UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 1998

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	25-1724540
(State or other jurisdiction of incorporation or organization)	(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

The number of shares outstanding of the registrant's classes of common stock as of October 30, 1998:

Title of Class	Shares Outstanding
Common Stock, $0.001 par value	6,315,450

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

This Quarterly Report on Form 10-Q contains historical information and forward-looking statements. Forward-looking statements are included in this Form 10-Q pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. They involve known and unknown risks and uncertainties that may cause the Company's actual results in future periods to differ from the discussions of future performance included 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.

INDEX PAGE NO.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

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

	For the Three-Months Ended September 30		For the Nine-Months Ended September 30	
	1998	1997	1998	1997
Net sales	$ 15,977	$ 22,081	$ 59,489	$ 61,661
Cost of products sold	13,141	17,539	48,940	49,012
Selling and administrative				

expenses	1,149	1,223	3,625	3,665
Operating income	1,687	3,319	6,924	8,984
Other income (expenses), net	(129)	(61)	(54)	(77)
Income before taxes	1,558	3,258	6,870	8,907
Income taxes	576	1,205	2,542	3,296
Net Income	$ 982	$ 2,053	$ 4,328	$ 5,611
Earnings per common share				
Basic	$ 0.16	$ 0.33	$ 0.69	$ 0.89
Diluted	$ 0.16	$ 0.32	$ 0.68	$ 0.88

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS
(Dollars in Thousands)

	September 30, 1998 (Unaudited)	December 31, 1997
ASSETS		
Current assets		
Cash and cash equivalents	$ 175	$ 177
Accounts receivable (less allowance for doubtful accounts of $343 and $298)	11,966	14,503
Inventory	17,009	15,471
Prepaid income tax	1,410	674
Other prepaid expenses	256	220
Total current assets	30,816	31,045
Property, plant and equipment, net	34,867	24,887
Other assets	262	219
Total assets	$65,945	$ 56,151
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Trade accounts payable	$ 5,756	$ 8,001
Current portion of long-term debt	415	338
Accrued employment costs	1,363	1,704
Other current liabilities	95	916
Total current liabilities	7,629	10,959
Long-term debt	12,870	5,441
Deferred taxes	3,108	1,983
Total liabilities	23,607	18,383
Commitments and contingencies	--	--

Stockholders' equity		
Senior Preferred Stock, par value $.001 per share; liquidation value $100 per share; 2,000,000 shares authorized and 0 shares issued and outstanding	--	--
Common Stock, par value $.001 per share; 10,000,000 shares authorized; 6,315,450 and 6,290,823 shares issued and outstanding	6	6
Additional paid-in capital	25,758	25,516
Retained earnings	16,574	12,246
Total stockholders' equity	42,338	37,768
Total liabilities and stockholders' equity	$65,945	$56,151

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

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

	For the Nine-Months Ended SEPTEMBER 30	
	1998	1997
Cash flow from operating activities:		
Net income	$ 4,328	$ 5,611
Adjustments to reconcile to net cash used by operating activities:		
Depreciation and amortization	1,049	786
Deferred taxes	1,125	242
Changes in assets and liabilities:		
Accounts receivable, net	2,537	(6,212)
Inventory	(1,538)	(5,389)
Prepaid income tax	(736)	--
Trade accounts payable	(2,245)	3,418
Accrued employment costs	(341)	280
Other, net	(770)	557
Net cash provided by (used in) operating activities	3,409	(707)
Cash flow from investing activities:		
Capital expenditures	(11,083)	(4,928)
Net cash used in investing activities	(11,083)	(4,928)
Cash flow from financing activities:		
Borrowings from long-term debt	9,346	500
Proceeds from issuance of Common Stock	215	26
Net borrowing under revolving line of credit	(1,562)	1,585
Long-term debt payments	(278)	(212)
Deferred financing costs	(49)	(12)
Net cash provided by financing activities	7,672	1,887
Net decrease in cash and cash equivalents	(2)	(3,748)
Cash and cash equivalents at beginning of period	177	4,219
Cash and cash equivalents at end of period	$175	$471

Supplemental disclosure of cash flow information:		
Interest paid	$492	$151
Income taxes paid	$2,485	$2,762

The accompanying notes are an integral part of these financial statements

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

NOTES TO THE UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

1) Universal Stainless & Alloy Products, Inc. (the "Company"), was incorporated in 1994 for the principal purpose of acquiring substantially all of the idled equipment and related assets located at the Bridgeville, Pennsylvania, production facility of Armco, Inc. in August 1994.

The accompanying unaudited, consolidated condensed financial statements of operations for the three- and nine-month periods ended September 30, 1998 and 1997, balance sheets as of September 30, 1998 and December 31, 1997, and statements of cash flows for the nine-month periods ended September 30, 1998 and 1997 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, 1997. In the opinion of management, the accompanying unaudited, condensed consolidated financial statements contain all adjustments, all of which were of a normal recurring nature, necessary to present fairly, in all material respects, the consolidated results of operations and of cash flows for the periods ended September 30, 1998 and 1997, and are not necessarily indicative of the results to be expected for the full year.

2) Effective January 1, 1998, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income," which requires companies to disclose information regarding comprehensive income and its components. Comprehensive income is defined as a change in equity resulting from nonowner sources. The Company does not have any material adjustments to net income in order to derive comprehensive income; accordingly, comprehensive income has not been presented in the accompanying consolidated condensed financial statements.

In June 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information." The new standard requires that all public business enterprises report information about operating segments, as well as specifies revised guidelines for determining an entity's operating segments and the type and level of financial information to be disclosed. The new standard, which is effective for the fiscal year ending December 31, 1998, may result in additional financial disclosure but will not have a financial impact on the Company.

In March 1998, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued a Statement of Position (SOP), "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." The SOP requires capitalization of qualifying costs relating to development or obtaining internal-use software. Capitalization begins following the conceptual formulation stage of development. Costs of externally purchased materials and services and payroll and payroll related costs of employees directly associated with, and who devote significant time to, the project should also be capitalized while overhead and training costs would be expensed as incurred. Costs associated with significant enhancements and routine maintenance of existing software should be expensed as incurred in accordance with SFAS 86. Management is presently considering what impact, if any, this statement will have on the Company's existing accounting policy with respect to software costs.

3) 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-Months Ended Ended September 30		For the Nine-Months Ended September 30	
	1998	1997	1998	1997
Weighted average number of shares of Common Stock outstanding	6,315,450	6,287,290	6,307,387	6,284,932
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	0	192,535	68,237	101,482
Weighted average number of shares of Common Stock outstanding, as adjusted	6,315,450	6,479,825	6,375,624	6,386,414

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

	SEPTEMBER 30, 1998	DECEMBER 31, 1997
Raw materials and supplies	$ 3,080	$ 2,869
Semi-finished steel products	11,328	10,569
Operating materials	2,601	2,033
Total inventory	$ 17,009	$ 15,471

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

	SEPTEMBER 30, 1998	DECEMBER 31, 1997
Land and land improvements	$ 869	$ 832
Buildings	2,508	1,699
Machinery and equipment	31,122	21,418
Construction in progress	3,168	2,726
	37,667	26,675
Accumulated depreciation	(2,800)	(1,788)

Property, plant and equipment, net	$34,867	$24,887
	============	============

6) The Company has reviewed the status of its environmental contingencies and believes there are no significant changes from that disclosed in Form 10-K for the year ended December 31, 1997.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Net sales by product line and cost of products sold for the three- and nine-month periods ended September 30, 1998 and 1997 were as follows (dollars in thousands):

	For the Three-Months Ended September 30		For the Nine-Months Ended September 30	
	1998	1997	1998	1997
Net sales				
Stainless steel	$12,393	$16,140	$44,085	$46,507
Tool steel	1,292	3,051	5,985	7,426
High temperature alloy steel	631	1,074	3,276	2,216
Conversion services	784	1,213	3,324	3,503
Other	877	603	2,819	2,009
Total net sales	$15,977	$22,081	$59,489	$61,661
Cost of products sold				
Raw materials	5,717	8,925	22,669	25,113
Other	7,424	8,614	26,271	23,899
Total cost of products sold	13,141	17,539	48,940	49,012
Selling and administrative expenses	1,149	1,223	3,625	3,665
Operating income	$ 1,687	$ 3,319	$ 6,924	$ 8,984

THREE -AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 1998 AS COMPARED TO THE SIMILAR PERIODS IN 1997

The decrease in net sales for the three- and nine-month periods ended September 30, 1998 as compared to the similar periods in 1997 reflects decreased shipments of stainless steel reroll products and tool steel products which were partially offset by initial shipments of product from the bar mill. The decline in net sales was primarily influenced by the decrease in foreign steel consumption due to the economic crisis in Asia and the flood of lower-priced import products.

Cost of products sold, as a percentage of net sales, was 82.2% and 79.4% for the three-month periods ended September 30, 1998 and 1997, respectively, and was 82.3% and 79.5% for the nine-month periods ended September 30, 1998 and 1997, respectively. The increase is primarily attributed to lower selling prices in response to the increased levels of imports. Selling and administrative expenses remained relatively constant between 1997 and 1998.

Other income (expense), net was $(129,000) and $(61,000) for the three-month periods ended September 30, 1998 and 1997, respectively. The change is primarily due to interest expense associated with an increase in average borrowings under the Company's revolving line of credit to fund working capital needs and the costs associated with the dismantling of unused buildings at the Company's Bridgeville Facility. Other income (expense), net was $(54,000) and $(77,000) for the nine-month periods ended September 30, 1998 and 1997, respectively. The change is primarily due to a $200,000 government grant related to the Company's expansion of its Bridgeville operations which was partially offset by an increase in interest expense and the costs associated with the dismantling of unused buildings at the Company's Bridgeville Facility.

The effective income tax rate utilized in the three- and nine-month periods ended September 30, 1998 and 1997 was 37.0%.

FINANCIAL CONDITION

The Company has financed its 1998 operating activities to date through cash flows from operations, borrowings and cash on hand at the beginning of the period. The ratio of current assets to current liabilities increased from 2.8:1 at December 31, 1997 to 4.0:1 at September 30, 1998. The percentage of debt to capitalization increased from 13% at December 31, 1997 to 24% at September 30, 1998 primarily due to the funding of capital expenditures from the $15.0 million term loan from PNC Bank during 1998.

Accounts receivable, net decreased by $2.5 million for the nine-month period ended September 30, 1998 as compared to an increase of $6.2 million for the nine-month period ended September 30, 1997. Trade accounts payable decreased $2.2 million for the nine-month period ended September 30, 1998 as compared to an increase of $3.4 million for the nine-month period ended September 30, 1997. These decreases can primarily be attributed to the decline in shipments of specialty steel products. Inventory increased by $1.5 million for the nine-month period ended September 30, 1998 as compared to an increase of $5.4 million for the nine-month period ended September 30, 1997. The 1998 inventory increase can primarily be attributed to the startup of the bar mill partially offset by lower inventory levels associated with the remaining product lines of the Company and lower raw material costs.

The Company's capital expenditures approximated $11.0 million for the nine-month period ended September 30, 1998, which primarily related to the construction of a round bar finishing facility located at the Bridgeville Facility. At September 30, 1998, the Company had outstanding purchase commitments in addition to the expenditures incurred to date of approximately $2.4 million.

In October 1998, the Company announced plans to initiate a stock repurchase program. Under the program, the Company may repurchase, from time to time, up to 315,000 shares, or approximately 5%, of the Company's common stock in open market transactions at market prices.

The Company anticipates that it will continue to fund its 1998 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.

In October 1998, the Company announced that it signed a letter of intent to acquire the assets of AL Tech Specialty Steel Corporation which is headquartered in Dunkirk, New York. AL Tech is a producer of finished specialty steel products including bar, rod and wire. The transaction is valued at approximately $38 million, of which approximately $24 million is related to the acquisition of accounts receivable and inventory. Funding for the transaction will consist of a note approximating $17 million, assumed liabilities of $8 to $10 million, and cash between $11 and $13 million. The transaction is subject to a number of conditions, including the completion of due diligence procedures, the execution of a definitive purchase agreement, successful negotiation of utility and USWA labor contracts, Hart-Scott-Rodino review, final approval by the Boards of Directors of both Universal Stainless and AL Tech, and the approval of AL Tech's plan of reorganization by the United States Bankruptcy Court for the Western District of New York. The Company has executed a commitment letter with PNC Bank to fund the cash portion of the transaction and increase the revolving line of credit to fund the working capital needs of AL Tech after the transaction is completed. There can be no assurance that all of the conditions to completing the proposed transaction can be satisfactorily resolved. In the event that the proposed transaction is not completed, all costs associated with the Company's efforts to complete the transaction would be expensed immediately and could adversely affect the Company's results of operations.

In November 1998, the Company entered into a supply contract agreement with Talley Metals, a subsidiary of Carpenter Technologies, Inc., which covers a period of at least 18 months. Under the terms of the agreement, the Company will supply Talley Metals with an average of 1,750 tons of stainless reroll billet products per month. The value of the contract on a monthly basis will depend on product mix and key raw material prices.

OUTLOOK

Pricing pressure from imports and demand for the Company's products is expected to generate financial results in the 1998 fourth quarter which are lower than those reported in the 1998 third quarter. The Company believes that the completion of the new bar finishing facility and an increase in orders from the power generation and aerospace markets should improve the Company's operating results in 1999.

YEAR 2000

The Year 2000 problem arises because many computer systems and programs were designed to handle only a two-digit year. Thus, these systems and programs will not properly recognize a year that begins with "20" instead of the familiar "19." If not corrected, these computer systems and applications could fail or create erroneous results.

Since inception in August 1994, the Company has been engaged in a program to modernize and replace substantially all of its computerized production control and management information systems. Although not the primary purpose of the program, the new systems have been designed to avoid any Year 2000 problems that might otherwise arise. The Company is currently evaluating the Year 2000 compliance status of all of its other critical equipment, including equipment with known embedded chips.

The Company has also commenced a program to determine the Year 2000 compliance of all major vendors and customers whose system failures potentially could have a significant impact on the Company's operations. The Company has sent comprehensive questionnaires in an attempt to identify any problem areas.

The Company expects to complete its Year 2000 compliance evaluation of all critical equipment and its inquiry of suppliers and others as to their own Year 2000 compliance by the end of 1998. The Company has not developed any contingency plans in the event of a Year 2000 failure, but would intend to do so if a specific problem is identified through the procedures described above.

The costs associated with the Year 2000 issue are expensed as they are incurred and have not been material to date. The Company estimates the total cost to the Company of completing any required modifications, upgrades, or replacements of our systems will not have a material adverse effect on the Company's financial condition or results of operations.

The failure to correct a material Year 2000 problem could result in a disruption to certain normal business activities or operations. Such failures could materially and adversely affect the Company's results of operations, liquidity and financial condition. Although no matters have come to the attention of management at this time, there can be no assurance that the Company will successfully avoid any Year 2000 problems.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits

27.1 Financial Data Schedule

b. The Company filed no reports on Form 8-K for the quarter ended September 30, 1998.

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 12, 1998 /s/ Clarence M. McAninch

Clarence M. McAninch
President and Chief Executive Officer

Date: November 12, 1998 /s/ Richard M. Ubinger

Richard M. Ubinger
Chief Financial Officer and Treasurer
(Principal Accounting Officer)

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This  schedule  contains  summary  financial   information  extracted  from  the
September 30, 1998 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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