UNITED STATES
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 September 30, 2005

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
(Registrant's telephone number, including area code)

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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

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 October 31, 2005, there were 6,392,131 shares outstanding of the Registrant's Common Stock, $0.001 par value per share.

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UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

This Quarterly Report on Form 10-Q contains historical information and forward-looking statements that reflect the Company's current views with respect to future events and financial performance. Statements looking forward in time, including statements regarding future growth, cost savings, production capacity, broader product lines, 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 Form 10-Q pursuant to the "safe harbor" provision of the Private Securities Litigation Reform Act of 1995.

The Company's actual results will be affected by a wide range of factors including 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; the Company's ongoing requirement for continued compliance with environmental laws; 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 September 30,		For the Nine-month period ended September 30,	
	2005	2004	2005	2004
Net sales	$ 43,097	$ 33,297	$ 127,979	$ 83,630
Cost of products sold	35,692	27,701	106,299	71,576
Selling and administrative expenses	2,043	1,873	6,335	5,348
Operating income	5,362	3,723	15,345	6,706
Interest expense	(223)	(108)	(595)	(302)
Other income	—	566	63	577
Income before taxes	5,139	4,181	14,813	6,981
Income tax provision	1,850	1,436	5,333	2,443
Net income	$ 3,289	$ 2,745	$ 9,480	$ 4,538
Earnings per share – Basic	$ 0.52	$ 0.44	$ 1.49	$ 0.72
Earnings per share – Diluted	$ 0.51	$ 0.43	$ 1.47	$ 0.71
Weighted average shares of Common Stock outstanding				
Basic	6,383,464	6,305,456	6,365,947	6,300,229
Diluted	6,490,056	6,400,188	6,469,953	6,363,656

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

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UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS
(Dollars in Thousands)

	September 30, 2005	December 31, 2004
	(Unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,520	$ 241
Accounts receivable, (less allowance for doubtful accounts of $477 and $557, respectively)	29,092	24,562
Inventory	51,207	38,318
Deferred taxes	1,406	1,436
Other current assets	968	1,982
Total current assets	84,193	66,539
Property, plant and equipment, net	42,960	40,716
Other assets	618	585
Total assets	$ 127,771	$ 107,840
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Trade accounts payable	$ 11,634	$ 11,666
Outstanding checks in excess of bank balance	2,886	2,638
Accrued employment costs	3,296	1,830
Current portion of long-term debt	1,055	2,044
Other current liabilities	1,411	442
Total current liabilities	20,282	18,620
Bank revolver	8,438	8,635
Long-term debt	11,839	3,555
Deferred taxes	10,068	10,093
Total liabilities	50,627	40,903
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; 6,662,188 and 6,601,112 shares issued	7	7
Additional paid-in capital	29,429	28,699
Retained earnings	49,342	39,862
Treasury Stock at cost; 270,057 and 269,900 common shares held	(1,634)	(1,631)
Total stockholders' equity	77,144	66,937
Total liabilities and stockholders' equity	$ 127,771	$ 107,840

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

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UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

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

	For the Nine-month period ended September 30, 2005	For the Nine-month period ended September 30, 2004
Cash flows from operating activities:		
Net income	$ 9,480	$ 4,538
Adjustments to reconcile to net cash used in operating activities:		
Depreciation and amortization	2,301	2,336
Loss on retirement of fixed assets	705	—
Deferred income taxes	193	480
Tax benefit from exercise of stock options	173	8
Changes in assets and liabilities:		
Accounts receivable, net	(4,530)	(9,939)
Inventory	(12,889)	(11,527)
Trade accounts payable	(32)	4,995
Accrued employment costs	1,466	1,985
Refundable taxes	121	1,405
Other, net	1,672	553
Net cash used in operating activities	(1,340)	(5,166)
Cash flow from investing activities:		
Capital expenditures	(5,233)	(2,377)
Net cash used in investing activities	(5,233)	(2,377)
Cash flows from financing activities:		
Deferred financing costs	(48)	—
Net increase (decrease) in revolving line of credit	(197)	4,597
Proceeds from long-term debt	8,050	—
Repayments of long-term debt	(755)	(1,462)
Increase in outstanding checks	248	126
Proceeds from issuance of common stock	554	96
Net cash provided by financing activities	7,852	3,357
Net increase (decrease) in cash and cash equivalents	1,279	(4,186)
Cash and cash equivalents at beginning of period	241	4,735
Cash and cash equivalents at end of period	$ 1,520	$ 549
Supplemental disclosure of cash flow information:		
Interest paid	$ 502	$ 291
Income taxes paid, net of (refunds) received	$ 4,841	$ (87)

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- and nine-month periods ended September 30, 2005 and 2004, balance sheets as of September 30, 2005 and December 31, 2004, and statements of cash flows for the nine-month periods ended September 30, 2005 and 2004, 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 year ended December 31, 2004. 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 September 30, 2005 and December 31, 2004 and the consolidated results of operations and of cash flows for the periods ended September 30, 2005 and 2004, and are not necessarily indicative of the results to be expected for the full year.

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 are as follows:

	For the Three-month period ended September 30,		For the Nine-month period ended September 30,	
	2005	2004	2005	2004
Weighted average number of shares of Common Stock outstanding	6,383,464	6,305,456	6,365,947	6,300,229
Effect of dilutive securities	106,592	94,732	104,006	63,427
Weighted average number of shares of Common Stock outstanding, as adjusted	6,490,056	6,400,188	6,469,953	6,363,656

Note 3 – Stock-Based Compensation Plans

The following table illustrates the effect on net income and earnings per share between the Company's use of the intrinsic value method and the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," to stock-based employee and director compensation:

	For the Three-month period ended September 30,		For the Nine-month period ended September 30,	
(dollars in thousands, except per common share amounts)	2005	2004	2005	2004
Net income, as reported	$ 3,289	$ 2,745	$ 9,480	$ 4,538
Total stock-based compensation expense determined under fair-value based method, net of taxes	(50)	(45)	(147)	(131)
Pro forma net income	$ 3,239	$ 2,700	$ 9,333	$ 4,407
Earnings per common share:				
Basic – as reported	$ 0.52	$ 0.44	$ 1.49	$ 0.72
Basic – pro forma	$ 0.51	$ 0.43	$ 1.47	$ 0.70
Diluted – as reported	$ 0.51	$ 0.43	$ 1.47	$ 0.71
Diluted – pro forma	$ 0.50	$ 0.42	$ 1.44	$ 0.69

Note 4 – New Accounting Pronouncements

In November of 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4" ("SFAS 151"). The purpose of this statement is to clarify the accounting of abnormal amounts of idle facility expense, freight, handling costs and waste material. ARB No. 43 stated that under some circumstances these costs may be so abnormal that they are required to be treated as current period costs. SFAS 151 requires that these costs be treated as current period costs regardless of whether they meet the criteria to be deemed "so abnormal." In addition, the statement requires that allocation of fixed production overhead costs to the costs of conversion be based on the normal capacity of the production facilities. The provision of this Statement shall be effective for inventory costs incurred during fiscal years beginning after December 31, 2004. The adoption of SFAS 151 did not have a material impact on the Company's results of operations or financial position during the first nine months of 2005.

In December 2004, the FASB issued Statement of Financial Accounting Standard No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123-R"). This Statement replaces FASB Statement No. 123 and supercedes APB Opinion No. 25. SFAS 123-R eliminates the ability to account for share-based compensation transactions using the intrinsic method currently used by the Company. SFAS 123-R requires that such transactions be accounted for using a fair-value-based method that would result in expense being recognized in the Company's financial statements. In March 2005, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 107 ("SAB 107"). SAB 107 provides the SEC's staff views regarding the valuation of share-based payment arrangements for public companies. In April 2005, the SEC delayed the required compliance date of SFAS 123R to January 1, 2006. Therefore, the Company will adopt SFAS 123-R as of January 1, 2006 utilizing similar valuation methodologies that generate the pro-forma disclosures included in this quarterly report.

Note 5 - Inventory

The major classes of inventory are as follows:

(dollars in thousands)	September 30, 2005	December 31, 2004
Raw materials and supplies	$ 5,981	$ 5,160
Semi-finished and finished steel products	42,975	30,820
Operating materials	2,251	2,338
Total inventory	$ 51,207	$ 38,318

Note 6 - Property, Plant and Equipment

Property, plant and equipment consists of the following:

(dollars in thousands)	September 30, 2005	December 31, 2004
Land and land improvements	$ 997	$ 1,014
Buildings	7,084	6,203
Machinery and equipment	53,674	52,358
Construction in progress	2,721	893
	64,476	60,468
Accumulated depreciation	(21,516)	(19,752)
Property, plant and equipment, net	$ 42,960	$ 40,716

On December 15, 2004, the Company entered into a written agreement with AK Steel to purchase the ESR building, which houses the Company's four electro-slag remelting (ESR) furnaces and ancillary equipment, and certain other parcels located in Bridgeville, PA. On October 18, 2005 the Company completed the transaction for $250,000 and agreed to take responsibility for any remediation required as a result of the condition of the property at or after the closing. The Company has not incurred any such remediation costs to date and does not anticipate that any such future remediation costs will have a material adverse effect on the Company's results of operations, liquidity or financial condition.

In March 2005, the Company incurred a write-off of $342,000 at the Bridgeville facility, mainly for flat bar processing equipment. The write-off was a result of the Company's decision to move its small flat bar production to the Dunkirk facility. In September 2005, the Company wrote off $259,000 of Bridgeville production-related fixed assets and $104,000 of corporate software costs that were retired or being replaced.

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Note 7 – Long-Term Debt

Long-term debt consists of the following:

(dollars in thousands)	September 30, 2005	December 31, 2004
PNC Line	$ 8,438	$ 8,635
PNC Term Loan	10,000	2,300
Government debt	2,873	3,255
Capital lease obligations	21	44
	21,332	14,234
Less amounts due within one year	(1,055)	(2,044)
Total long-term debt	$ 20,277	$ 12,190

In June 2005, the Company executed the Third Amended and Restated Credit Agreement with PNC Bank that extended the $15.0 million revolving credit facility through June 30, 2009 and replaced the existing term loan having an outstanding principal balance of $1.9 million, with a new $10.0 million term loan scheduled to mature in June 2011. The outstanding principal balance is payable in twenty consecutive quarterly installments of $500,000 beginning September 30, 2006. Interest on borrowings under the PNC Line and PNC Term Loan is based on short-term market rates, which may be further adjusted, based upon the Company maintaining certain financial ratios. In addition, the Company has reduced the commitment fee paid on the unused portion of the PNC Line from 0.5% to 0.25%, provided it maintains certain financial ratios. Finally, while the Company will continue to be required to maintain certain financial ratios as a condition of the credit agreement, restrictions regarding the amount of capital expenditures that may be incurred without PNC Bank's approval has been removed.

Note 8 – Commitments and Contingencies

On June 29, 2001, suit was filed against the Company in the Court of Common Pleas of Allegheny County, Pennsylvania by Teledyne Technologies, Incorporated ("Teledyne"). The suit alleges that steel product manufactured by the Company was defective and the Company was or should have been aware of the defects. Teledyne has alleged that the steel supplied by the Company caused certain crankshafts sold by Teledyne to be defective. As a result, Teledyne is claiming damages relating to the recall, replacement and repair of aircraft engines.

In 2002, Teledyne was unsuccessful in its pursuit of a similar claim brought against another specialty steel producer who supplied the same steel product. After in-depth investigation, it is the Company's position that the suit is without merit, and it intends to vigorously defend that position. Additionally, the Company believes that it has insurance coverage that is available for this claim and has reached an agreement with United States Aviation Underwriters, Inc., a New York corporation ("USAU"), as managers and on behalf of United States Aircraft Insurance Group ("USAIG"), the Company's Aircraft Products Liability insurance carrier, regarding the allocation of certain potential costs associated with the Teledyne claim. At this time, the Company is engaged in the pre-trial phase of the proceedings and believes that the final disposition of this suit will not have a material adverse effect on the financial condition and the results of operations of the Company.

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Note 9 - 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:

	For the Three-month period ended September 30,		For the Nine-month period ended September 30,	
(dollars in thousands)	2005	2004	2005	2004
Net sales:				
Universal Stainless & Alloy Products	$ 39,972	$ 31,199	$115,554	$ 75,526
Dunkirk Specialty Steel	13,990	9,484	40,029	24,264
Intersegment	(10,865)	(7,386)	(27,604)	(16,160)
Consolidated net sales	$ 43,097	$ 33,297	$127,979	$ 83,630
Operating income:				
Universal Stainless & Alloy Products	$ 4,017	$ 2,900	$ 10,340	$ 5,198
Dunkirk Specialty Steel	1,757	1,163	5,455	1,848
Intersegment	(412)	(340)	(450)	(340)
Total operating income	$ 5,362	$ 3,723	$ 15,345	$ 6,706
Interest expense and other financing costs:				
Universal Stainless & Alloy Products	$ 175	$ 72	$ 408	$ 198
Dunkirk Specialty Steel	48	36	187	104
Total interest expense and other financing costs	$ 223	$ 108	$ 595	$ 302
Other income				
Universal Stainless & Alloy Products	$ —	$ 1	$ 5	$ 10
Dunkirk Specialty Steel	—	565	58	567
Total other income	$ —	$ 566	$ 63	$ 577

(dollars in thousands)	September 30, 2005	December 31, 2004
Total assets:		
Universal Stainless & Alloy Products	$ 99,044	$ 86,375
Dunkirk Specialty Steel	25,456	18,418
Corporate assets	3,271	3,047
	$ 127,771	$ 107,840

Dunkirk Specialty Steel's other income for the three- and nine-month period ended September 30, 2004 included $565,000, net of expenses, related to the delayed receipt of remaining 2003 import duties awarded the Company under the Continued Dumping and Subsidy Act of 2000 (CDSOA).

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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- and nine-month periods ended September 30, 2005 and 2004 is as follows:

(dollars in thousands)	For the Three-month period ended September 30, 2005	2004	For the Nine-month period ended September 30, 2005	2004
Net sales:				
Stainless steel	$ 35,573	$ 26,529	$ 103,397	$ 65,586
Tool steel	4,805	4,277	15,181	11,185
High-strength low alloy steel	1,506	1,160	4,270	3,085
High-temperature alloy steel	587	473	2,323	1,795
Conversion services	569	707	2,533	1,635
Other	57	151	275	344
Total net sales	43,097	33,297	127,979	83,630
Cost of products sold	35,692	27,701	106,299	71,576
Selling and administrative expenses	2,043	1,873	6,335	5,348
Operating income	$ 5,362	$ 3,723	$ 15,345	$ 6,706
Tons Shipped	11,952	13,470	40,565	34,688

Market Segment Information

(dollars in thousands)	For the Three-month period ended September 30, 2005	2004	For the Nine-month period ended September 30, 2005	2004
Net sales:				
Service centers	$ 18,039	$ 13,443$	53,396	$ 35,616
Rerollers	9,762	9,208	33,040	21,465
Forgers	8,572	6,232	22,742	15,181
Original equipment manufacturers	3,149	2,263	8,070	6,101
Wire redrawers	2,949	1,307	7,934	3,346
Conversion services	568	707	2,533	1,635
Miscellaneous	58	137	264	286
Total net sales	$ 43,097	$ 33,297	$ 127,979	$ 83,630

Three- and nine-month periods ended September 30, 2005 as compared to the similar periods in 2004

Net sales for the three- and nine-month periods ended September 30, 2005 increased $9.8 million, or 29%, and $44.3 million, or 53%, respectively, as compared to the similar periods in 2004. These increases are primarily due to increased shipments of higher value-added niche products, primarily for the aerospace, power generation and petrochemical markets, as well as the adoption of surcharge mechanisms for additional raw material components and price increases implemented during the past 21-month period.

Cost of products sold, as a percentage of net sales, was 82.8% and 83.2% for the three-month periods ended September 30, 2005 and 2004, respectively, and was 83.1% and 85.6% for the nine-month periods ended September 30, 2005 and 2004, respectively. The decreases are primarily due to an improved mix of higher-margin products shipped, in conjunction with the impact of raw material surcharges and base price increases, implemented over the past 21 months, which more than offset higher raw material, labor, energy and other manufacturing supply costs.

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Selling and administrative expenses increased by $170,000 in the three-month period ended September 30, 2005, as compared to the same period in 2004. The net increase is primarily due to higher employment costs and the write-off of $104,000 in software development costs, which were partially offset by a reduction in the bad debt provision. During the three-month period ended September 30, 2004, the Company increased its bad debt reserve by $176,000 as a result of a customer filing for Chapter 11 bankruptcy protection. Selling and administrative expenses increased by $987,000 in the nine months ended September 30, 2005 compared to the same nine months in 2004. The net increase is primarily due to higher employment costs, the write-off of software development costs, higher property taxes, and a write-off of a building held for sale, which were partially offset by a reduction in the bad debt provision. Under a previous lease agreement, the Company was responsible to reimburse AK Steel for a portion of the property taxes assessed against the Bridgeville Facility. In June 2005, the Company received an invoice for prior year property taxes that required the Company to record an additional expense of $174,000. Attempts to sell the Dunkirk office building since February 2002 have not been successful, and the Company had no prospective buyers. The change in circumstances caused the Company’s management to write-off the $184,000 carrying value of the Dunkirk office building during the first quarter 2005.

Interest expense and other financing costs increased by $115,000 for the three-month period ended September 30, 2005 as compared to the three-month period ended September 30, 2004 and increased $293,000 in the nine-month period ended September 30, 2005 as compared to the nine-month period ended September 30, 2004. The increases were primarily due to a $6.4 million increase in the average balance of the revolving line of credit over the two nine-month periods, coupled with increasing the term loan by $8.1 million in June 2005.

Other income was higher in the third quarter and nine months of 2004 as a result of the Company receiving $565,000, net of expenses, related to 2003 import duties awarded under the CDSOA. These funds were withheld at the end of 2003 pending the outcome of a lawsuit that was completed in July 2004 challenging the distribution method of the import duties.

The effective income tax rates utilized in the nine-month periods ended September 30, 2005 and 2004 were 36.0% and 35.0%, respectively. The effective income tax rate utilized in the current period reflects the anticipated effect of the Company’s permanent tax deductions against expected income levels. The increased rate of 1% had the effect of reducing net income by $148,000 for the nine-month period ended September 30, 2005, compared to a 35% rate in the prior year.

Business Segment Results

An analysis of the net sales and operating income for the reportable segments for the three- and nine-month periods ended September 30, 2005 and 2004 is as follows:

Universal Stainless & Alloy Products Segment

	For the Three-month period ended September 30,		For the Nine-month period ended September 30,	
(dollars in thousands)	2005	2004	2005	2004
Net sales:				
Stainless steel	$ 23,551	$ 18,373	$ 68,864	$ 45,469
Tool steel	4,569	4,155	14,723	10,902
High-strength low alloy steel	574	575	1,887	1,387
High-temperature alloy steel	507	451	2,235	1,526
Conversion services	466	632	2,122	1,356
Other	57	146	217	298
	29,724	24,332	90,048	60,938
Intersegment	10,248	6,867	25,506	14,588
Total net sales	39,972	31,199	115,554	75,526
Material cost of sales	20,876	14,999	59,156	33,923
Operation cost of sales	13,651	11,990	41,734	32,733
Selling and administrative expenses	1,428	1,310	4,324	3,672
Operating income	$ 4,017	$ 2,900	$ 10,340	$ 5,198

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Net sales for the three- and nine-month periods ended September 30, 2005 for this segment, consisting of the Bridgeville and Titusville facilities, increased by $8.8 million, or 28.1%, in comparison to the three-month period ended September 30, 2004 and $40.0 million, or 53.0%, in comparison to the similar 2004 nine-month period. These increases, primarily through the adoption of raw material surcharge mechanisms, offset increased material cost of sales of $5.9 million and $25.2 million for the three- and nine-month periods ended September 30, 2005 in comparison to the similar 2004 periods. The remaining increase is primarily due to increased shipments of higher value-added niche products and several price increases implemented during the past 21-month period.

Operating income for the Universal Stainless & Alloy Products segment increased by $1.1 million for the three-month period ended September 30, 2005 as compared to the comparable period ended September 30, 2004 and increased by $5.1 million for the nine-month period ended September 30, 2005 as compared to the comparable period ended September 30, 2004. The increases are primarily due to increased production volumes, improved mix of products shipped and higher selling prices, partially offset by higher raw material, labor, utilities and other manufacturing supply costs.

Dunkirk Specialty Steel Segment

(dollars in thousands)	For the Three-month period ended September 30, 2005	2004	For the Nine-month period ended September 30, 2005	2004
Net sales:				
Stainless steel	$ 12,022	$ 8,156	$ 34,533	$ 20,117
Tool steel	236	122	458	283
High-strength low alloy steel	932	585	2,383	1,698
High-temperature alloy steel	80	22	88	269
Conversion services	103	75	411	279
Other	—	5	58	46
	13,373	8,965	37,931	22,692
Intersegment	617	519	2,098	1,572
Total net sales	13,990	9,484	40,029	24,264
Material cost of sales	8,190	4,716	21,746	12,095
Operation cost of sales	3,428	3,042	10,817	8,645
Selling and administrative expenses	615	563	2,011	1,676
Operating income	$ 1,757	$ 1,163	$ 5,455	$ 1,848

Net sales for the three- and nine-month periods ended September 30, 2005 for this segment increased by $4.5 million, or 47.5%, in comparison to the three-month period ended September 30, 2004 and $15.8 million, or 65.0%, in comparison to the similar 2004 nine-month period. These increases, primarily through the adoption of raw material surcharge mechanisms, offset increased material cost of sales of $3.5 million and $9.7 million for the three- and nine-month periods ended September 30, 2005 in comparison to the similar 2004 periods. The remaining increase is primarily due to increased shipments of higher value-added niche products and several price increases implemented during the past 21-month period.

Operating income increased by $0.6 million for the three-month period ended September 30, 2005 as compared to September 30, 2004 and increased by $3.6 million for the nine-month period ended September 30, 2005. The increases are primarily due to increased production volumes, improved mix of products shipped and higher selling prices, partially offset by higher raw material, labor, utilities and other manufacturing supply costs.

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Liquidity and Capital Resources

The Company has financed its operating activities through cash on hand at the beginning of the period and additional borrowings. At September 30, 2005, working capital approximated $63.9 million, as compared to $47.9 million at December 31, 2004. Inventory represents $12.9 million of the increase due to higher raw material costs and as a result of the Company's strategy to shift the product mix from semi-finished to finished product, which requires a longer production cycle. Accounts receivable represents $4.5 million of the increase, which relates to the growth in net sales. The ratio of current assets to current liabilities increased from 3.6:1 at December 31, 2004 to 4.2:1 at September 30, 2005. The debt to total capitalization ratio was 21.7% at September 30, 2005 and 17.5% at December 31, 2004.

Cash received from sales of $41.9 million and $123.9 million for the three- and nine-month periods ended September 30, 2005 and of $30.1 million and $73.6 million for the three- and nine-month periods ended September 30, 2004 represent the primary source of cash from operations. The primary uses of cash follow:

	For the Three-month period ended September 30,		For the Nine-month period ended September 30,	
(dollars in thousands)	2005	2004	2005	2004
Raw material purchases	$ 20,343	$ 16,037	$ 63,380	$ 40,284
Employment costs	7,866	6,056	22,885	17,994
Utilities	3,837	2,874	11,508	9,004
Other	13,567	5,364	27,484	11,488
Total uses of cash	$ 45,613	$ 30,331	$ 125,257	$ 78,770

Cash used in raw material purchases increased in 2005 in comparison to 2004 primarily due to higher quantities of product purchased and significantly higher transaction prices. 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 two-year period.

	Dec. 2003	Sept. 2004	Dec. 2004	Sept. 2005
Nickel	$6.43	$ 6.02	$ 6.25	$ 6.45
Chrome	$0.54	$ 0.68	$ 0.70	$ 0.59
Molybdenum	$7.10	$18.14	$32.46	$33.72
Carbon Scrap	$0.09	$ 0.17	$ 0.18	$ 0.12

The market values for these raw materials continue to fluctuate based on supply and demand, market disruptions, and other factors. In response, over the past 21 months, the Company implemented several price increases, and 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, but current market conditions allow the specialty metals industry to pass-on these costs, as products are shipped.

Increased employment costs are primarily due to higher production volumes, increased payouts under the Company's profit sharing and other incentive compensation plans, and higher employee-related insurance costs. Increased utility costs are primarily due to higher consumption and rates charged for electricity and natural gas. The increase in other uses of cash, the majority of which is cash for outside conversion services, plant maintenance and production supplies, is directly attributable to support higher production volumes.

In October 2004, the Company's electricity costs at the Bridgeville facility increased by approximately $200,000 per month due to a Public Utility Commission ruling that reduced the number of off-peak power hours available to conduct its melting operations.

Natural gas charges have increased by $874,000 in the nine-month comparison and are expected to further increase in the fourth quarter 2005 due to dramatic market rate increases. From September 2004 to September 2005, the settlement price per million btu's for natural gas has increased from $5.08 to $10.85. Subsequently, the October and November 2005 settlement prices have further escalated to $13.91 and $13.83, respectively. Effective October 1, 2005, the Company adopted a natural gas surcharge on shipments, necessitated by the unprecedented rise in natural gas prices.

The Company had capital expenditures for the nine-month period ended September 30, 2005 of $5.2 million, compared with $2.4 million the same period in 2004. Of the 2005 expenditures, $3.2 million was used to purchase additional equipment in response to increased demand, including partial payment for a Vacuum-Arc Remelt (VAR) furnace being installed at the Bridgeville Facility, and the remainder was primarily for replacements of older fixed assets.

In June 2005, the Company executed the Third Amended and Restated Credit Agreement with PNC Bank that extended the $15.0 million revolving credit facility through June 30, 2009 and replaced the existing term loan, with a current outstanding principal balance of $1.9 million, with a new $10.0 million term loan scheduled to mature in June 2011. At September 30, 2005, the Company had $6.6 million 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 September 30, 2005.

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.

In 2003, the Company entered into a $200,000 Deferred Loan Agreement maturing on December 31, 2006 with the Dunkirk Local Development Corporation. No principal or interest payments will be required under the Deferred Loan Agreement provided that the Company hires and retains 30 new employees through the Deferred Loan Agreement maturation date, with more than 50% of those jobs made available to certain Dunkirk City residents. As of September 30, 2005, the Company believes that it will meet the conditions of the Deferred Loan Agreement, although it can make no assurances to that effect. Therefore, the proceeds have been applied to reduce the acquisition cost of new equipment at the Company's Dunkirk facility.

The Company anticipates that it will fund its 2005 working capital requirements and its capital expenditures primarily from funds generated from operations and borrowings. Financing the Company's long-term liquidity requirements, including capital expenditures, are 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. The Company manufactures specialty steel product in accordance with customer purchase orders that contain specific product requirements. Each purchase order provides detailed information regarding the requirements for product acceptance. Executed material certification forms are completed indicating the Company's compliance with the customer purchase order before the specialty steel products are packaged and shipped to the customer. Revenue is generally recognized at point of shipment because risk of loss and title has transferred. Revenue is also recognized in certain situations in which products available for shipment are held at the Company's facility beyond the stated shipment date at the customer's specific request. The impact on revenue was less than 1% in each period presented.

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 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. 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. The Company incurred a write-off of an office building that was part of the original purchase of the Dunkirk assets in February 2002. The asset value of $184,000 was written off once it was determined that there were no perspective buyers for the property. The building had been available for sale since the Company purchased Dunkirk Specialty Steel in early 2002. Other than this transaction, the Company has not recognized an impairment write-down on any of its assets held at September 30, 2005.

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 September 30, 2005.

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2005 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 fourth quarter 2005 sales will range from $33 million to $38 million and that diluted Earnings Per Share (EPS) will range from $0.37 to $0.42. This compares with sales of $37.0 million and diluted EPS of $0.40 in the fourth quarter of 2004, which included other income of $0.05 per diluted share from 2004 import duties and a bad debt charge equivalent to $0.03 per diluted share. The fourth quarter EPS estimate does not include any income from import duties that may be received by the Company in the fourth quarter related to the CDSOA.

The following factors were considered in developing these estimates:

- The Company's total backlog at September 30, 2005 approximated $106 million compared to $105 million at June 30, 2005, reflecting continued strong aerospace, power generation, petrochemical and tool steel markets. The Company noted that this continued high backlog level is mainly comprised of ESR and VAR products scheduled for shipment beyond 2005, as customers take into account future needs and current remelt capacity constraints industry-wide.
- The Company expects that shipments to its reroller customers in the 2005 fourth quarter will continue to decline, as anticipated, due to the Company's expanded focus on supplying value-added products.
- The Company expects fourth quarter 2005 sales of special shape products to be slightly lower than normal due to a three-week hourly employee work stoppage at its Titusville, PA facility. Salaried employees restored partial operation of the facility, including the five VAR furnaces located there. The parties reached a new five-year collective bargaining agreement and full production resumed on October 24, 2005. The new contract maintains the flexible work rule terms and profit sharing incentives contained in the prior agreement. The interrupted operation of the VAR furnaces is not expected to have a material effect on 2005 fourth quarter results.
- Sales from the Dunkirk Specialty Steel segment are expected to approximate $13 to $14 million. Additional sales are dependent upon the level of inventory management initiatives implemented by the service center industry near the end of the year.

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, 2004, 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 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 fiscal 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 September 30, 2005, there were no changes in the Company's internal control over financial reporting identified in connection with the evaluation thereof, 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

On June 29, 2001, suit was filed against the Company in the Court of Common Pleas of Allegheny County, Pennsylvania by Teledyne Technologies, Incorporated (“Teledyne”). The suit alleges that steel product manufactured by the Company was defective and the Company was or should have been aware of the defects. Teledyne has alleged that the steel supplied by the Company caused certain crankshafts sold by Teledyne to be defective. As a result, Teledyne is claiming damages relating to the recall, replacement and repair of aircraft engines.

In 2002, Teledyne was unsuccessful in its pursuit of a similar claim brought against another specialty steel producer who supplied the same steel product. After in-depth investigation, it is the Company’s position that the suit is without merit and it intends to vigorously defend that position. Additionally, the Company believes that it has insurance coverage that is available for this claim and has reached an agreement with United States Aviation Underwriters, Inc., a New York corporation (“USAU”), as managers and on behalf of United States Aircraft Insurance Group (“USAIG”), the Company’s Aircraft Products Liability insurance carrier, regarding the allocation of certain potential costs associated with the Teledyne claim. At this time, the Company is engaged in the pre-trial phase of the proceedings and believes that the final disposition of this suit will not have a material adverse effect on the financial condition and the results of operations of the Company.

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.

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)

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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: November 9, 2005

/s/ C. M. McAninch

Clarence M. McAninch
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 9, 2005

/s/ Richard M. Ubinger

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

Exhibit 31.1

CERTIFICATIONS

I, Clarence M. McAninch, 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)) 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) 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
   c) 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: November 9, 2005

/s/ C. M. McAninch

Clarence M. McAninch
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

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)) 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) 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

   c) 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.

/s/ Richard M. Ubinger

Date: November 9, 2005

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

Exhibit 32.1

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 September 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Clarence M. McAninch, President and Chief Executive Officer of the Company, 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 my 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.

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

Date: November 9, 2005

/s/ C. M. McAninch

Clarence M. McAninch
President and Chief Executive Officer
(Principal Executive Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request. This certification accompanies the Form 10-Q and shall not be treated as having been filed as part of the Form 10-Q.

In connection with the Quarterly Report of Universal Stainless & Alloy Products, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard M. Ubinger, Vice President of Finance, Chief Financial Officer and Treasurer of the Company, 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 my 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.

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

Date: November 9, 2005

/s/ Richard M. Ubinger

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

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request. This certification accompanies the Form 10-Q and shall not be treated as having been filed as part of the Form 10-Q.