

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549  
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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, 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  
(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, 1998, there were 6,311,156 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 in time are included in this Form 10-Q pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. They involve known and unknown risks and uncertainties that may cause the Company's actual results 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,	
	1998	1997
	----	----
Net sales	\$22,349	\$18,771
Cost of products sold	18,467	15,059
Selling and administrative expenses	1,140	1,141
	-----	-----
Operating income	2,742	2,571
Other income and (expense), net	133	(14)
	-----	-----
Income before taxes	2,875	2,557
Income taxes	1,064	946
	-----	-----

Net Income	\$ 1,811	\$1,611
	=====	=====
Earnings per common share		
Basic	\$ 0.29	\$ 0.26
	=====	=====
Diluted	\$ 0.28	\$ 0.26
	=====	=====

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, 1998 (Unaudited)	December 31, 1997
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 685	\$ 177
Accounts receivable (less allowance for doubtful accounts of \$313 and \$298)	16,913	14,503
Inventory	16,246	15,471
Prepaid Expenses	987	894
	-----	-----
Total current assets	34,831	31,045
Property, plant and equipment, net	28,873	24,887
Other assets	252	219
	-----	-----
Total assets	\$63,956	\$56,151
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Trade accounts payable	\$ 8,838	\$ 8,001
Current portion of long-term debt	359	338
Accrued employment costs	1,921	1,704
Other current liabilities	1,095	916
	-----	-----
Total current liabilities	12,213	10,959
Long-term debt	9,572	5,441
Deferred taxes	2,383	1,983
	-----	-----
Total liabilities	24,168	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; 6,311,156 and 6,290,823 shares issued and outstanding	6	6
Additional paid-in capital	25,725	25,516
Retained earnings	14,057	12,246

Total stockholders' equity	----- 39,788 -----	----- 37,768 -----
Total liabilities and stockholders' equity	=====	=====

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,	
	1998	1997
	----	----
Cash flow from operating activities:		
Net income	\$1,811	\$1,611
Adjustments to reconcile to net cash and each equivalents provided by operating activities:		
Depreciation and amortization	345	218
Deferred taxes	400	136
Changes in assets and liabilities:		
Accounts receivable, net	(2,410)	(4,506)
Inventory	(775)	(2,981)
Trade accounts payable	837	3,439
Other, net	330	946
	-----	-----
Net cash provided(used) by operating activities	538	(1,137)
	-----	-----
Cash flow from investing activities:		
Capital expenditures	(4,315)	(1,477)
	-----	-----
Net cash used by investing activities	(4,315)	(1,477)
	-----	-----
Cash flow from financing activities:		
Proceeds from issuance of long-term debt	4,080	---
Net borrowing under revolving line of credit	156	---
Long-term debt payments	(84)	(64)
Proceeds from issuance of Common Stock	181	---
Deferred financing costs	(48)	(4)
	---	-----
Net cash provided (used) by financing activities	4,285	(68)
	-----	-----
Net increase(decrease) in cash	508	(2,682)
Cash and cash equivalents at beginning of period	177	4,219
	-----	-----
Cash and cash equivalents at end of period	\$685	\$1,537
	=====	=====
Supplemental disclosure of cash flow information:		
Interest	\$123	\$42
Income taxes	\$80	\$312

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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

The accompanying unaudited, consolidated condensed financial statements of operations for the three-month periods ended March 31, 1998 and 1997, balance sheets as of March 31, 1998 and December 31, 1997, and statements of cash flows for the three-month periods ended March 31, 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 period 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 three-month periods ended March 31, 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 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.

- 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	
	March 31	
	1998	1997
	----	----
Weighted average number of shares of Common Stock outstanding	6,295,508	6,283,734
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	143,173	28,005
	-----	-----
Weighted average number of shares of Common Stock outstanding, as adjusted	6,438,681	6,311,739
	=====	=====

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

	MARCH 31, 1998	DECEMBER 31, 1997
Raw materials and supplies	\$3,525	\$2,869
Semi-finished steel products	10,383	10,569
Operating materials	2,338	2,033
	-----	-----
Total inventory	\$16,246	\$15,471
	=====	=====

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

	MARCH 31, 1998	DECEMBER 31, 1997
Land and land improvements	\$ 876	\$ 832
Buildings	1,711	1,699
Machinery and equipment	22,291	21,418
Construction in progress	6,112	2,726
	-----	-----
	30,990	26,675
Accumulated depreciation	(2,117)	(1,788)
	-----	-----
Property, plant and equipment, net	\$28,873	\$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

An analysis of the Company's operations is as follows (dollars in thousands):

	For the Three-Month Period Ended	
	March 31,	
	1998	1997
	----	----
Net sales		
Stainless steel	\$15,686	\$14,723
Tool Steel	2,984	2,041
High temperature alloy steel	1,334	326
Conversion services	1,324	1,142
Other	1,021	539
	-----	-----
Total net sales	\$22,349	\$18,771
Cost of products sold		

Raw Materials	8,716	7,683
Other	9,751	7,376
	-----	-----
Total cost of products sold	18,467	15,059
Selling and administrative expensive	1,140	1,141
	-----	-----
Operating income	\$ 2,742	\$ 2,571
	=====	=====

THREE-MONTH PERIOD ENDED MARCH 31, 1998 AS COMPARED TO THE SIMILAR PERIOD IN 1997

The increase in net sales for the three-month period ended March 31, 1998 as compared to the similar period in 1997 reflects increased shipments of stainless steel reroll products, tool steel and high temperature alloy steel, partially offset by continued soft pricing of stainless steel products due to imports.

Cost of products sold, as a percent of net sales, was 82.6% and 80.2% for the three-month periods ended March 31, 1998 and 1997, respectively. This increase is primarily due to the impact of lower pricing for stainless steel products described above and increased energy costs. Selling and administrative expenses remained relatively constant between 1997 and 1998.

Other income (expense), net increased from \$(14,000) in the three-month period ended March 31, 1997 to \$133,000 in the three-month period ended March 31, 1998 due primarily to a \$200,000 government grant related to the Company's expansion of its Bridgeville Operations.

The effective income tax rate utilized in the three-month periods ended March 31, 1998 and 1997 was 37.0%.

#### FINANCIAL CONDITION

The Company has financed its operating activities during the first quarter of 1998 through cash flows from operations 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 2.9:1 at March 31, 1998. The percentage of debt to capitalization ratio increased from 13% at December 31, 1997 to 20% at March 31, 1998 primarily due to the funding of capital expenditures from the \$15.0 million term loan from PNC Bank during the three-month period ended March 31, 1998.

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Accounts receivable, net increased by \$2.4 million for the three-month period ended March 31, 1998 as compared to an increase of \$4.5 million for the three-month period ended March 31, 1997. Inventory increased by \$0.8 million for the three-month period ended March 31, 1998 as compared to an increase of \$3.0 million for the three-month period ended March 31, 1997. Trade accounts payable increased by \$0.8 million for the three-month period ended March 31, 1998 as compared to an increase of \$3.4 million for the three-month period ended March 31, 1997. Each of these increases can be primarily attributed to the continued growth of the business.

The Company's capital expenditures approximated \$4.3 million for the three-month period ended March 31, 1998, which primarily related to the construction of a round bar finishing facility located at the Bridgeville Facility. At March 31, 1998, the Company had outstanding purchase commitments in addition to the expenditures incurred to date of approximately \$4.8 million. These expenditures are expected to be funded substantially from internally generated funds and a \$15.0 million term loan from PNC Bank.

The Company anticipates that it will be able to fund its 1998 working capital requirements and its capital expenditures 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.

#### 1998 OUTLOOK

The demand for products from the aerospace sector, the introduction of new products and the positive impact of the Company's capital expenditure programs continue to generate sales growth despite lower selling prices for stainless steel products. Continuing pricing pressure from imports and rising raw material costs are expected to cause 1998 second quarter earnings to be slightly below those of the first quarter. The operation of the bar mill at higher levels and the start-up of the round bar finishing facility are expected to benefit 1998 second half results.

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#### PART II. OTHER INFORMATION

##### ITEM 1. LEGAL PROCEEDINGS.

There are no legal proceedings pending or, to the Company's best knowledge, threatened against  
the Company.

##### ITEM 2. CHANGES IN 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.

Not applicable.

##### 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 1998.

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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: May 14, 1998  
-----

/s/ Clarence M. McAninch  
-----  
Clarence M. McAninch  
President and Chief Executive  
Officer

Date: May 14, 1998  
-----

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

EXHIBIT 27.1

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<ARTICLE>

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This schedule contains summary financial information extracted from the March 31, 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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