilize all of the Company's available net operating loss carryforwards generated in 1994. Considering the lack of an operating history to support the realization of the deferred tax assets at December 31, 1994, the Company provided a valuation allowance of 100% against its net deferred tax asset balance of $938,000. This valuation allowance was reversed in 1995.

The Company elected to apply a portion of the net proceeds from the December 1994 public offering to prepay its long-term debt, resulting in an extraordinary gain of $101,000. The Company also elected to terminate a bank loan agreement that required the write-off of the unamortized deferred financing costs ($523,000) and the payment of a termination fee and other expenses ($212,000). The net loss from these early extinguishments of debt are reflected in the statement of operations as extraordinary items.

Liquidity and Capital Resources

In 1996, the Company generated cash flow from operations of $3.6 million despite continuing increases in accounts receivable and inventory as a result of sales growth. The preoperating activities and operations of the Company used cash in the amount of $4.3 million during 1994 and $1.9 million during 1995, which resulted from the Company's 1994 net loss and the increase in working capital levels.

At December 31, 1996, working capital approximated $16.0 million, as compared to $19.1 million at December 31, 1995. The ratio of current assets to current liabilities at December 31, 1996 and 1995, was 3.0:1 and 4.0:1, respectively. The debt to capitalization ratio was 8% at December 31, 1996, and 2% at December 31, 1995. The decrease in working capital was attributable to capital expenditures incurred, which were partially offset by cash provided from operations and financing activities.

Capital Expenditures and Investments The Company's capital expenditures were approximately $11.4 million and $3.0 million for the years ended December 31, 1996 and 1995, respectively, which primarily related to the Company's 1995-96 capital expenditure program estimated at $15.0 million. Capital expenditures in 1997 are expected to approximate $9.0 million, of which $2.1 million relate to the completion of projects at the electric arc furnace and universal rolling mill. These expenditures are expected to be funded substantially from internally generated funds.

PNC Working Capital Agreement On January 31, 1996, the Company entered into an amended and restated credit agreement in which PNC Bank agreed to make available a revolving credit facility through April 1998 ("PNC Line") for working capital purposes in an amount not to exceed $6.5 million. Interest charged on the unpaid principal balance under the PNC Line is paid at an annual rate equal to PNC Bank's prime rate plus 0.25%. The Company must also pay a 0.5% per annum usage fee on the daily unused portion of the revolving line of credit. The PNC Line is secured by substantially all the Company's assets and a leasehold mortgage on the premises leased by the Company from Armco. The PNC working capital agreement also contains financial covenants and restrictive covenants that place certain limits on the Company's ability to incur additional indebtedness, issue guarantees, encumber any of its assets and properties, issue dividends, dispose of and acquire assets and fund capital expenditures. There were no borrowings under the PNC Line during 1996.

Government Financing Programs The Company has entered into three separate loan agreements with the Commonwealth of Pennsylvania's Department of Commerce aggregating $1.1 million with terms ranging from seven to twenty years. The Company also entered into a ten-year loan agreement with the Redevelopment Authority of Allegheny County Economic Development Fund in the amount of $1.5 million. The loans bear interest at rates ranging from 5% to 6% per annum.

Environmental Matters The Company, as well as other steel companies, is subject to demanding environmental standards imposed by federal, state and local environmental laws and regulations. In connection with the acquisition of the Assets at the Bridgeville Facility, Armco agreed to retain responsibility for liabilities asserted against Armco under environmental laws with respect to environmental conditions existing at the Bridgeville Facility prior to commencement of the long-term net lease of that facility with Armco on August 15, 1994, and to indemnify the Company up to $6.0 million in the aggregate over ten years. Such indemnification expires on August 15, 2004. Certain environmental conditions, that were identified as having existed as of August 15, 1994, have been or are in the process of being remediated by Armco at its expense.

In connection with the Company's June 2, 1995 agreement with Armco to purchase the PRP Business, the VAR Assets and a parcel of real property located at Titusville, Armco agreed to indemnify the Company up to $3.0 million in the aggregate for liabilities under environmental laws arising out of conditions on or under the Titusville property existing prior to June 2, 1995. Armco's obligation to indemnify the Company for any liabilities arising out of environmental conditions existing off-site as of June 2, 1995, is not subject to the $3.0 million limitation.

Management is not aware of any financial difficulties being experienced by Armco that would prevent its performance under the acquisition agreements. In addition, management is not aware of any environmental conditions or the incurrence of other liabilities at the Bridgeville or Titusville facilities, for which Armco has agreed to indemnify the Company nor of any environmental condition requiring remediation and affecting the Company other than those identified in the preceding discussion.

Short- and Long-Term Liquidity The Company expects to meet substantially all of its short-term liquidity requirements with internally generated funds. In addition, the Company has $6.5 million available under the PNC Line. As the demand for the Company's products increases, the probability for borrowings under the PNC Line will likely increase.

The Company's long-term liquidity also depends upon its ability to obtain additional orders from its customers, attract new customers and control costs during periods of low demand or pricing in the event of a downturn in general economic conditions.

General Actual results will be affected by a wide range of factors including timing, cancellation or delay of customer orders; changes in product mix; the Company's limited operating history; the concentrated nature of the Company's customer base to date and the Company's dependence on its significant customers; the Company's reliance on certain critical manufacturing equipment; the significant fluctuations that may occur in raw material prices; and the Company's ongoing requirement for continued compliance with environmental laws. 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. Many of these factors are not within the Company's control, and there can be no assurances regarding the Company's future sales or earnings.

Report of Independent Accountants

To the Board of Directors and Stockholders
of Universal Stainless & Alloy Products, Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations and of cash flows present fairly, in all material respects, the financial position of Universal Stainless & Alloy Products, Inc., and its subsidiary at December 31, 1996 and 1995, and the results of their operations and their cash flows for the years ended December 31, 1996 and 1995, and for the preoperating and operating periods ended December 31, 1994, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As more fully discussed in Note 1, the Company acquired substantially all of the idled equipment and related assets of Armco Inc.'s Stainless & Alloy Products Division located at Bridgeville, Pennsylvania, pursuant to an Asset Purchase Agreement with Armco Inc. The Company had no operating history prior to August 15, 1994.

Price Waterhouse LLP
Pittsburgh, Pennsylvania
January 20, 1997

CONSOLIDATED STATEMENT OF OPERATIONS

(Dollars in thousands, except per share information)	For the Year Ended December 31, 1996	For the Year Ended December 31, 1995	For the Preoperating and Operating Periods Ended December 31, 1994
Net sales	$60,258	$46,992	$ 5,743
Cost of products sold	48,194	40,319	5,472
Plant startup costs	-	-	273
Gross profit (loss)	12,064	6,673	(2)
Selling and administrative expenses	4,533	3,471	1,211
Organizational expenses	-	-	442

Operating income (loss)	7,531	3,202	(1,655)
Interest and other income	211	177	25
Interest and other financing costs	131	416	212
Income (loss) before taxes and extraordinary items	7,611	2,963	(1,842)
Provision for income taxes	2,818	240	-
Income (loss) before extraordinary items	4,793	2,723	(1,842)
Extraordinary items (Note 4)	-	-	(634)
Net income (loss)	$ 4,793	$ 2,723	$(2,476)
Net income (loss) per share of Common Stock:			
Before extraordinary items	$ 0.76	$ 0.57	$(0.62)
Extraordinary items	-	-	(0.22)
Net income (loss)	$ 0.76	$ 0.57	$ (0.84)
Weighted average number of shares of			
Common Stock outstanding	6,270,952	4,745,384	2,935,646

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

CONSOLIDATED BALANCE SHEET

(Dollars in thousands)	December 31, 1996	December 31, 1995
Assets		
Current assets		
Cash and cash equivalents	$ 4,219	$10,038
Accounts receivable (less allowance for		
doubtful accounts of $238 and $178)	9,409	7,832
Inventory (Note 2)	9,784	7,105
Prepaid expenses	629	470
Total current assets	24,041	25,445
Property, plant and equipment, net (Note 3)	17,810	6,664
Other assets	247	328
Total assets	$42,098	$32,437
Liabilities and Stockholders' Equity		
Current liabilities		
Trade accounts payable	$ 5,857	$ 5,077
Current portion of long-term debt (Note 4)	260	73
Accrued employment costs (Note 8)	1,403	687
Other current liabilities	540	325
Total current liabilities	8,060	6,162
Long-term debt (Note 4)	2,534	462
Deferred taxes (Note 6)	1,007	222
Total liabilities	11,601	6,846

Commitments and contingencies (Note 10)

Stockholders' equity (Note 7)

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; 6,283,734 and 6,270,000 shares issued and outstanding	6	6
Additional paid-in capital	25,451	25,338
Retained earnings	5,040	247
Total stockholders' equity	30,497	25,591
Total liabilities and stockholders' equity	$42,098	$32,437

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

CONSOLIDATED STATEMENT OF CASH FLOWS

(Dollars in thousands)	For the Year Ended December 31, 1996	For the Year Ended December 31, 1995	For the Preoperating and Operating Periods Ended December 31, 1994
Cash flows from preoperating and operating activities:			
Net income (loss)	$ 4,793	$ 2,723	$ (2,476)
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation and amortization	541	304	133
Deferred taxes	728	(205)	-
Extraordinary items	-	-	634
Changes in assets and liabilities:			
Accounts receivable, net	(1,577)	(4,302)	(3,530)
Inventory	(2,679)	(1,385)	(4,066)
Accounts payable	780	515	4,562
Accrued employment costs	716	513	174
Other, net	339	(95)	269
Net cash provided (used) by preoperating and operating activities	3,641	(1,932)	(4,300)
Cash flows from investing activities:			
Acquisition of assets through purchase agreements	-	(859)	(1,850)
Capital expenditures	(11,409)	(3,039)	(132)
Net cash used by investing activities	(11,409)	(3,898)	(1,982)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt to related party	-	-	2,000
Proceeds from issuance of long-term debt	2,114	500	-
Long-term debt repayment	(125)	(969)	(3,634)
Proceeds from issuance of Common Stock	18	13,993	11,296

Proceeds from issuance of Senior Preferred Stock to related party	-	-	2,000
Redemption of Senior Preferred Stock from related party	-	-	(2,000)
Borrowings under revolving line of credit	-	43,429	2,874
Repayments under revolving line of credit	-	(44,147)	(2,156)
Restricted cash	-	2,000	(2,000)
Deferred financing costs	(58)	(61)	(975)
Net cash provided by financing activities	1,949	14,745	7,405
Net increase (decrease) in cash	(5,819)	8,915	1,123
Cash at beginning of period	10,038	1,123	-
Cash at end of period	$ 4,219	$10,038	$ 1,123
Supplemental disclosure of cash flow information:			
Interest	$ 72	$ 363	$ 85
Income taxes	$ 1,888	$ 340	$ -

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1

Significant Accounting Policies

Description of the Company 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 (the "Former Company") 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. Pursuant to the Asset Agreement, the Company paid Armco $1,850,000 in cash and issued a subordinated two-year note in the principal amount of $1,850,000 plus interest commencing on August 15, 1994. The acquisition of the Assets was accounted for under the purchase method. The fair value of the Assets estimated at approximately $8,000,000 exceeded the purchase price. Accordingly, the purchase price, adjusted for the discounted value of the 1994 Armco Note, was allocated as follows (dollars in thousands):

Inventory	$1,084
Property, plant and equipment	2,460
	$3,544

From January 1994 through August 15, 1994, the assets and activities of both the Company and the Former Company were devoted to various organizational and financing activities. Consequently, for financial statement purposes, August 15, 1994, is deemed to be the inception date of the Company. Upon execution of the Asset Agreement, the Company began to solicit and accept customer orders and on September 9, 1994, the Company completed its first melt of semi-finished steel product with initial deliveries shipped on September 19, 1994 (the conclusion of the preoperating period). In June 1995, the Company acquired the PRP Business and the VAR Assets, described in Note 11.

The Company manufactures and markets semi-finished specialty steels and precision cold-rolled products, including stainless steel, tool steel and certain other alloyed steels. The Company's manufacturing process involves melting, remelting, treating and hot and cold rolling of semi-finished specialty steels. The Company's products are sold to rerollers, forgers, service centers and original equipment manufacturers, which primarily include the power generation and aerospace industries. The Company also provides conversion services on materials supplied by customers that lack certain of the Company's production facilities or that are subject to their own capacity constraints.

Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Consolidation The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. All intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents Cash equivalents are stated at cost plus accrued interest, which approximates market value. Cash equivalents include only securities having a maturity of three months or less at the time of purchase.

Concentration of Credit Risk Financial instruments that potentially subject the Company to concentrations of credit risk are cash and cash equivalents and accounts receivable. The Company limits its credit risk associated with cash and cash equivalents by placing its investments in high-grade short-term instruments. With respect to accounts receivable, the Company limits its credit risk by performing ongoing credit evaluations and, when deemed necessary, requiring letters of credit, guarantees or collateral.

Net sales from the Company's largest customer and its affiliate were approximately 44% and 42% of total 1996 and 1995 sales, respectively. The accounts receivable balances from the same customer comprised approximately 23% and 24% of total accounts receivable at December 31, 1996 and December 31, 1995, respectively. Net sales from the Company's three largest customers, which individually exceeded 10% of sales, were approximately 38%, 12% and 12%, respectively, of total 1994 sales.

Inventories Inventories are stated at the lower of cost or market with cost determined by the first-in, first-out (FIFO) method. Such costs include the acquisition cost for raw materials and supplies, direct labor and applied manufacturing overhead.

Scrap metal together with alloy additives, principally nickel, chrome and molybdenum, currently account for more than 50% of the Company's total cost of products sold. A substantial portion of the alloy additives is available only from foreign sources, some of which are located in countries that may be subject to unstable political and economic conditions. Those conditions might disrupt supplies or affect the prices of the raw materials used by the Company. The Company has implemented sales price surcharges to help offset the impact of raw material price fluctuations.

Operating materials consist of production molds and rolls that will normally be consumed within one year and are accounted for as inventory.

Property, Plant and Equipment Property, plant and equipment is recorded at cost. Maintenance and repairs are charged to expense as incurred, and costs of improvements and renewals are capitalized. Costs incurred in connection with the construction or major rebuild of facilities, including interest directly related to the project, are capitalized as construction in progress. No depreciation is recognized on these assets until placed in service.

Depreciation and amortization are computed using the straight-line method based on the estimated useful lives of the related assets. The estimated useful lives of plant and equipment range from three to twenty years.

The Company's manufacturing processes are dependent upon certain pieces of specialty steelmaking equipment, such as the Company's electric arc furnace and universal rolling mill. In the event a critical piece of equipment should become inoperative as a result of an unexpected equipment failure, there can be no assurance that the Company's operations would not be substantially curtailed.

Revenue Recognition Revenue from the sale of products is recognized upon passage of title to the customer, which in most cases coincides with shipment of the related products or the performance of conversion services.

Earnings Per Share Earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the year, plus common equivalent shares outstanding if the common equivalent shares are dilutive. Common equivalent shares include dilutive stock options and warrants as if the options and warrants were exercised and the proceeds used to acquire common stock. The amount of common equivalent shares was less than 3% of the weighted average number of common shares outstanding and therefore excluded from the calculation.

Reclassifications Certain prior year amounts have been reclassified to conform with the 1996 presentation.

Note 2

Inventories

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

	December 31, 1996	December 31, 1995
Raw materials and supplies	$1,715	$1,473
Semi-finished steel products	6,205	4,278
Operating materials	1,864	1,354
Total inventory	$9,784	$7,105

Note 3

Property, Plant and Equipment

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

	December 31, 1996	December 31, 1995
Land and land improvements	$ 674	$ 327
Buildings	1,248	550
Machinery and equipment	12,746	4,911
Construction in progress	3,898	1,140
	18,546	6,928

Accumulated depreciation	(736)	(264)
Property, plant and equipment, net	$17,810	$6,664

Property, plant and equipment includes a capital lease with Armco for the land and certain buildings and structures located in Bridgeville. The lease is for a ten-year term commencing on August 15, 1994, with three five-year options to renew on the same terms at the Company's discretion at a rental of $1 per year plus payment of real and personal property taxes and other charges associated with the property. The Company also has an option under the lease to buy substantially all of the leased premises for $1 at any time during the term of the Armco Lease prior to August 15, 2015.

Note 4

Long-Term Debt and Other Financing

Long-term debt consists of the following (dollars in thousands):

	December 31, 1996	December 31, 1995
Government debt	$2,528	$490
Capital lease obligations	266	45
	2,794	535
Less amounts due within one year	(260)	(73)
Total long-term debt	$2,534	$462

On January 31, 1996, the Company entered into an amended and restated credit agreement with PNC Bank for a $6,500,000 revolving credit facility through April 1998, secured by substantially all of the Company's assets (PNC Line). Available borrowings under the PNC Line are based upon a formula related to the Company's eligible accounts receivable and inventory. Interest on amounts outstanding under the PNC Line is to be paid at an annual rate of the PNC Bank prime rate plus 0.25%. The Company must also pay a 0.5% per annum usage fee on the daily unused portion of the revolving line of credit. The PNC Line also contains certain financial covenants throughout its term, including covenants that require the Company to maintain certain levels of net worth, working capital and other financial ratios. In addition, the PNC Line limits the amount of capital expenditures the Company may incur and restricts the payment of dividends on its issued and outstanding Senior Preferred Stock and Common Stock during each year of the agreement.

The Company has entered into three separate loan agreements with the Commonwealth of Pennsylvania's Department of Commerce aggregating $1,100,000 with terms ranging from seven to twenty years. The Company also entered into a ten-year loan agreement with the Redevelopment Authority of Allegheny County Economic Development Fund in the amount of $1,514,000. The loans bear

interest at rates ranging from 5% to 6% per annum. The annual required principal and interest payments under these loan agreements for each of the next five years approximate $340,000.

The Company has entered into capital lease obligations for the purchase of certain equipment. The future minimum lease payments as of December 31, 1996, approximate $82,000 in each year ending December 31, 1997 and 1998, and $77,000, $67,000 and $11,000 in the years ending December 31, 1999, 2000 and 2001, respectively. The interest portion of the future minimum lease payments approximates $21,000.

The Company elected to apply a portion of the net proceeds from the December 1994 public offering to prepay its long-term debt, resulting in an extraordinary gain of $101,000. The Company also elected to terminate a bank loan agreement that required the write-off of the unamortized deferred financing costs ($523,000) and the payment of a termination fee and other expenses ($212,000). The net loss from these early extinguishments of debt is reflected in the statement of operations as extraordinary items.

Note 5

Retirement Plans

The Company has defined contribution retirement plans that cover substantially all employees. The Company's contributions to the hourly employee plan are based on time worked while contributions to the salaried plan are established as a fixed amount per month. Company contributions to both plans are funded at six-month intervals. The total expense for the years ended December 31, 1996 and 1995, and the preoperating and operating periods ended December 31, 1994, was $192,000, $127,000 and $28,000, respectively.

No other post-retirement benefit plans exist.

Note 6

Income Taxes

Components of the provision for income taxes are as follows (dollars in thousands):

	December 31, 1996	December 31, 1995	December 31, 1994
Current provision:			
Federal	$1,869	$385	$---
State	221	60	---
	2,090	445	---
Deferred provision (benefit):			---
Federal	654	(185)	---
State	74	(20)	---
	728	(205)	---
Provision for income taxes	$2,818	$240	$---

A reconciliation of the federal statutory tax rate and the Company's effective tax rate is as follows:

	December 31, 1996	December 31, 1995	December 31, 1994
Federal statutory tax	34.0%	34.0%	(34.0%)
State income taxes, net of federal benefit	2.9	5.5	---

Effect of valuation allowance adjustments	---	(31.7)	34.0

Other, net	0.1	0.3	---
Effective tax rate	37.0%	8.1%	0.0%

Deferred taxes result from the following (dollars in thousands):

	December 31, 1996	December 31, 1995
Deferred tax assets:		
Receivables	$ 100	$ 67
Inventory	109	70
Organizational expenses	145	197
Accrued liabilities	130	93
	$ 484	$427
Deferred tax liabilities:		
Property, plant and equipment	$1,007	$222
	$1,007	$222

The ultimate realization of the deferred tax assets depends on the Company's ability to generate sufficient taxable income in the future. Considering the lack of an operating history to support the realization of the deferred tax assets, the Company provided a valuation allowance of 100% against net deferred tax assets of $938,000, as of December 31, 1994. The entire valuation allowance was reversed in 1995 based on the generation of taxable income for 1995 and management's belief that the Company will generate sufficient taxable income in the future to realize the deferred tax assets.

Note 7

Stockholders' Equity

(Dollars in thousands)	Preferred Shares Outstanding	Common Shares Outstanding	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings (Deficit)
Beginning balance	---	---	$---	$---	$---	$---
Common Stock issuance		2,750,000		3	11	
Senior Preferred Stock issuance	20,000				2,000	
Net loss -- preoperating period						(442)
Balance at August 15, 1994	20,000	2,750,000	---	3	2,011	(442)
Private placement of Common Stock		137,500			532	
Common Stock issuance under Employee Stock Plan		6,900			55	

(Dollars in thousands)	Preferred Shares Outstanding	Common Shares Outstanding	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings (Deficit)
Initial public offering of Common Stock		1,625,000		2	10,748	
Senior Preferred Stock redemption	(20,000)				(2,000)	
Net loss -- preoperating period						(273)
Net loss -- operating period						(1,761)
Balance at December 31, 1994	---	4,519,400	---	5	11,346	(2,476)
Initial public offering of						

Common Stock		50,600			353	
Second public offering of Common Stock		1,700,000		1	13,737	
Registration of private placement shares					(98)	
Net income						2,723
Balance at December 31, 1995	---	6,270,000	$---	$6	$25,338	$ 247
Common Stock issuance under Employee Stock Plan		11,300		---	95	
Common Stock issuance under Employee Stock Purchase Plan		2,434			18	
Net income						4,793
Balance at December 31, 1996	---	6,283,734	$---	$6	$25,451	$5,040

In January 1994, the Former Company issued a total of 9,000 shares of Common Stock and in June 1994, the Company initially issued 1,297,500 shares of Common Stock to the initial stockholders. In August 1994, the Company issued to Herbert V. Turk 432,500 shares of Common Stock. In connection with the Merger, the stockholders of the Former Company received 1,020,000 shares of Common Stock in exchange for all of the issued and outstanding shares of the Former Company.

The Senior Preferred Stock was issued by the Company to Mr. Turk, an existing stockholder of the Company, in return for $2,000,000 in cash. The Company redeemed all outstanding shares of Senior Preferred Stock at $100 per share on December 22, 1994.

On October 14, 1994, the Company completed a private placement of 137,500 shares of Common Stock of the Company at a sales price of $4.00 per share. The net proceeds to the Company from this financing were approximately $532,000. On December 1, 1995, the Company completed a registration statement at the request of the stockholder at a cost of $98,000.

On December 22, 1994, the Company completed its initial public offering of 1,625,000 shares of Common Stock of the Company at a sales price of $8.00 per share.

In connection with the initial public offering, the underwriters received warrants, which expire on December 14, 1999, to purchase 162,500 shares of the Company's Common Stock at an exercise price of $10.80 per share. On February 3, 1995, the Company sold an additional 50,600 shares pursuant to the underwriters' over-allotment option to purchase an additional 243,750 shares of Common Stock. The net proceeds to the Company from this sale approximated $353,000.

On November 22, 1995, the Company completed a second public offering of 1,700,000 shares of Common Stock of the Company at a sale price of $9.00 per share. In connection with the second public offering, certain original stockholders sold an additional 600,000 shares of the Company's Common Stock.

On October 6, 1994 and on May 22, 1996, the Company's Board of Directors adopted employee stock plans for the purpose of issuing 100 shares of Common Stock of the Company at no cost to the eligible employees. Non-executive employees not eligible for stock options under the 1994 Stock Incentive Plan, described in Note 8, were eligible employees under the Plans. The Company issued 6,900 and 11,300 shares of the Company's Common Stock in 1994 and 1996, respectively. The costs of these issuances were recorded as compensation expense. These plans were terminated.

Note 8

Stock Compensation Plans

At December 31, 1996, the Company has two stock-based compensation plans that are described below.

Incentive Compensation Plan

On September 23, 1994, the Company's Board of Directors adopted the Company's 1994 Stock Incentive Plan as amended (the "1994 Plan") for the purpose of issuing stock options to non-employee directors, other than directors owning more than 5% of the Company's outstanding Common Stock, officers and other key employees of the Company who are expected to contribute to the Company's future growth and success. Under the 1994 Plan, the Company may grant options with respect to a maximum of 650,000 shares of Common Stock. Options granted to non-employee directors vest over a three-year period, and options granted to employees vest over a four-year period. All options under the 1994 Plan will expire no later than ten years after the grant date.

A summary of the 1994 Plan activity as of and for the years ended December 31, 1996, 1995 and 1994 is presented below:

	1996		1995		1994	
	Number	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price	Number	Weighted Average Exercise Price
Fixed Options						
Outstanding at beginning of year	208,000	$9.63	60,000	$8.00	---	$---
Granted	130,000	8.54	150,000	10.28	60,000	8.00
Forfeited	(2,500)	10.25	(2,000)	9.50	---	---
Outstanding at end of year	335,500	9.20	208,000	9.63	60,000	8.00
Options exercisable at year-end	108,875		20,000			
Weighted-average fair value of options granted during the year	$4.88		$4.97			

The following table summarizes information about stock options outstanding at December 31, 1996.

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 12/31/96	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$8.00 to $11.25	335,500	8.9	9.20	108,875	9.02

Employee Stock Purchase Plan

Under the 1996 Employee Stock Purchase Plan, the Company is authorized to issue up to 90,000 shares of Common Stock to its full-time employees, nearly all of whom are eligible to participate. Under the terms of the Plan, employees can choose as of January 1 and July 1 of each year to have up to 10% of their total earnings withheld to purchase shares of the Company's Common Stock. The purchase price of the stock is 85% of the lower of its beginning-of-the-period or end-of-the-period market prices. At December 31, 1996, the end of the initial purchase period under the Plan, the Company issued 2,434 shares of Common Stock to 33 employees at $7.44 per share.

The Company applies Accounting Principles Board Opinion 25 and related Interpretations in accounting for its stock-based compensation plans. Accordingly, no compensation cost has been recognized for its fixed stock option plan and its stock purchase plan. Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method of Financial Accounting Standards Board Statement 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

		December 31, 1996	December 31, 1995
Net income	As reported	$4,793	$2,723
	Pro forma	$4,608	$2,651
Earnings per share	As reported	$ 0.76	$ 0.57
	Pro forma	$ 0.73	$ 0.56

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants issued in 1995 and 1996, respectively; dividend yield of 0.0% for each year; expected volatility of 46.0% and 60.0%; and expected lives for options of five years.

Cash-Incentive Plans

The Company has two management cash-incentive plans covering certain key executives and employees and profit-sharing plans that cover the remaining employees. The management cash-incentive plans provide for payments based on certain annual performance targets. The profit-sharing plans provide for the sharing of pre-tax profits in excess of specified amounts. For the years ended December 31, 1996 and 1995, the Company expensed $1,038,000 and $414,000, respectively, under these plans.

Note 9

Related Party Transactions

Certain stockholders, one of whom serves as a director of the Company, provided services in connection with the acquisition and related financing described in Note 1. These services primarily related to the negotiation and completion of the Asset Agreement between the Company and Armco, the labor contract with the United Steelworkers of America and certain utility contracts, and securing the financing arrangements described in Note 4. Fees and related expenses for these services are as follows:

Andromeda Enterprises, Inc., a Delaware corporation ("Andromeda"), received $111,000 from the Company for financial consulting services and out-of-pocket expenses performed by Andromeda on behalf of the Former Company and on behalf of the Company. Udi Toledano, a director of the Company and a principal stockholder, is the President of Andromeda and, together with family members, beneficially owns all of its outstanding capital stock.

The Company paid the law firm of Jones, Gregg, Creehan & Gerace $315,000 for legal services and certain other related matters rendered on behalf of the Company and its predecessor in connection with the Asset Agreement. The Company and that law firm also entered into certain mutual general releases at that time. Samuel P. Gerace, Sr., a principal stockholder of the Company, is a partner in Jones, Gregg, Creehan & Gerace.

Note 10

Commitments and Contingencies

The Company, as well as other specialty steel companies, is subject to demanding environmental standards imposed by federal, state and local environmental laws and regulations. In connection with the Asset Agreement, Armco agreed to retain responsibility for liabilities under environmental laws with respect to environmental conditions existing at the Bridgeville Facility prior to the commencement of the Armco Lease and to indemnify the Company up to $6,000,000 in the aggregate over 10 years. Such indemnification expires on August 15, 2004. Certain environmental conditions, which were identified as having existed as of August 15, 1994, have been or are in the process of being remediated by Armco at its expense.

In connection with the PRP/VAR Agreement, Armco agreed to retain responsibility for liabilities under environmental laws with respect to environmental conditions existing at the Titusville Facility prior to June 2, 1995, and to indemnify the Company up to $3,000,000 in the aggregate with respect thereto.

Insofar as the indemnities are the Company's exclusive remedies for environmental claims, the Company will be materially dependent upon those indemnities should any such claims arise. The Armco indemnities do not cover liability for violations of environmental laws stemming from any changes, modifications or amendments to environmental laws after August 15, 1994, with respect to the Bridgeville Facility, and June 2, 1995, with respect to the Titusville Facility. As of December 31, 1996, management was not aware of any environmental law violations not covered under the Asset Agreement or the PRP/VAR Agreement.

The Company has entered into certain equipment leases through December 31, 1996. The operating lease expense incurred was $121,000, $92,000 and $56,000 for the years ended December 31, 1996 and 1995, and the preoperating and operating period ended December 31, 1994, respectively. Future minimum lease payments under non-cancelable operating leases as of December 31, 1996, approximate $129,000 in 1997, $119,000 in 1998, $116,000 in 1999, $68,000 in 2000 and $10,000 thereafter.

The Company maintains insurance for both property damage and business interruption applicable to its production facilities, including the universal rolling mill. The Company has submitted a claim under these policies related to an electrical component breakdown in a drive motor at the Bridgeville Facility's universal rolling mill, which resulted in an approximately six-week production halt. Management is not able to estimate the probability of the Company receiving proceeds from its insurance carriers at this time. Therefore, no amounts have been recorded in the financial statements for insurance recoveries.

Note 11

Acquisition

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") of Armco's Cytemp division located in Titusville. The acquisition was accounted for under the purchase method. The fair value of the assets acquired, estimated at approximately $2,300,000, exceeded the purchase price, including related acquisition costs, of $1,304,000 and was allocated as follows (dollars in thousands):

Inventory	$ 448
Property, plant and equipment	856
	$1,304

In addition, the Company also purchased for $505,000 certain equipment and operating materials (the "VAR Assets"), which were not related to the PRP Business.

The Company paid to Armco $570,000 in cash at closing and issued Armco a secured promissory note in the principal amount of $950,000. Included are the amounts paid for the additional equipment and operating materials. The promissory note was paid on November 15, 1995.

The following unaudited pro forma combined results of operations for the year ended December 31, 1995, have been prepared assuming that the acquisition of the PRP Business occurred as of January 1, 1995, and is not necessarily indicative of results of operations that would have occurred had the transaction been put into effect at January 1, 1995, or of future results of the combined business. The financial information for the PRP Business represents the historical financial results for the period January 1, 1995, to June 2, 1995.

(Dollars in thousands, except per share amoun ts	The Company	PRP Business	Adjustments	Pro Forma Combined
Net sales	$46,992	$3,045	$ ---	$50,037
Cost of products sold	40,319	2,451	(531)(a)	42,239
Gross profit	6,673	594	531	7,798
Selling and administrative expenses	3,471	699	---	4,170
Operating income	3,202	(105)	531	3,628
Interest and other income	177	---	---	177
Interest expense	(416)	---	(45)(b)	(461)
Income (loss) before taxes	2,963	(105)	486	3,344
Income taxes	240	(44)	75(c)	271
Net income (loss)	$2,723	$(61)	$411	$3,073
Net income per share of Common Stock	$0.57			$0.65
Weighted average shares outstanding	4,745,384			4,745,384

The following pro forma adjustments were made:

(a) The decrease in cost of products sold to reflect the terms of the new labor agreement with PRP Business employees and lower depreciation charges. The new labor agreement was an integral requirement of the transaction and was effective upon consummation of the Purchase Agreement. The benefits received from the new labor agreement include reductions in hourly labor rates ($220,000) and pensions costs ($258,000) and the elimination of other post retirement employee benefit costs ($46,000). The lower depreciation charge was $7,000, reflecting the new basis in property, plant and equipment as a result of the application of purchase accounting.

(b) The increase in interest expense to reflect the issuance of the 1995 Armco Note in the principal sum of $950,000 with an assumed annual interest rate of 9.5% to fund the acquisition.

(c) The increase in income taxes to reflect the incremental tax expense to be provided as a result of the adjustments described above.

Note 12

Quarterly Financial Data (unaudited)

(Dollars in thousands, except per share a mounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1996 Data				
Net sales	$12,609	$14,565	$16,708	$16,376
Gross profit	1,965	2,878	3,703	3,518
Operating income	962	1,507	2,519	2,543
Net income	647	949	1,552	1,645
Net income per share	$ 0.10	$ 0.15	$ 0.25	$ 0.26

1995 Data				
Net sales	$10,605	$13,916	$9,961	$12,510
Gross profit	1,060	2,074	1,242	2,297
Operating income	414	1,210	223	1,355
Net income	275	817	382	1,249
Net income per share	$ 0.06	$ 0.18	$ 0.08	$ 0.24

PRICE RANGE OF COMMON STOCK

The Common Stock was accepted for trading on the NASDAQ National Market beginning on August 24, 1995, and from December 14, 1994, the Common Stock had traded on the NASDAQ Small Cap Market. The Common Stock has always traded under the symbol "USAP." The following table sets forth the range of high and low sale prices per share of Common Stock, as reported by the NASDAQ Small Cap Market and the NASDAQ National Market, as the case may be, for the periods indicated below:

	High	Low
Year 1996		
First Quarter	$13-3/8	$ 9-1/4
Second Quarter	$12-1/4	$ 8-1/2
Third Quarter	$10-5/8	$ 8-3/4
Fourth Quarter	$ 9-1/4	$ 8
Year 1995		
First Quarter	$10-1/2	$ 8
Second Quarter	$12-7/8	$ 9
Third Quarter	$16	$11-1/4
Fourth Quarter	$13	$ 9

The Company has never paid a cash dividend on its Common Stock and currently has no plans to pay dividends in the foreseeable future.

Forward-Looking Information Safe Harbor

This Annual Report contains historical information and forward-looking statements. 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, and enhanced competitive posture, are included in this Annual Report pursuant to the "safe harbor" provision 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 in future periods to be materially different from any future performance suggested herein. 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. In the context of the forward-looking information provided in this Annual Report, please refer to the discussions of risk factors detailed in, as well as the other information contained in, this Annual Report and the Company's filings with the Securities and Exchange Commission during the past 12 months.

Directors, Officers and Management

Directors

Bradford C. Bowman
Chief Operating Officer
Universal Stainless & Alloy Products, Inc.

Daniel J. DeCola, Sr.
Vice President, Operations
Universal Stainless & Alloy Products, Inc.

Orit Gadiesh
Chairman of the Board
Bain & Company

George F. Keane
Chairman of the Board
Trigen Energy Corporation

Clarence M. McAninch
President and Chief Executive Officer
Universal Stainless & Alloy Products, Inc.

Udi Toledano
President
Andromeda Enterprises, Inc.

D. Leonard Wise
President and Chief Executive Officer
Carolina Steel Corporation

Officers

Clarence M. McAninch
President and Chief Executive Officer

Bradford C. Bowman
Chief Operating Officer

Daniel J. DeCola, Sr.
Vice President, Operations

Paul A. McGrath
Director, Employee Relations, General Counsel and Secretary

Richard M. Ubinger
Chief Financial Officer and Treasurer

Management

Anthony J. Biondi
Director, Purchasing and Production Planning

Keith A. Engleka
Director, Technology

Christopher S. Reynolds
General Manager, PRP Division

Sales Organization

Shawna M. Dreyer
Thomas P. Lomasney
Cheryl M. Scott
David W. Shaffer
Charles E. Swartzlander

Corporate Information

Executive Offices

Universal Stainless & Alloy Products, Inc.
600 Mayer Street
Bridgeville, PA 15017
412-257-7600

Annual Meeting

The Annual Meeting of Stockholders will be held at 10 a.m. on Wednesday, May 21, 1997, at the Southpointe Golf Club, Canonsburg, Pa.

Stockholder Information

Universal Stainless & Alloy Products, Inc.'s annual report, Form 10-K and other reports to the Securities and Exchange Commission can be obtained, without charge, by writing to the Chief Financial Officer at the Executive Offices.

Transfer Agent and Registrar

Continental Stock Transfer & Trust Company
2 Broadway
New York, NY 10004

Stock Listing

NASDAQ Symbol: USAP

Exhibit 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Prospectus constituting part of the Registration Statement on Form S-3 (No. 33-98534) and the Registration Statements on Forms S-8 (No. 333-13599, No. 333-13509 and No. 333-13511) of Universal Stainless & Alloy Products, Inc. of our report dated January 20, 1997 appearing on page 19 of the Annual Report to Stockholders which is incorporated in this Annual Report on Form 10K.

/s/ Price Waterhouse LLP
PRICE WATERHOUSE LLP
Pittsburgh, Pennsylvania
March 27, 1997

<ARTICLE>	5
<LEGEND>	THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE TWELVE MONTHS ENDED DECEMBER 31, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS
</LEGEND>	
<MULTIPLIER>	1,000

<PERIOD-TYPE>	YEAR	
<FISCAL-YEAR-END>		DEC-31-1996
<PERIOD-START>		JAN-01-1996
<PERIOD-END>		DEC-31-1996
<CASH>		4,219
<SECURITIES>		0
<RECEIVABLES>		9,647
<ALLOWANCES>		(238)
<INVENTORY>		9,784
<CURRENT-ASSETS>		24,041
<PP&E>		18,545
<DEPRECIATION>		(735)
<TOTAL-ASSETS>		42,098
<CURRENT-LIABILITIES>		8,060
<BONDS>		2,534
<PREFERRED-MANDATORY>		0
<PREFERRED>		0
<COMMON>		6
<OTHER-SE>		30,491
<TOTAL-LIABILITY-AND-EQUITY>		42,098
<SALES>		60,258
<TOTAL-REVENUES>		60,258
<CGS>		48,194
<TOTAL-COSTS>		48,194
<OTHER-EXPENSES>		4,473
<LOSS-PROVISION>		60
<INTEREST-EXPENSE>		80
<INCOME-PRETAX>		7,611
<INCOME-TAX>		2,818
<INCOME-CONTINUING>		4,793
<DISCONTINUED>		0
<EXTRAORDINARY>		0
<CHANGES>		0
<NET-INCOME>		4,793
<EPS-PRIMARY>		0.76
<EPS-DILUTED>		0.76