

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 March 31, 2000

OR

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

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

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

DELAWARE
(State or other jurisdiction of
incorporation or organization)

25-1724540
(IRS Employer
Identification No.)

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

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

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

Yes X No
--- -----

As of April 30, 2000, there were 6,072,516 outstanding shares of the Registrant's Common Stock, \$.001 par value.

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

This Quarterly Report on Form 10-Q contains historical information and forward-looking statements. Statements looking forward are included in this Form 10-Q pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. They involve known and unknown risks and uncertainties such as but not limited to expected market conditions that may cause the Company's actual results to differ from future performance suggested herein. In the context of forward-looking information provided in this Form 10-Q and in other reports, please refer to the discussion of risk factors detailed in, as well as the other information contained in, the Company's filings with the Securities and Exchange Commission during the past 12 months.

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Part I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(Dollars in Thousands, Except Per Share Information)
(Unaudited)

	For the Three-month period ended March 31,	
	2000 ----	1999 ----
Net sales	\$18,089	\$14,488
Cost of products sold	15,403	12,961
Selling and administrative expenses	1,102	1,014
Operating income	1,584	513
Interest expense and other financing costs	(222)	(146)
Other income (expense), net	16	--
Income before taxes	1,378	367
Income taxes	482	136
Net income	\$ 896	\$ 231

Earnings per common share		
Basic	\$ 0.15	\$ 0.04
	=====	=====
Diluted	\$ 0.15	\$ 0.04
	=====	=====

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

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UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(Dollars in Thousands)

	March 31, 2000 (Unaudited)	December 31, 1999
ASSETS		
Current assets		
Cash and cash equivalents	\$ 269	\$ 868
Accounts receivable (less allowance for doubtful accounts of \$433 and \$418)	12,401	12,113
Inventory	18,429	15,730
Other current assets	1,668	1,564
	-----	-----
Total current assets	32,767	30,275
Property, plant and equipment, net	37,427	36,989
Other assets	1,026	915
	-----	-----
Total assets	\$ 71,220	\$ 68,179
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Trade accounts payable and bank overdrafts	\$ 8,082	\$ 6,584
Current portion of long-term debt	1,838	1,836
Accrued employment costs	1,046	727
Other current liabilities	904	328
	-----	-----
Total current liabilities	11,870	9,475
Long-term debt	9,548	10,005
Deferred taxes	5,253	5,046
	-----	-----
Total liabilities	26,671	24,526
	-----	-----
Commitments and contingencies	--	--
Stockholders' equity		
Senior Preferred Stock, par value \$.001 per share; liquidation value \$100 per share; 2,000,000 shares authorized; 0 shares issued and outstanding	--	--
Common Stock, par value \$.001 per share; 10,000,000 shares authorized; 6,330,416 and 6,330,416 shares issued & outstanding	6	6
Additional paid-in capital	25,838	25,838
Retained earnings	20,249	19,353
Treasury Stock at cost; 257,900 and 257,900 common shares	(1,544)	(1,544)
	-----	-----
Total stockholders' equity	44,549	43,653
	-----	-----
Total liabilities and stockholders' equity	\$ 71,220	\$ 68,179
	=====	=====

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

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

	For the Three-month period ended March 31,	
2000		1999
----		----

Cash flow from operating activities:		
Net income	\$ 896	\$ 231
Adjustments to reconcile to net cash and cash equivalents		
Provided by operating activities:		
Depreciation and amortization	561	480
Deferred taxes	65	322
Changes in assets and liabilities:		
Accounts receivable, net	(288)	(1,659)
Inventory	(2,699)	61
Trade accounts payable and bank overdrafts	1,498	1,491
Other, net	818	696
	-----	-----
Net cash provided by operating activities	851	1,622
	-----	-----
Cash flow from investing activities:		
Capital expenditures	(995)	(1,697)
	-----	-----
Net cash used in investing activities	(995)	(1,697)
	-----	-----
Cash flow from financing activities:		
Net borrowing under revolving line of credit	--	117
Long-term debt payments	(455)	(103)
Purchase of Treasury Stock	--	(875)
	-----	-----
Net cash used in financing activities	(455)	(861)
	-----	-----
Net decrease in cash	(599)	(936)
Cash and cash equivalents at beginning of period	868	1,437
	-----	-----
Cash and cash equivalents at end of period	\$ 269	\$ 501
	=====	=====
Supplemental disclosure of cash flow information:		
Interest paid (net of amount capitalized)	\$ 96	\$ 105
Income taxes paid	\$ 178	\$ 3

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

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UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

NOTES TO THE UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

- 1) The accompanying unaudited consolidated condensed financial statements of operations for the three-month periods ended March 31, 2000 and 1999, balance sheets as of March 31, 2000 and December 31, 1999, and statements of cash flows for the three-month periods ended March 31, 2000 and 1999 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, 1999. In the opinion of management, the accompanying unaudited, condensed consolidated financial statements contain all adjustments, all of which were of a normal recurring nature, necessary to present fairly, in all material respects, the consolidated financial position at March 31, 2000 and December 31, 1999 and the consolidated results of operations and of cash flows for the three-month periods ended March 31, 2000 and 1999, and are not necessarily indicative of the results to be expected for the full year.
- 2) 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 Periods Ended	
	2000	1999
	----	----
Weighted average number of shares of Common Stock outstanding	6,072,516	6,163,314
Assuming exercise of stock options and warrants reduced by the number of shares which could have been purchased with the proceeds from exercise of such stock options and warrants	3,568	--
	-----	-----
Weighted average number of shares of Common Stock outstanding, as adjusted	6,076,084	6,163,314
	=====	=====

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

	March 31, 2000	December 31, 1999
Raw materials and supplies	\$ 2,535	\$ 2,427
Semi-finished and finished steel products	12,742	10,208
products		
Operating materials	3,152	3,095
	-----	-----
Total inventory	\$18,429	\$15,730
	=====	=====

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4) Property, plant and equipment consists of the following (dollars in thousands):

	March 31, 2000	December 31, 1999
Land and land improvements	\$ 822	\$ 822
Buildings	3,344	3,337
Machinery and equipment	37,377	37,329
Construction in progress	1,775	835
	-----	-----
	43,318	42,323
Accumulated depreciation	(5,891)	(5,334)
	-----	-----
Property, plant and equipment, net	\$ 37,427	\$ 36,989
	=====	=====

5) The Company has reviewed the status of its environmental contingencies 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, 1999.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

An analysis of the Company's operations for the three-month periods ended March 31, 2000 and 1999 is as follows (dollars in thousands):

	For the Three-Month Periods Ended March 31,	
	2000	1999
	----	----
Net sales		
Stainless steel	\$14,565	\$11,875
Tool steel	2,227	1,457
High temperature alloy steel	367	646
Conversion services	340	473
Other	590	37
	-----	-----
Total net sales	\$18,089	\$14,488
	-----	-----
Cost of products sold		
Raw materials	6,589	4,963
Other	8,814	7,998
	-----	-----
Total cost of products sold	15,403	12,961
	-----	-----
Selling and administrative expenses	1,102	1,014
	-----	-----
Operating income	\$ 1,584	\$ 513
	=====	=====

Three-month period ended March 31, 2000 as compared to the similar period in 1999

The increase in net sales for the three-month period ended March 31, 2000 as compared to the similar period in 1999 reflects increased shipments within the forger, OEM and service center markets, partially offset by reduced shipments to the reroller market and conversion customers, as well as higher selling prices. The Company shipped approximately 10,800 tons during the three-month period ended March 31, 2000, compared to approximately 10,200 tons during the three-month period ended March 31, 1999. The increase in net sales and shipments resulted from an increased demand for product from the power generation industry, increased shipments of tool steel and finished bar products to the service center market and higher selling prices. The higher selling prices were a direct result of the implementation of an alloy surcharge mechanism in conjunction with rising raw material costs, and by the price increases placed into effect after September 1999.

Cost of products sold, as a percent of net sales, was 85.2% and 89.5% for the three-month periods ended March 31, 2000 and 1999, respectively. This decrease is primarily due to the impact of the alloy surcharge mechanism and sales price increases in effect during the three-month period ended March 31, 2000. Selling and administrative expenses remained relatively constant between 1999 and 2000.

Interest expense and other financing costs increased from \$146,000 for the three-month period ended March 31, 1999 to \$222,000 for the three-month period ended March 31, 2000 primarily due to a reduction in capitalized interest and higher interest rates on the PNC Term Loan.

The effective income tax rate utilized in the three-month periods ended March 31, 2000 and 1999 was 35% and 37%, 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 in 2000.

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FINANCIAL CONDITION

The Company has financed its operating activities during the three-month period ended March 31, 2000 through cash flows from operations and cash on hand at the beginning of the period. At March 31, 2000, working capital approximated \$20.9 million, as compared to \$20.8 million at December 31, 1999. The ratio of current assets to current liabilities decreased from 3.2:1 at December 31, 1999 to 2.8:1 at March 31, 2000. The debt to capitalization ratio was 20% at March 31, 2000, and 21% at December 31, 1999. The decrease in the ratio of current assets to current liabilities is primarily due to a decrease in cash which was used to fund debt payments and an increase in liabilities to fund operations due to an increase in product demand.

The Company's capital expenditures approximated \$1.0 million for the three-month period ended March 31, 2000 which primarily related to the purchase of a billet grinder and other equipment for use at the Bridgeville facility. At March 31, 2000, the Company had outstanding purchase commitments in addition to the expenditures incurred to date of approximately \$0.3 million. These expenditures are expected to be funded substantially from internally generated funds and additional borrowings. As of March 31, 2000, the Company had \$6.5 million available for borrowings under a revolving line of credit with PNC Bank.

There were no shares of Common Stock repurchased by the Company during the three-month period ended March 31, 2000. The Company is authorized to repurchase an additional 57,100 shares of Common Stock as of March 31, 2000.

The Company anticipates that it will fund its 2000 working capital requirements, its capital expenditures and the stock repurchase program primarily from funds generated from operations and borrowings. The Company's long-term liquidity requirements, including capital expenditures, are expected to be financed by a combination of internally generated funds, borrowings and other sources of external financing if needed.

2000 Outlook

The Company anticipates that its net sales for the three-month period ending June 30, 2000 will be higher than the three-month period ended March 31, 2000 as

a result of improving demand from the power generation industry and the service center market. Net sales during the second half of 2000 can further improve over the first half of 2000 if demand from the service center market and the aerospace industry increases.

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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, 1999.

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Part II. OTHER INFORMATION

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits

27.1 Financial Data Schedule

b. No reports on Form 8-K were filed during the first quarter of 2000.

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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.

Date:	May 12, 2000 -----	UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC. /s/ Clarence M. McAninch ----- Clarence M. McAninch President, Chief Executive Officer and Director (Principal Executive Officer)
Date:	May 12, 2000 -----	/s/ Richard M. Ubinger ----- Richard M. Ubinger Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)

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This schedule contains summary financial information extracted from the March 31, 2000 Financial Statements included in the Company's Form 10-Q and is qualified in its entirety by reference to such Form 10-Q.

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