

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 1996

OR

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

For the Transition Period from _____ to _____

Commission File Number 0-25032

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE	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

(Telephone number, including area code)

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

None

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

Title of Class

Common Stock

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

This Quarterly Report on Form 10-Q contains historical information and forward-looking statements. Statements looking forward in time are included in this Form 10-Q pursuant to the "safe harbor" provisions of the Private

Securities Litigation Reform Act of 1995. They involve known and unknown risks and uncertainties that may cause the Company's actual results in future periods to be materially different from any future performance suggested herein. In the context of forward-looking information provided in this Form 10-Q and in other reports, please refer to the discussion of risk factors detailed in, as well as the other information contained in, the Company's filings with the Securities and Exchange Commission during the past 12 months.

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Part I.	Financial Information
Item 1.	Financial Statements

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

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

	For the Three-Months Ended June 30		For the Six-Months Ended June 30	
	1996 ----	1995 ----	1996 ----	1995 ----
Net sales	\$14,565	\$13,916	\$27,174	\$24,521
Cost of products sold	11,687	11,842	22,331	21,387
Gross profit	2,878	2,074	4,843	3,134
Selling and administrative expenses	1,371	864	2,374	1,510
Operating income	1,507	1,210	2,469	1,624
Interest and other income	60	32	165	72
Interest and other financing costs	(37)	(125)	(61)	(202)
Income before taxes	1,530	1,117	2,573	1,494
Income taxes	581	300	977	402
Net income	\$949	\$817	\$1,596	\$1,092
Net income per share of Common Stock	\$0.15	\$0.18	\$0.25	\$0.24
Weighted average number of shares of				
Common Stock outstanding	6,270,000	4,570,000	6,270,000	4,560,495

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

	June 30, 1996 ----- (Unaudited)	December 31, 1995 -----
ASSETS		
Current assets		
Cash and cash equivalents	\$3,057	\$10,038
Accounts receivable (less allowance for doubtful accounts of \$208 and \$178)	12,549	7,832
Inventory (Note 2)	10,424	7,105
Prepaid Expenses	489	470
	-----	-----
Total current assets	26,519	25,445
	-----	-----
Property, plant and equipment	12,257	6,928
Accumulated depreciation	(440)	(264)
	-----	-----
Net property, plant and equipment	11,817	6,664
	-----	-----
Other assets	389	328
	-----	-----
Total assets	\$38,725	\$32,437
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Trade accounts payable	\$7,342	\$4,085
Bank overdrafts	1,028	992
Current portion of long-term debt	137	73
Accrued employment costs	1,062	687
Other current liabilities	756	547
	-----	-----
Total current liabilities	10,325	6,384
Long-term debt	1,213	462
	-----	-----
Total liabilities	11,528	6,846
	-----	-----
Commitments and contingencies (Note 3)	--	--
Stockholders' equity		
Senior Preferred Stock, par value \$.001 per share; liquidation value \$100 per share; 2,000,000 shares authorized;		
and 0 shares issued and outstanding	--	-
Common Stock, par value \$.001 per share; 10,000,000 shares authorized; 6,270,000 shares issued and outstanding	6	6
Additional paid-in capital	25,338	25,338
Retained earnings	1,843	247
	-----	-----
Total stockholders' equity	27,187	25,591
	-----	-----
Total liabilities and stockholders' equity	\$38,725	\$32,437
	=====	=====

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

(Unaudited)

For the
Six Months Ended

For the
Six Months Ended

	June 30, 1996	June 30, 1995
	-----	-----
Cash flow from operating activities:		
Net income	\$1,596	\$1,092
Adjustments to reconcile to net cash used by operating activities:		
Depreciation and amortization	217	112
Changes in assets and liabilities:		
Accounts receivable, net	(4,717)	(6,114)
Inventory	(3,319)	(795)
Accounts payable and bank overdrafts	3,293	2,292
Accrued employment costs	375	465
Other, net	159	47
	-----	-----
Net cash used by operating activities	(2,396)	(2,901)
	-----	-----
Cash flows from investing activities:		
Acquisition of assets through purchase agreement (Note 1)	--	(807)
Capital expenditures	(5,105)	(1,003)
	-----	-----
Net cash used by investing activities	(5,105)	(1,810)
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	600	--
Proceeds from issuance of Common Stock	--	353
Net borrowing under revolving line of credit	--	3,406
Long-term debt payments	(55)	(5)
Deferred financing costs	(25)	(15)
	-----	-----
Net cash provided by financing activities	520	3,739
	-----	-----
Net decrease in cash	(6,981)	(972)
Cash at beginning of period	10,038	3,123
	-----	-----
Cash at end of period	\$3,057	\$2,151
	=====	=====
Supplemental disclosure of cash flow information:		
Interest paid	\$60	\$119
Income taxes paid	\$938	\$130

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

The accompanying unaudited, condensed consolidated statements of operations for the three- and six-month periods ended June 30, 1996 and 1995, balance sheets at June 30, 1996 and December 31, 1995, and statement of cash flows for the six-month periods ended June 30, 1996 and 1995 have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly,

these statements should be read in conjunction with the audited financial statements as of and for the period ended December 31, 1995. In the opinion of management, the accompanying unaudited, condensed consolidated financial statements contain all adjustments, all of which were of a normal recurring nature, necessary to present fairly, in all material respects, the consolidated results of operations and of cash flows for the periods ended June 30, 1996 and 1995, and are not necessarily indicative of the results to be expected for the full year.

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

	June 30, 1996 -----	December 31, 1995 -----
Raw materials and supplies	\$1,558	\$1,473
Semi-finished steel products	7,211	4,278
Operating materials	1,655	1,354
	=====	=====
Total inventory	\$10,424	\$7,105
	=====	=====

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

Item 2. Management's Discussion and Analysis
of Financial Condition and Results of Operations

Results of Operations

Net sales by product line and cost of products sold for the three- and six-month periods ended June 30, 1996 and 1995 were as follows (dollars in thousands):

	Three-month period ended June 30,		Six-month period ended June 30,	
	1996 ----	1995 ----	1996 ----	1995 ----
Net sales				
Stainless steel	\$11,038	\$10,819	\$20,509	\$19,028
Tool steel	2,379	1,607	4,360	2,956
Conversion services	997	1,327	1,730	1,889
Other	151	163	575	648
	-----	-----	-----	-----
Total net sales	\$ 14,565	\$ 13,916	\$ 27,174	\$ 24,521
	-----	-----	-----	-----
Cost of products sold				
Raw materials	5,693	7,151	10,980	13,153
Other	5,994	4,691	11,351	8,234
	-----	-----	-----	-----
Total cost of products sold	11,687	11,842	22,331	21,387
	-----	-----	-----	-----
Gross profit	\$2,878	\$2,074	\$4,843	\$3,134
	=====	=====	=====	=====

THREE- AND SIX- MONTH PERIODS ENDED JUNE 30, 1996 VS. THREE-AND SIX-MONTH PERIODS ENDED JUNE 30, 1995

The increase in net sales for the three- and six-month periods ended June 30, 1996 as compared to the similar periods in 1995 reflects the operating results of the PRP Business and VAR Assets that were acquired in June 1995, and an increase in shipments of tool steel. This increase was partially offset by a decrease in sales to the Reroller market as a result of generally soft market

conditions in that area due to imports.

Cost of products sold, as a percent of net sales, was 80.2% and 85.1% for the three-month periods ended June 30, 1996 and 1995, respectively, and was 82.2% and 87.2% for the six-month periods ended June 30, 1996 and 1995, respectively. This improvement is primarily due to lower acquisition costs for the Company's primary raw materials which was partially offset by the level of manufacturing required by the mix of products sold in 1996. First quarter 1996 results were also adversely affected by lower than expected manufacturing yields experienced on production of both tool steel and forging billets. During the three-month period ended June 30, 1996, manufacturing yields returned to, and in certain areas exceeded, the manufacturing yields experienced in 1995.

Selling and administrative expenses increased from \$864,000 and \$1,510,000 in the three- and six-month periods ended June 30, 1995 to \$1,371,000 and \$2,374,000 in the three- and six-month periods ended June 30, 1996. The increases primarily relate 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.

Operating income for the three- and six-month periods ended June 30, 1996 included a one-time pretax charge of \$153,000 for the issuance of common stock to 117 company employees.

Interest and other income increased to \$60,000 and \$165,000 in the three- and six-month periods ended June 30, 1996 as compared to \$32,000 and \$72,000 in the three- and six-month periods ended June 30, 1995 due to an increase in cash available for investing purposes. The increased cash availability is directly related to the sale of 1,700,000 shares of Common Stock in a public offering completed in November 1995. In addition, the Company did not borrow funds under its \$6.5 million revolving line of credit which resulted in a decrease in interest and other financing costs from \$125,000 and \$202,000 in the three- and six-month periods ended June 30, 1995 to \$37,000 and \$61,000 in the three- and six-month periods ended June 30, 1996.

The effective income tax rates utilized in the three- and six-month periods ended June 30, 1996 and 1995 were 38.0% and 27.0%, respectively. The lower effective income tax rate in the 1995 periods reflect the recognition of the benefit of net operating loss carryforwards generated in 1994. The effective income tax rate was ultimately adjusted to 8.1% based on the actual results of operations for the year ended December 31, 1995.

Financial Condition

The Company has primarily financed its 1996 activities to date through cash flows from operations and cash on hand at the beginning of the period. The ratio of current assets to current liabilities decreased from 4.0:1 at December 31, 1995 to 2.6:1 at June 30, 1996 primarily due to the funding of capital expenditures during 1996.

Accounts receivable, net increased by \$4.7 million for the six-month period ended June 30, 1996 as compared to an increase of \$6.1 million for the six-month period ended June 30, 1995. Inventory increased by \$3.3 million for the six-month period ended June 30, 1996 as compared to an increase of \$0.8 million for the six-month period ended June 30, 1995. Accounts payable and bank overdrafts increased by \$3.3 million for the six-month period ended June 30, 1996 as compared to an increase of \$2.3 million for the six-month period ended June 30, 1995. Each of these increases can be primarily attributed to the continued growth of the business since its formation in August 1994.

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

The Company maintains a \$6.5 million revolving credit facility through April 1998. In addition, the Company continues to seek low-interest government financing opportunities to supplement the liquidity available to fund its capital expenditures. In August 1996, the Company executed a commitment letter with the County of Allegheny's Department of Development to enter into a \$1.5 million, 10-year loan agreement at a 6% interest rate.

Capital Expenditure Program

The Company's capital expenditures approximated \$5.1 million in the six-month period ended June 30, 1996, bringing aggregate expenditures under its 1995-96 capital expenditures program to \$7.2 million. At June 30, 1996, the Company has outstanding purchase commitments in addition to the expenditures incurred to date of approximately \$4.1 million. Planned projects at the Company's Melt Shop, Electro-Slag Remelt Shop and Universal Rolling Mill are in process and are expected to provide full benefit to the Company in the 1996 fourth quarter.

In the opinion of the Company's management, the most important capital expenditures planned for 1996 were the acquisition of an oil quench facility for heat treatment of power generation products and a roller leveler to flatten plate products. These acquisitions would significantly reduce, if not eliminate, the Company's dependence on outside conversion sources for these critical processing steps. The acquisition of the oil quench facility has been delayed due to the uncertainties surrounding the Company's level of participation in the power generation market. The Company continues to hold substantive discussions with its major power generation customers to seek a better understanding of the long-term prospects to justify proceeding with this project. The roller leveler was delivered in August 1996 and is expected to begin processing material projected for September shipment.

1996 Outlook

The soft market conditions experienced in the Reroller market segment during 1996 continue due to pressure from imports of rod, wire, bar and slab products. Strong growth in the sales of tool steel products, entry into certain finished bar product niches, and steady performance by our forging billet and Titusville special shapes businesses are expected to partially offset the lower Reroller market sales activity. In light of several factors including the additional capacity for higher margin tool steel that will be available in August and other benefits derived from our capital expenditure program, plus the introduction of finished bar products, the Company expects second half results to be greater than those achieved in the first half of the year.

Part II. Other Information

Item 1. Legal Proceedings

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

Item 2. Changes in Securities

None

Item 3. Defaults upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of Stockholders of Universal Stainless & Alloy Products, Inc., was held on May 22, 1996, for the purpose of electing a board of directors, and approving the appointment of auditors, the amendments to the Company's 1994 Stock Incentive Plan and the adoption of the Company's 1996 Employee Stock Purchase Plan. Proxies for the meeting were solicited pursuant to Section 14(a) of the Securities Exchange Act of 1934 and there was no solicitation in opposition to management's solicitation.

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

	Shares Voted "For"	Shares Voted "Against"	Shares "Withheld"	Shares Not Voted
D. DeCola, Sr.	4,566,323	0	5,350	0
O. Gadiesh	4,546,023	0	25,650	0
G. Keane	4,566,323	0	5,350	0
C. McAninch	4,566,323	0	5,350	0
U. Toledano	4,566,323	0	5,350	0
D. Wise	4,546,323	0	25,350	0

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

Shares Voted "For"	Shares Voted "Against"	Shares "Abstaining"	Shares Not Voted
4,564,923	1,600	5,150	0

The amendments to the Company's 1994 Stock Incentive Plan was approved by the following vote:

Shares Voted "For"	Shares Voted "Against"	Shares "Abstaining"	Shares Not Voted
4,266,997	273,322	6,000	25,354

The adoption of the Company's 1996 Employee Stock Purchase Plan was approved by the following vote:

Shares Voted "For"	Shares Voted "Against"	Shares "Abstaining"	Shares Not Voted
4,498,329	25,000	5,750	42,594

Item 5. Other Information

Not applicable.

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits:

27.1 Financial Data Schedule

The following reports on Form 8-K were filed during the second quarter of 1996:

b. The Company's Current Report on Form 8-K, dated May 3, 1996.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

Date: August 12, 1996

/s/ Clarence M. McAninch

Clarence M. McAninch
President and Chief Executive Officer

Date: August 12, 1996

/s/ Richard M. Ubinger

Richard M. Ubinger
Chief Financial Officer,
Principal Accounting Officer
and Treasurer

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

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