

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, DC 20549

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**FORM 10-Q**

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

For the Quarterly Period Ended March 31, 2008

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 000-25032

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**UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.**

(Exact name of Registrant as specified in its charter)

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**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**  
(Registrant's telephone number, including area code)

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO

As of April 30, 2008, there were 6,698,499 shares of the Registrant's Common Stock issued and outstanding.

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UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

Management's Discussion and Analysis and other sections of this Quarterly Report on Form 10-Q contain forward-looking statements that reflect the current views of Universal Stainless & Alloy Products, Inc. (the "Company") with respect to future events and financial performance. 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, enhanced competitive posture, effect of new accounting pronouncements and no material financial impact from litigation or contingencies are included in this Quarterly Report on Form 10-Q pursuant to the "safe harbor" provision of the Private Securities Litigation Reform Act of 1995.

The Company's actual results may be affected by a wide range of factors including future compliance with Section 404 of the Sarbanes-Oxley Act of 2002; the concentrated nature of the Company's customer base to date and the Company's dependence on its significant customers; the receipt, pricing and timing of future customer orders; changes in product mix; the limited number of raw material and energy suppliers and significant fluctuations that may occur in raw material and energy prices; the Company's reliance on the continuing operation of critical manufacturing equipment; risks associated with labor matters; the Company's ongoing requirement for continued compliance with safety and environmental regulations; and the ultimate outcome of the Company's current and future litigation matters. Many of these factors are not within the Company's control and 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. 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. 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.

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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-month period ended March 31,	
	2008	2007
Net sales	\$ 56,845	\$ 56,239
Cost of products sold	46,779	43,020
Selling and administrative expenses	3,075	2,554
Operating income	6,991	10,665
Interest expense	(28)	(227)
Other income	87	4
Income before taxes	7,050	10,442
Income tax provision	2,327	3,655
Net income	\$ 4,723	\$ 6,787
Earnings per common share – Basic	\$ 0.71	\$ 1.03
Earnings per common share – Diluted	\$ 0.70	\$ 1.00
Weighted-average shares of Common Stock outstanding		
Basic	6,663,213	6,621,307
Diluted	6,771,482	6,761,157

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

**UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.**

CONSOLIDATED CONDENSED BALANCE SHEETS  
(Dollars in Thousands)

	<u>March 31, 2008</u>	<u>December 31, 2007</u>
	(Unaudited)	(Derived from audited statements)
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 10,795	\$ 10,648
Accounts receivable (less allowance for doubtful accounts of \$350 and \$311, respectively)	34,675	27,501
Inventory	65,535	65,572
Deferred taxes	2,358	2,683
Other current assets	<u>2,442</u>	<u>2,854</u>
Total current assets	115,805	109,258
Property, plant and equipment, net	56,069	54,271
Other assets	<u>925</u>	<u>767</u>
Total assets	<u>\$172,799</u>	<u>\$ 164,296</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Trade accounts payable	\$ 14,750	\$ 13,983
Outstanding checks in excess of bank balance	4,804	2,064
Current portion of long-term debt	389	383
Accrued employment costs	3,638	5,307
Accrued income tax	2,145	330
Other current liabilities	<u>971</u>	<u>1,270</u>
Total current liabilities	26,697	23,337
Long-term debt	1,348	1,453
Deferred taxes	<u>9,844</u>	<u>9,904</u>
Total liabilities	<u>37,889</u>	<u>34,694</u>
Commitments and contingencies		
	—	—
Stockholders' equity		
Senior Preferred Stock, par value \$0.001 per share; 1,980,000 shares authorized; 0 shares issued and outstanding	—	—
Common Stock, par value \$0.001 per share; 10,000,000 shares authorized; 6,954,794 and 6,930,294 shares issued	7	7
Additional paid-in capital	35,697	35,112
Retained earnings	100,865	96,142
Treasury Stock at cost; 270,795 common shares held	<u>(1,659)</u>	<u>(1,659)</u>
Total stockholders' equity	<u>134,910</u>	<u>129,602</u>
Total liabilities and stockholders' equity	<u>\$172,799</u>	<u>\$ 164,296</u>

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

**UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.**

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

	For the Three-month period ended March 31,	
	2008	2007
<b>Cash flow from operating activities:</b>		
Net income	\$ 4,723	\$ 6,787
<b>Adjustments to reconcile to net cash provided by operating activities:</b>		
Depreciation and amortization	982	899
Loss on retirement of fixed assets	286	—
Deferred income tax	91	113
Stock-based compensation expense	195	100
Tax benefit from share-based payment arrangements	(183)	(799)
<b>Changes in assets and liabilities:</b>		
Accounts receivable, net	(7,174)	(3,609)
Inventory	37	(5,621)
Trade accounts payable	767	2,071
Accrued income tax payable	1,815	1,814
Accrued employment costs	(1,669)	(522)
Other, net	338	1,302
Net cash provided by operating activities	<u>208</u>	<u>2,535</u>
<b>Cash flow from investing activities:</b>		
Capital expenditures	(3,092)	(1,253)
Net cash used in investing activities	<u>(3,092)</u>	<u>(1,253)</u>
<b>Cash flows from financing activities:</b>		
Revolving line of credit net repayments	—	(5,149)
Long-term debt repayments	(99)	(589)
Net change in outstanding checks in excess of bank balance	2,740	899
Proceeds from issuance of common stock	207	731
Tax benefit from share-based payment arrangements	183	799
Net cash provided by (used in) financing activities	<u>3,031</u>	<u>(3,309)</u>
Net increase (decrease) in cash and cash equivalents	147	(2,027)
Cash and cash equivalents at beginning of period	10,648	2,909
Cash and cash equivalents at end of period	<u>\$ 10,795</u>	<u>\$ 882</u>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ 62	\$ 255
Income taxes paid, net of refunds received	\$ 147	\$ 1,047

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

NOTES TO THE UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

**Note 1 – Basis of Presentation**

The accompanying unaudited consolidated condensed financial statements of operations for the three-month periods ended March 31, 2008 and 2007, balance sheets as of March 31, 2008 and December 31, 2007, and statements of cash flows for the three-month periods ended March 31, 2008 and 2007, have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. Accordingly, these statements should be read in conjunction with the audited financial statements, and notes thereto, as of and for the year ended December 31, 2007 included in the Company's Annual Report on Form 10-K. In the opinion of management, the accompanying unaudited, consolidated condensed financial statements contain all adjustments, all of which were of a normal, recurring nature, necessary to present fairly, in all material respects, the consolidated financial position at March 31, 2008 and December 31, 2007 and the consolidated results of operations and of cash flows for the three-month periods ended March 31, 2008 and 2007, and are not necessarily indicative of the results to be expected for the full year.

Certain prior year amounts have been reclassified to conform to the 2008 presentation.

**Note 2 – Common Stock**

The reconciliation of the weighted-average number of shares of Common Stock outstanding utilized for the earnings per common share computations is as follows:

	For the Three-month period ended March 31,	
	2008	2007
Weighted-average number of shares of Common Stock outstanding	6,663,213	6,621,307
Effect of dilutive securities	108,269	139,850
Weighted-average number of shares of Common Stock outstanding, as adjusted	6,771,482	6,761,157

**Note 3 – Inventory**

The major classes of inventory are as follows:

<i>(dollars in thousands)</i>	March 31, 2008	December 31, 2007
Raw materials and supplies	\$11,641	\$ 8,309
Semi-finished and finished steel products	51,786	55,404
Operating materials	2,108	1,859
Total inventory	\$65,535	\$ 65,572

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**Note 4 – Property, Plant and Equipment**

Property, plant and equipment consists of the following:

<i>(dollars in thousands)</i>	March 31, 2008	December 31, 2007
Land and land improvements	\$ 2,298	\$ 2,208
Buildings	10,647	10,371
Machinery and equipment	68,985	66,432
Construction in progress	4,001	4,571
	<u>85,931</u>	<u>83,582</u>
Accumulated depreciation	(29,862)	(29,311)
Property, plant and equipment, net	<u>\$ 56,069</u>	<u>\$ 54,271</u>

**Note 5 – Long-Term Debt**

The Company maintains a credit agreement with PNC Bank for a \$15.0 million revolving credit facility with a term expiring on June 30, 2009. There was no balance outstanding under the revolver at March 31, 2008 or December 31, 2007. The credit agreement included a term loan which the Company retired in December 2007. Interest on borrowings under the revolving credit facility is based on short-term market rates, which may be adjusted, based upon the Company maintaining certain financial ratios. PNC Bank also charges a commitment fee payable on the unused portion of the revolving credit facility of 0.25%, provided certain financial ratios are maintained. The Company is required to be in compliance with three financial covenants: a minimum leverage ratio, a minimum debt service ratio and a minimum tangible net worth. The Company was in compliance with all such covenants at March 31, 2008.

The Company maintains two separate loan agreements with the Commonwealth of Pennsylvania's Department of Commerce, aggregating \$600,000. A \$200,000 15-year loan bears interest at 5% per annum with the term ending in 2011 and a \$400,000 20-year loan bears interest at 6% per annum with the term ending in 2016. On February 14, 2002, Dunkirk Specialty Steel issued two ten-year, 5% interest-bearing notes payable to the New York Job Development Authority for the combined amount of \$3.0 million. The remaining unpaid balance of these government loans was \$1.7 million at March 31, 2008 and \$1.8 million at December 31, 2007.

**Note 6 – Commitments and Contingencies**

From time to time, various lawsuits and claims have been or may be asserted against the Company relating to the conduct of our business, including routine litigation relating to commercial and employment matters. The ultimate cost and outcome of any litigation or claim cannot be predicted with certainty. Management does not believe, based on information presently available, that the ultimate outcome of any such pending matter is likely to have a material adverse effect on our financial condition or liquidity, although the resolution in any quarter of one or more of these matters may have a material adverse effect on our results of operations for that period.

At March 31, 2008, the Company maintains reserves that it believes are adequate for outstanding product claims and legal actions.

**Note 7 – Income Taxes**

The tax rate used for interim periods is the estimated annual effective tax rate, based on the current estimate of full year results, except that taxes related to specific events, if any, are recorded in the interim period in which they occur.

The effective income tax rate in the three-month period ended March 31, 2008 was 33.0% as compared to 35.0% for the three-month period ended March 31, 2007. The effective income rate in the current period reflects a decrease in state income taxes and an increase in the Company's permanent tax deductions related to investment tax credits that will be generated from capital improvements made at the Dunkirk facility in 2008.

**Note 7 – Business Segments**

The Company is comprised of two business segments: Universal Stainless & Alloy Products, which consists of the Bridgeville and Titusville facilities, and Dunkirk Specialty Steel, the Company's wholly-owned subsidiary located in Dunkirk, New York. The Universal Stainless & Alloy Products manufacturing process involves melting, remelting, treating and hot and cold rolling of semi-finished and finished specialty steels. Dunkirk Specialty Steel's manufacturing process involves hot rolling and finishing of specialty steel bar, rod and wire products. The segment data are as follows:

<i>(dollars in thousands)</i>	For the Three-month period ended March 31,	
	2008	2007
Net sales:		
Universal Stainless & Alloy Products	\$ 48,198	\$ 48,165
Dunkirk Specialty Steel	20,050	20,440
Intersegment	(11,403)	(12,366)
Consolidated net sales	<u>\$ 56,845</u>	<u>\$ 56,239</u>
Operating income:		
Universal Stainless & Alloy Products	\$ 4,931	\$ 7,199
Dunkirk Specialty Steel	2,785	3,821
Intersegment	(725)	(355)
Consolidated operating income	<u>\$ 6,991</u>	<u>\$ 10,665</u>
<i>(dollars in thousands)</i>	For the Three-month period ended March 31,	
	2008	2007
Interest expense and other financing costs:		
Universal Stainless & Alloy Products	\$ 7	\$ 188
Dunkirk Specialty Steel	21	39
Total interest expense and other financing costs	<u>\$ 28</u>	<u>\$ 227</u>
Other income		
Universal Stainless & Alloy Products	\$ 57	\$ 3
Dunkirk Specialty Steel	30	1
Total other income	<u>\$ 87</u>	<u>\$ 4</u>
<i>(dollars in thousands)</i>	March 31, 2008	December 31, 2007
Total assets:		
Universal Stainless & Alloy Products	\$117,383	\$ 110,669
Dunkirk Specialty Steel	38,669	35,983
Corporate assets	16,747	17,644
	<u>\$172,799</u>	<u>\$ 164,296</u>



**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Results of Operations**

An analysis of the Company's operations for the three-month periods ended March 31, 2008 and 2007 is as follows:

<i>(dollars in thousands)</i>	For the Three-month period ended March 31,	
	2008	2007
Net sales:		
Stainless steel	\$ 42,028	\$ 39,570
Tool steel	9,107	7,097
High-strength low alloy steel	4,011	6,234
High-temperature alloy steel	1,146	2,745
Conversion services	525	489
Other	28	104
Total net sales	56,845	56,239
Cost of products sold	46,779	43,020
Selling and administrative expenses	3,075	2,554
Operating income	\$ 6,991	\$ 10,665
Tons Shipped	11,767	11,157

**Market Segment Information**

<i>(dollars in thousands)</i>	For the Three-month period ended March 31,	
	2008	2007
Net sales:		
Service centers	\$ 29,234	\$ 29,105
Forgers	9,018	12,574
Rerollers	11,239	7,192
Original equipment manufacturers	5,441	4,877
Wire redrawers	1,369	1,898
Conversion services	525	489
Miscellaneous	19	104
Total net sales	\$ 56,845	\$ 56,239

**Three-month period ended March 31, 2008 as compared to the same period in 2007**

Net sales for the three-month period ended March 31, 2008 increased \$606,000 as compared to the similar period in 2007. The increase reflects higher shipments of billet product to rerollers and tool steel plate product to service centers, offset by lower shipments of semi-finished products to forgers and finished bar, rod and wire products to service centers and wire redrawers. Lower raw material surcharges also impacted sales, led by a decrease in average nickel prices during the three-month period ended March 31, 2008 in comparison to the three-month period ended March 31, 2007.

Cost of products sold, as a percentage of net sales, was 82.3% and 76.5% for the three-month periods ended March 31, 2008 and 2007, respectively. The increase is primarily due to the change in mix of products shipped described above.

Selling and administrative expenses increased by \$521,000 in the three-month period ended March 31, 2008 as compared to the similar period in 2007. The increased cost primarily related to an increase in stock-based compensation expense, additional costs incurred as a result of complying with the Sarbanes-Oxley Section 404 requirements for the first time as of December 31, 2007, higher legal fees resulting from the Company's defense of a contractor litigation matter and the recognition of a reserve for a product claim matter.

Interest expense and other financing costs decreased from \$227,000 for the three-month period ended March 31, 2007 to \$28,000 for the three-month period ended March 31, 2008 primarily due to not having to borrow on the Company's revolving credit facility since August 2007 and the December 2007 retirement of the PNC Term Loan.

The effective income tax rate in the three-month period ended March 31, 2008 was 33.0% as compared to 35.0% for the three-month period ended March 31, 2007. The effective income rate in the current period reflects a decrease in state income taxes and an increase in the Company's permanent tax deductions related to investment tax credits that will be generated from capital improvements made at the Dunkirk facility in 2008.

### **Business Segment Results**

An analysis of the net sales and operating income for the reportable segments for the three-month periods ended March 31, 2008 and 2007 is as follows:

#### **Universal Stainless & Alloy Products Segment**

<i>(dollars in thousands)</i>	For the Three-month period ended March 31,	
	2008	2007
Net sales:		
Stainless steel	\$ 27,310	\$ 24,996
Tool steel	8,424	6,159
High-strength low alloy steel	1,113	4,000
High-temperature alloy steel	569	1,230
Conversion services	357	327
Other	10	86
	<u>37,783</u>	<u>36,798</u>
Intersegment	10,415	11,367
Total net sales	48,198	48,165
Material cost of sales	23,339	21,231
Operation cost of sales	17,790	18,017
Selling and administrative expenses	2,138	1,718
Operating income	<u>\$ 4,931</u>	<u>\$ 7,199</u>

Net sales for the three-month period ended March 31, 2008 for this segment, which consists of the Bridgeville and Titusville facilities, were equivalent to the same period a year ago. Higher shipments of billet product to rerollers and tool steel plate product to service centers, more than offset lower shipments of semi-finished products to forgers and finished bar products to service centers. Lower raw material surcharges also impacted sales, led by a decrease in average nickel prices during the three-month period ended March 31, 2008 in comparison to the three-month period ended March 31, 2007.

Operating income for the 2008 first quarter decreased \$2.3 million, or 31.5%, from first quarter 2007 primarily due to the change in mix of products shipped described above.

## Dunkirk Specialty Steel Segment

<i>(dollars in thousands)</i>	For the Three-month period ended March 31,	
	2008	2007
Net sales:		
Stainless steel	\$ 14,718	\$ 14,574
Tool steel	683	938
High-strength low alloy steel	2,898	2,234
High-temperature alloy steel	577	1,515
Conversion services	168	162
Other	18	18
	<u>19,062</u>	<u>19,441</u>
Intersegment	988	999
Total net sales	<u>20,050</u>	<u>20,440</u>
Material cost of sales	11,839	11,196
Operation cost of sales	4,489	4,587
Selling and administrative expenses	937	836
Operating income	<u>\$ 2,785</u>	<u>\$ 3,821</u>

Net sales for the three-month period ended March 31, 2008 matched the same period a year ago. Higher shipments of finished bar products more than offset lower shipments of rod and wire products. Lower raw material surcharges also impacted sales, led by a decrease in average nickel prices during the three-month period ended March 31, 2008 in comparison to the three-month period ended March 31, 2007.

Operating income for the three-month period ended March 31, 2008 decreased \$1.0 million, or 27.1%, in comparison to the three-month period ended March 31, 2007 primarily due to the impact from nickel price fluctuations. For this segment, raw material surcharges are primarily assessed at the time of shipment while the material cost of those shipments is determined at the time of order entry. Based upon the timing of surcharges assessed, the Company estimates Dunkirk generated an operating income benefit of \$1.2 million for the three-month period ended March 31, 2007 in comparison to an operating income charge of \$157,000 for the three-month period ended March 31, 2008.

### Liquidity and Capital Resources

The Company has financed its operating activities through cash on hand at the beginning of the period. At March 31, 2008, working capital approximated \$89.1 million as compared to \$85.9 million at December 31, 2007. The increase in accounts receivable and the decrease in accrued employment costs more than offset the increases in accounts payable and other current liabilities. Accounts receivable increased \$7.2 million as a result of increased sales for the three-month period ended March 31, 2008 in comparison to the three-month period ended December 31, 2007. The decrease in accrued employment costs is primarily due to the payment of \$2.4 million in profit sharing earned by the Company's employees in 2007. The increase in accounts payable and other current liabilities is related to the timing of raw material receipts and higher income taxes payable, respectively. The ratio of current assets to current liabilities decreased from 4.7:1 at December 31, 2007 to 4.3:1 at March 31, 2008. The debt to total capitalization ratio was 1.3% at March 31, 2008 and 1.4% at December 31, 2007.

Cash received from sales activities of \$49.2 million and \$52.9 million represents the primary source of cash from operations for the three-month periods ended March 31, 2008 and 2007, respectively. The primary uses of cash follow:

<i>(dollars in thousands)</i>	For the Three-month period ended March 31,	
	2008	2007
Raw material purchases	\$ 24,321	\$ 24,127
Employment costs	11,844	10,745
Utilities	5,112	5,127
Other	7,691	10,373
Total uses of cash	<u>\$ 48,968</u>	<u>\$ 50,372</u>

Cash used in raw material purchases increased in 2008 in comparison to 2007 primarily due to quantity of purchased materials offset by lower unit transaction costs. The Company continuously monitors market price fluctuations of its key raw materials. The following table reflects the average market values per pound for selected months during the last 15-month period.

	March 2008	December 2007	March 2007	December 2006
Nickel	\$14.16	\$ 11.79	\$21.01	\$ 15.68
Chrome	\$ 2.11	\$ 1.66	\$ 0.81	\$ 0.64
Molybdenum	\$33.78	\$ 32.54	\$28.15	\$ 24.87
Carbon Scrap	\$ 0.18	\$ 0.14	\$ 0.17	\$ 0.10

The market values for these raw materials continue to fluctuate based on supply and demand, market disruptions, and other factors. The Company maintains sales price surcharge mechanisms, priced at time of shipment, to mitigate the risk of raw material cost fluctuations. There can be no assurance that these sales price adjustments will completely offset the Company's raw material and energy costs.

Increased employment costs are primarily due to higher production volumes, increased payout under the Company's profit sharing plan, and higher employee-related insurance costs. The decrease in other uses of cash, the majority of which is cash for outside conversion services, production supplies, plant maintenance and freight is attributable to lower conversion and freight expenditures. In addition, payments for income taxes in the 2008 first quarter decreased by \$900,000 from the same period in 2007, principally due to timing of the federal estimated payment.

The Company had capital expenditures for the first quarter 2008 of \$3.1 million, compared with \$1.3 million for the same period in 2007. The 2008 expenditures were primarily for Bridgeville plant improvements. Most of the 2007 expenditures were used to refurbish and equip an office building at the Bridgeville Facility that now represents the Company's corporate office.

The Company maintains a credit agreement with PNC Bank for a \$15.0 million revolving credit facility with the term expiring June 30, 2009. At March 31, 2008, the Company had all of its \$15.0 million revolving line of credit with PNC Bank available for borrowings. The Company is in compliance with its covenants as of March 31, 2008.

The Company does not maintain off-balance sheet arrangements other than operating leases nor does it participate in non-exchange traded contracts requiring fair value accounting treatment or material related party transaction arrangements.

The Company anticipates that it will fund its 2008 working capital requirements and its capital expenditures primarily from funds generated from operations, borrowings and stock issuances resulting from the exercise of outstanding stock options. Financing of the Company's long-term liquidity requirements, including capital expenditures, is expected from a combination of internally generated funds, borrowings, stock issuance or other sources of external financing, if needed.

#### **Critical Accounting Policies**

Revenue recognition is the most critical accounting policy of the Company. Revenue from the sale of products is recognized when both risk of loss and title have transferred to the customer, which in most cases coincides with shipment of the related products, and collection is reasonably assured. The Company manufactures specialty steel product to customer purchase order specifications and in recognition of requirements for product acceptance. Material certification forms are executed, indicating compliance with the customer purchase orders, before the specialty steel products are packed and shipped to the customer. Occasionally customers request that the packed products be held at the Company's facility beyond the stated shipment date. In these situations, the Company receives written confirmation of the request, acknowledgement that title has passed to the customer and that normal payment terms apply. The impact on revenue was less than 1% of net sales in each period presented.

Revenue from conversion services is recognized when the performance of the service is complete. Invoiced shipping and handling costs are also accounted for as revenue. Customer claims are accounted for primarily as a reduction to gross sales after the matter has been researched and an acceptable resolution has been reached.

In addition, management constantly monitors the ability to collect its unpaid sales invoices and the valuation of its inventory. The allowance for doubtful accounts includes specific reserves for the value of outstanding invoices issued to customers currently operating under the protection of the federal bankruptcy law and other amounts that are deemed potentially not collectible along with a reserve equal to 15% of 90-day or older balances not specifically reserved. However, the total reserve will not be less than 1% of trade accounts receivable. An inventory reserve is provided for material on hand for which management believes cost exceeds fair market value and for material on hand for more than one year not assigned to a specific customer order.

Long-lived assets are reviewed for impairment annually by each operating facility. An impairment write-down will be recognized whenever events or changes in circumstances indicate that the carrying value may not be recoverable through estimated future undiscounted cash flows.

Based on management's assessment of the carrying values of such long-lived assets, no impairment reserve had been deemed necessary as of March 31, 2008 and 2007. Retirements and disposals are removed from cost and accumulated depreciation accounts, with the gain or loss reflected in operating income.

In addition, management assesses the need to record a valuation allowance to reduce deferred tax assets to the amount that is more likely than not to be realized. The Company believes it will generate sufficient income in addition to taxable income generated from the reversal of its temporary differences to utilize the deferred tax assets recorded at March 31, 2008.

### **2008 Outlook**

*These are forward-looking statements for purposes of the Private Securities Litigation Reform Act of 1995 and actual results may vary.*

The Company estimates that second quarter 2008 sales will range from \$55 to \$60 million and that diluted EPS will range from \$0.70 to \$0.75. This compares with sales of \$62.1 million and diluted EPS of \$0.87 in the second quarter of 2007. The following factors were considered in developing these estimates:

- The Company's total backlog at March 31, 2008 approximated \$88 million compared to \$85 million at December 31, 2007.
- Sales from the Dunkirk Specialty Steel segment are expected to approximate \$20 million in the second quarter of 2008.
- The estimated cost to be recognized in the 2008 second quarter attributable to the relocation of the round bar finishing facility from Bridgeville to Dunkirk is \$200,000, equivalent to \$0.02 per diluted share.

### **Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company has reviewed the status of its market risk and believes there are no significant changes from that disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2007, except as provided in this Form 10-Q in "Management's Discussion and Analysis of Financial Condition and Results of Operations."

### **Item 4. CONTROLS AND PROCEDURES**

The Company's management, including the Company's President and Chief Executive Officer and the Vice President of Finance, Chief Financial Officer and Treasurer, performed an evaluation of the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the Company's President and Chief Executive Officer and the Vice President of Finance, Chief Financial Officer and Treasurer concluded that, as of the end of the period covered by this quarterly report, the Company's disclosure controls and procedures are effective in the timely identification of material information required to be included in the Company's periodic filings with the SEC. During the quarter ended March 31, 2008, there were no changes in the Company's internal control over financial reporting which have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **Part II. OTHER INFORMATION**

### **Item 1. LEGAL PROCEEDINGS**

There are no material changes from the legal proceedings disclosed in Item 3. of the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

### **Item 1A. RISK FACTORS**

There are no material changes from the risk factors disclosed in Item 1A. of the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

### **Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

### **Item 3. DEFAULTS UPON SENIOR SECURITIES**

None.

### **Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

### **Item 5. OTHER INFORMATION**

None.

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**Item 6. EXHIBITS**

**Exhibits**

- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)

**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.

May 8, 2008

/s/ Dennis M. Oates

Dennis M. Oates  
President and Chief Executive Officer  
(Principal Executive Officer)

/s/ Richard M. Ubinger

Richard M. Ubinger  
Vice President of Finance, Chief Financial Officer and Treasurer  
(Principal Financial and Accounting Officer)

## CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Dennis M. Oates, certify that:

1. I have reviewed this report on Form 10-Q of Universal Stainless & Alloy Products, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2008

/s/ Dennis M. Oates

Dennis M. Oates  
President and Chief Executive Officer  
(Principal Executive Officer)

## CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Richard M. Ubinger, certify that:

1. I have reviewed this report on Form 10-Q of Universal Stainless & Alloy Products, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2008

/s/ Richard M. Ubinger

Richard M. Ubinger  
Vice President of Finance,  
Chief Financial Officer and Treasurer  
(Principal Financial and Accounting Officer)



**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Universal Stainless & Alloy Products, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned, in the capacities and on the dates indicated below, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 8, 2008

/s/ Dennis M. Oates

Dennis M. Oates  
President and Chief Executive Officer  
(Principal Executive Officer)

/s/ Richard M. Ubinger

Richard M. Ubinger  
Vice President of Finance, Chief Financial Officer and Treasurer  
(Principal Financial and Accounting Officer)