

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, 1997

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, par value \$0.001 per share

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 July 31, 1997, there were 6,287,290 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 Three-Months Ended June 30		For the Six-Months Ended June 30	
	1997 ----	1996 ----	1997 ----	1996 ----
Net sales	\$20,809	\$14,565	\$39,580	\$27,174
Cost of products sold	16,414	11,687	31,473	22,331
	-----	-----	-----	-----
Gross profit	4,395	2,878	8,107	4,843
Selling and administrative expenses	1,301	1,371	2,442	2,374
	-----	-----	-----	-----
Operating income	3,094	1,507	5,665	2,469
Other income (expenses), net	(2)	23	(16)	104
	--	--	---	---
Income before taxes	3,092	1,530	5,649	2,573
Income taxes	1,145	581	2,091	977
	-----	-----	-----	-----
Net Income	\$ 1,947	\$ 949	\$ 3,558	\$ 1,596
	=====	=====	=====	=====
Net Income per share of Common Stock	\$ 0.31	\$ 0.15	\$ 0.57	\$ 0.25
	=====	=====	=====	=====
Weighted average number of shares of Common Stock outstanding	6,283,773	6,270,000	6,283,754	6,270,000
	=====	=====	=====	=====

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS
(Dollars in Thousands)

	June 30, 1997 ----- (Unaudited)	December 31, 1996 -----
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 571	\$ 4,219
Accounts receivable (less allowance for doubtful accounts of \$268 and \$238)	15,037	9,409
Inventory (Note 2)	15,598	9,784
Prepaid Expenses	638	629
	---	---
Total current assets	31,844	24,041
	-----	-----
Property, plant and equipment	21,430	18,545
Accumulated depreciation	(1,205)	(735)
	-----	-----
Net property, plant and equipment	20,225	17,810
	-----	-----
Other assets	227	247
	----	----
Total assets	\$52,296	\$42,098
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Trade accounts payable	\$ 8,784	\$ 5,415
Bank overdrafts	1,381	442
Current portion of long-term debt	328	260
Accrued employment costs	1,653	1,403
Other current liabilities	1,527	540
	-----	---
Total current liabilities	13,673	8,060
Long-term debt	3,374	2,534
Deferred taxes	1,168	1,007
	-----	-----
Total liabilities	18,215	11,601
	-----	-----
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; 6,287,290 and 6,283,734 shares issued and outstanding	6	6
Additional paid-in capital	25,477	25,451
Retained earnings	8,598	5,040
	-----	-----
Total stockholders' equity	34,081	30,497
	-----	-----
Total liabilities and stockholders' equity	\$52,296	\$42,098
	=====	=====

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

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UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

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

	For the Six Months Ended June 30,	
	1997	1996
	----	----
Cash flow from operating activities:		
Net income	\$3,558	\$1,596
Adjustments to reconcile to net cash used by operating activities:		
Depreciation and amortization	498	217
Deferred taxes	161	--
Changes in assets and liabilities:		
Accounts receivable, net	(5,628)	(4,717)
Inventory	(5,814)	(3,319)
Accounts payable and bank overdrafts	4,308	3,293
Accrued employment costs	250	375
Other, net	984	159
	-----	-----
Net cash used by operating activities	(1,683)	(2,396)
	-----	-----
Cash flow from investing activities:		
Capital expenditures	(2,887)	(5,105)
	-----	-----
Net cash used by investing activities	(2,887)	(5,105)
	-----	-----
Cash flow from financing activities:		
Proceeds from issuance of long-term debt	500	600
Proceeds from issuance of Common Stock	26	--
Net borrowing under revolving line of credit	546	--
Long-term debt payments	(138)	(55)
Deferred financing costs	(12)	(25)
	-----	---
Net cash provided by financing activities	922	520
	-----	-----
Net decrease in cash and cash equivalents	(3,648)	(6,981)
Cash and cash equivalents at beginning of period	4,219	10,038
	-----	-----
Cash and cash equivalents at end of period	\$571	\$3,057
	====	=====
Supplemental disclosure of cash flow information:		
Interest paid	\$94	\$32
Income taxes paid	\$1,749	\$938

The accompanying notes are an integral part of these financial statements

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UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

1) Universal Stainless & Alloy Products, Inc. (the "Company"), was

incorporated in 1994 for the principal purpose of acquiring substantially all of the idled equipment and related assets located at the Bridgeville, Pennsylvania, production facility of Armco, Inc. in August 1994.

The accompanying unaudited, condensed consolidated financial statements of operations for the three- and six- month periods ended June 30, 1997 and 1996, balance sheets at June 30, 1997 and December 31, 1996, and statements of cash flows for the six-month periods ended June 30, 1997 and 1996 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, 1996. 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, 1997 and 1996, 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, 1997 -----	December 31, 1996 -----
Raw materials and supplies	2,929	1,715
Semi-finished steel products	10,836	6,205
Operating materials	1,833	1,864
	-----	-----
Total inventory	15,598	9,784
	=====	=====

- 3) The Company has reviewed the status of its environmental contingencies and believed there are no significant changes from that disclosed in Form 10-K for the year ended December 31, 1996.

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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, 1997 and 1996 were as follows (dollars in thousands):

	Three-Month Period Ended June 30		Six-Month Period Ended Ended June 30	
	1997	1996	1997	1996
	-----	-----	-----	-----
Net sales				
Stainless steel	15,644	11,038	30,367	20,509
Tool steel	2,334	2,379	4,375	4,360
Conversion services	1,148	997	2,290	1,730
Other	1,683	151	2,548	575
	-----	---	-----	---
Total net sales	\$20,809	\$14,565	\$39,580	\$27,174
	-----	-----	-----	-----
Cost of products sold				
Raw materials	8,505	5,693	16,188	10,980
Other	7,909	5,994	15,285	11,351
	-----	-----	-----	-----
Total cost of products sold	16,414	11,687	31,473	22,331
	-----	-----	-----	-----
Gross profit	\$ 4,395	\$ 2,878	\$ 8,107	\$ 4,843
	=====	=====	=====	=====

THREE- AND SIX-MONTH PERIODS ENDED JUNE 30, 1997 COMPARED TO THREE- AND SIX-MONTH PERIODS ENDED JUNE 30, 1996

The increase in net sales for the three- and six-month periods ended June 30, 1997 as compared to the similar periods in 1996 reflects increased shipments to all of the Company's market segments. This increase was partially offset by lower selling prices in the stainless steel area due to foreign imports.

Cost of products sold, as a percentage of net sales, was 78.9% and 80.2% for the three-month periods ended June 30, 1997 and 1996, respectively, and was 79.5% and 82.2% for the six-month periods ended June 30, 1997 and 1996, respectively. The decreases in the cost of products sold as a percentage of net sales are primarily due to an improved sales mix and cost savings achieved through capital improvements completed in 1996.

Selling and administrative expenses of \$1,301,000 in the three-month period ended June 30, 1997 decreased from \$1,371,000 for the three-month period ended June 30, 1996 primarily due to lower insurance costs. Selling and administrative expenses for the six-month periods ended June 30, 1997 and 1996 were \$2,442,000 and \$2,374,000, respectively. The increase primarily relates to the addition of personnel as a result of the continued growth of the Company's business, partially offset by lower insurance costs.

Other income (expense), net decreased by \$25,000 and \$120,000, respectively, for the three- and six-month periods ended June 30, 1997, as compared to the three- and six-month periods ended June 30, 1996. The decrease is primarily related to a decrease in interest income earned on cash available for investment and an increase in interest expense on borrowings. The Company used available cash and the issuance of government loans to fund capital expenditures incurred during 1996 and 1997. In addition, the Company utilized a portion of its \$6.5 million revolving line of credit during the three-month period ended June 30, 1997 to fund working capital needs.

The effective income tax rate utilized in the three- and six-month periods ended June 30, 1997 and 1996 was 37.0% and 38.0%, respectively. The lower effective income tax rate in the 1997 period reflects a lower effective state tax rate, net of the federal benefit, and is consistent with the ultimate effective income tax rate utilized for the year ended December 31, 1996.

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Financial Condition

The Company has financed its 1997 activities to date primarily through cash flows from operations, borrowings and cash on hand at the beginning of the period. The ratio of current assets to current liabilities decreased from 3.0:1 at December 31, 1996 to 2.3:1 at June 30, 1997, primarily due to continued growth of the Company's business and the funding of capital expenditures during 1997.

Accounts receivable, net increased by \$5.6 million for the six-month period ended June 30, 1997 as compared to an increase of \$4.7 million for the six-month period ended June 30, 1996. Inventory increased by \$5.8 million for the six-month period ended June 30, 1997 as compared to an increase of \$3.3 million for the six-month period ended June 30, 1996. Accounts payable and bank overdrafts increased by \$4.3 million for the six-month period ended June 30, 1997 as compared to an increase of \$3.3 million for the six-month period ended June 30, 1996. Each of these increases can be primarily attributed to the continued growth of the business.

The Company's capital expenditures approximated \$2.9 million for the six-month period ended June 30, 1997, which primarily related to the completion of the 1995-96 capital expenditures program. At June 30, 1997, the Company has outstanding purchase commitments in addition to the expenditures incurred to date of approximately \$2.4 million.

In April 1997, the Company executed loan documents in connection with the issuance of a \$500,000 loan from the Commonwealth of Pennsylvania's Machinery and Equipment Loan Fund. On May 1, 1997, the Company extended its \$6.5 million Working Capital Agreement with PNC Bank to April 2000. In addition, the amendment reduced the annual interest rate charged on the unpaid principal balance from PNC Bank's prime rate plus 0.25% to PNC Bank's prime rate. The annual interest rate may be further reduced based on the Company maintaining

certain financial ratios.

The Company anticipates that it will be able to fund its 1997 working capital requirements and its capital expenditures primarily from funds generated by operations and borrowings. The Company's long-term liquidity requirements, including capital expenditures, are expected to be financed by a combination of internally generated funds, borrowings and other sources of external financing if needed.

1997 Outlook

Increased shipments in the six-month period ended June 30, 1997 are primarily attributed to increased demand from the aerospace sector and new product introductions. The cost savings associated with the Company's capital expenditure program has met and, in certain areas, exceeded management's expectations to date. These trends are expected to continue throughout 1997.

New Accounting Pronouncements

In February 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 128, "Earnings per Share", which establishes standards for computing and presenting earnings per share information for periods ending after December 15, 1997. The Company does not believe that the adoption of this statement will materially effect its earnings per share disclosures except for the required presentation of diluted earnings per share.

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Part II. Other Information

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

The Annual Meeting of Stockholders of Universal Stainless & Alloy Products, Inc. was held on May 22, 1997, for the purpose of electing a board of directors and approving the appointment of auditors. 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 the management's nominees for directors as listed in the proxy statement were elected by the following vote:

	Shares Voted "For"	Shares "Withheld"	Shares Not Voted
B. Bowman	4,297,193	5,000	1,981,541
D. Dunn	4,297,793	4,400	1,981,541
G. Keane	4,297,793	4,400	1,981,541
C. McAninch	4,298,093	4,100	1,981,541
U. Toledano	4,298,093	4,100	1,981,541
D. Wise	4,298,093	4,100	1,981,541

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
4,296,193	3,300	2,700	1,981,541

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

27.1 Financial Data Schedule

b. Reports on Form 8-K

The following reports on Form 8-K were filed during the second quarter of 1997:

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: August 12, 1997

/s/ Clarence M. McAninch

Clarence M. McAninch
President and Chief Executive Officer

Date: August 12, 1997

/s/ Richard M. Ubinger

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

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UNIVERSAL STAINLESS ALLOY PRODUCTS, INC.
FINANCIAL DATA SCHEDULE

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