

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 March 31, 1996
OR

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

For the Transition Period from _____ to _____
Commission File Number 0-25032

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.
(Exact name of Registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

25-1724540
(IRS Employer
Identification No.)

600 Mayer Street
Bridgeville, PA 15017
(Address of principal executive offices, including zip code)

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

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

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

Title of Class
Common Stock

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

Yes /x/ No

As of March 31, 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.

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

	For the Quarter Ended March 31, 1996	For the Quarter Ended March 31, 1995
Net sales	\$12,609	\$10,605
Cost of products sold	10,644	9,545
Gross profit	1,965	1,060
Selling and administrative expenses	1,003	646
Operating income	962	414
Interest and other income	105	40
Interest and other financing costs	(24)	(77)
Income before taxes	1,043	377
Income taxes	396	102
Net income	\$647	\$275
Net income per share of Common Stock	\$0.10	\$0.06
Weighted average number of shares of Common Stock outstanding	6,270,000	4,550,884

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

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UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS
(Dollars in Thousands)

March 31, 1996 December 31, 1995

ASSETS	(Unaudited)	
Current assets		
Cash and cash equivalents	\$6,793	\$10,038
Accounts receivable (less allowance for doubtful accounts of \$193 and \$178)	9,918	7,832
Inventory (Note 2)	9,875	7,105
Prepaid Expenses	532	470
	-----	-----
Total current assets	27,118	25,445
	-----	-----
Property, plant and equipment	9,000	6,928
Accumulated depreciation	(352)	(264)
	-----	-----
Net property, plant and equipment	8,648	6,664
	-----	-----
Other assets	327	328
	-----	-----
Total assets	\$36,093	\$32,437
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Trade accounts payable	\$6,429	\$4,085
Bank overdrafts	1,151	992
Current portion of long-term debt	86	73
Accrued employment costs	728	687
Other current liabilities	630	547
	-----	-----
Total current liabilities	9,024	6,384
	-----	-----
Long-term debt	831	462
	-----	-----
Total liabilities	9,855	6,846
	-----	-----
Commitments and contingencies (Note 5)	--	--
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	894	247
	-----	-----
Total stockholders' equity	26,238	25,591
	-----	-----
Total liabilities and stockholders' equity	\$36,093	\$32,437
	=====	=====

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

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

	For the Quarter Ended March 31, 1996	For the Quarter Ended March 31, 1995
	-----	-----
Cash flows from operating activities:		
Net income	\$647	\$275
Adjustments to reconcile to net cash used by operating activities:		
Depreciation and amortization	103	52
Changes in assets and liabilities:		
Accounts receivable, net	(2,086)	(3,219)
Inventory	(2,770)	(895)
Accounts payable and bank overdrafts	2,503	835
Other, net	60	(103)
	-----	-----
Net cash used by operating activities	(1,541)	(3,055)
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(2,072)	(231)
	-----	-----
Net cash used by investing activities	(2,072)	(231)
	-----	-----
Cash flows from financing activities:		
Net proceeds from revolving line of credit	--	2,732
Proceeds from issuance of long-term debt	400	--
Long-term debt repayment	(18)	(2)
Proceeds from issuance of Common Stock	--	353
Deferred financing costs	(12)	(15)
	-----	-----
Net cash provided by financing activities	368	3,068
	-----	-----
Net decrease in cash	(3,245)	(218)
Cash at beginning of period	10,038	3,123
	-----	-----
Cash at end of period	\$6,793	\$2,905
	=====	=====
Supplemental disclosure of cash flow information:		
Interest paid	\$9	\$32
Income taxes paid	\$313	--

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

- 1) Universal Stainless & Alloy Products, Inc. (the "Company") was incorporated in 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, consolidated condensed financial statements as of and for the quarters ended March 31, 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, 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 quarters ended March 31, 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):

	March 31, 1996 -----	December 31, 1995 -----
Raw materials and supplies	\$1,710	\$1,473
Semi-finished steel products	6,567	4,278
Operating materials	1,598	1,354
	-----	-----
Total inventory	\$9,875 =====	\$7,105 =====

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

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

Results of Operations

FIRST QUARTER 1996 COMPARED WITH FIRST QUARTER 1995

The Company had net income of \$894,000 or \$0.10 per share of Common Stock for the quarter ended March 31, 1996, as compared to net income of \$275,000 or \$0.06 per share of Common Stock for the quarter ended March 31, 1995.

Net sales by product line and cost of products sold were as follows (dollars in thousands):

	For the Quarter Ended March 31			
	1996		1995	
	Amount	%	Amount	%
Net sales				
Stainless steel	\$ 9,471	75.1%	\$ 8,209	77.4%
Tool steel	1,981	15.7%	1,349	12.7%
Conversion services	733	5.8%	562	5.3%
Other	424	3.4%	485	4.6%
Total net sales	\$ 12,609	100.0%	\$ 10,605	100.0%
Cost of products sold				
Raw materials	5,287	41.9%	6,004	56.6%
Other	5,357	42.5%	3,541	33.4%
Total cost of products sold	10,644	84.4%	9,545	90.0%
Gross profit	\$ 1,965	15.6%	\$ 1,060	10.0%

The increase in net sales for the quarter ended March 31, 1996 as compared to the quarter ended March 31, 1995 reflects the June 1995 acquisition of the PRP Business and VAR Assets, and an increase in shipments of tool steel. First quarter sales for 1996 were impacted by generally soft market conditions in the stainless steel area, primarily as it relates to the Company's sale of ingot and rerolled billet products.

Cost of products sold, as a percent of net sales, decreased in the quarter ended March 31, 1996 as compared to the corresponding 1995 period 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.

Selling and administrative expenses increased from \$646,000 in the first quarter of 1995 to \$1,003,000 in the first quarter of 1996 primarily due to the continued growth of the business, including the acquisition of the PRP Business and the VAR Assets.

Interest and other income increased to \$105,000 in the first quarter of 1996 as compared to \$40,000 in the first quarter of 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 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 \$77,000 in the first quarter of 1995 to \$24,000 in the first quarter of 1996.

The effective income tax rate utilized in the first quarter of 1996 and 1995 was 38.0% and 27.0%, respectively. The lower effective income tax rate in the 1995 period reflects 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 financed its activities during the first quarter of 1996 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 3.0:1 at March 31, 1996 primarily due to the funding of capital expenditures during the quarter ended March 31, 1996.

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Accounts receivable, net increased by \$2.1 million for the three months ended March 31, 1996 as compared to an increase of \$3.2 million for the three months ended March 31, 1995. Inventory increased by \$2.8 million for the three months ended March 31, 1996 as compared to an increase of \$0.9 million for the three months ended March 31, 1995. Accounts payable and bank overdrafts increased by \$2.5 million for the three months ended March 31, 1996 as compared to an increase of \$0.8 million for the three months ended March 31, 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. In April 1996, the Company executed loan documents in connection with the issuance of a \$200,000 loan from the Commonwealth of Pennsylvania's Economic Development Program.

Capital Expenditure Program

The Company's capital expenditures approximated \$2.1 million in the 1996 first quarter, bringing aggregate expenditures under its 1995-96 capital expenditures program to \$4.2 million. At March 31, 1996, the Company had outstanding purchase commitments of approximately \$5.8 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 is scheduled for delivery in August 1996 and is expected to begin processing material projected for September shipment.

1996 Outlook

Soft market conditions in the stainless steel market and lower than expected manufacturing yields at the Universal Rolling Mill negatively impacted the 1996 first quarter results. As a result of management changes made at the Universal Rolling Mill on March 18, 1996, manufacturing yields have returned to, and in many cases exceeded, internal yield expectations. Therefore, manufacturing yields are not expected to adversely affect the financial results of future periods.

The soft market conditions experienced in the 1996 first quarter have continued during the second quarter due to increasing pressure from foreign imports of rod, wire, bar and slab products. Strong growth in the sales of tool steel products and steady performance by our forging billet and Titusville special shapes businesses are expected to partially offset the lower stainless steel, ingot and rolled billet 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, the Company expects second half results to be greater than those achieved in the first half of the year.

Actual results, however, will be affected by a wide range of factors, including timing, cancellation or delay of customer orders, changes in product mix, variations in selling prices and the price of raw materials included in the Company's product, variations in the utilization of the manufacturing capacity and product yields, market acceptance of the Company's and its customers' products, other competitive factors, and seasonal fluctuations due to planned plant vacation closings and holidays. 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 the factors that can affect the Company's financial condition, results of operations or business are not

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within the Company's control, and there can be no assurances regarding the Company's future sales or earnings.

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

None

Item 5. Other Information

Not applicable.

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits:

27.1 Financial Data Schedule.

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

None

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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: May 14, 1996 /s/ Clarence M. McAninch

Clarence M. McAninch
President and Chief Executive Officer

Date: May 14, 1996 /s/ Richard M. Ubinger

Richard M. Ubinger
Chief Financial Officer, Principal
Accounting Officer and Assistant Secretary

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INDEX TO EXHIBITS

Exhibit
Number

27.1 Financial Data Schedule

EXHIBIT 27

EXHIBIT 27

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS AS OF MARCH 31, 1996 AND THE CONDENSED CONSOLIDATED BALANCE SHEETS FOR THE QUARTER ENDED MARCH 31, 1996.

[ARTICLE]	5
[PERIOD-TYPE]	3-MOS
[FISCAL-YEAR-END]	DEC-31-1996
[PERIOD-END]	MAR-31-1996
[CASH]	6,793
[SECURITIES]	0
[RECEIVABLES]	10,049
[ALLOWANCES]	(193)
[INVENTORY]	9,875
[CURRENT-ASSETS]	27,118
[PP&E]	9,000
[DEPRECIATION]	(352)
[TOTAL-ASSETS]	36,093
[CURRENT-LIABILITIES]	9,024
[BONDS]	831
[PREFERRED-MANDATORY]	0
[PREFERRED]	0
[COMMON]	6
[OTHER-SE]	26,232
[TOTAL-LIABILITY-AND-EQUITY]	36,093
[SALES]	12,609
[TOTAL-REVENUES]	12,609
[CGS]	10,644
[TOTAL-COSTS]	10,644
[OTHER-EXPENSES]	988
[LOSS-PROVISION]	15
[INTEREST-EXPENSE]	(81)
[INCOME-PRETAX]	1,043

[INCOME-TAX]	396
[INCOME-CONTINUING]	647
[DISCONTINUED]	0
[EXTRAORDINARY]	0
[CHANGES]	0
[NET-INCOME]	647
[EPS-PRIMARY]	0.10
[EPS-DILUTED]	0.10