

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Fiscal Year Ended December 31, 2017

OR

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

Commission File Number 000-25032



UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

600 MAYER STREET, BRIDGEVILLE, PA 15017  
(Address of principal executive offices, including zip code)

25-1724540  
(IRS Employer  
Identification No.)

(412) 257-7600  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common Stock, par value \$0.001 per share

Name of exchange on which registered

The NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act: [None]

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check One)

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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the voting stock held by non-affiliates of the registrant on June 30, 2017, based on the closing price of \$19.50 per share on that date, was approximately \$134,934,735. For the purposes of this disclosure only, the registrant has assumed that its directors and executive officers, are the affiliates of the registrant. The registrant has made no determination that such persons are "affiliates" within the meaning of Rule 405 under the Securities Act of 1933.

As of February 21, 2018, there were 7,259,912 shares of the registrant's common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE** Part III of this Form 10-K incorporates by reference portions of the Company's definitive Proxy Statement for the 2018 Annual Meeting of Stockholders.

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## PART I

### CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

The statements contained in this Annual Report on Form 10-K ("Form 10-K") of Universal Stainless & Alloy Products, Inc. ("Universal," the "Company," "us," "our," or "we"), including, but not limited to, the statements contained in Item 1, "Business," and Item 7, "Management's Discussion and Analysis of the Financial Condition and Results of Operations," along with statements contained in other reports that we have filed with the Securities and Exchange Commission (the "SEC"), external documents and oral presentations, which are not historical facts are considered to be "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Act of 1934, as amended. These statements which may be expressed in a variety of ways, including the use of forward looking terminology such as "believe," "expect," "seek," "intend," "may," "will," "should," "could," "potential," "continue," "estimate," "plan," or "anticipate," or the negatives thereof, other variations thereon or compatible terminology, relate to, among other things, statements regarding future growth, cost savings, expanded production capacity, broader product lines, greater capacity to meet customer quality reliability, price and delivery needs, enhanced competitive posture, and the effect of new accounting pronouncements. We do not undertake any obligation to publicly update any forward-looking statements.

These forward-looking statements, and any forward looking statements contained in other public disclosures of the Company which make reference to the cautionary factors contained in this Form 10-K, are based on assumptions that involve risks and uncertainties and are subject to change based on the considerations described below. We discuss many of these risks and uncertainties in greater detail in Item 1A, "Risk Factors," of this Form 10-K. These and other risks and uncertainties may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements.

#### ITEM 1. BUSINESS

Universal, which was incorporated in 1994, and its wholly-owned subsidiaries, manufacture and market semi-finished and finished specialty steel products, including stainless steel, nickel alloys, tool steel and certain other premium alloyed steels. Our manufacturing process involves melting, remelting, heat treating, hot and cold rolling, forging, machining and cold drawing of semi-finished and finished specialty steels. Our products are sold to service centers, forgers, rerollers, original equipment manufacturers ("OEMs") and wire redrawers. Our customers further process our products for use in a variety of industries, including the aerospace, power generation, oil and gas, heavy equipment and general industrial markets. We also perform conversion services on materials supplied by customers.

We operate in four locations: Bridgeville and Titusville, Pennsylvania; Dunkirk, New York; and North Jackson, Ohio. Our corporate headquarters is located at our Bridgeville location. We operate these four manufacturing locations as one reportable business segment.

We produce a wide variety of specialty steel grades using several manufacturing processes including argon oxygen decarburization ("AOD"), electro-slag remelted ("ESR"), vacuum induction melting ("VIM") and vacuum-arc remelted ("VAR"). At our Bridgeville and North Jackson facilities, we produce specialty steel products in the form of semi-finished and finished long products (ingots, blooms, billets and bars). In addition, the Bridgeville facility produces flat rolled products (slabs and plates). Semi-finished long products are primarily used by our Dunkirk facility and certain customers to produce finished bar, rod, and wire products. Finished bar products that we manufacture are primarily used by OEMs and by service center customers for distribution to a variety of end users. We also produce customized shapes primarily for OEMs that are cold rolled from purchased coiled strip, flat bar or extruded bar at our precision rolled products department, located at our Titusville facility.

#### INDUSTRY OVERVIEW

The specialty steel industry is a relatively small but distinct segment of the overall steel industry. Specialty steels include stainless steels, nickel alloys, tool steels, electrical steels, high-temperature alloys, magnetic alloys and electronic alloys. Specialty steels are made with a high alloy content, suitable for use in environments that demand exceptional hardness, toughness, strength and resistance to heat, corrosion or abrasion, or combinations thereof. Specialty steels generally must conform to more demanding customer specifications for consistency, straightness and surface finish than carbon steels. For the years ended December 31, 2017, 2016 and 2015, approximately 69% or more of our net sales were derived from stainless steel products.

We primarily manufacture our products within the following product lines and, generally, in response to customer orders:

*Stainless Steel.* Stainless steel, which represents the largest part of the specialty steel market, contains elements such as nickel, chrome and molybdenum that give it the unique qualities of high strength, good wear characteristics, natural attractiveness, ease of maintenance and resistance to corrosion and heat. Stainless steel is used, among other applications, in the aerospace, oil and gas, power generation and automotive industries, as well as in the manufacturing of equipment for food handling, health and medical, chemical processing and pollution control.

*High-Strength Low Alloy Steel.* High-strength low alloy steel is a relative term that refers to those steels that maintain alloying elements that range in versatility. The alloy elements of nickel, chrome and molybdenum in such steels typically exceeds the alloy element of carbon steels but not that of high-temperature alloy steel. High-strength low alloy steels are manufactured for use generally in the aerospace industry.

*Tool Steel.* Tool steels contain elements of nickel, chrome and molybdenum to produce specific hardness characteristics that enable tool steels to form, cut, shape and shear other materials in the manufacturing process. Heating and cooling at precise rates in the heat-treating process bring out these hardness characteristics. Tool steels are utilized in the manufacturing of metals, plastics, paper and aluminum extrusions, pharmaceuticals, electronics and optics.

*High-Temperature Alloy Steel.* These steels are designed to meet critical requirements of heat resistance and structural integrity. They generally have very high nickel content relative to other types of specialty steels. High-temperature alloy steels are manufactured for use generally in the aerospace industry.

Our net sales by principal product line were as follows:

<b>For the years ended December 31,</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<i>(dollars in thousands)</i>			
Stainless steel	\$ 139,603	\$ 112,118	\$ 135,945
High-strength low alloy steel	15,693	13,180	16,045
Tool steel	32,279	19,179	16,197
High-temperature alloy steel	12,435	6,057	7,557
Conversion services and other sales	2,633	3,900	4,916
Total net sales	\$ 202,643	\$ 154,434	\$ 180,660

#### RAW MATERIALS

We depend on the delivery of key raw materials for our day-to-day operations. These key raw materials are carbon and stainless scrap metal and alloys, primarily consisting of nickel, chrome, molybdenum, and copper. Scrap metal is primarily generated by industrial sources and is purchased through a number of scrap brokers and processors. We also recycle scrap metal generated from our own production operations as a source of metal for our melt shops. Alloys are generally purchased from domestic agents and originate in the United States, Australia, Canada, China, Russia, South America and South Africa.

Our Bridgeville and North Jackson facilities currently supply semi-finished specialty steel products as starting materials to our other operating facilities. Semi-finished specialty steel starting materials, which we cannot produce at a competitive cost, are purchased from other suppliers. We generally purchase these starting materials from steel strip coil suppliers, extruders, flat rolled producers and service centers. We believe that adequate supplies of starting material will continue to be available.

The cost of raw materials represents approximately 45% of the cost of products sold in 2017, and approximately 40% and 50%, respectively, of the cost of products sold in 2016 and 2015. Raw material costs can be impacted by significant price changes. Raw material prices vary based on numerous factors, including quality, and are subject to frequent market fluctuations. Future raw material prices cannot be predicted with any degree of certainty. We do not maintain any fixed-price long-term agreements with any of our raw material suppliers.

We maintain a sales price surcharge mechanism on certain of our products to match sales prices to raw material price changes. For certain products, the surcharge is calculated at the time of order entry, based on current raw material prices or prices at the time of shipment. For certain finished products, the surcharge is calculated based on the monthly average raw material prices two months prior to the promised ship date.

## CUSTOMERS

Our largest customer in 2017, Reliance Steel & Aluminum Co., accounted for approximately 17%, 20% and 16% of our net sales for the years ended December 31, 2017, 2016 and 2015, respectively. No other customer accounted for more than 10% of our net sales for the years ended December 31, 2017, 2016 and 2015. International sales approximated 9% of 2017, 2016 and 2015 annual net sales.

## BACKLOG

Our backlog of orders (excluding surcharges) on hand as of December 31, 2017 was approximately \$77.7 million compared to approximately \$43.8 million at December 31, 2016. We believe that this 77.4% increase in our backlog is largely a result of increased demand for our products due to an improved market and to a lesser extent market share gains. Our backlog may not be indicative of actual sales because certain surcharges are not determinable until the order is shipped to the customer and, therefore, should not be used as a direct measure of future revenue. However, we expect that our actual sales will be higher than the backlog once the actual surcharges are determined.

## COMPETITION

Competition in our markets is based upon product quality, delivery capability, customer service, customer approval and price. Maintaining high standards of product quality, while responding quickly to customer needs and keeping production costs at competitive levels, is essential to our ability to compete in these markets.

We believe that there are several companies that manufacture one or more similar specialty steel products that are significant competitors. There are a few smaller producing companies and material converters that are also considered to be competitors of ours.

High import penetration of specialty steel products, especially stainless and tool steels, also impacts the competitive nature within the United States. Unfair pricing practices by foreign producers have resulted in high import penetration into the U.S. markets in which we participate.

## EMPLOYEE RELATIONS

We consider the maintenance of good relations with our employees to be important to the successful conduct of our business. We have profit-sharing plans for certain salaried and hourly employees and for all of our employees represented by United Steelworkers (the "USW") and have equity ownership programs for all of our eligible employees, in an effort to forge an alliance between our employees' interests and those of our stockholders. At December 31, 2017, 2016 and 2015, we had 703, 645, and 634 employees, respectively, of which 564, 508, and 449, respectively, were USW members.

### Collective Bargaining Agreements

Our Bridgeville, Titusville, Dunkirk and North Jackson facilities recognize the USW as the exclusive representative for their hourly employees with respect to the terms and conditions of their employment. On March 4, 2016, the USW was certified as the exclusive bargaining representative for the hourly employees of our North Jackson facility. The Company and the USW are currently negotiating the initial collective bargaining agreement for the North Jackson hourly employees. The following collective bargaining agreements are currently in place:

<b>Facility</b>	<b>Commencement Date</b>	<b>Expiration Date</b>
Dunkirk	November 2017	October 2022
Bridgeville	September 2013	August 2018
Titusville	October 2015	September 2020

We believe a critical component of our collective bargaining agreements is the inclusion of a profit sharing plan.

## Employee Benefit Plans

We maintain a 401(k) retirement plan for our hourly and salaried employees. Pursuant to the 401(k) plan, participants may elect to make pre-tax and after-tax contributions, subject to certain limitations imposed under the Internal Revenue Code of 1986, as amended. In addition, we make periodic contributions to the 401(k) plan for the hourly employees employed at the Dunkirk and Titusville facilities, based on service, and at the North Jackson facility, based upon the employee's age and wage rate. We make periodic contributions for the salaried employees at all locations, except for North Jackson, based upon their service and their individual contribution to the 401(k) retirement plan. For North Jackson salaried employees, we make periodic contributions based upon the employee's age, annual salary, and their individual contributions.

We participate in the Steelworkers Pension Trust (the "Trust"), a multi-employer defined-benefit pension plan that is open to all hourly and salaried employees associated with the Bridgeville facility. We make periodic contributions to the Trust based on hours worked at a fixed rate for each hourly employee and a fixed monthly contribution on behalf of each salaried employee.

We also provide group life and health insurance plans for our hourly and salary employees.

## Employee Stock Purchase Plan

Under the 1996 Employee Stock Purchase Plan, as amended (the "Plan"), the Company is authorized to issue up to 300,000 shares of common stock to its full-time employees, nearly all of whom are eligible to participate. Under the terms of the Plan, employees can choose as of January 1 and July 1 of each year to have up to 10% of their total earnings withheld to purchase up to 100 shares of our common stock each six-month period. The purchase price of the stock is 85% of the lower of its beginning-of-the-period or end-of-the-period market prices. At December 31, 2017, we have issued 212,089 shares of common stock since the Plan's inception.

## ENVIRONMENTAL

We are subject to federal, state and local environmental laws and regulations (collectively, "Environmental Laws"), including those governing discharges of pollutants into the air and water, and the generation, handling and disposal of hazardous and non-hazardous substances. We monitor our compliance with applicable Environmental Laws and, accordingly, believe that we are currently in compliance with all laws and regulations in all material respects. We are subject periodically to environmental compliance reviews by various regulatory offices. We may be liable for the remediation of contamination associated with generation, handling and disposal activities. Environmental costs could be incurred, which may be significant, related to environmental compliance, at any time or from time to time in the future.

## EXECUTIVE OFFICERS

The following table sets forth, as of February 23, 2018, certain information with respect to the executive officers of the Company:

<b>Name (Age)</b>	<b>Executive Officer Since</b>	<b>Position</b>
Dennis M. Oates (65)	2008	Chairman, President and Chief Executive Officer
Christopher M. Zimmer (44)	2010	Executive Vice President and Chief Commercial Officer
Paul A. McGrath (66)	1996	Vice President of Administration, General Counsel and Secretary
Graham McIntosh, Ph.D. (55)	2015	Vice President and Chief Technology Officer

Dennis M. Oates has been President and Chief Executive Officer of the Company since 2008. Mr. Oates was named to the Company's Board of Directors in 2007. Mr. Oates previously served as Senior Vice President of the Specialty Alloys Operations of Carpenter Technology Corporation from 2003 to 2007. Mr. Oates also served as President and Chief Executive Officer of TW Metals, Inc. from 1998 to 2003. In May 2010, the Board of Directors elected Mr. Oates to the additional position of Chairman.

Christopher M. Zimmer has been Executive Vice President and Chief Commercial Officer since July 2014. Mr. Zimmer served as Vice President of Sales and Marketing from 2008 to July 2014. Mr. Zimmer previously served as Vice President of Sales and Marketing for Schmoltz+Bickenbach USA from 1995 to 2008. He held positions of increasing responsibility including inside sales, Commercial Manager—stainless bar, General Manager—nickel alloy products, and National Sales Manager.

Paul A. McGrath has been Vice President of Administration of the Company since 2007, General Counsel since 1995 and was appointed Secretary in 1996. Mr. McGrath served as Vice President of Operations from 2001 to 2006. Previously, he was employed by Westinghouse Electric Corporation for approximately 24 years in various management positions.

Graham McIntosh, Ph.D. has been Vice President and Chief Technology Officer since November 2015. Dr. McIntosh previously served as Director of Global Technology Initiatives for Carpenter Technology Corporation where he joined in 2008. Dr. McIntosh also served as Vice President of Technology and Director of Quality for Firth Rixson Viking from 2001 to 2008, and also held several management and technical positions at Wyman-Gordon Livingston from 1987-2001, where he began his career.

The Company is actively recruiting a Chief Financial Officer.

## PATENTS AND TRADEMARKS

We do not consider our business to be materially dependent on patent or trademark protection, and believe we own or maintain effective licenses covering all the intellectual property used in our business. We benefit from our proprietary rights relating to designs, engineering and manufacturing processes and procedures. We seek to protect our proprietary information by use of confidentiality and non-competition agreements with certain employees.

## AVAILABLE INFORMATION

Copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports, as well as proxy and information statements that we file with the SEC, are available free of charge on our website at [www.univstainless.com](http://www.univstainless.com) as soon as reasonably practicable after such reports are filed with the SEC. The contents of our website are not part of this Form 10-K. Copies of these documents will be available to any shareholder upon request. Requests should be directed in writing to Investor Relations at 600 Mayer Street, Bridgeville, PA 15017. You also may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements and other information regarding issuers, like us, that file electronically with the SEC.

## ITEM 1A. RISK FACTORS

We wish to caution each reader of this Form 10-K to consider the following factors and other factors discussed herein and in other past reports, including but not limited to prior year Form 10-K and Form 10-Q reports filed with the SEC. Our business and results of operations could be materially affected by any of the following risks. The factors discussed herein are not exhaustive. Therefore, the factors contained herein should be read together with other reports that we file with the SEC from time to time, which may supplement, modify, supersede, or update the factors listed in this document.

### ***A substantial amount of our sales are derived from a limited number of customers.***

Our five largest customers in the aggregate accounted for approximately 41% of our net sales for the year ended December 31, 2017, and 42% of our net sales for the years ended December 31, 2016 and 2015. The accounts receivable balance from these five customers comprised approximately 35% of total accounts receivable at December 31, 2017. An adverse change in, or termination of, the relationship with one or more of our customers or market segments could have a material adverse effect on our results of operations.

***Our business is very competitive, and increased competition could reduce our sales.***

We compete with domestic and foreign producers of specialty steel products. In addition, many of the finished products sold by our customers are in direct competition with finished products manufactured by foreign sources, which may affect the demand for those customers' products. Any competitive factors that adversely affect the market for finished products manufactured by us or our customers could indirectly adversely affect the demand for our semi-finished products. Additionally, our products compete with products fashioned from alternative materials such as aluminum, composites and plastics, the production of which includes domestic and foreign enterprises. Competition in our field is intense and is expected to continue to be so in the foreseeable future. A majority of our business is not covered under long term supply contracts. There can be no assurance that we will be able to compete successfully in the future.

***A substantial amount of our sales are derived from the aerospace industry.***

Approximately 55% of our sales and 42% of our tons shipped represented products sold to customers in the aerospace market in 2017. The aerospace market is historically cyclical due to both external and internal market factors. These factors include general economic conditions, supply chain fluctuations, diminished credit availability, airline profitability, demand for air travel, age of fleets, varying fuel and labor costs, price competition, new technology development and international and domestic political conditions such as military conflict and the threat of terrorism. The length and degree of cyclical fluctuation can be influenced by any one or a combination of these factors and therefore are difficult to predict with certainty. While the aerospace industry is currently experiencing growth, a downturn in the aerospace industry would adversely affect the demand for products and/or the prices at which we are able to sell our products, and our results of operations, business and financial condition could be materially adversely affected.

***Our business may be harmed by failure to develop, commercialize, market and sell new applications and new products.***

We believe that our alloys and metallurgical manufacturing expertise provide us with a competitive advantage over other high-performance alloy producers. Our ability to maintain this competitive advantage depends on our ability to continue to offer products that have equal or better performance characteristics than competing products at competitive prices. Our future growth will depend, in part, on our ability to address the increasingly demanding needs of our customers by enhancing the properties of our existing alloys, by timely developing new applications for our existing products, and by timely developing, commercializing, marketing and selling new products. If we are not successful in these efforts, or if our new products and product enhancements do not adequately meet the requirements of the marketplace and achieve market acceptance, our business could be adversely affected.

Our business requires continuing efforts to obtain new customer approvals on existing products and applications, which is a stringent, difficult process subject to each customer's varying approval methodology and preferences. If we are not successful in these efforts, our business could be adversely affected.

***We are dependent on the availability and price of raw materials and operating supplies.***

We purchase carbon and stainless scrap metal and alloy additives, principally nickel, chrome, molybdenum, manganese and copper, for our melting operation. A substantial portion of the alloy additives is available only from foreign sources, some of which are located in countries that may be subject to unstable political and economic conditions. Those conditions might disrupt supplies or affect the prices of the raw materials. We maintain sales price surcharges on certain of our products to help offset the impact of raw material price fluctuations.

We do not maintain long-term fixed-price supply agreements with any of our raw material suppliers. If our supply of raw materials were interrupted, we might not be able to obtain sufficient quantities of raw materials, or obtain sufficient quantities of such materials at satisfactory prices, which, in either case, could adversely affect our results of operations. In addition, significant volatility in the price of our principal raw materials could adversely affect our financial results and there can be no assurance that the raw material surcharge mechanism employed by us will completely offset immediate changes in our raw material costs.

Our production processes require consumable operating supplies, such as electrodes, which have increased in price significantly compared to prior years. Significant volatility in the price of our consumable operating supplies could adversely affect our financial results.

***Our business requires substantial amounts of energy.***

The manufacturing of specialty steel is an energy-intensive process and requires the ready availability of substantial amounts of electricity and natural gas, for which we negotiate competitive supply agreements. While we believe that our energy agreements allow us to compete effectively within the specialty steel industry, the potential for increased costs exists during periods of high demand or supply disruptions. We have a sales price surcharge to help offset the cost fluctuations.

***We are subject to risks associated with global economic and market factors.***

Our results of operations are affected directly by the level of business activity of our customers, which in turn is affected by global economic and market factors impacting the industries and markets that we serve. We are susceptible to macroeconomic downturns in the United States and abroad that may affect the general economic climate, our performance and the demand of our customers. We may face significant challenges if conditions in the financial markets deteriorate. There can be no assurance that global economic and market conditions will not adversely impact our results of operations, cash flow or financial position in the future.

***Our business depends largely on our ability to attract and retain key personnel.***

We depend on the continued service, availability and ability to attract skilled personnel, including members of our executive management team, other management positions, and metallurgists, along with maintenance and production positions. Our inability to attract and retain such people may adversely impact our ability to fill existing roles and support growth. Attraction and retention of qualified personnel has become more challenging as the labor market tightens.

Further, the loss of key personnel could adversely affect our ability to perform until suitable replacements can be found. The Company is currently using qualified temporary resources to maintain its effectiveness and internal control environment within the Finance function while a new Chief Financial Officer is being actively recruited.

***Our business may be harmed by strikes or work stoppages.***

At December 31, 2017, we had 513 employees, out of a total of 703, who were covered under collective bargaining agreements expiring at various dates in 2018 to 2022. On March 4, 2016, the USW was certified as the exclusive bargaining representative for the hourly employees of our North Jackson facility. The Company and the Union are currently negotiating the initial collective bargaining agreement for the North Jackson hourly employees. There can be no assurance that we will be successful in timely concluding collective bargaining agreements with the USW to succeed the agreements that expire, in which case, we may experience strikes or work stoppages that may have a material adverse impact on our results of operations.

***Our business may be harmed by failures on critical manufacturing equipment.***

Our manufacturing processes are dependent upon certain critical pieces of specialty steel making equipment, such as our 50-ton electric-arc furnace and AOD vessel, our ESR, VIM and VAR furnaces, our radial hydraulic forge and our universal rolling mill. In the event a critical piece of equipment should become inoperative as a result of unexpected equipment failure, there can be no assurance that our operations would not be substantially curtailed, which may have a negative effect on our financial results.

***Our business may be harmed if we are unable to meet our debt service requirements or the covenants in our credit agreement or if interest rates increase.***

We have debt upon which we are required to make scheduled interest and principal payments, and we may incur additional debt in the future. A significant portion of our debt bears interest at variable rates that may increase in the future. Our ability to satisfy our debt obligations, and our ability to refinance any of our indebtedness in the future if we determine that doing so would be advisable, will depend upon our future operating performance, which will be affected by prevailing economic conditions in the markets that we serve and financial, business and other factors, many of which are beyond our control. If we are unable to generate sufficient cash to service our debt or if interest rates increase, our results of operations and financial condition could be adversely affected. Our credit agreement, which provides for a \$65.0 million senior secured revolving credit facility and a \$30.0 million senior secured term loan facility, also requires us to comply with certain covenants. A failure to comply with the covenants contained in the credit agreement could result in a default, which, if not waived by our lenders, could substantially increase our borrowing costs and result in acceleration of our debt. As of December 31, 2017, we were in compliance with the covenants in our credit agreement.

***We believe that our international sales are associated with various risks.***

We conduct business with suppliers and customers in foreign countries which exposes us to risks associated with international business activities. We could be significantly impacted by those risks, which include the potential for volatile economic and labor conditions, political instability, collecting accounts receivable and exchange rate fluctuations (which may affect sales revenue to international customers and the margins on international sales when converted into U.S. dollars).

***If we are unable to protect our information technology infrastructure against service interruptions, data corruption, cyber-based attacks or network security breaches, our operations could be disrupted.***

We rely on information technology networks and systems to manage and support a variety of business activities, including procurement and supply chain, engineering support, and manufacturing. Our information technology systems, some of which are managed by third-parties, may be susceptible to damage, disruptions or shutdown due to failures during the process of upgrading or replacing software, databases or components thereof, power outages, hardware failures, computer viruses, attacks by computer hackers, telecommunications failures, user errors or catastrophic events. In addition, security breaches could result in unauthorized disclosures of confidential information. If our information technology systems suffer severe damage, disruption or shutdown and our business continuity plans do not effectively resolve the issues in a timely manner, our manufacturing process could be disrupted resulting in late deliveries or even no deliveries if there is a total shutdown.

***Changes in tax rules and regulations, or interpretations thereof, may adversely affect our effective tax rates.***

We are a U.S. based company with customers and suppliers in foreign countries. We import various raw materials used in our production processes and we export goods to our foreign customers. The United States, the European Commission, countries in the EU and other countries where we do business have been implemented and may consider further changes in relevant tax, border tax, accounting and other laws, regulations and interpretations, that may unfavorably impact our effective tax rate or result in other costs to us.

***Our business subjects us to risk of litigation claims, as a routine matter, and this risk increases the potential for a loss that might not be covered by insurance.***

Litigation claims may relate to the conduct of our business, including claims relating to product liability, commercial disputes, employment actions, employee benefits, compliance with domestic and federal laws and personal injury. Due to the uncertainties of litigation, we might not prevail on claims made against us in the lawsuits that we currently face, and additional claims may be made against us in the future. The outcome of litigation cannot be predicted with certainty, and some of these lawsuits, claims or proceedings may be determined adversely to us. The resolution in any reporting period of one or more of these matters could have a material adverse effect on our business.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

We own our Bridgeville, Pennsylvania facility, which consists of approximately 760,000 square feet of floor space and our executive offices on approximately 74 acres. The Bridgeville facility contains melting, remelting, conditioning, rolling, annealing and various other processing equipment. Substantially all products shipped from the Bridgeville facility are processed through its melt shop and universal rolling mill operations.

We own our North Jackson, Ohio facility, which consists of approximately 257,000 square feet of floor space on approximately 110 acres. The North Jackson facility contains melting, remelting, forging, annealing and various other processing operations. Our obligations under our credit agreement, which is more fully described under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources," are collateralized by a first lien on our real property in North Jackson, Ohio. Also, our obligations under the Notes, also more fully described under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources," are collateralized by a second lien on our North Jackson, Ohio real property.

We own our Dunkirk, New York facility, which consists of approximately 680,000 square feet of floor space on approximately 81 acres. The Dunkirk facility processes semi-finished billet and bar stock through one or more of its five rolling mills, a high temperature annealing facility and/or a round or shape bar finishing facility.

We own our Titusville, Pennsylvania facility, which consists of seven buildings on approximately 10 acres, including two principal buildings of approximately 265,000 square feet in total area. The Titusville facility contains five VAR furnaces and various rolling and finishing equipment.

Specialty steel production is a capital-intensive industry. We believe that our facilities and equipment are suitable for our present manufacturing needs. We believe, however, that we will continue to require capital from time to time to add new equipment and to repair or replace our existing equipment to remain competitive and to enable us to manufacture quality products and provide delivery and other support service assurances to our customers.

**ITEM 3. LEGAL PROCEEDINGS**

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

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**PART II**

**ITEM 5. MARKET FOR THE REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

At December 31, 2017, a total of 7,550,642 shares of common stock, par value \$0.001 per share, were issued and held by approximately 99 holders of record. There were 292,855 shares of the issued common stock held in treasury at December 31, 2017.

Certain holders of our common stock and the Company are party to a stockholder agreement. That agreement maintains in effect certain registration rights granted to certain stockholders and provides to them two demand registration rights exercisable at any time upon written request for the registration of shares of common stock having an aggregate net offering price of at least \$5.0 million.

**PRICE RANGE OF COMMON STOCK**

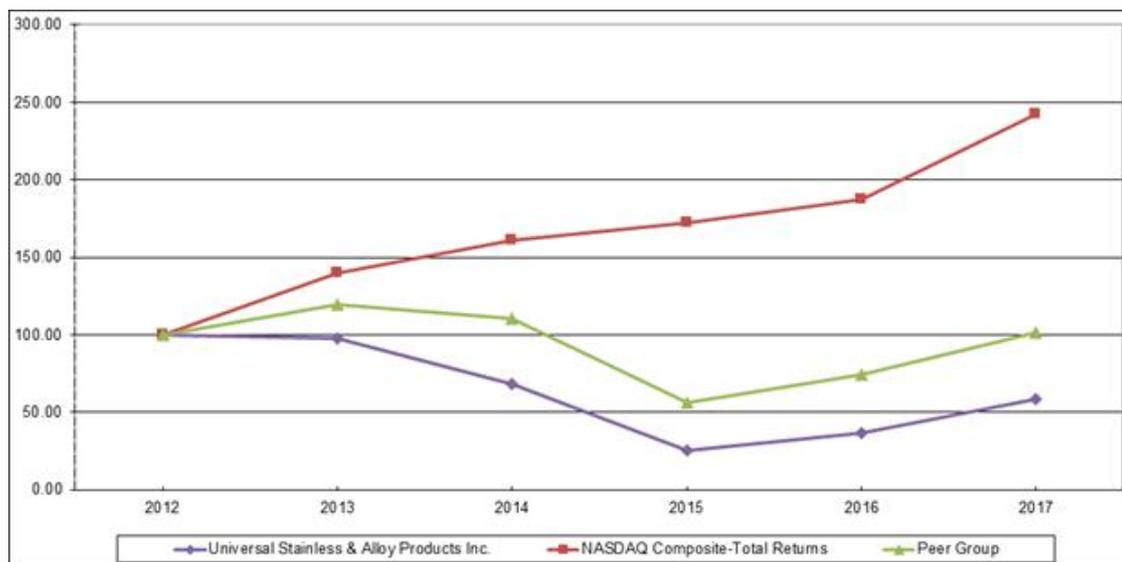
Our common stock is listed on the NASDAQ Global Select Market under the symbol “USAP.” The following table sets forth the range of high and low sales prices per share of our common stock, for the periods indicated below:

	2017		2016	
	High	Low	High	Low
First quarter	\$ 17.83	\$ 11.60	\$ 11.97	\$ 6.10
Second quarter	\$ 20.29	\$ 16.21	\$ 13.65	\$ 9.13
Third quarter	\$ 21.30	\$ 17.30	\$ 12.00	\$ 9.47
Fourth quarter	\$ 23.04	\$ 18.53	\$ 15.37	\$ 9.13

**PERFORMANCE GRAPH**

The performance graph below compares the cumulative total stockholder return on our common stock with the cumulative total return on the equity securities of the NASDAQ Composite Index and a peer group selected by us. The peer group consists of domestic specialty steel producers: Allegheny Technologies Incorporated; Materion Corporation; Carpenter Technology Corporation; and Haynes International, Inc. The graph assumes an investment of \$100 on December 31, 2012 reinvestment of dividends, if any, on the date of dividend payment and the peer group is weighted by each company’s market capitalization. The performance graph represents past performance and should not be considered to be an indication of future performance.

**Comparison of 5-Year Cumulative Total Shareholder Return among Universal Stainless & Alloy Products, Inc., the NASDAQ Composite Index and a Peer Group**



**For the years ended December 31,**

<b>Company/Peer/Market</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Universal Stainless & Alloy Products, Inc.	\$ 100.00	\$ 98.07	\$ 68.40	\$ 25.26	\$ 36.74	\$ 58.25
Peer Group	\$ 100.00	\$ 119.95	\$ 110.72	\$ 56.52	\$ 74.73	\$ 101.31
NASDAQ Composite Index	\$ 100.00	\$ 140.12	\$ 160.78	\$ 171.97	\$ 187.22	\$ 242.71

**PREFERRED STOCK**

Our Certificate of Incorporation provides that we may, by vote of our Board of Directors, issue up to 1,980,000 shares of preferred stock. The preferred stock may have rights, preferences, privileges and restrictions thereon, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series or designation of such series, without further vote or action by the stockholders. The issuance of preferred stock may have the effect of delaying, deferring or preventing a change in control of the Company without further action by the stockholders and may adversely affect the voting and other rights of the holders of common stock. The issuance of preferred stock with voting and conversion rights may adversely affect the voting power of the holders of common stock, including the loss of voting control to others. We have no outstanding preferred stock and have no current plans to issue any of the authorized preferred stock.

**DIVIDENDS**

We have never paid a cash dividend on our common stock. Our credit agreement does not permit the payment of cash dividends on our common stock.

For the years ended December 31, (dollars in thousands, except per share amounts)	2017	2016	2015	2014	2013
Summary of operations:					
Net sales	\$ 202,643	\$ 154,434	\$ 180,660	\$ 205,560	\$ 180,768
Goodwill impairment	\$ -	\$ -	\$ 20,268	\$ -	\$ -
Operating income (loss)	\$ 4,237	\$ (3,969)	\$ (30,079)	\$ 10,900	\$ (4,005)
Net income (loss)	\$ 7,610	\$ (5,347)	\$ (20,672)	\$ 4,050	\$ (4,062)
Financial position at year-end:					
Cash	\$ 207	\$ 75	\$ 112	\$ 142	\$ 307
Working capital	\$ 101,316	\$ 84,397	\$ 85,006	\$ 98,069	\$ 86,512
Property, plant and equipment, net	\$ 174,444	\$ 182,398	\$ 193,505	\$ 199,795	\$ 203,590
Total assets <sup>1</sup>	\$ 321,231	\$ 296,045	\$ 297,302	\$ 352,845	\$ 333,524
Long-term debt <sup>1</sup>	\$ 75,006	\$ 67,998	\$ 72,884	\$ 81,846	\$ 85,438
Stockholders' equity	\$ 191,668	\$ 181,220	\$ 184,977	\$ 203,630	\$ 196,458
Common share data:					
Net income (loss) per common share - Basic	\$ 1.05	\$ (0.74)	\$ (2.92)	\$ 0.58	\$ (0.58)
Net income (loss) per common share - Diluted	\$ 1.03	\$ (0.74)	\$ (2.92)	\$ 0.57	\$ (0.58)

<sup>1</sup> Total assets and Long-term debt, for prior periods, have been adjusted to reflect the reclassification of deferred financing costs from Other long-term assets to a reduction of debt to be consistent with the current period presentation due to the adoption of ASC 2015-3, "Simplifying the Presentation of Debt Issuance Costs".

The following Management Discussion and Analysis ("MD&A") is intended to help the reader understand the consolidated results of operations and financial condition of Universal Stainless & Alloy Products, Inc. and its wholly-owned subsidiaries (collectively, "we," "us," "our," or the "Company"). This MD&A should be read in conjunction with our consolidated financial statements and accompanying notes included in this Form 10-K. When reviewing the discussion, you should keep in mind the substantial risks and uncertainties that characterize our business. In particular, we encourage you to review the risk and uncertainties described under Item 1A "Risk Factors," of this Form 10-K. These risks and uncertainties could cause actual results to differ materially from those forecasted in forward-looking statements or implied by past results and trends. Forward-looking statements are statements that attempt to project or anticipate future developments in our business; we encourage you to review the discussion of forward-looking statements under "Cautionary Statement for Purposes of the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995," at the beginning of this report. These statements, like all statements in this report, speak only as of the date of this report (unless another date is indicated), and we undertake no obligation to update or revise the statements in light of future developments. Unless otherwise specified, any reference to a "year" is to the year ended December 31.

### Business Overview

We manufacture and market semi-finished and finished specialty steel products, including stainless steel, nickel alloys, tool steel and certain other alloyed steels. Our manufacturing process involves melting, remelting, heat treating, hot and cold rolling, forging, machining and cold drawing of semi-finished and finished specialty steels. Our products are sold to service centers, forgers, rerollers, original equipment manufacturers and wire redrawers. Our customers further process our products for use in a variety of industries, including the aerospace, power generation, oil and gas and general industrial markets. We also perform conversion services on materials supplied by customers.

The improvements in our end markets which began in the second half of 2016 continued in 2017. For full year 2017, all of our end markets were up, compared with full year 2016. Better surcharge alignments positively impacted all of our end markets. Aerospace was up in 2017 due to strong customer demand, and heavy equipment was up due to higher manufacturing activity. Our overall net sales were \$202.6 million, an increase of \$48.2 million, or 31.2%, compared to 2016. Sales in each quarter of 2017 were higher than the comparable 2016 period. Backlog at the end of 2017, before surcharges, was \$77.7 million, an increase of approximately 77.4% compared to a backlog of \$43.8 million at the end of 2016. In 2017, we received 10 new customer approvals that are critical to our focus on the aerospace, oil & gas and power generation end markets. In addition, we added 12 new products in 2017, with an additional 15 new products in the development process at the end of 2017. New product introductions are essential to move to a higher value product mix. We continue to work on gaining other customer approvals to add more products, with a focus on high value nickel alloy products.

For 2017, our gross margin was 11.4% of net sales, improved from 8.8% of net sales in 2016. Operational productivity enhancements, combined with improved alignment of customer surcharges and melt cost over the course of 2017, drove the gross margin improvement. Gross margin in the first half of 2016 was negatively impacted by continued misalignment of customer surcharges and melt costs. In the fourth quarter of 2017, gross margin was \$6.2 million, or 12.3% of sales, compared to a gross margin of \$3.1 million, or 9.1% of sales, in the fourth quarter of 2016.

Selling, general and administrative ("SG&A") expenses increased by \$1.3 million in 2017, compared to 2016. The increase in SG&A was driven by higher employee costs associated with the increased business levels and higher legal costs. These increases in SG&A were partially offset by \$0.6 million less variable compensation expense in 2017 compared to 2016.

Overall, our operating income in 2017 was \$4.2 million, compared to an operating loss of \$4.0 million in 2016, reflecting the improved operational results in 2017.

The 2017 income tax benefit of \$7.6 million reflects a one-time adjustment due to the recently enacted tax rate reduction, fractionally offset by state tax items and new stock compensation accounting guidance for 2017.

During 2017, we generated \$1.1 million cash from operating activities, and incurred \$8.0 million of capital spending which was partially offset by proceeds of \$0.1 million received for asset sales. Financing activities generated \$7.0 million primarily from net additional borrowings. Total debt under the revolving credit facility increased \$11.5 million, offset by \$5.1 million of payments on the term loan and capital leases.

The overall demand environment continues to improve as we enter 2018 with service centers, forgers and re-rollers all signaling improved outlooks now that the pressure for our customers to reduce year-end inventories has passed. We remain optimistic about near and long-term aerospace end market growth given the multi-year backlog in airplane deliveries and sustained growth in passenger and air freight traffic. In addition, we are optimistic about our other end markets as we expect strong heavy equipment end market demand and see strengthening of the oil and gas end market as we enter 2018.

Our operating facilities are integrated, and therefore our chief operating decision maker ("CODM") views the Company as one business unit. Our CODM sets performance goals, assesses performance and makes decisions about resource allocations on a consolidated basis. As a result of these factors, as well as the nature of the financial information available which is reviewed by our CODM, we maintain one reportable segment.

## **Results of Operations**

### ***2017 Results as Compared to 2016***

<b>For the years ended December 31,</b>	<b>2017</b>		<b>2016</b>			
<b>(dollars in thousands, except per shipped ton information)</b>	<b>Amount</b>	<b>Percentage of net sales</b>	<b>Amount</b>	<b>Percentage of net sales</b>	<b>Dollar / ton variance</b>	<b>Percentage variance</b>
Net sales:						
Stainless steel	\$ 139,603	69.0 %	\$ 112,118	72.7 %	\$ 27,485	24.5 %
High-strength low alloy steel	15,693	7.7	13,180	8.5	2,513	19.1
Tool steel	32,279	15.9	19,179	12.4	13,100	68.3
High-temperature alloy steel	12,435	6.1	6,057	3.9	6,378	105.3
Conversion services and other sales	2,633	1.3	3,900	2.5	(1,267)	(32.5)
Total net sales	202,643	100.0	154,434	100.0	48,209	31.2
Cost of products sold	179,609	88.6	140,921	91.2	38,688	27.5
Gross margin	23,034	11.4	13,513	8.8	9,521	70.5
Selling, general and administrative expenses	18,797	9.3	17,482	11.3	1,315	7.5
Operating income (loss)	4,237	2.1	(3,969)	(2.5)	8,206	206.8
Interest expense	4,022	2.0	3,659	2.4	363	9.9
Deferred financing amortization	255	0.1	1,015	0.7	(760)	(74.9)
Other (income) expense	(49)	-	230	0.1	(279)	(121.3)
Income (loss) before income taxes	9	-	(8,873)	(5.7)	8,882	100.1
Benefit from income taxes	(7,601)	(3.8)	(3,526)	(2.3)	4,075	115.6
Net income (loss)	\$ 7,610	3.8 %	\$ (5,347)	(3.4) %	\$ 12,957	242.3 %
Tons shipped	39,246		31,372		7,874	25.1 %
Sales dollars per shipped ton	\$ 5,163		\$ 4,923		\$ 240	4.9 %

**Market Segment Information:**

For the years ended December 31, (dollars in thousands)	2017		2016		Dollar variance	Percentage variance
	Amount	Percentage of net sales	Amount	Percentage of net sales		
Net sales:						
Service centers	\$ 140,259	69.2 %	\$ 108,582	70.3 %	\$ 31,677	29.2 %
Forgers	18,442	9.1	13,441	8.7	5,001	37.2
Rerollers	23,675	11.7	12,481	8.1	11,194	89.7
Original equipment manufacturers	17,634	8.7	16,030	10.4	1,604	10.0
Conversion services and other sales	2,633	1.3	3,900	2.5	(1,267)	(32.5)
Total net sales	<u>\$ 202,643</u>	<u>100.0 %</u>	<u>\$ 154,434</u>	<u>100.0 %</u>	<u>\$ 48,209</u>	<u>31.2 %</u>

**Melt Type Information:**

For the years ended December 31, (dollars in thousands)	2017		2016		Dollar variance	Percentage variance
	Amount	Percentage of net sales	Amount	Percentage of net sales		
Net sales:						
Specialty alloys	\$ 172,715	85.2 %	\$ 136,178	88.2 %	\$ 36,537	26.8 %
Premium alloys	27,295	13.5	14,356	9.3	12,939	90.1
Conversion services and other sales	2,633	1.3	3,900	2.5	(1,267)	(32.5)
Total net sales	<u>\$ 202,643</u>	<u>100.0 %</u>	<u>\$ 154,434</u>	<u>100.0 %</u>	<u>\$ 48,209</u>	<u>31.2 %</u>

The majority of our products are sold to service centers rather than the ultimate end market customers. The end market information in this Annual Report is our estimate based upon our knowledge of our customers and the grade of material sold to them, that they will in-turn sell to the ultimate end market customer.

**End Market Information:**

For the years ended December 31, (dollars in thousands)	2017		2016		Dollar variance	Percentage variance
	Amount	Percentage of net sales	Amount	Percentage of net sales		
Net sales:						
Aerospace	\$ 111,795	55.2 %	\$ 91,979	59.6 %	\$ 19,816	21.5 %
Power generation	16,592	8.2	14,175	9.2	2,417	17.1
Oil and gas	19,069	9.4	12,392	8.0	6,677	53.9
Heavy equipment	33,876	16.7	20,109	13.0	13,767	68.5
General industrial, conversion services and other sales	21,311	10.5	15,779	10.2	5,532	35.1
Total net sales	<u>\$ 202,643</u>	<u>100.0 %</u>	<u>\$ 154,434</u>	<u>100.0 %</u>	<u>\$ 48,209</u>	<u>31.2 %</u>

**Net sales:**

Net sales for the year ended December 31, 2017 increased \$48.2 million, or 31.2%, as compared to the same period in 2016. The increase in our sales primarily reflects a 25.1% increase in consolidated tons shipped in 2017, compared to 2016, as demand for our products increased as a result of strengthening market conditions throughout 2017. In addition, a 4.9% increase in sales dollars per ton was primarily due to product mix and better surcharge alignment. Our product sales to all of our end markets increased as noted in the above table. Our premium alloy sales were \$27.3 million, or 13.5% of total sales, for the year ended December 31, 2017, compared to \$14.4 million, or 9.3% of total sales, for the year ended December 31, 2016. Our premium alloy sales are primarily for the aerospace end market.

**Gross margin:**

Our gross margin, as a percentage of net sales, increased to 11.4% in 2017 from 8.8% for 2016. The increase in gross margin is a result of better alignment of melt costs and surcharges, and the realization of manufacturing and productivity savings. Gross margin in 2017 was adversely impacted by temporarily higher and unplanned maintenance costs as well as by costly outsourcing, as the Company ramps up its business in response to continued strong levels of backlog at a time of a tightening labor market.

**Selling, general and administrative expenses:**

Our SG&A expenses consist primarily of employee costs, which include salaries, payroll taxes and benefit related costs, legal and accounting services, stock compensation and insurance costs. Our SG&A expenses increased by \$1.3 million in the year ended December 31, 2017 as compared to the year ended December 31, 2016. Approximately \$1.0 million is due to increased employee costs, \$0.2 million is due to higher stock based compensation expense, and \$0.6 million of the increase is due to higher legal costs, reflecting external legal expenses related to a lawsuit against a supplier for unauthorized substitution of material and defense of a claim of non-compliant material. These increases in SG&A were partially offset by \$0.6 million reduction in variable compensation. As a percentage of sales, our SG&A expenses were 9.3% and 11.3%, respectively, for the years ended December 31, 2017 and 2016, respectively.

**Interest expense and deferred financing amortization:**

Our interest costs on our debt increased to \$4.0 million for the year ended December 31, 2017 from \$3.7 million for the year ended December 31, 2016. Approximately \$0.2 of this increase is due to higher interest rates and approximately \$0.1 is due to increased borrowings. The interest rate on our variable rate debt is determined by a LIBOR-based rate plus an applicable margin based upon achieving certain ratios. Our deferred financing costs are associated with our credit facility and the Amended and Restated Convertible Notes (collectively, the "Notes"). Our deferred financing costs decreased to \$0.7 million from \$1.0 million for the years ended December 31, 2017 and 2016, respectively. The decrease in deferred financing costs is due to the 2016 write off of \$0.8 million of deferred financing costs associated with our prior credit agreement when we entered into our new credit agreement in January 2016.

**Other (income) expense:**

Other income was less than \$0.1 million in 2017 compared to approximately \$0.2 million of expense for the same period of 2016. This change reflects foreign currency losses in 2016 of \$0.2 million.

**Benefit from income taxes:**

The 2017 income tax benefit of \$7.6 million reflects a one-time adjustment due to the recently enacted tax rate reduction, fractionally offset by state tax items and new stock compensation accounting guidance for 2017.

**Net income (loss):**

We had net income of \$7.6 million for the year ended December 31, 2017, reflecting the one-time tax benefit noted above, compared to a net loss of \$5.3 million for the year ended December 31, 2016.

2016 Results as Compared to 2015

For the years ended December 31,

(dollars in thousands, except per shipped ton information)

	2016		2015			
	Amount	Percentage of net sales	Amount	Percentage of net sales	Dollar / ton variance	Percentage variance
Net sales:						
Stainless steel	\$ 112,118	72.7 %	\$ 135,945	75.2 %	\$ (23,827)	(17.5) %
High-strength low alloy steel	13,180	8.5	16,045	8.9	(2,865)	(17.9)
Tool steel	19,179	12.4	16,197	9.0	2,982	18.4
High-temperature alloy steel	6,057	3.9	7,557	4.2	(1,500)	(19.8)
Conversion services and other sales	3,900	2.5	4,916	2.7	(1,016)	(20.7)
Total net sales	154,434	100.0	180,660	100.0	(26,226)	(14.5)
Cost of products sold	140,921	91.2	171,065	94.7	(30,144)	(17.6)
Gross margin	13,513	8.8	9,595	5.3	3,918	40.8
Selling, general and administrative expenses	17,482	11.3	19,406	10.7	(1,924)	(9.9)
Goodwill impairment	-	-	20,268	11.2	(20,268)	(100.0)
Operating loss	(3,969)	(2.5)	(30,079)	(16.6)	26,110	86.8
Interest expense	3,659	2.4	2,324	1.3	1,335	57.4
Deferred financing amortization	1,015	0.7	566	0.3	449	79.3
Other (income) expense	230	0.1	(153)	(0.1)	383	250.3
Loss before income taxes	(8,873)	(5.7)	(32,816)	(18.1)	23,943	73.0
Benefit from income taxes	(3,526)	(2.3)	(12,144)	(6.7)	8,618	71.0
Net loss	<u>\$ (5,347)</u>	<u>(3.4) %</u>	<u>\$ (20,672)</u>	<u>(11.4) %</u>	<u>\$ 15,325</u>	<u>74.1 %</u>
Tons shipped	31,372		32,388		(1,016)	(3.1) %
Sales dollars per shipped ton	<u>\$ 4,923</u>		<u>\$ 5,578</u>		<u>\$ (655)</u>	<u>(11.7) %</u>

Market Segment Information:

For the years ended December 31,

(dollars in thousands)

	2016		2015			
	Amount	Percentage of net sales	Amount	Percentage of net sales	Dollar variance	Percentage variance
Net sales:						
Service centers	\$ 108,582	70.3 %	\$ 121,090	67.0 %	\$ (12,508)	(10.3) %
Forgers	13,441	8.7	15,143	8.4	(1,702)	(11.2)
Rerollers	12,481	8.1	17,848	9.9	(5,367)	(30.1)
Original equipment manufacturers	16,030	10.4	21,663	12.0	(5,633)	(26.0)
Conversion services and other sales	3,900	2.5	4,916	2.7	(1,016)	(20.7)
Total net sales	<u>\$ 154,434</u>	<u>100.0 %</u>	<u>\$ 180,660</u>	<u>100.0 %</u>	<u>\$ (26,226)</u>	<u>(14.5) %</u>

**Melt Type Information:**

For the years ended December 31, (dollars in thousands)	2016		2015			
	Amount	Percentage of net sales	Amount	Percentage of net sales	Dollar variance	Percentage variance
Net sales:						
Specialty alloys	\$ 136,178	88.2 %	\$ 158,145	87.6 %	\$ (21,967)	(13.9) %
Premium alloys	14,356	9.3	17,599	9.7	(3,243)	(18.4)
Conversion services and other sales	3,900	2.5	4,916	2.7	(1,016)	(20.7)
Total net sales	\$ 154,434	100.0 %	\$ 180,660	100.0 %	\$ (26,226)	(14.5) %

The majority of our products are sold to service centers rather than the ultimate end market customers. The end market information in this Annual Report is our estimate based upon our knowledge of our customers and the grade of material sold to them, that they will in-turn sell to the ultimate end market customer.

**End Market Information:**

For the years ended December 31, (dollars in thousands)	2016		2015			
	Amount	Percentage of net sales	Amount	Percentage of net sales	Dollar variance	Percentage variance
Net sales:						
Aerospace	\$ 91,979	59.6 %	\$ 108,791	60.2 %	\$ (16,812)	(15.5) %
Power generation	14,175	9.2	19,212	10.6	(5,037)	(26.2)
Oil and gas	12,392	8.0	17,094	9.5	(4,702)	(27.5)
Heavy equipment	20,109	13.0	15,961	8.8	4,148	26.0
General industrial, conversion services and other sales	15,779	10.2	19,602	10.9	(3,823)	(19.5)
Total net sales	\$ 154,434	100.0 %	\$ 180,660	100.0 %	\$ (26,226)	(14.5) %

**Net sales:**

Net sales for the year ended December 31, 2016 decreased \$26.2 million, or 14.5%, as compared to the same period in 2015. The decrease in our sales primarily reflects a 3.1% decrease in consolidated tons shipped in 2016, compared to 2015, as demand for our products decreased as a result of declining market conditions in the second half of 2015 and 2016. In addition, an 11.7% decline in sales dollars per ton was primarily due to lower commodity driven surcharges and product mix. Our product sales to all of our end markets, except heavy equipment, decreased as noted in the above table. Our sales to the heavy equipment end market increased by \$4.1 million, or 26%, in 2016, compared to 2015, primarily due to increased tool steel plate sales in the second half of 2016. Our premium alloy sales were \$14.4 million, or 9.3% of total sales, for the year ended December 31, 2016, compared to \$17.6 million, or 9.7% of total sales, for the year ended December 31, 2015.

**Gross margin:**

Our gross margin, as a percentage of net sales, increased to 8.8% in 2016 from 5.3% for 2015. The increase in gross margin is the result of the benefit of operational productivity enhancements, combined with significant improvement in the alignment of customer surcharges and commodity input costs. In the year ended December 31, 2015, the Company also incurred approximately \$4.7 million of costs, in response to the sharp industry downturn including costs to temporarily idle plants, non-cash inventory write downs, and costs for reducing the hourly and salary workforce and approximately \$0.9 million of costs associated with the unauthorized substitution by a vendor of a critical supply part for the melting process.

**Selling, general and administrative expenses:**

Our SG&A expenses consist primarily of employee costs, which include salaries, payroll taxes and benefit related costs, legal and accounting services, stock compensation and insurance costs. Our SG&A expenses decreased by \$1.9 million in the year ended December 31, 2016 as compared to the year ended December 31, 2015. This decrease in SG&A was driven by spending reductions across most categories of SG&A due to lower employee costs, contract negotiations with suppliers and reduced spending levels. In addition, in 2015 we incurred \$0.5 million for the exit of a non-compete contract and employee severances. These savings in SG&A were partially offset by \$0.5 million additional variable compensation in 2016, compared to 2015.

**Goodwill impairment:**

We recorded a goodwill impairment in the third quarter of 2015. Due to a significant and sustained drop in our share price and continued weak operating results driven by slower market conditions, the Company determined that an interim goodwill impairment review was required in accordance with Accounting Standards Codification (“ASC”) 350, “Intangibles – Goodwill and Other”. This impairment eliminated all goodwill from the consolidated balance sheet as of December 31, 2015.

**Interest expense and deferred financing amortization:**

Our interest costs on our debt increased to \$3.7 million for the year ended December 31, 2016 from \$2.3 million for the year ended December 31, 2015. This increase is primarily due to higher interest rates incurred on our debt in 2016, as compared to 2015, partially offset by lower debt balances in 2016. The interest rate on our variable rate debt is determined by a LIBOR-based rate plus an applicable margin based upon achieving certain ratios. Our deferred financing costs are associated with our credit facility and the Notes. Our deferred financing costs increased to \$1.0 million from \$0.6 million for the years ended December 31, 2016 and 2015, respectively. The increase in deferred financing costs is due to the write off of \$0.8 million of deferred financing costs associated with our prior credit agreement when we entered into our new credit agreement in January 2016, partially offset by decreased amortization of deferred financing costs from our new credit agreement.

**Other (income) expense:**

Other expense was approximately \$0.2 million in 2016 compared to approximately \$0.2 million of income for the same period of 2015. This is due to an insurance recovery of approximately \$0.2 million received in 2015 and foreign currency losses in 2016.

**Benefit from income taxes:**

Our effective tax rates for the years ended December 31, 2016 and 2015 were 39.7% and 37.0%, respectively. Our overall effective tax rate for the year ended December 31, 2016, which reflects a pre-tax loss, also includes approximately \$0.4 million of current and prior year research and development tax credits.

**Net loss:**

We incurred a net loss of \$5.3 million for the year ended December 31, 2016 compared to a net loss of \$20.7 million for the year ended December 31, 2015. Charges related to goodwill impairment, idle plant costs, supplier losses, non-cash inventory write-offs, employee severance and exit costs, and the exit of a non-compete contract negatively impacted the 2015 net income by \$17.0 million.

**Liquidity and Capital Resources**

Historically, we have financed our operating activities through cash provided by operations and cash provided through our credit facilities.

***Net cash provided by operating activities:***

During 2017, we generated net cash from operating activities of \$1.1 million. Our managed working capital, defined as net accounts receivable plus net inventory minus accounts payable, used \$18.8 million of cash from operations. Inventories increased by \$27.4 million primarily due to increased demand, accounts receivable increased by \$5.6 million due to increased sales in the fourth quarter of 2017, compared to the fourth quarter of

2016, and accounts payable increased by \$14.2 million due to increased activity levels in the fourth quarter of 2017, compared to the fourth quarter of 2016. Net income adjusted for non-cash expenses generated \$20.3 million and all other operating activities used \$0.4 million of cash in 2017.

During 2016, we generated net cash from operating activities of \$8.4 million. Our managed working capital, defined as net accounts receivable plus net inventory minus accounts payable, used \$3.8 million of cash from operations. Inventories increased by \$9.2 million primarily due to increased demand, accounts receivable increased by \$1.8 million due to increased sales in the fourth quarter of 2016, compared to the fourth quarter of 2015, and accounts payable increased by \$7.1 million due to increased activity levels in the fourth quarter of 2016, compared to the fourth quarter of 2015. Net income adjusted for non-cash expenses generated \$11.5 million and all other operating activities generated \$0.7 million of cash in 2016.

***Net cash used in investing activities:***

During 2017, our capital spending, which is primarily discretionary in nature, was \$8.0 million.

During 2016, our capital spending was \$4.4 million. We received \$1.6 million from the sale of assets, including the reimbursement of \$1.1 million of previous capital expenditures for assets that we ultimately leased in the first quarter of 2016.

***Net cash used in financing activities:***

During 2017, financing activities provided \$7.0 million in cash. We increased borrowings under the credit facility by \$11.5 million, paid \$5.1 million on the term loan and capital leases, and received \$0.6 million in proceeds from the issuance of common stock.

During 2016, we used \$5.6 million in cash from financing activities. We paid down \$5.5 million in debt, incurred \$0.8 million of deferred financing costs associated with our new credit facility, and received \$0.7 million in proceeds from the issuance of common stock.

We believe that our cash flows from continuing operations, as well as available borrowings under our credit facility, are adequate to satisfy our working capital, capital expenditure requirements, and other contractual obligations for the foreseeable future, including at least the next 12 months.

The average costs per pound of nickel, chrome, molybdenum, and carbon scrap for the years ended December 31, 2017, 2016 and 2015 was as follows:

For the years ended December 31,	2017		2016		2015	
Nickel	\$	4.72	\$	4.35	\$	5.37
Chrome	\$	1.45	\$	0.95	\$	1.08
Molybdenum	\$	8.22	\$	6.54	\$	6.85
Carbon scrap	\$	0.17	\$	0.10	\$	0.10

*Sources: Nickel is the monthly average LME Cash Settlement Price; Chrome is the final monthly average as published by CRU; Molybdenum is the monthly average price on Metalprices.com; Carbon is the consumer price for #1 Industrial Bundles in the Pittsburgh, PA area as reported on Metalprices.com.*

We maintain sales price surcharge mechanisms on certain of our products, priced at time of order or shipment, to mitigate the risk of substantial raw material cost fluctuations. The market values for these raw materials and others continue to fluctuate based on supply and demand, market disruptions and other factors.

***Capital Resources Including Off-Balance Sheet Arrangements.***

We do not maintain off-balance sheet arrangements, nor do we participate in non-exchange traded contracts requiring fair value accounting treatment, or material related-party transaction arrangements.

## **Credit Facility**

On January 21, 2016, we entered into a new Revolving Credit, Term Loan and Security Agreement (the “Credit Agreement”) with PNC Bank, National Association, as administrative agent and co-collateral agent, Bank of America, N.A., as co-collateral agent, and PNC Capital Markets LLC, as sole lead arranger and sole bookrunner. The Credit Agreement provides for a senior secured revolving credit facility not to exceed \$65.0 million (the “Revolving Credit Facility”) and a senior secured term loan facility (the “Term Loan”) in the amount of \$30.0 million (together with the Revolving Credit Facility, the “Facilities”). The Credit Agreement also provides for a letter of credit sub-facility not to exceed \$10.0 million and a swing loan sub-facility not to exceed \$6.5 million. The Company may request to increase the maximum aggregate principal amount of borrowings under the Revolving Credit Facility by \$25.0 million prior to January 21, 2020. The Credit Agreement replaced the previous credit agreement that was in place prior to January 21, 2016. The Company was in compliance with all applicable financial covenants set forth in the previous credit agreement as of the date of its entrance into the Credit Agreement.

The Facilities, which expire upon the earlier of (i) January 21, 2021 or (ii) the date that is 90 days prior to the scheduled maturity date of the Notes (as defined below) (in either case, the “Expiration Date”), are collateralized by a first lien in substantially all of the assets of the Company and its subsidiaries, except that no real property is collateral under the Facilities other than the Company’s real property in North Jackson, Ohio.

Availability under the Revolving Credit Facility is based on eligible accounts receivable and inventory. The Company is required to pay a commitment fee of 0.25% based on the daily unused portion of the Revolving Credit Facility.

With respect to the Term Loan, the Company makes quarterly installment payments of principal of approximately \$1.1 million, plus accrued and unpaid interest, on the first day of each fiscal quarter. To the extent not previously paid, the Term Loan will become due and payable in full on the Expiration Date.

Amounts outstanding under the Facilities, at the Company’s option, will bear interest at either a base rate plus a margin, or a rate based on LIBOR plus a margin, in either case calculated in accordance with the terms of the Credit Agreement. Interest under the Credit Agreement is payable monthly. We elected to use the LIBOR based rate for the majority of the debt outstanding under the Facilities for the twelve months ended December 31, 2017, which was 3.37% on our Revolving Credit Facility and 3.87% for the Term Loan at December 31, 2017.

On October 23, 2017, the Company announced that it obtained a favorable amendment to the Credit Agreement that lowers the Company’s interest on its senior bank borrowings by 75 basis points. At current borrowing levels, this change will reduce annual interest expense by approximately \$0.4 million. In addition, several terms of the Credit agreement were amended and will provide additional liquidity to the Company.

The Credit Agreement contains customary affirmative and negative covenants. As of December 31, 2016, and as of the end of each fiscal quarter ending thereafter, the Company must maintain a fixed charge coverage ratio of not less than 1.10 to 1.0, in each case measured on a rolling four-quarter basis calculated in accordance with the terms of the Credit Agreement. The October 23, 2017 amendment made no changes to the financial covenants. We were in compliance with our covenants under the Credit Agreement at December 31, 2017 and 2016.

At December 31, 2017, we had deferred financing costs of approximately \$0.7 million, and amortized approximately \$0.3 million of deferred financing costs for the twelve months ended December 31, 2017. For the twelve months ended December 31, 2016, we paid deferred financing costs of \$0.8 million related to the Credit Agreement, wrote off \$0.8 million of fees related to the previous credit agreement and amortized \$0.2 million of deferred financing costs.

Pursuant to the terms of the Credit Agreement, the Company completed the issuance of 73,207 shares of the Company’s common stock to certain directors and officers of the Company on February 2, 2016. The aggregate purchase price of the stock was \$0.5 million based on the average of the high and low reported trading prices for the Company’s common stock on The NASDAQ Stock Market on February 1, 2016.

## **Notes**

On January 21, 2016, the Company entered into the Notes in the aggregate principal amount of \$20.0 million, each in favor of Gorbert Inc. (the "Holder"). The Notes amended and restated the Convertible Notes. The Company's obligations under the Notes are collateralized by a second lien on the same assets of the Company that collateralize the obligations of the Company under the Facilities. The Notes mature on March 17, 2019, and the maturity date may be extended, at the Company's option, to March 17, 2020 and further to March 17, 2021. If the Company elects to extend the maturity date of the Notes to March 17, 2020, principal payments in the aggregate of \$2.0 million will be required within 10 days of March 7, 2019. If the Company elects to extend the maturity date of the Notes further to March 17, 2021, principal payments in the aggregate of \$2.0 million will be required within 10 days of March 7, 2020.

The Notes bore interest at a rate of 4.0% per year through and including August 17, 2016. The Notes bear interest at a rate of 5.0% per year from August 18, 2016 through and including August 17, 2017 and a rate of 6.0% per year from and after August 18, 2017. Through and including June 18, 2017, all accrued and unpaid interest is payable semi-annually in arrears on each June 18 and December 18. After June 18, 2017, all accrued and unpaid interest is payable quarterly in arrears on each September 18, December 18, March 18 and June 18.

The Holder could have elected at any time on or prior to August 17, 2017 to convert all or any portion of the outstanding principal amount of the Notes which is an integral multiple of \$100,000. The Notes were convertible into shares of common stock and, in certain circumstances, cash, securities and/or other assets. The Notes were convertible based on an initial conversion rate of 21.2 shares of Common Stock per \$1,000 principal amount of the Notes (equivalent to an initial conversion price of \$47.1675 per share). The conversion rate and the conversion price associated with the Notes could have been adjusted in certain circumstances. The Holder did not exercise the conversion rights prior to their expiration, and the rights are now void.

In conjunction with the issuance of the Notes on January 21, 2016, we made principal prepayments on the Notes totaling \$1.0 million.

## **Capital Leases**

Throughout 2017, the company entered into four capital leases for office and manufacturing equipment, with lease terms between three and six years. The capital assets and obligations are recorded at the present value of minimum lease payments. The assets are included in Property, plant and equipment, net on the Consolidated Balance Sheet and are depreciated over the term of each lease. The long-term component of the capital lease obligations is included in Long-term debt and the current component is included in Current portion of long-term debt. These amounts have been excluded from the Consolidated Statement of Cash Flows as they are non-cash. The net present value of the minimum lease payments, at inception, was \$0.5 million.

On February 1, 2016 and March 1, 2016, the Company entered into capital leases for equipment, each with a term of five years. The net present value of the minimum lease payments, at inception, was \$2.0 million.

## **Share-Based Activity**

We issued 20,363, 30,754, and 33,175 shares of our common stock during the years ended December 31, 2017, 2016 and 2015, respectively, through our two share-based compensation plans. In addition, in 2016 we issued 73,207 shares of the Company's common stock to certain directors and officers of the Company, pursuant to the terms of the Credit Agreement. In 2017, 22,125 stock options issued under the Omnibus Incentive Plan ("OIP") were exercised for an aggregate exercise price of \$0.3 million. In 2016, there were no stock options exercised under the OIP. In 2015, 17,500 stock options issued under the OIP were exercised for an aggregate exercise price of \$0.3 million. During the years ended December 31, 2017, 2016 and 2015, respectively, there were 128,325, 47,250 and 108,825 options forfeited under the two plans. The remaining shares were issued to participants in the Employee Stock Purchase Plan. Additionally, during the year ended December 31, 2017, we granted 14,280 restricted stock units to certain employees and directors, and during the year ended December 31, 2016, we granted 95,000 restricted stock units to certain employees. There were 27,000 restricted stock units forfeited in 2017.

### **Contractual Obligations.**

At December 31, 2017, we had the following contractual principal, interest and purchase obligations:

	<b>Payments due by period</b>			
	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>Thereafter</b>
<i>(dollars in thousands)</i>				
Long-term debt (A)	\$ 87,921	\$ 8,045	\$ 32,537	\$ 47,339
Purchase obligations - other (B)	12,070	8,967	2,604	499
Purchase obligations - capital expenditures (B)	8,915	8,915	-	-
Total contractual obligations	<u>\$ 108,906</u>	<u>\$ 25,927</u>	<u>\$ 35,141</u>	<u>\$ 47,838</u>

(A) Amounts include interest expense, which was estimated based upon the December 31, 2017 interest rate for our debt and assumes that debt will not be repaid until its maturity. The 1-3 years period includes the maturity of \$19.0 million of the Notes in 2019 which, at the discretion of the Company, may be extended until 2020 or 2021.

(B) Purchase obligations include the value of all open purchase orders with established quantities and purchase prices as well as minimum purchase commitments and operating leases.

### **CONTINGENT ITEMS**

*Product Claims.* We are subject to various claims and legal actions that arise in the normal course of conducting business. There were no material product claims outstanding at December 31, 2017.

*Environmental Matters.* We, as well as other steel companies, are subject to demanding environmental standards imposed by federal, state and local environmental laws and regulations. We are not aware of any environmental condition that currently exists at any of our facilities that are probable or reasonably possible of having a material impact on our results of operations or liquidity.

We are aware of energy usage concerns relating to climate change; however, we are not aware of any pending regulations that are expected to have a material impact on our results of operations or liquidity.

*Legal Matters.* From time to time, various lawsuits and claims have been or may be asserted against us relating to the conduct of our business, including routine litigation relating to commercial and employment matters. The ultimate cost and outcome of any litigation or claim cannot be predicted with certainty. Management believes, based on information presently available, that the likelihood that the ultimate outcome of any such pending matter will have a material adverse effect on its financial condition, or liquidity or a material impact to its results of operations is remote, although the resolution of one or more of these matters may have a material adverse effect on its results of operations for the period in which the resolution occurs.

### **CRITICAL ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS**

#### *Critical Accounting Policies*

Revenue from the sale of products is recognized when both risk of loss and title have transferred to the customer, which in most cases coincides with shipment of the related products, and collection is reasonably assured. We manufacture specialty steel products to customer purchase order specifications and in recognition of requirements for product acceptance. Material certification forms are executed, indicating compliance with the customer purchase orders, before the specialty steel products are packed and shipped to the customer.

Revenue from conversion services is recognized when the performance of the service is complete. Invoiced shipping and handling costs are also accounted for as revenue.

Customer claims, which are not material, are accounted for primarily as a reduction to gross sales after the matter has been researched and an acceptable resolution has been reached.

In addition, management regularly monitors the ability to collect its unpaid sales invoices and the valuation of its receivables. The allowance for doubtful accounts includes specific reserves for the value of outstanding invoices issued to customers that are deemed potentially not collectible.

Inventories are stated at the lower of cost or market. The cost of inventory is principally determined by the weighted average cost method for material and operation costs. An inventory reserve is provided for material on hand for which management believes cost exceeds net realizable value. We reserve for slow-moving inventory and inventory that is being evaluated under our quality control process. The reserves are based upon management's expected method of disposition.

Property, Plant and Equipment ("PP&E") is stated at historical cost or fair value at acquisition less accumulated depreciation. Depreciation is computed by the straight-line method over the estimated useful lives of the assets for book purposes. Depreciation for income tax purposes is computed using accelerated methods. Upon disposal, assets and related accumulated depreciation are removed from the financial statements and differences between the net book value and proceeds from disposal are generally included in cost of goods sold in the consolidated statement of operations. PP&E is evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in relation to the operating performance and future undiscounted cash flows of the underlying assets. Adjustments are made if the sum of expected future cash flows is less than book value. No impairment reserve was deemed necessary as of December 31, 2017, 2016 and 2015.

Deferred income taxes are provided for temporary differences between amounts of assets and liabilities for financial reporting purposes and the basis of such assets and liabilities as measured by tax laws and regulations. Our deferred tax assets include net operating loss carry forwards that can be used to offset taxable income in future periods and reduce income taxes payable in those future periods. These deferred tax assets will expire, if unused, at various times through 2031. Deferred tax liabilities primarily relate to book / tax depreciation differences. 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 calculation for our share-based compensation expense involves a number of assumptions. Management believes each assumption used in the valuation is reasonable because it takes into account the experience of the plan and reasonable expectations. Management estimates volatility based on historical data, future expectations and the expected term of the share-based compensation awards. The assumptions, however, involve inherent uncertainties. As a result, if other assumptions had been used, share-based compensation expense could have varied.

#### *New Accounting Pronouncements*

See information under the heading "Note 1: Significant Accounting Policies" within "Notes to Consolidated Financial Statements" in Item 8, Financial Statements and Supplementary Data, in this Annual Report on Form 10-K for details of recently issued accounting pronouncements and their expected impact on our consolidated financial statements.

The majority of our customers and suppliers absorb fluctuations in foreign currency exchange rates. Prices for our raw materials and natural gas requirements are subject to frequent market fluctuations, and profit margins may decline in the event market prices increase. Selling price increases and surcharges are utilized to offset raw material and natural gas market price increases.

Raw material prices vary based on numerous factors, including quality, and are subject to frequent market fluctuations. Future raw material prices cannot be predicted with any degree of certainty. We do not maintain any fixed-price long-term agreements with any of our raw material suppliers.

We maintain a sales price surcharge mechanism on certain of our products to help offset the impact of raw material price fluctuations. For certain products, the surcharge is calculated at the time of order entry, based on current raw material prices or prices at the time of shipment. For certain finished products, the surcharge is calculated based on the monthly average raw material prices two months prior to the promised ship date. While the material surcharge mechanism is designed to offset modest fluctuations in raw material prices, it cannot immediately absorb significant spikes in raw material prices. A material change in raw material prices within a short period of time could have a material effect on our financial results and there can be no assurance that the raw material surcharge mechanism will completely offset immediate changes in our raw material costs.

At December 31, 2017, we had \$59.6 million of floating rate debt outstanding with an interest rate between 3.37% and 6.0%. Since the interest rate on floating rate debt changes with the short-term market rate of interest, we are exposed to the risk that these interest rates may increase, raising our interest expense. A hypothetical 1.0% increase or decrease in our floating rate debt interest rates would unfavorably or favorably impact our pre-tax results by \$0.6 million.

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## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) under the Securities Exchange Act of 1934). Our internal control over financial reporting is designed to provide reasonable assurance to management and the board of directors regarding the preparation and fair presentation of published financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. We conducted an assessment of the effectiveness of our internal control over financial reporting based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission (2013 Framework). Based on our assessment, we believe that, as of December 31, 2017, our internal control over financial reporting is effective.

The effectiveness of internal control over financial reporting as of December 31, 2017 has been audited by Schneider Downs & Co. Inc., an independent registered public accounting firm which also audited our consolidated financial statements. Schneider Downs' attestation report on the consolidated financial statements and management's maintenance of effective internal control over financial reporting is included under the heading "Report of Independent Registered Public Accounting Firm."

/s/ Dennis M. Oates

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Dennis M. Oates

Chairman, President and Chief Executive Officer

/s/ Dennis M. Oates

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Dennis M. Oates

Principal Financial and Accounting Officer

To the Board of Directors and Stockholders of Universal Stainless & Alloy Products, Inc.

***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of Universal Stainless & Alloy Products, Inc. (the “Company”) as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income (loss), cash flows, and shareholders’ equity for each of the three years in the period ended December 31, 2017, and the related notes and schedules (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by COSO.

***Basis for Opinions***

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting appearing under Item 8. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

***Definition and Limitations of Internal Control over Financial Reporting***

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Schneider Downs & Co., Inc.

Schneider Downs & Co., Inc.

We have served as the Company's auditor since 2003.

Pittsburgh, Pennsylvania

February 23, 2018

**UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

**For the years ended December 31,**

*(dollars in thousands, except per share information)*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Net sales	\$ 202,643	\$ 154,434	\$ 180,660
Cost of products sold	179,609	140,921	171,065
Gross margin	<u>23,034</u>	<u>13,513</u>	<u>9,595</u>
Selling, general and administrative expenses	18,797	17,482	19,406
Goodwill impairment	-	-	20,268
Operating income (loss)	<u>4,237</u>	<u>(3,969)</u>	<u>(30,079)</u>
Interest expense and other financing costs	4,277	4,674	2,890
Other (income) expense	<u>(49)</u>	<u>230</u>	<u>(153)</u>
Income (loss) before income taxes	9	(8,873)	(32,816)
Benefit from income taxes	<u>(7,601)</u>	<u>(3,526)</u>	<u>(12,144)</u>
Net income (loss)	<u>\$ 7,610</u>	<u>\$ (5,347)</u>	<u>\$ (20,672)</u>
Basic earnings (loss) per share	<u>\$ 1.05</u>	<u>\$ (0.74)</u>	<u>\$ (2.92)</u>
Diluted earnings (loss) per share	<u>\$ 1.03</u>	<u>\$ (0.74)</u>	<u>\$ (2.92)</u>
Weighted average shares of common stock outstanding:			
Basic	7,225,697	7,193,300	7,069,954
Diluted	7,374,805	7,193,300	7,069,954

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

<u>For the years ended December 31,</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<i>(dollars in thousands)</i>			
Net income (loss)	\$ 7,610	\$ (5,347)	\$ (20,672)
Other comprehensive (loss) income, net of tax:			
Unrealized gain (loss) on foreign currency contracts, net of tax	<u>(114)</u>	<u>21</u>	<u>-</u>
Comprehensive income (loss)	<u>\$ 7,496</u>	<u>\$ (5,326)</u>	<u>\$ (20,672)</u>

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

## UNIVERSAL STAINLESS &amp; ALLOY PRODUCTS, INC.

## CONSOLIDATED BALANCE SHEETS

December 31, (dollars in thousands)	2017	2016
<b>ASSETS</b>		
Current assets:		
Cash	\$ 207	\$ 75
Accounts receivable (less allowance for doubtful accounts of \$456 and \$309, respectively)	24,990	19,437
Inventory, net	116,663	91,342
Other current assets	4,404	2,729
Total current assets	146,264	113,583
Property, plant and equipment, net	174,444	182,398
Other long-term assets	523	64
Total assets	<u>\$ 321,231</u>	<u>\$ 296,045</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 34,898	\$ 19,906
Accrued employment costs	4,075	3,803
Current portion of long-term debt	4,707	4,579
Other current liabilities	1,268	898
Total current liabilities	44,948	29,186
Long-term debt	75,006	67,998
Deferred income taxes	9,605	17,629
Other long-term liabilities	4	12
Total liabilities	129,563	114,825
Commitments and contingencies (Note 11)		
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; 20,000,000 shares authorized; 7,550,642 and 7,508,154 shares issued, respectively	8	8
Additional paid-in capital	58,514	56,397
Other comprehensive income (loss)	(93)	21
Retained earnings	135,529	127,084
Treasury stock, at cost; 292,855 common shares held, respectively	(2,290)	(2,290)
Total stockholders' equity	191,668	181,220
Total liabilities and stockholders' equity	<u>\$ 321,231</u>	<u>\$ 296,045</u>

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, (dollars in thousands)	2017	2016	2015
<b>Operating Activities:</b>			
Net income (loss)	\$ 7,610	\$ (5,347)	\$ (20,672)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	18,823	18,533	18,608
Deferred income tax	(7,593)	(3,525)	(12,060)
Write-off of deferred financing costs	-	768	-
Share-based compensation expense, net	1,564	1,405	1,865
Net gain on asset disposals	(70)	(340)	-
Goodwill impairment	-	-	20,268
Changes in assets and liabilities:			
Accounts receivable, net	(5,567)	(1,754)	11,374
Inventory, net	(27,378)	(9,155)	15,929
Accounts payable	14,178	7,096	(13,009)
Accrued employment costs	272	547	(2,755)
Income taxes	77	200	(248)
Other, net	(811)	(22)	(130)
Net cash provided by operating activities	1,105	8,406	19,170
<b>Investing Activities:</b>			
Capital expenditures	(7,996)	(4,376)	(9,551)
Proceeds from sale of property, plant and equipment	70	1,571	-
Proceeds from insurance recovery	-	-	218
Net cash used in investing activities	(7,926)	(2,805)	(9,333)
<b>Financing Activities:</b>			
Borrowings under revolving credit facility	350,314	241,152	73,515
Payments on revolving credit facility	(338,836)	(259,243)	(80,253)
Borrowings under term loan facility	-	30,000	-
Payments on term loan facility, capital leases, and convertible notes	(5,078)	(17,448)	(3,000)
Proceeds from the issuance of common stock	553	651	455
Payment of deferred financing costs	-	(750)	(584)
Net cash provided by (used in) financing activities	6,953	(5,638)	(9,867)
Net increase (decrease) in cash	132	(37)	(30)
Cash at beginning of period	75	112	142
Cash at end of period	\$ 207	\$ 75	\$ 112
<b>Supplemental Disclosure of Cash Flow Information:</b>			
Interest paid	\$ 4,027	\$ 3,451	\$ 2,384
Income taxes paid (refunded), net	\$ (85)	\$ (201)	\$ 165

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common shares outstanding	Common stock	Additional paid-in capital	Retained earnings	Treasury shares	Accumulated other comprehensive income (loss)	Treasury stock
<i>(dollars in thousands)</i>							
<b>Balance at January 1, 2015</b>	7,078,163	\$ 7	\$ 52,810	\$ 153,103	292,855	\$ -	\$ (2,290)
Common stock issuance under							
Employee Stock Purchase Plan	15,675	-	188	-	-	-	-
Exercise of stock options	17,500	-	267	-	-	-	-
Tax impact on RSUs vested and options exercised or forfeited	-	-	(301)	-	-	-	-
Share-based compensation	-	-	1,865	-	-	-	-
Net loss	-	-	-	(20,672)	-	-	-
<b>Balance at December 31, 2015</b>	7,111,338	7	54,829	132,431	292,855	-	(2,290)
Common stock issuance under							
Employee Stock Purchase Plan	17,268	-	151	-	-	-	-
Capital investment	73,207	1	500	-	-	-	-
Tax impact on RSUs vested and options exercised or forfeited	-	-	(488)	-	-	-	-
Share-based compensation	13,486	-	1,405	-	-	-	-
Net gain on derivative instruments	-	-	-	-	-	21	-
Net loss	-	-	-	(5,347)	-	-	-
<b>Balance at December 31, 2016</b>	7,215,299	8	56,397	127,084	292,855	21	(2,290)
Common stock issuance under							
Employee Stock Purchase Plan	16,185	-	226	-	-	-	-
Exercise of stock options	22,125	-	327	-	-	-	-
Share-based compensation	4,178	-	1,564	-	-	-	-
Net loss on derivative instruments	-	-	-	-	-	(114)	-
Retroactive adoption of ASU 2016-09	-	-	-	835	-	-	-
Net income	-	-	-	7,610	-	-	-
<b>Balance at December 31, 2017</b>	7,257,787	\$ 8	\$ 58,514	\$ 135,529	292,855	\$ (93)	\$ (2,290)

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 1: Significant Accounting Policies**

*Basis of Consolidation.* The consolidated financial statements include the accounts of Universal Stainless & Alloy Products, Inc. and its wholly-owned subsidiaries (collectively, “we,” “us,” “our,” or the “Company”). All intercompany accounts and transactions have been eliminated in consolidation. We have no interests in any unconsolidated entity.

*Use of Estimates.* The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles (“GAAP”) requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. The estimates and assumptions used in these consolidated financial statements are based on known information available as of the balance sheet date. Actual results could differ from those estimates.

*Concentration of Credit Risk.* We limit our credit risk on accounts receivable by performing ongoing credit evaluations and, when deemed necessary, require letters of credit, guarantees or cash collateral. During 2017, we had one customer which accounted for more than 17% of our total net sales and for 3% of our total accounts receivable balance. During 2016, we had one customer that accounted for more than 20% of our total net sales and for 4% of our total accounts receivable balance. During 2015, we had one customer that accounted for more than 16% of our total net sales and for 7% of our total accounts receivable balance.

*Accounts Receivable and Allowance for Doubtful Accounts.* Accounts receivable are presented net of the allowance for doubtful accounts on our consolidated balance sheets. We market our products to a diverse customer base, primarily throughout the United States. International sales approximated 9%, of 2017, 2016 and 2015 total net sales. The allowance for doubtful accounts includes specific reserves for the value of outstanding invoices issued to customers that are deemed potentially not collectible. Receivables are charged-off to the allowance when they are deemed to be uncollectible. Bad debt expense, net of recoveries, was \$0.2 million for the years ended December 31, 2017, 2016 and 2015.

*Inventories.* Inventories are stated at the lower of cost or market with cost principally determined by the weighted average cost method. Such costs include the acquisition cost for raw materials and supplies, direct labor and applied manufacturing overhead within the guidelines of normal plant capacity. We reserve for slow-moving inventory and inventory that is being evaluated under our quality control process. The reserves are based upon management’s expected method of disposition. The net change in inventory reserves for the year ended December 31, 2017 was an increase of \$0.7 million, primarily due to the aging of slow moving material. The net change in inventory reserves for the years ended December 31, 2016 and 2015 was a \$0.5 million increase and a \$0.1 million decrease, respectively.

Included in inventory are operating materials consisting of forge dies and production molds and rolls that are consumed over their useful lives. During the years ended December 31, 2017, 2016 and 2015, we amortized these operating materials in the amount of \$2.1 million, \$1.6 million and \$1.8 million, respectively. This expense is recorded as a component of cost of products sold on the consolidated statements of operations and included as a part of our total depreciation and amortization on the consolidated statements of cash flows.

*Property, Plant and Equipment.* Property, plant and equipment is recorded at cost or its fair value at acquisition date. No depreciation is recognized on assets until they are placed in service. Assets which have been retired or disposed of are removed from cost and accumulated depreciation accounts, with the gain or loss generally reflected in cost of goods sold on the consolidated statements of operations.

Major equipment maintenance costs are capitalized as incurred and included in other current assets. These costs are amortized to cost of products sold within a twelve to thirty-six month period. Other maintenance costs are expensed as incurred. Costs of improvements and renewals are capitalized. Our maintenance expense for the years ended December 31, 2017, 2016 and 2015 was \$18.8 million, \$15.7 million and \$16.9 million, respectively, which is included as a component of cost of products sold.

Depreciation is computed using the straight-line method based on the estimated useful lives of the related assets. The estimated useful lives of buildings and land improvements are between 10 and 39 years, and the estimated useful lives of machinery and equipment are between five and 20 years. Our total depreciation expense for the years ended December 31, 2017, 2016 and 2015 was \$16.5 million, \$16.7 million and \$15.8 million, respectively, of which \$16.2 million, \$16.3 million and \$15.4 million, respectively, was included as a component of cost of products sold while the remainder was included in selling, general and administrative expense.

*Long-Lived Asset Impairment.* Long-lived assets, including property, plant and equipment and intangible assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in relation to the operating performance and future undiscounted cash flows of the underlying assets. Adjustments are made if the sum of expected future cash flows is less than the book value. Based on management's assessment of the carrying values of long-lived assets, no impairment reserve was deemed necessary as of December 31, 2017, 2016 and 2015. Our intangible assets were fully amortized at December 31, 2015.

*Deferred Financing Costs.* Deferred financing costs are amortized up to the maturity date of the related financial instrument using the straight-line method, which approximates the effective interest method. Deferred financing cost amortization for the years ended December 31, 2017, 2016 and 2015 was \$0.3 million, \$0.2 million and \$0.6 million, respectively, and is included as a component of interest expense and other financing costs on the consolidated statements of operations and included as part of total depreciation and amortization on the consolidated statements of cash flows. In the first quarter of 2016, the Company wrote off \$0.8 million of deferred financing costs related to the prior credit facility due to entering into the new Credit Agreement on January 21, 2016. These costs are included as a component of interest expense and other financing costs on the consolidated statements of operations and are broken out separately on the consolidated statement of cash flows. At December 31, 2017 and 2016, we had \$0.7 million and \$1.0 million, respectively, of unamortized deferred financing costs included on our consolidated balance sheets as a reduction of debt.

*Goodwill.* Goodwill, which represents the excess of cost over net tangible and identifiable intangible assets of acquired businesses, is stated at fair value. Goodwill is not amortized, but evaluated or tested annually for impairment or more frequently if any event indicates that the carrying amount of goodwill may be impaired.

We recorded a goodwill impairment in the third quarter of 2015. Due to a significant and sustained drop in our share price and continued weak operating results driven by slower market conditions, the Company determined that an interim goodwill impairment review was required in accordance with Accounting Standards Codification ("ASC") 350, "Intangibles – Goodwill and Other". Based on the guidance in ASC 350, the Company performed the two-step quantitative analysis. Under the first step, the Company determined that the carrying value exceeded the fair value of the Company and, therefore, the second step of the analysis was performed. The fair value was estimated using a combination of an income approach, which estimates fair value based on projected discounted cash flows and a market approach, which estimates fair value using the recent stock price of the Company. The income approach is supported by a Level 3 fair value measurement, which means that the valuation reflects the Company's own estimates of market participant assumptions.

The market approach is supported by a Level 1 fair value measurement which is the observable stock price of the Company. The income approach was weighted 30% and the market approach was weighted 70% in determining the fair value. This assessment resulted in the recognition of a non-cash goodwill impairment charge of \$20.3 million, which eliminated all goodwill from the balance sheet at September 30, 2015.

*Stockholders' Equity.* We have never paid a cash dividend on our common stock. Our Credit Agreement does not permit the payment of cash dividends.

*Revenue Recognition.* Revenue from the sale of products is recognized when both risk of loss and title have transferred to the customer, which in most cases coincides with shipment of the related products, and collection is reasonably assured. Revenue from conversion services is recognized when the performance of the service is complete. Invoiced shipping and handling costs are also accounted for as revenue. Customer claims, which are not material, are accounted for primarily as a reduction to gross sales after the matter has been researched and an acceptable resolution has been reached.

The following table presents net sales by product line:

<b>For the years ended December 31,</b> <i>(dollars in thousands)</i>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Stainless steel	\$ 139,603	\$ 112,118	\$ 135,945
High-strength low alloy steel	15,693	13,180	16,045
Tool steel	32,279	19,179	16,197
High-temperature alloy steel	12,435	6,057	7,557
Conversion services and other sales	2,633	3,900	4,916
Total net sales	\$ 202,643	\$ 154,434	\$ 180,660

*Income Taxes.* Deferred income taxes are provided for net operating losses, unused tax credits earned and the tax effect of temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements. We use the liability method to account for income taxes, which requires deferred taxes to be recorded at the statutory rate expected to be in effect when the taxes are paid. Valuation allowances are provided for a deferred tax asset when it is more likely than not that the asset will not be realized. Income tax penalties and interest are included in the provision for income tax expense.

We evaluate the tax positions taken or expected to be taken in our tax returns. A tax position should only be recognized in the financial statements if we determine that it is more-likely-than-not that the tax position will be sustained upon examination by the tax authorities, based upon the technical merits of the position. For those tax positions that should be recognized, the measurement of a tax position is determined as being the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. We believe there are no material uncertain tax positions at December 31, 2017, 2016 and 2015.

We use the with-and-without method to account for excess tax benefits recognized as a result of the exercise of employee stock options. Under the with-and-without method, excess tax benefits related to share-based compensation are not deemed to be realized until after the utilization of all other tax benefits available to us, which are also subject to applicable limitations.

*Share-based Compensation Plans.* We recognize compensation expense based on the grant-date fair value of the awards. The fair value of the stock option grants is estimated on the date of grant using the Black-Scholes option-pricing model, and is recognized ratably over the service/vesting period of the award. The fair value of time-based restricted stock grants and restricted stock units is calculated using the market value of the stock on the date of issuance, and is recognized ratably over the service/vesting period of the award.

*Net Income (Loss) per Common Share.* Net income (loss) per common share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per common share is computed by dividing net income (loss), adjusted to include interest expense (tax effected) for the convertible notes by the weighted-average number of common shares outstanding plus all dilutive potential common shares outstanding during the period. All shares that were issuable under our outstanding Notes were considered outstanding for our diluted net income per common share computation, using the "if converted" method of accounting from the date of issuance.

*Treasury Stock.* We account for treasury stock under the cost method and include such shares as a reduction of total stockholders' equity.

*Financial Instruments.* Financial instruments held by us include cash, accounts receivable, and accounts payable and current and long-term debt. The carrying value of cash, accounts receivable and accounts payable is considered to be representative of fair value because of the short maturity of these instruments. Refer to Note 5 for fair value disclosures of our financial instruments.

*Segment Reporting.* Our operating facilities are integrated, and therefore our chief operating decision maker ("CODM") views the Company as one business unit. Our CODM sets performance goals, assesses performance and makes decisions about resource allocations on a consolidated basis. As a result of these factors, as well as the nature of the financial information available which is reviewed by our CODM, we maintain one reportable segment.

### *Recently Adopted Accounting Pronouncement*

Effective January 1, 2017, we adopted the Financial Accounting Standards Board (“FASB”) Accounting Standard Update (“ASU”) 2016-09 “Improvements to Employee Share-Based Payment Accounting”. The ASU includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. Excess tax benefits for share-based payments will be recorded as a reduction of income taxes and reflected in operating cash flows upon the adoption of this ASU, eliminating additional paid in capital (“APIC”) pools. In addition, the guidance allows for a policy election to account for forfeitures as they occur rather than on an estimated basis. This ASU also eliminates the requirement that excess tax benefits be realized before companies can recognize them. As a result of the implementation of this guidance, we recorded an adjustment to retained earnings of \$0.8 million and a corresponding deferred tax asset for the cumulative effect of excess tax benefits that were not previously recognized. We recorded \$0.4 million of tax expense as discrete items in the twelve months ended December 31, 2017 for the expiration of stock options. This amount would have been recorded to APIC under previous guidance. We have elected to account for forfeitures as they occur.

Effective January 1, 2017, we adopted the FASB ASU 2015-11 “Simplifying the Measurement of Inventory”. This ASU simplifies the guidance on the subsequent measurement of inventory, excluding inventory measured using last-in, first out or the retail inventory method. Under the new standard, inventory should be valued at the lower of cost or net realizable value. The implementation of this guidance did not have a material impact on our financial statements.

### *Recently Issued Accounting Pronouncements*

The Company considers the applicability and impact of all ASUs. Recently issued ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15 “Classification of Certain Cash Receipts and Cash Payments”. This ASU addresses how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, “Statement of Cash Flows”, and other Topics. ASU 2016-15 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2017. We do not expect the adoption of this guidance to have a material impact on the financial statements.

In February 2016, the FASB issued ASU 2016-2 “Leases (Topic 842)”. The ASU requires lessees to recognize most leases on their balance sheet as a right-of-use asset and a lease liability. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. The criteria for evaluating are similar to those applied in current leases accounting. This guidance is effective for annual and interim reporting periods beginning after December 15, 2018 with early adoption permitted. We do not expect the adoption of this guidance to have a material impact on the financial statements due to having a limited number of operating leases.

In May 2014, the FASB issued ASU 2014-09 “Revenue from Contracts with Customers (Topic 606)”. This topic converges the guidance within U.S. GAAP and International Financial Reporting Standards and supersedes Accounting Standards Codification 605, Revenue Recognition. The new standard requires companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively, and improve guidance for multiple-element arrangements. The new guidance is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. We have evaluated this guidance, and determined that the accounting treatment would change for a small, select group of the products we produce. We do not expect that implementation in the first quarter of 2018 using the modified retrospective approach will have a material effect on revenue, gross margin or operating income.

**Note 2: Inventory**

The major classes of inventory are as follows:

<b>December 31,</b>	<b>2017</b>	<b>2016</b>
<i>(dollars in thousands)</i>		
Raw materials and starting stock	\$ 8,527	\$ 5,769
Semi-finished and finished steel products	99,820	77,510
Operating materials	10,850	9,893
Gross inventory	119,197	93,172
Inventory reserves	(2,534)	(1,830)
Total inventory, net	\$ 116,663	\$ 91,342

**Note 3: Property, Plant and Equipment**

Property, plant and equipment consists of the following:

<b>December 31,</b>	<b>2017</b>	<b>2016</b>
<i>(dollars in thousands)</i>		
Land and land improvements	\$ 7,377	\$ 7,377
Buildings	50,058	49,445
Machinery and equipment	252,010	245,694
Construction in progress	5,239	3,610
Gross property, plant and equipment	314,684	306,126
Accumulated depreciation	(140,240)	(123,728)
Property, plant and equipment, net	\$ 174,444	\$ 182,398

**Note 4: Long-Term Debt**

Long-term debt consists of the following:

<b>December 31,</b>	<b>2017</b>	<b>2016</b>
<i>(dollars in thousands)</i>		
Term loan	\$ 21,541	\$ 26,273
Revolving credit facility	38,024	26,546
Notes	19,000	19,000
Capital leases	1,897	1,763
Swing loan credit facility	-	-
	80,462	73,582
Less: current portion of long-term debt	(4,707)	(4,579)
Less: deferred financing costs	(749)	(1,005)
Long-term debt	\$ 75,006	\$ 67,998

**Credit Facility**

On January 21, 2016, we entered into a new Revolving Credit, Term Loan and Security Agreement (the "Credit Agreement") with PNC Bank, National Association, as administrative agent and co-collateral agent, Bank of America, N.A., as co-collateral agent, and PNC Capital Markets LLC, as sole lead arranger and sole bookrunner. The Credit Agreement provides for a senior secured revolving credit facility not to exceed \$65.0 million (the "Revolving Credit Facility") and a senior secured term loan facility (the "Term Loan") in the amount of \$30.0 million (together with the Revolving Credit Facility, the "Facilities"). The Credit Agreement also provides for a letter of credit sub-facility not to exceed \$10.0 million and a swing loan sub-facility not to exceed \$6.5 million. The Company may request to increase the maximum aggregate principal amount of borrowings under the Revolving Credit Facility by \$25.0 million prior to January 21, 2020. The Credit Agreement replaced the previous credit

agreement that was in place prior to January 21, 2016. The Company was in compliance with all applicable financial covenants set forth in the previous credit agreement as of the date of its entrance into the Credit Agreement.

The Facilities, which expire upon the earlier of (i) January 21, 2021 or (ii) the date that is 90 days prior to the scheduled maturity date of the Notes (as defined below) (in either case, the "Expiration Date"), are collateralized by a first lien in substantially all of the assets of the Company and its subsidiaries, except that no real property is collateral under the Facilities other than the Company's real property in North Jackson, Ohio.

Availability under the Revolving Credit Facility is based on eligible accounts receivable and inventory. The Company is required to pay a commitment fee of 0.25% based on the daily unused portion of the Revolving Credit Facility.

With respect to the Term Loan, the Company makes quarterly installment payments of principal of approximately \$1.1 million, plus accrued and unpaid interest, on the first day of each fiscal quarter. To the extent not previously paid, the Term Loan will become due and payable in full on the Expiration Date.

Amounts outstanding under the Facilities, at the Company's option, will bear interest at either a base rate plus a margin or a rate based on LIBOR plus a margin, in either case calculated in accordance with the terms of the Credit Agreement. Interest under the Credit Agreement is payable monthly. We elected to use the LIBOR based rate for the majority of the debt outstanding under the Facilities for the twelve months ended December 31, 2017, which was 3.37% on our Revolving Credit Facility and 3.87% for the Term Loan at December 31, 2017.

On October 23, 2017, the Company announced that it obtained a favorable amendment to the Credit Agreement that lowers the Company's interest on its senior bank borrowings by 75 basis points. At current borrowing levels, this change will reduce annual interest expense by approximately \$0.4 million. In addition, several terms of the Credit agreement were amended and will provide additional liquidity to the Company.

The Credit Agreement contains customary affirmative and negative covenants. As of December 31, 2016, and as of the end of each fiscal quarter ending thereafter, the Company must maintain a fixed charge coverage ratio of not less than 1.10 to 1.0, in each case measured on a rolling four-quarter basis calculated in accordance with the terms of the Credit Agreement. The October 23, 2017 amendment made no changes to the financial covenants. We were in compliance with our covenants under the Credit Agreement at December 31, 2017 and 2016.

At December 31, 2017, we had deferred financing costs of approximately \$0.7 million, and amortized \$0.3 million of deferred financing costs for the twelve months ended December 31, 2017. For the twelve months ended December 31, 2016, we paid deferred financing costs of \$0.8 million related to the Credit Agreement, wrote off \$0.8 million of fees related to the previous credit agreement and amortized \$0.2 million of deferred financing costs.

Pursuant to the terms of the Credit Agreement, the Company completed the issuance of 73,207 shares of the Company's common stock to certain directors and officers of the Company on February 2, 2016. The aggregate purchase price of the stock was \$0.5 million based on the average of the high and low reported trading prices for the Company's common stock on The NASDAQ Stock Market on February 1, 2016.

The aggregate annual principal payments due under our Credit Agreement at December 31, 2017, are as follows:

*(dollars in thousands)*

2018	\$	4,286
2019		4,286
2020		4,286
2021		46,707
2022		-
	\$	59,565

## Notes

On January 21, 2016, the Company entered into the Notes in the aggregate principal amount of \$20.0 million, each in favor of Gorbett Inc. (the "Holder"). The Notes amended and restated the Convertible Notes. The Company's obligations under the Notes are collateralized by a second lien on the same assets of the Company that collateralize the obligations of the Company under the Facilities. The Notes mature on March 17, 2019, and the maturity date may be extended, at the Company's option, to March 17, 2020 and further to March 17, 2021. If the Company elects to extend the maturity date of the Notes to March 17, 2020, principal payments in the aggregate of \$2.0 million will be required within 10 days of March 7, 2019. If the Company elects to extend the maturity date of the Notes further to March 17, 2021, principal payments in the aggregate of \$2.0 million will be required within 10 days of March 7, 2020.

The Notes bore interest at a rate of 4.0% per year through and including August 17, 2016. The Notes bear interest at a rate of 5.0% per year from August 18, 2016 through and including August 17, 2017 and a rate of 6.0% per year from and after August 18, 2017. Through and including June 18, 2017, all accrued and unpaid interest is payable semi-annually in arrears on each June 18 and December 18. After June 18, 2017, all accrued and unpaid interest is payable quarterly in arrears on each September 18, December 18, March 18 and June 18.

The Holder could have elected at any time on or prior to August 17, 2017 to convert all or any portion of the outstanding principal amount of the Notes which is an integral multiple of \$100,000. The Notes are convertible into shares of common stock and, in certain circumstances, cash, securities and/or other assets. The Notes were convertible based on an initial conversion rate of 21.2 shares of Common Stock per \$1,000 principal amount of the Notes (equivalent to an initial conversion price of \$47.1675 per share). The conversion rate and the conversion price associated with the Notes could have been adjusted in certain circumstances. The Holder did not exercise the conversion rights prior to their expiration, and the rights are now void.

In conjunction with the issuance of the Notes on January 21, 2016, we made principal prepayments on the Notes totaling \$1.0 million.

## Capital Leases

Throughout 2017, the company entered into four capital leases for office and manufacturing equipment, with lease terms between three and six years. The assets are included in Property, plant and equipment, net on the Consolidated Balance Sheet and are depreciated over the term of each lease. The long-term component of the capital lease obligations is included in Long-term debt and the current component is included in Current portion of long-term debt. These amounts have been excluded from the Consolidated Statement of Cash Flows as they are non-cash. The net present value of the minimum lease payments, at inception, was \$0.5 million.

On February 1, 2016 and March 1, 2016, the Company entered into capital leases for equipment, each with a term of five years. The net present value of the minimum lease payments, at inception, was \$2.0 million.

As of December 31, 2017, future minimum lease payments applicable to capital leases were as follows:

2018		591
2019		591
2020		569
2021		467
2022		56
2023		15
Total minimum capital lease payments	\$	2,289
Less amounts representing interest		(392)
Present value of net minimum capital lease payments	\$	1,897
Less current obligation		(422)
Total long-term capital lease obligation	\$	1,475

There were no capital lease obligations at December 31, 2015. Accumulated amortization of capital lease assets as of December 31, 2017 was \$0.7 million, of which \$0.4 million and \$0.3 million was amortized for the twelve months ended December 31, 2017 and 2016, respectively. Capital lease amortization is included in cost of products sold in the Consolidated Statement of Operations.

#### **Note 5: Fair Value Measurements**

The fair value hierarchy has three levels based on the inputs used to determine fair value, which are as follows:

*Level 1* — Unadjusted quoted prices available in active markets for the identical assets or liabilities at the measurement date.

*Level 2* — Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

*Level 3* — Unobservable inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

The fair value hierarchy requires the use of observable market data when available. In instances where the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input significant to the fair value measurement in its entirety. Our assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

The carrying amounts of our cash, accounts receivable and accounts payable approximated fair value at December 31, 2017 and 2016 due to their short-term nature (Level 1). The fair value of the Term Loan and Revolver at December 31, 2017 and 2016 approximated the carrying amount as the interest rate is based upon floating short-term interest rates (Level 2). At December 31, 2017 and 2016, the fair value of our Notes was approximately \$18.8 million and \$18.4 million, respectively (Level 2).

#### **Note 6: Derivatives and Hedging**

The Company invoices certain customers in foreign currencies. In order to mitigate the risks associated with fluctuations in exchange rates with the US Dollar, during 2017 and 2016, the Company entered into foreign exchange forward contracts for a portion of these sales and has designated these contracts as cash flow hedges. The notional value of these contracts at December 31, 2017 was \$4.5 million and an unrealized loss of \$93,000 was recorded in accumulated other comprehensive loss at December 31, 2017. The notional value of these contracts at December 31, 2016 was \$2.4 million and an unrealized gain of \$21,000 was recorded in accumulated other comprehensive income at December 31, 2016.

**Note 7: Income Taxes**

The income tax benefit attributable to continuing operations during the years ended December 31, 2017, 2016 and 2015 is as follows:

Components of the benefit from income taxes are as follows:

<b>For the years ended December 31,</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<i>(dollars in thousands)</i>			
Current (benefit) provision			
Federal	\$ (28)	\$ 8	\$ (105)
State	21	5	56
Deferred provision (benefit)			
Federal	114	(3,501)	(11,843)
State	568	(38)	(252)
Benefit related to a change in enacted tax law	(8,276)	-	-
Benefit from income taxes	<u>\$ (7,601)</u>	<u>\$ (3,526)</u>	<u>\$ (12,144)</u>

A reconciliation of the federal statutory tax amount and our tax benefit is as follows:

<b>For the years ended December 31,</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Tax provision (benefit) at statutory tax rate	\$ 3	\$ (3,106)	\$ (11,486)
State income taxes, net of federal impact	3	(39)	(182)
Research and development tax credit	(425)	(439)	(517)
Valuation allowance, net of federal impact	475	-	-
Impact of changes in enacted tax law	(8,276)	-	-
Adjustments to deferred taxes	506	4	(61)
Other, net	113	54	102
Benefit from income taxes	<u>\$ (7,601)</u>	<u>\$ (3,526)</u>	<u>\$ (12,144)</u>

The Tax Cuts and Jobs Act (the "Tax Act") was signed into law on December 22, 2017. The Tax Act changed many aspects of U.S. corporate income taxation and included reduction of the corporate income tax rate from 35% to 21%, effective for tax years beginning in 2018. We recognized the tax effects of the Tax Act in the year ended December 31, 2017 and recorded \$8.3 million in tax benefits, which relates almost entirely to the remeasurement of deferred tax liabilities to the 21% tax rate. The Company expects the Tax Act changes to result in an effective tax rate of approximately 20% in 2018 and thereafter. Upon completion of our 2017 U.S. income tax return in 2018 we may identify additional remeasurement adjustments to our recorded deferred tax liabilities. We will continue to assess our provision for income taxes as future guidance is issued but do not currently anticipate significant revisions will be necessary. Any such revisions will be treated in accordance with the measurement period guidance outlined in Staff Accounting Bulletin No. 118.

In 2017, we recorded a \$0.5 million valuation allowance against our Pennsylvania deferred tax assets due to a change in Pennsylvania tax law. We continue to record a full valuation allowance against our New York deferred tax assets due to the zero percent (0%) state income tax rate for qualified manufacturers. We have determined that federal and other state deferred tax assets are expected to be realized and have not recorded any additional valuation allowances.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our net deferred taxes related to continuing operations are as follows:

<b>December 31,</b>	<b>2017</b>	<b>2016</b>
<i>(dollars in thousands)</i>		
Noncurrent deferred income taxes:		
Federal and state tax carryforwards	\$ 12,894	\$ 22,533
Inventory	549	649
Share-based compensation	2,186	3,506
Receivables	194	182
Accrued liabilities	349	689
Other	32	82
Total deferred tax assets	<u>\$ 16,204</u>	<u>\$ 27,641</u>
Deferred tax liabilities:		
Property, plant and equipment	\$ 24,970	\$ 44,498
Other	839	772
Total deferred tax liabilities	<u>\$ 25,809</u>	<u>\$ 45,270</u>
Total noncurrent deferred income taxes	<u>\$ 9,605</u>	<u>\$ 17,629</u>

We file a U.S. federal income tax return and various state income tax returns. For federal income tax purposes, we had \$45.0 million and \$53.0 million of net operating loss carryforwards at December 31, 2017 and 2016, respectively. The net operating loss carryforwards begin to expire in 2031. In addition, we have credit carryforwards associated with our research and development activities of \$3.1 million and \$2.7 million as of December 31, 2017 and 2016, respectively. The research and development credit carryforwards begin to expire in 2030.

We have state net operating loss carryforwards of \$9.1 million and \$9.2 million, of which \$7.4 million and \$0.0 million, respectively, have a valuation allowance, and state credit carryforwards of \$0.2 and \$0.3 million at December 31, 2017 and 2016, respectively. The valuation allowance was \$2.5 million and \$1.6 million at December 31, 2017 and 2016, respectively. The state net operating loss carryforwards begin to expire in 2031. The state credit carryforwards begin to expire in 2027.

We are routinely under audit by federal or state authorities. Our federal tax returns are subject to examination by the IRS for tax years after 2013. We are subject to examination by most state tax jurisdictions for tax years after 2013.

**Note 8: Net Income (Loss) Per Common Share**

The computation of basic and diluted net income (loss) per common share for the years ended December 31, 2017, 2016 and 2015 is as follows:

<b>For the years ended December 31,</b> <i>(dollars in thousands, except per share amounts)</i>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Numerator:</b>			
Net income (loss)	\$ 7,610	\$ (5,347)	\$ (20,672)
Adjustment for interest expense on convertible notes	-	-	-
Net income (loss), as adjusted	<u>\$ 7,610</u>	<u>\$ (5,347)</u>	<u>\$ (20,672)</u>
<b>Denominator:</b>			
Weighted average number of shares of common stock outstanding	7,225,697	7,193,300	7,069,954
Weighted average effect of dilutive stock options and other stock compensation	149,108	-	-
Weighted average effect of assumed conversion of convertible notes	-	-	-
Weighted average number of shares of common stock outstanding, as adjusted	<u>7,374,805</u>	<u>7,193,300</u>	<u>7,069,954</u>
<b>Net income (loss) per common share:</b>			
Basic earnings (loss) per share	<u>\$ 1.05</u>	<u>\$ (0.74)</u>	<u>\$ (2.92)</u>
Diluted earnings (loss) per share	<u>\$ 1.03</u>	<u>\$ (0.74)</u>	<u>\$ (2.92)</u>

An adjustment for interest expense on convertible notes was excluded from the income per share calculation for the years ended December 31, 2017, 2016 and 2015 as a result of the convertible notes being antidilutive.

There were 590,350, 844,000 and 635,200 options to purchase shares of common stock, at an average price of \$30.63, \$27.13 and \$30.67 for the years ended December 31, 2017, 2016 and 2015, respectively, that were not included in the computation of diluted net income (loss) per common share because their respective exercise prices were greater than the average market price of our common stock. The calculation of diluted earnings per share for the year ended December 31, 2017 excludes 268,351 shares, and for the year ended December 31, 2016 excludes 408,459 shares, and for the year ended December 31, 2015 excludes 428,140 shares, for the assumed conversion of the Notes as a result of the convertible notes being antidilutive. In addition, the calculation of diluted earnings per share for the year ended December 31, 2016 and 2015 would have included 6,575 and 21,774 shares, respectively, for the assumed exercise of options and restricted stock units under our share incentive plans except that we were in a net loss position and the impact would have been antidilutive.

## Note 9: Incentive Compensation Plans

At December 31, 2017, we had four incentive compensation plans that are described below:

### Universal Stainless & Alloy Products, Inc. 2017 Equity Incentive Plan

We maintain the Universal Stainless & Alloy Products, Inc. 2017 Equity Incentive Plan (the “2017 Plan”), which was approved by our stockholders in May 2017. The 2017 Plan permits the issuance of stock options, restricted stock, restricted stock units, other stock-based awards and performance awards to officers, employees, non-employee directors, and consultants and advisors to the Company. At inception, there were 568,357 shares authorized for issuance under the 2017 Plan.

When adopted, the 2017 Plan replaced the Omnibus Incentive Plan (“OIP”). Any awards outstanding under the OIP will remain subject to and be paid under the OIP. No new awards will be granted under the OIP. Any shares subject to outstanding awards under the OIP that cease to be subject to such awards after the adoption of the 2017 Plan will increase the shares authorized under the 2017 Plan. At December 31, 2017, there were 631,624 shares available for grant under the 2017 Plan.

### Omnibus Incentive Plan

We maintain the OIP which was approved by our stockholders in May 2012. The OIP permits the issuance of stock options, restricted stock, restricted stock units and other stock-based awards to non-employee directors, other than those directors owning more than 5% of our outstanding common stock, consultants, officers and other key employees who are expected to contribute to our future growth and success. With the adoption of the 2017 Plan, no shares of common stock were available for grant at December 31, 2017 under OIP.

## Stock Options

The option price for options granted under the both the 2017 Plan and OIP is equal to the fair market value of the common stock at the date of grant. Options granted to non-employee directors vest over a three-year period, and options granted to employees vest over a four-year period. All options under both the 2017 Plan and OIP will expire no later than ten years after the grant date. Forfeited options may be reissued and are included in the amount available for grants.

A summary of stock option activity as of and for the year ended December 31, 2017 is presented below:

	Non-vested stock options outstanding		Stock options outstanding		
	Number of shares	Weighted- average grant-date fair value	Number of shares	Weighted- average exercise price	Weighted- average contractual term (years)
<b>Outstanding at December 31, 2016</b>	327,275	\$ 8.05	934,600	\$ 23.62	
Stock options granted	99,900	9.60	99,900	19.84	
Stock options exercised	-	-	(22,125)	14.77	
Stock options vested	(127,700)	9.73	-	-	
Stock options forfeited	(52,275)	7.44	(128,325)	22.82	
<b>Outstanding at December 31, 2017</b>	<u>247,200</u>	<u>\$ 7.94</u>	<u>884,050</u>	<u>\$ 23.53</u>	<u>5.8</u>
<b>Exercisable at December 31, 2017</b>			<u>636,850</u>	<u>\$ 26.56</u>	<u>4.5</u>

Proceeds from stock option exercises totaled \$0.3 million and \$0.3 million for the years ended December 31, 2017 and 2015, respectively. There were no stock option exercises in 2016. Shares issued in connection with stock option exercises are issued from available authorized shares.

Based upon the closing stock price of \$21.42 at December 31, 2017, the aggregate intrinsic value of outstanding and exercisable stock options was \$2.9 million and \$1.4 million, respectively. Intrinsic value of stock options is calculated as the amount by which the market price of our common stock exceeds the exercise price of the options. The aggregate intrinsic value of stock options exercised for the years ended December 31, 2017 and 2015 was \$0.1 million and \$0.1 million, respectively. The total fair value of stock option awards vested during the years ended December 31, 2017, 2016 and 2015 was \$1.2 million, \$1.2 million and \$1.0 million, respectively.

Share-based compensation to employees and directors is recognized as compensation expense in the consolidated statements of operations based on the stock options fair value on the measurement date, which is the date of the grant. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods. The compensation expense recognized and its related tax effects are included in additional paid-in capital.

Share-based compensation expense related to stock options totaled \$1.2 million, \$1.3 million and \$1.5 million for the years ended December 31, 2017, 2016 and 2015, respectively. Share-based compensation expense is recognized ratably over the requisite service period for all stock option awards. Unrecognized share-based compensation expense related to non-vested stock option awards totaled \$1.7 million at December 31, 2017. At such date, the weighted-average period over which this unrecognized expense was expected to be recognized was 2.6 years. We recognized no tax benefit for the exercise of stock options during the years ended December 31, 2017, 2016 and 2015.

The fair value of our stock options granted is estimated on the measurement date, which is the date of grant. We use the Black-Scholes option-pricing model. Our determination of fair value of stock option awards on the date of grant is affected by our stock price as well as assumptions regarding our expected stock price volatility over the term of the awards, and actual and projected stock option exercise behaviors. The weighted-average grant-date fair value of stock options granted during the years ended December 31, 2017, 2016 and 2015 was \$9.60, \$5.85 and \$6.99, respectively.

The assumptions used to determine the fair value of stock options granted are detailed in the table below:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Risk-free interest rate	1.92% to 2.29%	1.42% to 2.39%	1.77% to 2.19%
Dividend yield	0.0%	0.0%	0.0%
Expected market price volatility	45% to 53%	51% to 53%	49% to 55%
Weighted-average expected market price volatility	47.4%	51.0%	52.6%
Expected term	5.6 to 7.5 years	5.6 to 7.5 years	5.6 to 7.5 years

The risk-free interest rate was developed using the U.S. Treasury yield curve for periods equal to the expected life of the stock options at the grant date. No dividend yield was assumed because we do not pay cash dividends on common stock and currently have no plans to pay a dividend. Expected volatility is based on the long-term historical volatility (estimated over a period equal to the expected term of the stock options) of our common stock. In estimating the fair value of stock options under the Black-Scholes option-pricing model, separate groups of employees that have similar historical exercise behavior are considered separately. The expected term of options granted represents the period of time that options granted are expected to be outstanding.

## Restricted Stock and Restricted Stock Units

A summary of restricted stock activity for the years ended December 31, 2017 and 2016 is presented below:

	Number of shares	Weighted- average grant-date fair value
<b>Balance, December 31, 2015</b>	-	\$ -
Restricted stock granted	95,000	14.75
Restricted stock forfeited	-	-
<b>Balance, December 31, 2016</b>	<b>95,000</b>	<b>14.75</b>
Restricted stock granted in May	6,780	18.00
Restricted stock granted in November	7,500	20.29
Restricted stock forfeited	(27,000)	14.96
<b>Balance, December 31, 2017</b>	<b>82,280</b>	<b>\$ 15.45</b>

As of December 31, 2015, all of the restricted shares issued in 2012 had vested. Share-based compensation expense related to restricted stock totaled \$0.4 million, \$0.1 million, and \$0.4 for the years ended December 31, 2017, 2016 and 2015, respectively.

During the year ended December 31, 2017, we granted 14,280 time-based restricted stock units to certain employees and directors. The restricted stock units vest over four years for employees and three years for directors. The fair value of the non-vested time-based restricted common stock awards was calculated using the market value of the stock on the date of issuance. During the year ended December 31, 2016, we granted 95,000 time-based restricted stock units to certain employees, which vest over two or four years. As of December 31, 2017, total unrecognized compensation cost related to non-vested time-based restricted stock units was \$0.9 million. That cost is expected to be recognized over a weighted-average period of 2.4 years.

### Employee Stock Purchase Plan

Under the 1996 Employee Stock Purchase Plan, as amended (the "Plan"), the Company is authorized to issue up to 300,000 shares of common stock to its full-time employees, nearly all of whom are eligible to participate. Under the terms of the Plan, employees can choose as of January 1 and July 1 of each year to have up to 10% of their total earnings withheld to purchase up to 100 shares of our common stock each six-month period. The purchase price of the stock is 85% of the lower of its beginning-of-the-period or end-of-the-period market prices. At December 31, 2017, we have issued 212,089 shares of common stock since the Plan's inception.

### Cash Incentive Plans

We have a variable incentive compensation plan covering certain key executives and senior management and profit-sharing plans and a key performance plan that cover the remaining employees. The variable incentive compensation plan aligns the compensation of executive officers and senior management with the performance expectations of the Board of Directors in order to motivate and reward them for the achievement of Company performance metrics. The profit-sharing plans provide for the sharing of pre-tax profits in excess of specified amounts at our Bridgeville, Dunkirk and Titusville facilities. The key performance plan provides a cash incentive for achieving certain performance metrics at our North Jackson facility. For the years ended December 31, 2017, 2016 and 2015, we expensed \$1.9 million, \$1.5 million and \$1.0 million, respectively, under these cash incentive plans of which \$1.4 million \$0.4 million and \$0.4 million, respectively, was included as a component of cost of products sold while the remainder was included in selling and administrative expense. At December 31, 2017 and 2016, we had liabilities of \$1.2 million as a component of accrued employment costs on our consolidated balance sheets related to these cash incentive plans.

**Note 10: Retirement Plans**

We have a defined contribution retirement plan (“401(k) plan”) that covers substantially all employees. Pursuant to the 401(k) plan, participants may elect to make pre-tax and after-tax contributions, subject to certain limitations imposed under the Internal Revenue Code of 1986, as amended. In addition, we make periodic contributions to the 401(k) plan based on service for the Titusville and Dunkirk hourly employees and age for North Jackson hourly employees. We make periodic contributions for the salaried employees at all locations except for North Jackson based upon their service and their individual contribution to the 401(k) plan. For North Jackson salaried employees, we make periodic contributions based upon the employee’s age and their individual contributions.

We also participate in the Steelworkers Pension Trust (the “Trust”), a multi-employer defined-benefit pension plan that is open to all hourly and salary employees associated with the Bridgeville facility. We make periodic contributions to the Trust based on hours worked at a fixed rate for each hourly employee, as determined by the collective bargaining agreement, which expires in August 2018 and a fixed monthly contribution on behalf of each salary employee. The trustees of the Trust have provided us with the latest data available for the Trust year ending December 31, 2016. As of that date, the Trust is not fully funded. We could be held liable to the Trust for our own obligations, as well as those of other employers, due to our participation in the Trust. Contribution rates could increase if the Trust is required to adopt a funding improvement plan or a rehabilitation plan, if the performance of the Trust assets do not meet expectations, or as a result of future collectively-bargained wage and benefit agreements. If we choose to stop participating in the Trust, we may be required to pay the Trust an amount based on the underfunded status of the Trust, referred to as a withdrawal liability.

The Pension Protection Act (PPA) defines a zone status for each trust. Trusts in the green zone are at least 80% funded, trusts in the yellow zone are at least 65% funded, and trusts in the red zone are generally less than 65% funded. The Trust has utilized extended amortization provisions to amortize its losses from 2008. The Trust recertified its zone status after using the extended amortization provisions as allowed by law. The Trust has not implemented a funding improvement or rehabilitation plan, nor are such plans pending. Our contributions to the Trust have not exceeded more than 5% of the total contributions to the Trust.

Pension fund	Trusts employer identification number / plan number	PPA zone status		Funding plan pending / implemented	Company contributions to the Trust (dollars in thousands)			Surcharge imposed
		2017	2016		2017	2016	2015	
		Trust	23-6648508 / 499		Green	Green	No	

The total expense of all retirement plans for the years ended December 31, 2017, 2016 and 2015 was \$1.8, \$1.6 and \$1.6 million, respectively. No other post-retirement benefit plans exist.

**Note 11: Commitments and Contingencies**

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

We, as well as other steel companies, are subject to demanding environmental standards imposed by federal, state and local environmental laws and regulations. We are not aware of any environmental condition that currently exists at any of our facilities that would cause a material adverse effect on our financial condition, results of operations or liquidity in a particular future quarter or year.

Our purchase obligations include the value of all open purchase orders with established quantities and purchase prices, as well as minimum purchase commitments, all made in the normal course of business. At December 31, 2017, our total purchase obligations were \$21.0 million, of which \$17.9 million will be due in 2018.

**Note 12: Selected Quarterly Financial Data (unaudited)**

	<u>First quarter</u>	<u>Second quarter</u>	<u>Third quarter</u>	<u>Fourth quarter</u>
<i>(dollars in thousands, except per share amounts)</i>				
2017 Data:				
Net sales	\$ 48,875	\$ 52,607	\$ 50,887	\$ 50,274
Gross margin	\$ 4,245	\$ 7,166	\$ 5,464	\$ 6,159
Operating income (loss)	\$ (484)	\$ 2,667	\$ 1,016	\$ 1,038
(Benefit) provision for income taxes	\$ (262)	\$ 369	\$ 176	\$ (7,884)
Net income (loss)	\$ (1,219)	\$ 1,228	\$ (259)	\$ 7,860
Net income (loss) per common share				
Basic	\$ (0.17)	\$ 0.17	\$ (0.04)	\$ 1.09
Diluted	\$ (0.17)	\$ 0.17	\$ (0.04)	\$ 1.06
2016 Data:				
Net sales	\$ 39,594	\$ 41,030	\$ 39,651	\$ 34,159
Gross margin	\$ 1,341	\$ 4,339	\$ 4,734	\$ 3,099
Operating income (loss)	\$ (2,497)	\$ (252)	\$ 230	\$ (1,450)
Benefit from income taxes	\$ (1,920)	\$ (437)	\$ (292)	\$ (877)
Net loss	\$ (2,440)	\$ (802)	\$ (520)	\$ (1,585)
Net loss per common share:				
Basic	\$ (0.34)	\$ (0.11)	\$ (0.07)	\$ (0.22)
Diluted	\$ (0.34)	\$ (0.11)	\$ (0.07)	\$ (0.22)

Net income (loss) per common share amounts for each quarter is required to be computed independently. As a result, their sum may not equal the total year earnings per share amounts.

**Note 13: Subsequent Events**

None

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

Our Chairman, President and Chief Executive Officer performed an evaluation of the effectiveness of our disclosure controls and procedures. Based on that evaluation, our Chairman, President and Chief Executive Officer, also in his capacity as the Principal Financial and Accounting officer, concluded that, as of the end of the fiscal year covered by this Annual Report on Form 10-K, our disclosure controls and procedures are effective. Management's Report on our internal control over financial reporting is included in Item 8 of this Annual Report on Form 10-K under the caption "Management's Report on Internal Control Over Financial Reporting" and is incorporated herein by reference. Our independent registered public accounting firm has issued a report on management's maintenance of effective internal control over financial reporting and is set forth in Item 8 of this Annual Report on Form 10-K under the caption "Report of Independent Registered Public Accounting Firm" and is incorporated herein by reference.

During the last fiscal quarter of the fiscal year ended December 31, 2017, there were no changes in our internal control over financial reporting which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. The Company is currently using qualified temporary resources to maintain its effectiveness and internal control environment within the Finance function while a new Chief Financial Officer is being recruited.

**ITEM 9B. OTHER INFORMATION**

None.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information concerning the directors of the Company is set forth in the Proxy Statement for the 2018 Annual Meeting of Stockholders (the “Proxy Statement”) to be sent to stockholders in connection with our 2018 Annual Meeting of Stockholders, under the heading “Proposal No. 1—Election of Directors,” which information is incorporated by reference. With the exception of the information specifically incorporated herein by reference, our Proxy Statement is not to be deemed filed as part of this report for the purposes of this Item.

In addition to the information set forth under the caption “Executive Officers” in Part I of this report, the information concerning our directors required by this item is incorporated and made part hereof by reference to the material appearing under the heading “Nominees for Election as Directors” in our Proxy Statement, which will be filed with the SEC, pursuant to Regulation 14A, not later than 120 days after the end of the 2017 fiscal year. Information concerning the Audit Committee and its “audit committee financial expert” required by this item is incorporated and made part hereof by reference to the material appearing under the heading “Committees of the Board of Directors” in the Proxy Statement. Information required by this item regarding compliance with Section 16(a) of the Exchange Act is incorporated and made a part hereof by reference to the material appearing under the heading “Security Ownership of Certain Beneficial Owners and Management” in the Proxy Statement. Information concerning the executive officers of the Company is contained in Part I of this Annual Report on Form 10-K under the caption “Executive Officers.”

We have adopted a Code of Business Conduct and Ethics that applies to all directors and employees, including its principal executive officer and principal financial officer. A copy is available, free of charge, through our website at <http://www.univstainless.com>. Information on our website is not part of this Annual Report on Form 10-K. We intend to timely disclose any amendment of or waiver under the Code of Business Conduct and Ethics on our website and will retain such information on our website as required by applicable SEC rules.

**ITEM 11. EXECUTIVE COMPENSATION**

The information concerning executive compensation is set forth in the Proxy Statement under the heading “Executive Compensation,” which information is incorporated by reference. With the exception of the information specifically incorporated herein by reference, the Proxy Statement is not to be deemed filed as part of this report for the purposes of this Item.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information concerning security ownership of certain beneficial owners and management is set forth in the Proxy Statement under the heading “Security Ownership of Certain Beneficial Owners and Management,” which information is incorporated by reference. With the exception of the information specifically incorporated herein by reference, the Proxy Statement is not to be deemed filed as part of this report for the purposes of this Item.

**Equity Compensation Plan Information:**

Securities authorized for issuance under equity compensation plans at December 31, 2017 were as follows:

<b>Plan Category</b>	<b>Number of shares to be issued upon exercise of outstanding options</b>	<b>Weighted-average exercise price of outstanding options</b>	<b>Number of shares remaining available for future issuance under equity compensation plans (A)</b>
Equity compensation plans approved by security holders	884,050	\$ 23.53	719,535
Equity compensation plans not approved by security holders	-	-	-
Total	<u>884,050</u>	<u>\$ 23.53</u>	<u>719,535</u>

(A) Includes 631,624 shares of common stock not issued under the Universal Stainless & Alloy Products, Inc. 2017 Equity Incentive Plan and 87,911 available under the 1996 Employee Stock Purchase Plan, as amended.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information concerning certain relationships and related transactions, and director independence is set forth in the Proxy Statement under the heading “The Board of Directors,” which information is incorporated by reference. With the exception of the information specifically incorporated herein by reference, the Proxy Statement is not to be deemed filed as part of this report for the purposes of this Item.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information concerning principal accountant fees and services is set forth in the Proxy Statement under the heading “Principal Accountant Fees and Services,” which information is incorporated by reference. With the exception of the information specifically incorporated herein by reference, the Proxy Statement is not to be deemed filed as part of this report for the purposes of this Item.

**PART IV****ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

The following documents are filed as part of this Form 10-K:

**1) Financial Statements**

The list of financial statements required by this item is set forth in Item 8, "Financial Statements and Supplementary Data" and is incorporated herein by reference.

**2) Consolidated Financial Statement Schedules****Schedule II – Valuation and Qualifying Accounts**

<b>For the Years Ended December 31, 2017, 2016 and 2015</b>	<b>Balance at beginning of year</b>	<b>Charged to costs and expenses</b>	<b>Deductions/ net charge-offs (A)</b>	<b>Balance at end of year</b>
<i>(dollars in thousands)</i>				
Allowance for doubtful accounts:				
Year ended December 31, 2017	\$ 309	\$ 159	(12)	\$ 456
Year ended December 31, 2016	249	\$ 163	\$ (103)	\$ 309
Year ended December 31, 2015	17	239	(7)	249
Valuation allowance for deferred income taxes:				
Year ended December 31, 2017	\$ 1,553	\$ 912	\$	\$ 2,465
Year ended December 31, 2016	1,582	-	(29)	1,553
Year ended December 31, 2015	1,582	-	-	1,582

(A) Represents write-off of bad debts net of recoveries

### 3) Exhibits

<u>EXHIBIT NUMBER</u>	<u>DESCRIPTION</u>	
3.1	<a href="#"><u>Amended and Restated Certificate of Incorporation, as amended</u></a>	Filed herewith.
3.3	<a href="#"><u>Second Amended and Restated By-laws of the Company</u></a>	Incorporated herein by reference to Exhibit 3.1 to the Current Report on Form 8-K filed December 15, 2014.
4.1	<a href="#"><u>Specimen Copy of Stock Certificate for shares of Common Stock</u></a>	Incorporated herein by reference to Exhibit 4.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998.
4.2	<a href="#"><u>Form of Amended and Restated Note, dated January 21, 2016</u></a>	Incorporated herein by reference to Exhibit 4.1 to the Current Report on Form 8-K filed by Universal Stainless & Alloy Products, Inc. on January 25, 2016
10.1	<a href="#"><u>Stockholders Agreement dated as of August 1, 1994, by and among the Company and its existing stockholders</u></a>	Filed herewith.
10.2	<a href="#"><u>Omnibus Incentive Plan</u></a>	Incorporated herein by reference to Appendix B of the Company's Definitive Proxy Statement dated April 25, 2012.*
10.3	<a href="#"><u>Employment Agreement dated December 21, 2007 between the Company and Dennis M. Oates</u></a>	Incorporated herein by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K for the year ended December 31, 2007.*
10.4	<a href="#"><u>Employment Agreement dated February 21, 2008 between the Company and Paul A. McGrath</u></a>	Incorporated herein by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 2007.*
10.5	<a href="#"><u>Employment Agreement dated April 21, 2008 between the Company and Christopher M. Zimmer</u></a>	Incorporated herein by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K for the year ended December 31, 2010.*
10.7	<a href="#"><u>Employment Agreement dated August 5, 2015 between the Company and Graham McIntosh</u></a>	Incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015.*
10.9	<a href="#"><u>Form of notice of grant of restricted stock award.</u></a>	Incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012.*
10.10	<a href="#"><u>Form of non-statutory stock option agreement.</u></a>	Incorporated herein by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K for the year ended December 31, 2014.*
10.11	<a href="#"><u>Form of incentive stock option agreement.</u></a>	Incorporated herein by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K for the year ended December 31, 2014.*

EXHIBIT NUMBER	DESCRIPTION	
10.12	<a href="#"><u>Form of non-statutory stock option agreement for eligible directors.</u></a>	Incorporated herein by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended December 31, 2014.*
10.13	<a href="#"><u>Revolving Credit, Term Loan and Security Agreement, dated as of January 21, 2016, by and among Universal Stainless &amp; Alloy Products, Inc., the other borrowers party thereto, the guarantors party thereto from time to time, PNC Bank, National Association, as administrative agent and co-collateral agent, Bank of America, N.A., as co-collateral agent, and PNC Capital Markets LLC, as sole lead arranger and sole bookrunner.</u></a>	Incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by Universal Stainless & Alloy Products, Inc. on January 25, 2016.
10.14	<a href="#"><u>Form of Stock Purchase Agreement</u></a>	Incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by Universal Stainless & Alloy Products, Inc. on February 3, 2016.
10.15	<a href="#"><u>Amendment to the Universal Stainless &amp; Alloy Products, Inc. Employee Stock Purchase Plan, dated as of May 12, 2016.</u></a>	Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by Universal Stainless & Alloy Products, Inc. on May 13, 2016.
10.16	<a href="#"><u>Universal Stainless &amp; Alloy Products, Inc. 2017 Equity Incentive Plan.</u></a>	Incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017.*
10.17	<a href="#"><u>First Amendment to Revolving Credit, Term Loan and Security Agreement, dated May 12, 2017, by and among Universal Stainless &amp; Alloy Products, Inc., the other borrowers party thereto, the lenders party thereto and PNC Bank National Association, as Administrative Agent.</u></a>	Incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017.
10.18	<a href="#"><u>Second Amendment to Revolving Credit, Term Loan and Security Agreement, dated October 23, 2017, by and among Universal Stainless &amp; Alloy Products, Inc., the other borrowers party thereto, the lenders party thereto and PNC Bank National Association, as Administrative Agent</u></a>	Incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by Universal Stainless & Alloy Products, Inc. on October 23, 2017.
10.19	<a href="#"><u>Form of Non-Employee Director Stock Option Award Agreement (Universal Stainless &amp; Alloy Products, Inc. 2017 Equity Incentive Plan)</u></a>	Incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017.
10.20	<a href="#"><u>Form of Non-Employee Director RSU Award Agreement (Universal Stainless &amp; Alloy Products, Inc. 2017 Equity Incentive Plan)</u></a>	Incorporated herein by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017.

EXHIBIT NUMBER	DESCRIPTION	
10.21	<a href="#">Form of Stock Option Award Agreement (Universal Stainless &amp; Alloy Products, Inc. 2017 Equity Incentive Plan)</a>	Incorporated herein by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017.
10.22	<a href="#">Form of Stock Option Award Agreement (Universal Stainless &amp; Alloy Products, Inc. 2017 Equity Incentive Plan)</a>	Incorporated herein by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017.
21.1	<a href="#">Subsidiaries of Registrant</a>	Filed herewith.
23.1	<a href="#">Consent of Schneider Downs &amp; Co., Inc.</a>	Filed herewith.
24.1	<a href="#">Powers of Attorney</a>	Included on the signature page herein.
31.1	<a href="#">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</a>	Filed herewith.
31.2	<a href="#">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</a>	Filed herewith.
32.1	<a href="#">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</a>	Filed herewith.
101	The following financial information from this Annual Report on Form 10-K for the fiscal year ended December 31, 2017, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Consolidated Balance Sheets as of December 31, 2017 and 2016 (ii) the Consolidated Statements of Operations for the years ended December 31, 2017, 2016 and 2015; (iii) the Consolidated Statements of Comprehensive Income; (iv) the Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2016 and 2015; (v) the Consolidated Statements of Shareholders' Equity for the years ended December 31, 2017, 2016 and 2015; and (vi) the Notes to Consolidated Financial Statements.	Filed herewith.

\* - Reflects management contract or compensatory plan or arrangement to be filed as an exhibit pursuant to Item 15(b) of this Annual Report on Form 10-K.

**ITEM 16. FORM 10-K SUMMARY**

Not Applicable.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, on February 23, 2018.

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

By: /s/ Dennis M. Oates  
 Dennis M. Oates  
 Chairman, President and Chief Executive Officer

## POWER OF ATTORNEY

Each of the officers and directors of Universal Stainless & Alloy Products, Inc., whose signature appears below in so signing also makes, constitutes and appoints Dennis M. Oates and Paul A. McGrath, and each of them acting alone, his true and lawful attorney-in-fact, with full power of substitution, for him in any and all capacities, to execute and cause to be filed with the SEC any and all amendment or amendments to this Report on Form 10-K, with exhibits thereto and other documents connected therewith and to perform any acts necessary to be done in order to file such documents, and hereby ratifies and confirms all that said attorney-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
<u>/s/ Dennis M. Oates</u> Dennis M. Oates	Chairman, President, Chief Executive Officer and Director (Principal Executive, Financial and Accounting Officer)	February 23, 2018
<u>/s/ Christopher L. Ayers</u> Christopher L. Ayers	Director	February 23, 2018
<u>/s/ Douglas M. Dunn</u> Douglas M. Dunn	Director	February 23, 2018
<u>/s/ M. David Kornblatt</u> M. David Kornblatt	Director	February 23, 2018
<u>/s/ Udi Toledano</u> Udi Toledano	Director	February 23, 2018

**RESTATED CERTIFICATE OF INCORPORATION  
OF  
UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.**

It is hereby certified that:

1. The present name of the corporation (hereinafter called the "Corporation") is UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC. The Certificate of incorporation of the Corporation was originally filed under the name TEK Corp. with the Secretary of State of Delaware on June 27, 1994. The Corporation filed a Restated Certificate of Incorporation with the Secretary of State of Delaware on July 27, 1994. The Corporation filed a Certificate of Ownership and Merger under the name TEK Corp. with the Secretary of State of Delaware on July 29, 1994.

2. The Restated Certificate of Incorporation of the Corporation is hereby amended by striking out Articles FOURTH and FIFTH thereof and by substituting in lieu thereof new Articles FOURTH, FIFTH and SIXTH which are set forth in the Restated Certificate of Incorporation hereinafter provided for.

3. The provisions of the Restated Certificate of Incorporation of the Corporation as heretofore amended and supplemented, and as herein amended, are hereby restated and integrated into the single instrument which is hereinafter set forth, and which is entitled Amended and Restated Certificate of Incorporation of UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC. without any further amendments other than the amendments herein certified and without any discrepancy between the provisions of the Amended and Restated Certificate of Incorporation as heretofore amended and supplemented and the provisions of the said single instrument hereinafter set forth.

4. The amendments and the restatement of the Amended and Restated Certificate of Incorporation herein certified have been duly adopted by the stockholders in accordance with the provisions of Sections 228, 242, and 245 of the General Corporation Law of the State of Delaware.

The Amended and Restated Certificate of Incorporation of the Corporation, as amended and restated herein, shall at the effective time of this Amended and Restated Certificate of Incorporation, read in its entirety as follows:

**FIRST:** The name of the corporation is UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC. (hereinafter called the "Corporation").

**SECOND:** The registered office of the Corporation is to be located at 32 Loockerman Square, Suite L-100, Dover, County of Kent, Delaware 19904. The name of its registered agent at that address is The Prentice-Hall Corporation System, Inc.

**THIRD:** The purpose of the Corporation is to engage in any lawful act or activity, without limitation, for which a corporation may be organized under the General Corporation Law of the State of Delaware.

**FOURTH:**

Section 1. Authorization.

(a) The total number of shares of all classes of stock which the Corporation shall have authority to issue is Twelve Million (12,000,000) shares, consisting of (i) Ten Million (10,000,000) shares of common stock, \$.001 par value per share (the "Common Stock"), and (ii) Two million (2,000,000) shares of preferred stock, \$001 par value per share (the "Preferred Stock"), of which 20,000 have been designated Senior Preferred Stock (the "Senior Preferred Stock").

(b) The Preferred Stock may be issued in any number of series, including, without limitation, Senior Preferred Stock (as such term is defined in ARTICLE SIXTH), and any other series designated by the Board of Directors pursuant to this ARTICLE FOURTH and ARTICLE SIXTH.

**FIFTH:**

Section 1. Common Stock; Identical Rights. Except as expressly provided otherwise in this ARTICLE FIFTH or as required by law, all shares of Common Stock shall be identical and shall entitle the holders thereof to the same rights and privileges.

Section 2. Dividends. Subject to any preferential or other rights of the holders of any outstanding shares of Senior Preferred Stock, the Board of Directors of the Corporation may cause dividends to be declared and paid on outstanding shares of Common Stock out of funds legally available for the payment of dividends. When, as and if such dividends are declared by the Corporation's Board of Directors, whether payable in cash, property, or securities of the Corporation, the holders of Common Stock shall be entitled to share equally therein, in accordance with the number of shares of Common Stock held by each such holder.

Section 3. Liquidation Rights. Upon any voluntary or involuntary liquidation, dissolution or winding-up of the affairs of the Corporation, after payment to all creditors of the Corporation of the full amounts to which they shall be entitled and subject to any preferential or other rights of the holders of any outstanding shares of Senior Preferred Stock, the holders of all classes of Common Stock shall be entitled to share ratably, in accordance with the number of shares of Common Stock held by each such holder, in all remaining assets of the Corporation available for distribution among the stockholders of the Corporation, whether such assets are capital, surplus or earnings.

For the purposes of this Section 3, neither the consolidation or merger of the Corporation with or into any other corporation or corporations, nor the sale, lease, exchange or transfer by the Corporation of all or any part of its assets, nor the reduction of the capital stock of the Corporation, shall be deemed to be a voluntary or involuntary liquidation, dissolution, or winding-up of the Corporation.

Section 4. Voting Rights. Except as otherwise required by law, and subject to the voting rights of the holders of any outstanding shares of Senior Preferred Stock, the approval of all matters brought before the stockholders of the Corporation shall require the affirmative vote of the holders of a majority in voting power of the shares of Common Stock that are present in person or represented by proxy voting as a single class.

**SIXTH: Part A. SENIOR PREFERRED STOCK**

Designation of the Senior Preferred Stock. The Corporation shall have authority to issue out of the authorized but unissued shares of Preferred Stock a series of Preferred Stock to be designated the Senior Preferred Stock. The number of shares, powers, relative, participating, optional and other special rights, and the qualifications, limitations and restrictions, if any, of the Senior Preferred Stock shall be as set forth in this Part A of ARTICLE SIXTH.

Number. The number of the shares of Senior Preferred Stock (“Senior Preferred Stock”) shall be 20,000.

Section 1. Definitions. As used in this Part A of ARTICLE SIXTH, the following terms shall have the following meanings.

“**Annual Dividend Rate**” has the meaning set forth in Section 3(a) hereof.

“**Board**” means the Board of Directors of the Corporation.

“**Business Day**” means any day other than a Saturday, a Sunday or a day on which banking institutions in the City of New York, New York are authorized or obligated by law or executive order to close.

“**Capital Stock**” means any and all shares, rights to purchase, warrants, options, participations or other equivalents of, or interests (other than security interests) in (however designated and whether voting or nonvoting) corporate stock.

“**Common Stock**” means any and all shares now or hereafter authorized of any class of common stock of the Corporation, and in the case of a reclassification, recapitalization or other similar change in such common stock or in the case of a consolidation or merger of the Corporation with or into another Person, such consideration to which a holder of a share of Common Stock would have been entitled upon the occurrence of such event.

“**Dividend Payment Date**” has the meaning set forth in Section 3(a) hereof.

“**Dividend Period**” has the meaning set forth in Section 3(a) hereof.

“**Junior Stock**” means Common Stock and any other class or series of Capital Stock of the Corporation now or hereafter issued and outstanding that ranks junior as to dividends and/or liquidation to the Senior Preferred Stock.

“**Liquidation Preference**” means, with respect to each share of Senior Preferred Stock, the sum of \$100.00 (as adjusted to reflect any stock dividend, subdivision, reclassification, distribution or similar event relating to the Senior Preferred Stock).

“**NASDAQ**” means the National Association of Securities Dealers Automated Quotation System.

“**Person**” means an individual, a corporation, a partnership, a joint venture, an association, a joint-stock company, a trust, a business trust, a government or any agency or any political subdivision, any unincorporated organization or any other entity.

“**Redemption Date**” means any date on which shares of Senior Preferred Stock are to be redeemed pursuant to Section 5 or Section 8 hereof.

“**Redemption Price**” has the meaning set forth in Section 5(a) hereof.

Section 2. Rank. All shares of Senior Preferred Stock shall rank prior, both as to payment of dividends and as to distributions of assets upon liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, to all of the Corporation’s now or hereafter issued Junior Stock.

Section 3. Dividends.

(a) Payment of Dividends. The holders of Senior Preferred Stock shall be entitled to receive, when and as declared by the Board, out of funds legally available therefor, cash dividends at the rate of 5% per annum (the “Annual Dividend Rate”) during the time periods hereinafter indicated, on the Liquidation Preference. Such dividends shall accrue (whether or not declared) from and including January 1, 1996 to and including the date on which the Liquidation Preference is paid on such shares or on which such shares are redeemed and, to the extent not paid for any Dividend Period, will be cumulative. Dividends on the Senior Preferred Stock shall be payable quarterly, in arrears, on March 31, June 30, September 30, and December 31 of each year commencing January 1, 1996 (each such date, a “Dividend Payment Date”), except that if any such date is not a Business Day, then such dividend shall be paid on the next succeeding Business Day. Each such dividend shall be payable to holders of Senior Preferred Stock at the close of business on the record date established by the Board, which record date shall be not more than 60 days prior to the date fixed for payment thereof. Quarterly dividend periods (each a “Dividend Period”) shall commence on and include the first day of January, April, July and October of each year and shall end on and include the date next preceding the next Dividend Payment Date; provided, however, that the first Dividend Period shall commence

on January 1, 1996. The amount of dividends payable per share of Senior Preferred Stock for each full Dividend Period shall be computed by applying the applicable Annual Dividend Rate to the Liquidation Preference and dividing such amount by four (4). The amount of dividends payable for any period shorter than a full Dividend Period shall be computed on the basis of actual days elapsed and a 360-day year consisting of twelve 30-day months. Dividends on the Senior Preferred Stock shall accrue on a daily basis whether or not the Corporation shall have earnings or surplus at the time.

(b) Distribution of Partial Dividend Payments. Except as otherwise provided herein, if at any time the Corporation pays less than the total amount of dividends then accrued with respect to the Senior Preferred Stock, such payment shall be distributed ratably among the holders of Senior Preferred Stock based upon the aggregate accrued but unpaid dividends on the shares of Senior Preferred Stock held by such holders.

(c) Limitations on Certain Payments. So long as any Senior Preferred Stock shall be outstanding, the Corporation shall not declare, pay or set apart for payment any dividends, or make any other distributions on, or make any payment on account of the purchase, redemption, exchange or other retirement of, any Junior Stock; provided, however, that the foregoing shall not apply to (i) any dividend or distribution payable solely in shares of Junior Stock, or (ii) the acquisition of any shares of Capital Stock in exchange solely for shares of Junior Stock.

Section 4. Liquidation Preference. In the event of any liquidation, dissolution or winding up of the Corporation, either voluntary or involuntary, the holders of the Senior Preferred Stock shall be entitled to receive out of assets of the Corporation available for distribution to shareholders, an amount equal to the accrued and unpaid dividends on such shares through but excluding the date of final distribution to shareholders, whether or not declared, plus a sum equal to the Liquidation Preference for each share of Senior Preferred Stock then held by them before any payment shall be made or any assets distributed to the holders of Junior Stock. If the assets and funds thus distributed among the holders of the Senior Preferred Stock shall be insufficient to permit the payment to such holders of the full preferential amount described above, then the entire assets and funds of the Corporation legally available for distribution shall be distributed among the holders of the Senior Preferred Stock in proportion to the shares of Senior Preferred Stock then held by them.

Section 5. Redemption.

(a) Mandatory Redemption. The Corporation shall redeem, out of funds legally available therefor, all outstanding shares of Senior Preferred Stock, at a price per share (the "Redemption Price") equal to 100% of the Liquidation Preference plus all accrued but unpaid dividends on each such share, upon the earlier of (i) the closing of an underwritten initial public offering pursuant to an effective registration under the Securities Act of 1933, as amended, covering the

offer and sale of Common Stock, and (ii) the date selected by the Board that is no more than 30 days following the date on which the Corporation becomes obligated to effectuate a mandatory redemption pursuant to Section 8(b) hereof.

(b) Optional Redemption. The Corporation may, at its option but only with the unanimous approval of all of the members of the Board, on any date set by the Board, redeem, out of funds legally available therefor, shares of Senior Preferred Stock in whole, for an amount equal to the Redemption Price; provided that prior thereto or simultaneously therewith, the Corporation (i) shall have concluded a sale of Common Stock (in which event no consent shall be required) or (ii) shall have concluded a sale of preferred stock or incurred debt permitted under Paragraph 5 of that certain note dated August 1, 1994 (the "Note"), in the principal amount of \$1,850,000 issued by the Corporation to Armco Inc., an Ohio corporation ("Armco") (in either of which events described in this Section 5(b)(ii), Armco must provide its prior written consent as long as the Note remains outstanding, which consent shall not be unreasonably withheld); and provided further, that the proceeds of each such transaction to the Corporation, net of all discounts, commissions, fees and any other costs related to such transaction, are at least equal to the amount so redeemed. The Corporation shall not redeem less than all outstanding shares of Senior Preferred Stock until all accrued and unpaid dividends on all outstanding shares of Senior Preferred Stock shall have been or shall concurrently be paid in full for all completed Dividend Periods.

(c) Procedures for Redemption.

a. If fewer than all outstanding shares of Senior Preferred Stock are to be redeemed, the number of shares of Senior Preferred Stock to be redeemed from each holder thereof shall be the number of shares determined by multiplying the total number of shares of Senior Preferred Stock to be redeemed by a fraction, the numerator of which shall be the total number of shares of Senior Preferred Stock held by such holder and the denominator of which shall be the total number of shares of Senior Preferred Stock then outstanding. Upon surrender of a stock certificate evidencing shares of Senior Preferred Stock that are redeemed in part, the Corporation shall issue and deliver or cause to have issued and delivered to a holder (at the Corporation's expense) a new stock certificate evidencing the unredeemed shares of Senior Preferred Stock.

b. At least 30 days but not more than 60 days before the applicable Redemption Date (but at least 10 days but not more than 20 days before a mandatory redemption pursuant to Section 8(b) hereof), the Corporation shall mail a notice of redemption by first-class mail postage prepaid to each holder, addressed to such holders at their last addresses shown on the stock transfer books of the Corporation. Such notice shall identify the shares of Senior Preferred Stock to be redeemed and shall, among other things, state:

- (A) the Redemption Date;
- (B) the Redemption Price;
- (C) that the certificates evidencing the shares of Senior Preferred Stock called for redemption must be surrendered to the Corporation to collect the Redemption Price and the place or places where such certificates are to be so surrendered;
- (D) if fewer than all of the outstanding shares of Senior Preferred Stock are to be redeemed, the identification and amounts of the shares of Senior Preferred Stock to be redeemed, and that after the applicable Redemption date, upon surrender of the stock certificates or certificates evidencing such shares, a new stock certificate equal to the unredeemed portion will be issued; and
- (E) the section of this ARTICLE SIXTH pursuant to which the shares of Senior Preferred Stock called for redemption are being redeemed.

Failure to give notice or any defect in the notice to any holder shall not affect the validity of the notice given to any other holder of Senior Preferred Stock.

c. In connection with any redemption made pursuant to this Section 5 or Section 8 hereof, the Corporation shall pay the Redemption Price for the shares redeemed in cash.

d. As long as the Corporation has complied with the requirements set forth in this Section 5(c), from and after the applicable Redemption Date, dividends on the shares of Senior Preferred Stock so called for redemption shall cease to accrue, such shares shall be cancelled and shall no longer be deemed to be outstanding, and all rights of the holders of such shares as stockholders of the Corporation (except the right to receive from the Corporation the Redemption Price) shall cease.

Section 6. Consolidation, Merger and Sale of Assets, etc. The Corporation shall not consolidate with or merge into, or transfer all or substantially all of its assets to, another Person unless (i) the Corporation is the surviving entity and the rights, preferences, powers and privileges of the Senior Preferred Stock are not modified, or (ii) (A) the surviving, resulting or acquiring Person is a Person organized under the laws of the United States, any state thereof or the District of Columbia, or a Person organized under the laws of a foreign jurisdiction whose equity securities are listed on a national securities exchange in the United States or authorized for quotation on NASDAQ, and (B) the Corporation shall make effective provision such that, upon consummation of such transaction, the holders of Senior Preferred Stock shall receive preferred stock of the surviving entity having substantially identical terms as the Senior Preferred Stock.

Section 7. Voting Rights of Senior Preferred Stock.

(a) General. Except as set forth in this Section 7 or as is otherwise required by law, the shares of Senior Preferred Stock shall have no voting rights, and consent of the holders of Senior Preferred Stock shall not be required for the taking of any corporate action. In connection with any right to vote, each holder of a share of Senior Preferred Stock shall have one vote for each share held. Any shares of Senior Preferred Stock owned, directly or indirectly, by the Corporation or any of its subsidiaries shall not have voting rights hereunder and shall not be counted in determining the presence of a quorum.

(b) Certain Amendments. So long as any shares of Senior Preferred Stock remain outstanding, the affirmative vote of the holders of at least 51% of the outstanding shares of Senior Preferred Stock, voting together as a separate class, shall be required in order to amend, alter or repeal any of the provisions of the Certificate of Incorporation or the By-laws of the Corporation so as to adversely affect any right, preference, power or privilege of the holders of Senior Preferred Stock, or (1) authorize, create or issue any class or series of Capital Stock of the Corporation that is senior to or pari passu with the Senior Preferred Stock with respect to dividends or the distribution of funds or other assets upon dissolution, liquidation or winding up of the Corporation.

Section 8. Events of Noncompliance.

(a) Definition. An event of Noncompliance shall be deemed to have occurred if:

(i) If an Event of Noncompliance of the type described in subparagraph 8(a)(i) has occurred and continued for a period of 30 days or any other Event of Noncompliance has occurred, all outstanding shares of Senior Preferred Stock shall be redeemed by the Corporation at the Redemption Price within 30 days thereafter. In connection with a mandatory redemption of Senior Preferred Stock pursuant to this Section 8 (b), the redemption procedures set forth in Section 5 shall apply.

(ii) If any Event of Noncompliance exists, each holder of Senior Preferred Stock shall also have any other rights which such holder may have pursuant to applicable law.

Section 9. Reacquired Shares. Any shares of Senior Preferred Stock which are purchased, redeemed or otherwise acquired by the Corporation, shall be retired and cancelled by the Corporation promptly thereafter. No such shares shall upon their cancellation be reissued.

Section 1. Designation of Additional Series of Preferred Stock. The Board of Directors is hereby expressly authorized, by resolution or resolutions thereof, to provide for, designate and issue, out of the 1,980,000 authorized but undesignated and unissued shares of Preferred Stock, one or more series of Preferred Stock, subject to the terms and conditions set forth herein. Before any shares of any such series are issued, the Board of Directors shall fix, and hereby is expressly empowered to fix, by resolution or resolutions, the following provisions of the shares of any such series:

- (a) the designation of such series, the number of shares to constitute such series and the stated value thereof, if different from the par value thereof;
- (b) whether the shares of such series shall have voting rights or powers, in addition to any voting rights required by law, and, if so, the terms of such voting rights or powers, which may be full or limited;
- (c) the dividends, if any, payable on such series, whether any such dividends shall be cumulative, and, if so, from what dates, the conditions and dates upon which such dividends shall be payable, and the preference or relation which such dividends shall bear to the dividends payable on any shares of stock or any other class or any other series of this class;
- (d) whether the shares of such series shall be subject to redemption by the Corporation and, if so, the times, prices and other condition of such redemption;
- (e) the amount or amounts payable upon shares of such series upon, and the rights of the holders of such series in, the voluntary or involuntary liquidation, dissolution or winding up, or upon any distribution of the assets, of the Corporation;
- (f) whether the shares of such series shall be subject to the operation of a retirement or sinking fund and, if so, the extent to and manner in which any such retirement or sinking fund shall be applied to the purchase or redemption of the shares of such series for retirement or other corporate purposes and the terms and provisions relative to the operation thereof;
- (g) whether the shares of such series shall be convertible into, or exchangeable for, shares of capital stock of any other class or any other series of this class or any other securities and, if so, the price or prices or the rate or rates of conversion or exchange and the method, if any, of adjusting the same, and any other terms and condition or exchange;
- (h) the limitations and restrictions, if any, to be effective while any shares of such series are outstanding upon the payment of dividends or the making of other distributions on, and upon the purchase, redemption or other acquisition by the Corporation of, the Common Stock or shares of capital stock of any other class or any other series of this class;

(i) the conditions or restrictions, if any, to be effective while any shares of such series are outstanding upon the creation of indebtedness of the Corporation upon the issue of any additional stock, including additional shares of such series or of any other series of this class or of any other class; and

(j) any other powers, designations, preferences and relative, participating, optional or other special rights, and any qualifications, limitations or restrictions thereof.

The powers, designations, preferences and relative, participating, optional or other special rights of each series of Preferred Stock, and the qualifications, limitations or restrictions thereof, if any, may differ from those of any and all other series at any time outstanding. The Board of Directors is hereby expressly authorized from time to time to increase (but not above the total number of authorized shares of Preferred Stock) or decrease (but not below the number of shares thereof then outstanding) the number of shares of capital stock of any series of Preferred Stock designated as any one or more series of Preferred Stock pursuant to this Section B.1.

**SEVENTH:** The election of directors need not be by written ballot unless the By-laws so provide.

**EIGHTH:** The Board of Directors of the Corporation is authorized and empowered from time to time in its discretion to make, alter, amend or repeal the By-laws of the Corporation, except as such power may be restricted or limited by the General Corporation Law of the State of Delaware.

**NINTH:** Whenever a compromise or arrangement is proposed between the Corporation and its creditors or any class of them and/or between the Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of the Corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for the Corporation under the provisions of Section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for the Corporation under the provisions of Section 279 of Title 8 of the Delaware Code, order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of the Corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class value of the creditors or class of creditors and/or of the stockholders or class of stockholders of the Corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of the Corporation as consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all creditors or class of creditors, and/or all the stockholders or class of stockholders of the Corporation, as the case may be, and also on the Corporation.

**TENTH:** The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation in the manner now or hereafter prescribed by law, and all rights and powers conferred herein on stockholders, directors and officers are subject to this reserved power.

**ELEVENTH:** The personal liability of the directors of the Corporation is hereby eliminated to the fullest extent permitted by paragraph (7) of subsection (b) of Section 102 of the General Corporation Law of the State of Delaware, as the same may be amended and supplemented. No amendment or repeal of this Article Eleventh shall apply to or have any effect on the liability or alleged liability of any director of the Corporation for or with respect to any acts or omissions of such director occurring prior to the effective date of such amendment or repeal.

**TWELFTH:** The Corporation shall, to the fullest extent permitted by Section 145 of the General Corporation Law of the State of Delaware, as the same may be amended and supplemented, indemnify any and all persons who it shall have power to indemnify under said section from and against any and all of the expenses, liabilities or other matters referred to in or covered by said section, and the indemnification provided for herein shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any By-laws, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in any other capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

IN WITNESS WHEREOF, the Corporation has caused this Restated Certificate of Incorporation to be signed and attested to by its undersigned officers this 13th day of October, 1994.

/s/ Clarence M. McAninch

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Name: Clarence M. McAninch  
Title: President

Attest:

/s/ Daniel J. DeCola, Sr.

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Name: Daniel J. DeCola, Sr.  
Title: Secretary

**CERTIFICATE OF AMENDMENT**

**OF**

**RESTATED CERTIFICATE OF INCORPORATION**

**OF**

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC. (the "Corporation"), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, DOES HEREBY CERTIFY:

**FIRST:** That a resolution was adopted by the Board of Directors of the Corporation duly setting forth the proposed amendment of the Certificate of Incorporation of the Corporation, declaring said amendment to be advisable and directing that it be submitted to the sole voting stockholder of the Corporation for approval and adoption. The resolution setting forth the proposed amendment is as follows:

RESOLVED, that Section 1(a) of ARTICLE FOURTH of the Corporation's Restated Certificate of Incorporation shall be amended to read in its entirety as follows:

The total number of shares of all classes of stock which the Corporation shall have authority to issue is Twenty-Two Million (22,000,000) shares, consisting of (i) Twenty Million (20,000,000) shares of common stock, \$.001 par value per share (the "Common Stock"), and (ii) Two Million (2,000,000) shares of preferred stock, \$.001 par value per share (the "Preferred Stock"), of which 20,000 has been designated Senior Preferred Stock (the "Senior Preferred Stock").

**SECOND:** Pursuant to a resolution of its Board of Directors, a meeting of stockholders of the Corporation was duly called and held on May 14, 2013, upon notice in accordance with Section 222 of the Delaware General Corporation Law, at which meeting the necessary number of shares as required by statute were voted in favor of said amendment.

**THIRD:** That said amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

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IN WITNESS WHEREOF, the Corporation has caused this certificate to be signed by a duly authorized officer on this 14th day of May, 2013.

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

By: /s/ Dennis M. Oates

Name: Dennis M. Oates

Title: Chairman, President and Chief Executive Officer

**STOCKHOLDERS AGREEMENT**

AGREEMENT, DATED AS OF August 1, 1994, by and among CLARENCE M. McANINCH, DANIEL DeCOLA, SR., SAMUEL P. GERACE, SR. and each of the other persons listed on Schedule "A" hereto (each a "New Stockholder" and collectively the "New Stockholders"), UDI Toledano ("Toledano"), and the parties listed on Schedule "B" hereto (together with Toledano, each a "Founding Stockholder" and collectively the "Founding Stockholders"), and UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC., a Delaware corporation (the "Corporation"). The New Stockholders and the Founding Stockholders are each referred to herein as a "Stockholder" and are collectively referred to herein as the "Stockholders".

**R E C I T A L S:**

**WHEREAS**, the Founding Stockholders are Stockholders of the Corporation;

**WHEREAS**, the New Stockholders became Stockholders of the Corporation upon the merger of Universal Stainless & Steel Alloy Products, Inc. a Pennsylvania corporation with and into the Corporation pursuant to the General Corporation Law of the State of Delaware and the Pennsylvania Business Corporation Law of the Commonwealth of Pennsylvania under an Agreement and Plan of Merger dated the date hereof;

**WHEREAS**, each of the Stockholders owns Restricted Securities (as defined below) of the Corporation as of the date hereof; and

**WHEREAS**, such parties desire to promote their mutual interests and the interests of the Corporation by imposing certain obligations and restrictions on the Restricted Securities owned by the Stockholders; and

**WHEREAS**, the Stockholders deem it in their best interests and in the best interest of the Corporation to provide consistent and uniform management for the Corporation and desire to enter into this Agreement in order to effectuate that purpose.

**NOW, THEREFORE**, in consideration of the premises and the mutual covenants herein contained, the parties hereto agree as follows:

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## Article 1

### DEFINITIONS

1.1 As used in this Agreement, the following terms shall have the indicated meanings:

“Certificate of Incorporation” shall mean the Certificate of Incorporation of the Corporation, as amended and in effect from time to time.

“Common Stock” shall mean the Common Stock of the Corporation, \$.001 par value per share.

“Founding Stockholder” shall mean Toledano and the Founding Stockholders listed on Schedule “B” hereto, and any of their Permitted Transferees.

“Holder” shall mean any holder (including, without limitation, a Permitted Transferee) of Restricted Securities.

“Immediate Family” shall mean any surviving ancestor, living descendant (adopted or natural) brother, sister or spouse of a Stockholder, or of the spouse of such Stockholder, or any custodian or trustee for the account or benefit of any such person.

“Majority in Interest” shall mean with respect to either the Founding Stockholders or the New Stockholders, 50.1% of the aggregate number of shares or Common Stock held by all such Founding Stockholders or New Stockholders, as the case may be, and their Permitted Transferees.

“Permitted Transferee” shall mean (a) in the case of an individual, the Immediate Family of such person, a trust solely for the benefit of such person and/or his Immediate Family, the estate or legal representatives of such person and any partnership, corporation or other entity wholly owned, directly or indirectly, by such person or persons, (b) in the case of a partnership, any of its partners (general and/or limited), the estates of such partners and any partnership, corporation or other entity wholly owned by such partnership or such partners, (c) in the case of a corporation, any corporation controlled by, controlling, or under common control with such transferor corporation, provided that during the term of this Agreement such transferee corporation shall remain a corporation controlled by, controlling or under common control with such transferor corporation, and (d) in the case of any Stockholder, any other Stockholder. For purposes of this definition, “control” shall mean (x) direct or indirect beneficial ownership of more than fifty percent (50%) of each class of voting securities of the controlled corporation and (y) the power to elect a majority of the Board of Directors (or similar management committee) of the controlled corporation.

“Pro Rata According to Ownership” shall mean with respect to a Stockholder, the ratio of the number of shares of Common Stock owned by such Stockholder to the total number of shares of Common Stock owned by all Stockholders.

“Qualifying Public Offering” shall mean a public offering of Common Stock pursuant to a registration statement filed with and declared effective by the Securities and Exchange Commission.

“Register,” “registered,” and “registration” shall refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act and applicable rules and regulations thereunder, and the declaration or ordering of the effectiveness of such registration statement.

“Restricted Securities” shall mean (a) the shares of Common Stock held by Stockholders, (b) shares of Permitted Transferees and (c) securities issued in respect of the securities referred to in classes (a), (b) and (c) above by way of a stock dividend, stock split or in connection with a stock combination, recapitalization, merger, consolidation or other reorganization.

“Securities Act” means the Securities Act of 1933, as amended, or any similar federal law then in force.

“Securities Exchange Act” shall mean the Securities Exchange Act of 1934, as amended or any similar federal law then in force.

“Securities and Exchange Commission” includes any governmental body or agency succeeding to the functions thereof.

“Transfer or Transferred” shall mean any sale, transfer, assignment, pledge, hypothecation or other disposition.

## **Article 2**

### **ELECTION OF DIRECTORS**

2.1 Board of Directors of the Corporation. Pursuant to the By-Laws of the Corporation, the number of directors comprising the Corporation’s Board of Directors (the “Board”) has been fixed by resolution of the Board at five. Each of the Stockholders shall take such action as is necessary and appropriate, including, without limitation, the voting of shares of Stock owned or controlled by such Stockholder on all of the matters set forth in this Article 2 on which the Stockholders of the Corporation vote.

2.2 Election of Directors.

(a) Immediately upon receiving notice of any stockholders’ meeting at which members of the Board are to be elected, a majority in interest of each of the New Stockholders and the Founding Stockholders shall designate candidates as follows:

- (i) the Founding Stockholders shall be entitled to designate three candidates for election to the Board, and
- (ii) the New Stockholders shall be entitled to designate two candidates for election to the Board.

(b) Each Stockholder hereby binds itself to vote its shares of Common Stock for, or give its written consent to, the election of the candidates designated by the Founding Stockholders and the New Stockholders as set forth in Section 2.2(a) and in conformance with the By-laws of the Corporation.

(c) In the event any director (“Director”) elected to the Board after being designated as a candidate for membership pursuant to this Section 2.2 dies, resigns, is removed or otherwise ceases to serve as a member of the Board, the Corporation shall give notice thereof to the Stockholders having designated such Director, either the Founding Stockholders or the New Stockholders as the case may be, and such Stockholders agree to designate a successor and notify the Corporation of their selection. If a vacancy on the Board is filled by the remaining Directors with a Director who is not the successor designated by the Stockholders entitled to designate such successor, each Stockholder agrees to cast its votes for, or give its written consent to, the removal of such Director, with or without cause, at any time upon receipt of instructions in writing to such effect, assigned by the Stockholders entitled to designate such Director.

(d) Any designation pursuant to this Article 2 shall be in writing and shall be signed by a Majority in Interest of the Founding Stockholders or the New Stockholders, as the case may be.

(e) Each Stockholder agrees to cast its votes for, or give its written consent to, the removal with or without cause, of any designee on the Board pursuant to this Article 2 at any time upon receipt of instructions in writing to such effect, signed by a Majority in Interest of the Stockholders having designated the Director.

2.3 Initial Designees. The initial designees of the Founding Stockholders pursuant to Section 2 are Udi Toledano, Janet Toledano and Herbert V. Turk. The initial designees of the New Stockholders are Clarence M. McAninch, and Daniel DeCola, Sr., respectively.

2.4 Transferees. It shall be a condition to the transfer of any shares of Common Stock or any Restricted Securities that the transferee thereof agrees to be bound by the provisions of this Article 2. The transferee shall become a member of the Stockholders Group, if any, to which his transferor belongs or belonged under this Agreement and shall be entitled to participate with the other members of such Stockholder Group in selecting candidates for the Board, if permitted to do so under this Agreement.

### **Article 3**

#### **TRANSFER OF STOCK; FIRST REFUSAL RIGHTS**

##### **3.1 Transfer of Restricted Securities**

(a) Restricted Securities are transferable pursuant to (i) public offerings registered under the Securities Act, (ii) pursuant to a public sale under Rule 144 of the Securities and Exchange Commission (or any similar rule then in force) if such rule is available, and (iii) subject to the conditions specified in paragraph (b) below, any other legally available means of transfer.

(b) In connection with the transfer of any Restricted Securities (other than a transfer described in subparagraph (a)(i) or (ii) above or a transfer to a Permitted Transferee), the Holder thereof will deliver written notice to the Corporation describing in reasonable detail the transfer or proposed transfer. In connection with such transfer, the Corporation shall have the right to receive from the Holder an opinion of counsel which is reasonably satisfactory to the Corporation to the effect that such transfer of Restricted Securities may be effected without registration under the Securities Act or any applicable state securities laws. In addition, if the Holder of the Restricted Securities delivers to the Corporation an opinion of counsel that no subsequent transfer of such Restricted Securities will require registration under the Securities Act or any applicable state securities laws, the Corporation will promptly upon such contemplated transfer deliver new certificates for such Restricted Securities which do not bear the Securities Act legend set forth in Section 3.05. If the Corporation is required to deliver new certificates for such Restricted Securities bearing such legend, the Holder thereof will not transfer the same until the prospective transferee has confirmed to the Corporation in writing its agreement to be bound by the conditions contained in this Agreement and the other restrictions on transfer imposed by the Securities Act or any applicable state securities laws.

(c) It shall be a condition to the transfer of any shares of Common Stock or any Restricted Securities that the transferee thereof (including without limitation a Permitted Transferee) agrees to be bound by the provisions of this Agreement as if originally a party hereto.

### 3.2 First Refusal Rights.

(a) Except for the issuance of Common Stock, (i) pursuant to a public offering registered under the Securities Act, (ii) in connection with the acquisition of another business (whether by a purchase of assets, purchase of stock, merger or otherwise) whereby the Corporation owns more than fifty percent (50%) of the voting power of such corporation, or (iii) to Founding Stockholders or their designees until the Founding Stockholders and their designees shall hold in the aggregate 1,980,000 shares of Common Stock (as adjusted for stock splits, stock dividends, and recapitalizations), if the Corporation authorizes the issuance and sale of any Shares (or any other shares of common equity) or any securities containing options or rights to acquire any Shares (or any other shares of common equity), other than as a dividend on the outstanding Shares, the Corporation will first offer to sell to each Stockholder a portion of such securities Pro Rata According to Ownership. Each Stockholder will be entitled to purchase such stock or securities at the same price and on the same terms as such stock or securities are to be offered to any other persons.

(b) Subject to subparagraph (c) of this Section 3.2, each Stockholder must exercise its purchase rights hereunder within 45 days after receipt of written notice from the Corporation describing in reasonable detail the stock or securities being offered, the purchase price thereof, the payment terms and such Stockholder's percentage allotment Pro Rata According to Ownership. If all of the stock and securities offered to the Stockholders is not fully subscribed by the Stockholders, the remaining stock and securities will be reoffered to the Stockholders purchasing their full allotment upon the terms set forth in this Section 3.2, except that those Stockholders must exercise their purchase rights within ten days after receipt of such reoffer.

(c) Notwithstanding subparagraph (b), above, a majority of the Board of Directors of the Corporation, which majority includes at least one Director designated by the New Stockholders, may fix such shorter period for the exercise of the Stockholder purchase rights under this Section 3.2 as they may deem in the best interests of the Corporation in subparagraphs (b) or (c).

(d) Upon the expiration of the offering periods described above, the Corporation will be free to sell such stock or securities which Stockholders have not elected to purchase during the 90 days following such expiration on terms and conditions no more favorable to the purchasers thereof than those offered to the Stockholders. Any stock or securities offered or sold by the Corporation after such 90-day period must be reoffered to the Stockholders pursuant to the terms of this Section 3.2.

3.3. Legends. Each certificate for the Restricted Securities will be imprinted with a legend substantially in the following form (the "Securities Act Legend") until such securities have ceased to be Restricted Securities:

"The securities represented by this certificate have not been registered under the Securities Act of 1933, as amended, or under any state securities laws. The transfer of the securities represented by this certificate is subject to certain rights of first offer, voting agreements and other conditions specified in a Stockholder Agreement, dated as of August 1, 1994, among the issuer (the "Corporation") and the Stockholders of the Corporation, and the Corporation reserves the right to refuse the transfer of such securities until such conditions have been fulfilled with respect to such transfer. A copy of such conditions will be furnished by the Corporation to the Holder hereof upon written request and without charge."

3.4 Violations of this Agreement. For purposes of this Article 3, any party who has failed to give notice of the election of an option hereunder within the specified time period will be deemed to have waived his rights in such option on the day after the last day of such period. Any sale, pledge or other transfer made in violation of Article 3 of this Agreement shall be null and void. The Corporation shall not be required (a) to transfer on its books any securities of the Corporation transferred in violation of any provisions of this Agreement or (b) to treat as owner of such securities, or to accord the right to vote as such owner, or to pay dividends to, any transferee to whom such securities are transferred in violation of this Agreement.

#### **Article 4**

#### **REGISTRATION RIGHTS**

##### **4.1 Demand Registration.**

(a) At any time upon the written request of one or more Founding Stockholders holding Restricted Securities representing at least 30% of the outstanding Restricted Securities requesting that the Corporation effect the registration under the Securities Act of such Founding Stockholders' Restricted Securities having an aggregate net offering price of at least \$5,000,000 (based on the current market price or fair market value), and specifying the intended method of disposition thereof and whether or not such requested registration is to be an underwritten offering (such notice is hereinafter referred to as a 'Founding Stockholder Request'), the Corporation will promptly, upon receipt of such Founding Stockholder Request, give written notice of such requested registration to all other Holders of Restricted Securities and thereupon the Corporation will, as expeditiously as possible, use its best efforts, to effect the registration under the Securities Act on Form S-1 or other appropriate form of:

- (i) the Restricted Securities which the Corporation has been so requested to register by such Founding Stockholder Request; and
- (ii) all other Restricted Securities which the Corporation has been requested to register by any other Holders by written request given to the Corporation within 30 days after the giving of such written notice by the Corporation (which request shall specify the intended method of disposition of such Restricted Securities), all to the extent requisite to permit the disposition (in accordance with the intended methods thereof as aforesaid) of the Restricted Securities so to be registered.

provided, however, that the Corporation shall not be obligated to undertake more than two registration statements pursuant to this Section 4.1.

(b) Subsequent to the requests made pursuant to Section 4.2(a) hereof, the Corporation shall use its best efforts to achieve such effectiveness promptly. The Corporation may postpone the filing of any registration statement required hereunder for a reasonable period of time, not to exceed ninety (90) days, if (i) the Corporation has been advised by legal counsel that such filing would require the disclosure of a material transaction, or other factor, and the Corporation determines reasonably and in good faith that such disclosure would have a material adverse effect on the Corporation; or (ii) in the good faith determination of the Corporation's Board of Directors, the Corporation will be materially and adversely affected by the required registration.

(c) Holders shall have the right, by giving written notice to the Corporation within 20 days after the Corporation provides its notice, to elect to have included in such registration such of their Registrable Shares as such Holders may request in such notice of election, subject to the approval of the underwriter managing the offering.

(d) Registrations under this Section 4.1 shall be on such appropriate registration form of the Commission (i) as shall be selected by the Corporation and as shall be reasonably acceptable to the Holders of more than 75% (by number of shares) of the Founding Stockholders' Restricted Securities so to be registered and (ii) as shall permit the disposition of such Restricted Securities in accordance with the intended method or methods of disposition specified in their request for such registration. The Corporation agrees to include in any such registration statement all information which Holders of Restricted Securities being registered shall reasonably request.

(e) If a requested registration pursuant to this Section 4.1 involves an underwritten offering, the underwriter or underwriters thereof shall be selected by the Holders of more than 75% (by number of shares) of the Founding Stockholders' Restricted Securities to be so registered, subject to the Corporation's approval which will not be unreasonably withheld.

(f) If a requested registration pursuant to this Section 4.1 involves an underwritten offering, and the managing underwriter shall advise the Corporation in writing (with a copy to each Holder of Restricted Securities requesting registration) that, in its opinion, the number of shares proposed to be included in such offering should be limited due to market conditions, the Corporation will include in such registration, to the extent of the number which the Corporation is so advised can be sold in such offering, Restricted Securities requested to be included in such registration, pro rata among the Holders requesting such registration on the basis of the percentage of the Restricted Securities of the Corporation held by the Holders which have requested that such Restricted Securities be included.

#### 4.2 Incidental Registrations.

(a) If at any time after a Qualifying Public Offering the Corporation proposes to register any of its securities under the Securities Act, whether of its own accord or at the request or demand of any Holder of such securities, and if the registration form proposed to be used may be used for the registration of Restricted Securities, the Corporation will thereupon give prompt written notice to the Holders of Restricted Securities of its intention to proceed with the registration (hereinafter the "Incidental Registration"), and, upon the written request of any such Holder made within 15 days after the receipt of any such notice (which request will specify the Restricted Securities intended to be disposed of by such Holder and state the intended method of disposition thereof), the Corporation will use its best efforts to cause all such Restricted Securities, the Holders of which have so requested the registration thereof, to be included in such Incidental Registration.

(b) If an Incidental Registration is in connection with an underwritten public offering, and if the managing underwriters advise the Corporation in writing that in their opinion the amount of securities requested to be included in such registration (whether by the Corporation or Holders) exceeds the amount of such securities which can be sold in such offering, the Corporation will include in such offering the amount of securities requested to be included which in the opinion of such underwriters can be sold as follows: (a) first, all the shares shall be included which are proposed to be sold by the Corporation; (b) if shares can still be included, the number of shares of capital stock that may be included shall be allocated among all Holders of Restricted Securities in proportion, as nearly as practicable, to the respective amounts of shares of stock which they had requested to be included in such registration at the time of filing the registration statement.

(c) No Holder of Restricted Securities may participate in any underwritten Incidental Registration unless such Holder (a) agrees to sell such Restricted Securities on the basis provided in any underwriting arrangement approved by the Corporation and (b) completes and executes all questionnaires, powers of attorney, indemnities, underwriting arrangements and other documents required under the terms of such underwriting arrangements.

4.3 Form S-3. If the Corporation becomes eligible to use Form S-3 under the Securities Act or a comparable successor form, the Corporation shall use its best efforts to continue to qualify at all times for registration on Form S-3 or such successor form. At any time and from time to time after the Corporation becomes eligible to use Form S-3 or such successor form, the Holders of an aggregate of not less than 15% of the number of Restricted Securities then outstanding shall have the right to request and have effected a registration of shares of Restricted Securities on Form S-3 or such successor form for a public offering of shares of Restricted Securities having an aggregate proposed offering price of not less than \$5,000,000 (such requests shall be in writing and shall state the number of shares of Restricted Securities to be disposed of and the intended method of disposition of such shares by such Holder or Holders). The Corporation shall use its best efforts to achieve such effectiveness as promptly as is reasonably practicable. The Corporation may postpone the filing of any registration statement required hereunder for a reasonable period of time, not to exceed ninety (90) days, if (i) the Corporation has been advised by legal counsel that such filing would require the disclosure of a material transaction or other factor and the Corporation determines reasonably and in good faith that such disclosure would have a material adverse effect on the Corporation; or (ii) in the good faith determination of the Corporation's Board of Directors, the Corporation would be materially and adversely affected by the required registration. The Corporation shall give notice to all Holders of the receipt of a request for registration pursuant to this Section 4.3 and shall provide a reasonable opportunity for such Holders to participate in the registration. Subject to the foregoing, the Corporation will use its best efforts to effect promptly the registration of all Restricted Securities on Form S-3 or such successor form to the extent requested by the Holders thereof for purposes of disposition. If so requested by any Holder in connection with a registration under this Section 4.3, the Corporation shall take such steps as are required to register such Holder's Restricted Securities for sale on a delayed or continuous basis under Rule 415, and to keep such registration effective until all of such Holder's Restricted Securities registered thereunder are sold. Notwithstanding the foregoing, the Corporation shall not be required to effect a registration under this Section 4.3 if, in the unqualified opinion of counsel for the Corporation, such Holders may then sell all Restricted Securities proposed to be sold in the manner proposed without registration under the Securities Act.

4.4 Registration Procedures. In connection with any registration of any Restricted Securities under the Securities Act as provided in this Article 4, the Corporation will:

(a) prepare and file with the Securities and Exchange Commission a registration statement, and use its best efforts to keep such registration statement effective for a period of not less than six months or such shorter period in which the disposition of all securities in accordance with the intended methods of disposition by the seller or sellers thereof set forth in such registration statement shall be completed and to comply with the provisions of the Securities Act (to the extent applicable to the Corporation) with respect to such disposition;

(b) prepare and file with the Securities and Exchange Commission such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement;

(c) furnish to each seller of such Restricted Securities and any underwriter such number of copies of such registration statement and of each such amendment and supplement thereto (in each case including all exhibits), such number of copies of the prospectus included in such registration statement (including each preliminary prospectus), in conformity with the requirements of the Securities Act and such other documents as such seller or any underwriter may reasonably request in order to facilitate the disposition of the Restricted Securities owned by such seller;

(d) provide a transfer agent and registrar for all such Restricted Securities covered by such registration statement not later than the effective date of such registration statement;

(e) notify each seller of such Restricted Securities and any underwriter at any time when a prospectus relating thereto is required to be delivered under the Securities Act of the happening of any event as a result of which the prospectus included in such registration statement contains an untrue statement of a material fact or omits any fact necessary to make the statements therein not misleading; each seller will immediately upon receipt of such notice of the occurrence of such event discontinue its disposition of the Restricted Securities pursuant to the registration statement until its receipt of a supplement or amendment to such prospectus which shall cause such prospectus not to contain an untrue statement of a material fact or not to state any fact necessary to make the statements therein not misleading, and if so directed by the Corporation will then deliver to the Corporation all copies other than permanent file copies of the prospectus covering such Restricted Securities which was current at the time of receipt of such notice;

(f) cause all such Restricted Securities to be listed on each securities exchange on which the same class of securities issued by the Corporation is then listed;

(g) if the Incidental Registration is in connection with an underwritten distribution, enter into such customary agreements (including an underwriting agreement in customary form) and take all such other actions as is reasonably required in order to expedite or facilitate the disposition of such Restricted Securities;

(h) make available for inspection by any seller of Restricted Securities, any underwriter participating in any disposition pursuant to such registration statement, and any attorney, accountant or other agent retained by any such seller or underwriter, all financial and other records, pertinent corporate documents and properties of the Corporation, and cause the Corporation's officers, directors and employees to supply all information reasonably requested by any such seller, underwriter, attorney, accountant or agent in connection with such registration statement;

(i) use its best efforts to register or qualify all Restricted Securities and other securities covered by such registration statement under such other securities or blue sky laws of such jurisdictions as each seller thereof shall reasonably request, to keep such registration or qualification in effect for so long as such registration statement remains in effect, and take any other action which may be reasonably necessary or advisable to enable such seller to consummate the disposition in such jurisdictions of the securities owned by such seller, except that the Corporation shall not for any such purpose be required to qualify generally to do business as a purpose be required to qualify generally to do business as a foreign corporation in any jurisdiction wherein it would not, but for the requirements of this subdivision (i), be obligated to be so qualified or to consent to general service of process in any such jurisdiction;

(j) furnish to each seller of Restricted Securities a signed counterpart, addressed to such seller, except as provided in (2) below (and the underwriters, if any), of,

- (1) an opinion of counsel for the Corporation, dated the effective date of such registration statement (and, if such registration includes an underwritten public offering, dated the date of the closing under the underwriting agreement), reasonably satisfactory in form and substance to such seller, covering substantially the same matters with respect to such registration statement (and the prospectus included therein) as are customarily covered in opinions of issuer's counsel delivered to the underwriters in underwritten public offerings, and such other legal matters as such seller (or the underwriters, if any) may reasonably request, and
- (2) a "comfort" letter, dated the effective date of such registration statement (and, if such registration includes an underwritten public offering, dated the date of the closing under the underwriting agreement), signed by the independent public accountants who have certified the Corporation's financial statements included in such registration statement, addressed to each seller, to the extent the same can be reasonably obtained, and addressed to the underwriters, if any, covering substantially the same matters with respect to such registration statement (and the prospectus included therein) and with respect to events subsequent to the date of such financial statements, as are customarily covered in accountants' letters delivered to the underwriters in underwritten public offerings of securities and such other financial matters as such seller (or the underwriters, if any) may reasonably request;

(k) otherwise use its best efforts to comply with all applicable rules and regulations of the Securities and Exchange Commission, and make available to its security Holders, as soon as reasonably practicable, an earnings statement covering the period of at least twelve months, but not more than eighteen months, beginning with the first full calendar month after the effective date of such registration statement, which earnings statement shall satisfy the provisions of Section 11(a) of the Securities Act; and

(l) take all such other actions as the Holders of a majority of the Restricted Securities being sold and the underwriters, if any, reasonably request in order to expedite or facilitate the disposition of such Restricted Securities (including without limitation effecting a stock split or combination of shares).

4.5 Registration Expenses. All expenses incurred by the Corporation in complying with this Article 4, including without limitation (i) all registration and filing fees (including all expenses incident to filing with the National Association of Securities Dealers, Inc.), (ii) all printing expenses, (iii) all fees and disbursements of counsel and accountants for the Corporation and one counsel for the Holders of the Restricted Securities being sold, (iv) all blue sky fees and expenses and (v) the expense of any audits, review or due diligence incident to or required by any such registration, shall be paid by the Corporation. Notwithstanding the foregoing, all underwriting discounts and selling commissions applicable to sales of Restricted Securities in connection with any registration shall be borne by such persons who are selling Restricted Securities pursuant to such registration statement pro rata in proportion to the dollar value of the shares of Restricted Securities being sold by each such seller.

4.6 "Market Stand-Off" Agreement. Each Holder of Restricted Securities agrees that, if requested by the Corporation and any underwriter of Common Stock (or other securities) of the Corporation, it will not effect any public sale or distribution of any Common Stock of the Corporation, including any sale pursuant to Rule 144 under the Securities Act, held by it during the 90-day period following the effective date of a registration statement of the Corporation filed

under the Securities Act, except for shares which are the subject of such registration statement, provided that all Holders of more than five percent (5%) of the Common Stock and officers and directors of the Corporation enter into similar agreements. Such agreement shall be in writing in a form reasonably satisfactory to the Corporation and such underwriter. The Corporation may impose stop-transfer instructions with respect to the shares (or securities) subject to the foregoing restriction until the end of such 90-day period.

4.7 Indemnification.

(a) The Corporation hereby agrees to indemnify, to the extent permitted by law, each Holder of Restricted Securities, its officers and directors, if any, and each person, if any, who controls such Holder within the meaning of the Securities Act, against all losses, claims, damages, liabilities and expenses (under the Securities Act or common law or otherwise) caused by any material untrue statement of a material fact contained in any registration statement or prospectus or other document (including any related registration statement, notification or the like) incident to registration or qualification or compliance in connection therewith (and as amended or supplemented if the Corporation has furnished any amendments or supplements thereto) or any preliminary prospectus or based on any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or any violation by the Corporation of the Securities Act or any rule or regulation thereof applicable to the Corporation and relating to action or inaction required of the Corporation in connection with any registration, qualification or compliance, except insofar as such losses, claims, damages, liabilities or expenses are caused by any untrue statement contained in or by any omission or alleged omission from information furnished to the Corporation by such Holder in connection with a registration, provided the Corporation will not be liable pursuant to this subparagraph (i) if such losses, claims, damages, liabilities or expenses have been caused by any selling Holder's failure to deliver a copy of the registration statement or prospectus, or any amendments or supplements thereof, after the Corporation has furnished such Holder with a sufficient amount of copies of the same.

(b) In connection with any registration statement in which a Holder of Restricted Securities is participating, each such Holder shall furnish to the Corporation in writing such information as is reasonably requested by the Corporation for use in any such registration statement or prospectus and shall indemnify, to the extent permitted by law, the Corporation, its directors and officers and each person, if any, who controls the Corporation within the meaning of the Securities Act, against any losses, claims, damages, liabilities and expenses resulting from any untrue statement or alleged untrue statement of a material fact or any omission or alleged omission of a material fact required to be stated in the registration statement or prospectus or any amendment thereof or supplement thereto or necessary to make the statements therein not misleading, but only to the extent such losses, claims, damages, liabilities or expenses are caused by an untrue statement or alleged untrue statement contained in or by an omission or alleged omission from information so furnished by such Holder in connection with the registration.

(c) Each party entitled to indemnification under this Section 4.6 (the "Indemnified Party") shall give notice to the party required to provide indemnification (the "Indemnifying Party") promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought, and shall permit the Indemnifying Party to assume the defense of any such claim or any litigation resulting therefrom, provided that counsel for the Indemnifying Party, who shall conduct the defense of such claim or any litigation resulting therefrom, shall be approved by the Indemnified Party (whose approval shall not unreasonably be withheld), and the Indemnified Party may participate in such defense at such party's expense. Omission so to notify the Indemnifying Party will release the Indemnifying Party from any liability which it may

have to any Indemnified Party under this paragraph (but only if it was prejudicial to the ability of the Indemnifying Party to defend), but not otherwise. No Indemnifying Party, in the defense of any such claim or litigation shall, except with the consent of each Indemnified Party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect of such claim or litigation. Each Indemnified Party shall furnish such information regarding itself or the claim in question as an Indemnifying Party may reasonably request in writing and as shall be reasonably required in connection with defense of such claim and litigation resulting therefrom.

4.8 Limitation on Future Grants of Registration Rights. From and after the date of this Agreement, the Corporation shall not enter into any agreement with any Holder or prospective Holder of any securities of the Corporation providing for the granting to such Holder of registration rights (whether demand or incidental) unless the provisions of such agreement are consistent with the provisions of this Article 4.

4.9 Transfer or Assignment of Registration Rights. The rights to cause the Corporation to register the Restricted Securities granted to the Stockholders by the Corporation under Sections 4.1 and 4.2 may be transferred or assigned by a Stockholder to a transferee or assignee of any of such Stockholder's Restricted Securities, provided that the Corporation is given written notice by such Stockholder at the time of or within a reasonable time after said transfer or assignment, stating the name and address of said transferee or assignee and identifying the securities with respect to which such registration rights are being transferred or assigned, and provided further that the transferee or assignee of such rights is not deemed by the board of directors of the Corporation, in its reasonable judgment, to be a competitor of the Corporation, and provided further that the transferee or assignee of such rights assumes the obligations of such Stockholder under this Agreement.

4.10 Rule 144 Requirements. If the Corporation becomes subject to the reporting requirements of either Section 13 or Section 15(d) of the Securities Exchange Act, as amended, the Corporation will use its best efforts to file with the Commission such information as the Commission may require under either of said Sections; and in such event, the Corporation shall use its best efforts to take all action as may be required as a condition to the availability of Rule 144 under the Securities Act (or any successor exemptive rule hereafter in effect). The Corporation shall furnish to any Holder of Restricted Securities upon request a written statement executed by the Corporation as to the steps it has taken to comply with the current public information requirement of Rule 144 or such successor rule.

**Article 5**  
**COVENANTS**

A. The corporation will not take any of the actions set forth in paragraphs 5.1 and 5.2 without the approval or consent of a majority of the Board of Directors until the closing of a Qualifying Public Offering:

5.1 Certain Material Agreements. The Corporation will not enter into any agreement out of the ordinary course of business including, without limitation, any license, distribution, joint venture or similar agreement if the effect of such agreement would be (a) to divest the Corporation of control over, or to transfer to another person the benefits of, a material amount (in relation to the Corporation's then consolidated results of corporations, financial condition or prospects) of the Corporation's assets or business or (b) cause a material change in the nature of the Corporation's business, as presently conducted, or contemplated to be conducted in the future, whether directly or indirectly.

5.2 Indebtedness. The Corporation will not incur indebtedness other than in the ordinary course of business in excess of \$1,000,000 in the aggregate, directly or indirectly in a single transaction or series of collateral transactions (excluding indebtedness to the Commonwealth of Pennsylvania and other governmental agencies of up to \$2,000,000 in the aggregate.)

B. The Corporation will not take any of the actions set forth in paragraphs 5.3 and 5.4 without the approval or consent of a majority of the Board of Directors, which approval or consent shall require the affirmative vote of at least one New Stockholder Director:

5.3 Affiliated Transactions. The Corporation will not enter into transactions by and between the Corporation and any employee, officer or director, or by and between the Corporation and any stockholder of the Corporation, or persons controlled by or affiliated with any such officer, director, employee or stockholder, except on an arm's-length basis and on terms and conditions no less favorable to the Corporation than could be obtained from nonrelated persons.

5.4 Public Offering. The Corporation shall not undertake a Qualifying Initial Public Offering or merger with and into a publicly traded company such that the survivor is a publicly traded corporation unless in each case the transaction is based on the Corporation having a current enterprise value or pre-money valuation of not less than \$14,000,000 as reflected in the proposed transaction documents.

C. Until the closing of a Qualifying Public Offering:

5.5 Toledano Common Stock Ownership. Udi Toledano and his Immediate Family shall retain (i) direct ownership of a number of shares of Common Stock equal to not less than 10% of the outstanding Common Stock, and (ii) direct or indirect ownership through affiliates, or related persons, or proxies of a number of shares of Common Stock such that when added to the number of shares of Common Stock held by New Stockholders equals not less than 50.1% of the outstanding Common Stock.

## **Article 6**

### **EFFECTIVE DATE AND TERM OF AGREEMENT**

6.1 **Effective Date.** The effective date of this Agreement shall be the date set forth in the first sentence of this Agreement.

6.2 **Term.** Except to the extent provided herein, and except for the right to specific performance specified in Section 7.1 of this Agreement and any other rights arising out of the failure of any party to perform any of its rights under this Agreement, this Agreement shall continue in effect from and after the date set forth in Section 6.1 hereof until the earlier to occur of (a) the date the Corporation is merged or consolidated into a new or surviving company and the Stockholders own less than a majority of the ordinary voting power to elect directors of the new or surviving company (on a fully-diluted basis), or (b) the date there is a sale of all of the Corporation's capital stock in any transaction or series of related transactions, or (c) the date there is a sale of all or substantially all of the Corporation's assets in any transaction or series of transactions, or (d) with respect to Article 2 hereof, the tenth anniversary of this Agreement. Notwithstanding the foregoing, Articles 2, 3 and 5 of this Agreement shall terminate upon the first Qualifying Public Offering.

## **Article 7**

### **MISCELLANEOUS**

7.1 **Specific Performance.** The failure of any party to perform its obligations hereunder, or the taking of any action by any party which is contrary to, or which will cause any action to be taken by the Corporation which is contrary to, the terms and provisions of this Agreement, shall result in irreparable injury and damage to the other parties, which injury and damage cannot be adequately compensated for by money damages in an action at law. It is therefore agreed that, in addition to any other rights and remedies that any one of the parties may ask, the obligation to each of the other parties shall be enforceable by specific performance and by such other forms of equitable relief as may be deemed appropriate under the circumstances. If any party shall institute an action to enforce its rights against any other party, the prevailing party in such action shall be entitled to such reasonable attorneys' fees as the court may award.

7.2 **Authority.** Each of the parties represents and warrants that such party is authorized to enter into this Agreement and to carry out the terms hereof.

7.3 **Other Parties.** If the Corporation issues any Shares to any other person other than pursuant to a Qualifying Public Offering, the Corporation shall cause the recipient of such Shares to execute a counterpart of this Agreement whereby such recipient shall be bound by this Agreement; and whereupon such recipient shall be deemed a "Holder" for all purposes under this Agreement.

7.4 **After-Acquired Shares.** All of the provisions of this Agreement shall apply to all the Common Stock now owned or which may be issued or transferred hereafter to a Holder or to its transferees in consequence of any additional issuance, purchase, exchange, reclassification, reorganization, recapitalization, merger, consolidation, stock-split, stock dividend, or which are acquired by a Holder in any other manner.

7.5 Notice. Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given (i) upon personal delivery, (ii) upon deposit in the United States Post Office, by registered or certified mail with postage and fees prepaid and evidence of delivery and receipt of same, (iii) upon delivery by a nationally recognized overnight courier service with postage and fees prepaid, signature required, addressed to the other party hereto at his address hereinafter shown below his signature or at such other address as such party may designate by ten days' advance written notice of the other party hereto, or (iv) by facsimile transmission and establishment of evidence of receipt of same

If to the Corporation, to it at:

600 Mayer Street  
Bridgeville, Pennsylvania 15017  
Tel: (412) 257-7625  
Fax: (412) 257-7684  
Attn: President

With copies to:

Klett Lieber Rooney & Schorling  
40th Floor  
One Oxford Centre  
Pittsburgh, Pennsylvania 15219  
Attn: Peter C. Blasier, Esq.  
Tel: (412) 392-2000  
Fax: (412) 392-2128

Jones, Gregg, Creehan & Gerace  
3000 Grant Building  
Pittsburgh, Pennsylvania 15219-2303  
Attn: Samuel P. Gerace, Sr., Esq.  
Tel: (412) 261-6400  
Fax: (412) 261-2651

If to the New Stockholders:  
To the addresses set forth next to  
their names on Schedule "A" hereto

If to the Founding Stockholders:

To the addresses set forth next to  
their names on Schedule "B" hereto  
with copies to:

Andromeda Enterprises, Inc.  
Suite 800  
545 Madison Avenue  
New York, New York 10022  
Attn: Udi Toledano  
Tel: (212) 750-6410

Fax: (212) 750-5439

Battle Fowler  
75 East 55th Street  
New York, New York 10022  
Tel:(212) 856-7000  
Attn: Gerald A. Eppner, Esq.  
Fax: (212) 856-9135

7.6 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware without regard to the principles of conflicts of laws thereof.

7.7 Section Headings. The section headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

7.8 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which when taken together shall constitute but one and the same instrument.

7.9 Effective Date. This Agreement shall not be binding upon any of the signatories hereto unless and until it has been executed by all of the entities or persons whose signature is provided for herein.

7.10 Entire Agreement. This Agreement contains the entire agreement between the parties thereto and supersedes all prior agreements and undertakings between the parties hereto relating to the subject matter thereof.

7.11 Further Assurances. Each of the parties agrees, at its own cost and expense, to execute and deliver such documents, instruments and agreements as may be reasonably necessary for the purpose of more fully and finally effecting the transactions contemplated hereby.

7.12 Amendments and Waiver. This Agreement may not be amended, modified, or discharged, nor may any of its terms be waived, except by an instrument in writing signed by all of the parties hereto. The waiver of any breach of any term or condition hereof or of any default under any provision hereof shall not be deemed to constitute a waiver of any other term or condition hereof or of any subsequent breach or default of any kind or nature.

7.13 Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective executors, administrators, successors and assigns.

7.14 Severability. If any of the provisions of this Agreement shall be held by a court of competent jurisdiction to be void or unenforceable, the balance of the provisions of this Agreement shall remain in effect and be enforced so as to give effect as nearly as possible to the intentions of the parties hereto.

IN WITNESS WHEREOF, the parties hereto have signed this Agreement as of the day and year first above written.

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

By: /s/ CLARENCE M. MCANINCH  
Name: CLARENCE M. MCANINCH  
Title: PRESIDENT

By: /s/ CLARENCE M. MCANINCH  
CLARENCE M. MCANINCH

/s/ DANIEL J. DECOLA, SR.  
DANIEL J. DeCOLA, SR.

/s/ SAMUEL P. GERACE, SR.  
SAMUEL P. GERACE, SR.

/s/ UDI TOLEDANO  
UDI TOLEDANO

/s/ JANET TOLEDANO  
JANET TOLEDANO

/s/ JANET TOLEDANO, AS TRUSTEE  
JANET TOLEDANO, AS TRUSTEE OF  
THAT CERTAIN TRUST U/A 9/2/93  
F/B/O ALEXANDER AND ANNA TOLEDANO

FUTURTEC, L.P.

By: FUTURTEC CAPITAL CORP.,  
GENERAL PARTNER

/s/ IDO KLEAR  
Name: IDO CLEAR  
Title: PRESIDENT

IN WITNESS WHEREOF, the parties hereto have signed this Agreement as of August 1, 1994.

/s/ AMNON TOLEDANO.  
AMNON TOLEDANO

/s/ GIDEON TOLEDANO  
GIDEON TOLEDANO

/s/ ROBERT LAX  
ROBERT LAX

/s/ JUDITH GREEN  
JUDITH GREEN

RAJAH CORP.

By: /s/ SUSAN L. GOLDBERG  
Name: SUSAN L. GOLDBERG  
Title: PRESIDENT

BRIDGEVILLE PARTNERS

By: /s/ DENNIS W. SAVITSKY  
Name: DENNIS W. SAVITSKY  
Title: GENERAL PARTNER

/s/ HERBERT TURK, EDIT TURK  
HERBERT TURK AND EDITH TURK,  
AS JOINT TENANTS

/s/ RACHEL TURK  
RACHEL TURK

/s/ MIRIAM TURK  
MIRIAM TURK

/s/ STEVE HOURIGAN  
STEVE HOURIGAN

**SCHEDULE A**

Samuel P. Gerace, Sr.  
Jones, Gregg, Creehan & Gerace  
3000 Grant Building - 30th Floor  
Pittsburgh, PA 15219-2303

Clarence M. McAninch  
Universal Stainless & Alloy Products, Inc.  
600 Mayer Street  
Bridgeville, PA 15017

Daniel J. DeCola, Sr.  
Universal Stainless & Alloy Products, Inc.  
600 Mayer Street  
Bridgeville, PA 15017

Bridgeville Partners  
61 Broadway  
New York, NY 10006

**SCHEDULE B**

Udi Toledano  
Andromeda Enterprises, Inc.  
545 Madison Avenue, Suite 800  
New York, NY 10022

Janet Toledano  
51 Duffield Drive  
South Orange, NJ 07079

Janet Toledano, as trustee  
of that certain trust U/A.  
9/2/92 F/3/O Anna Toledano  
and Alexander Toledano  
51 Duffield Drive  
South Orange, NJ 07079

Futurtec, L.P.  
111 Great Neck Road  
Suite 301  
Great Neck, NY 11021

Amnon Toledano  
c/o Udi Toledano  
Andromeda Enterprises, Inc.  
545 Maddison Avenue, Suite 800  
New York, NY 10022

Gideon Toledano  
c/o Udi Toledano  
Andromeda Enterprises, Inc.  
545 Maddison Avenue, Suite 800  
New York, NY 10022

Robert Lax  
c/o Udi Toledano  
Andromeda Enterprises, Inc.  
545 Maddison Avenue, Suite 800  
New York, NY 10022

**SCHEDULE B (continued)**

Judith Green  
c/o Udi Toledano  
Andromeda Enterprises, Inc.  
545 Maddison Avenue, Suite 800  
New York, NY 10022

RAJAH CORP.  
900 Third Avenue  
New York, New York 10022  
Attention: Joel Hirschtritt, Secretary

Herbert Turk and Miriam Turk, as  
joint tenants  
2132 Cedarwood Lane  
San Jose, California 95125

Rachel Turk  
c/o Herbert Turk  
2132 Cedarwood Lane  
San Jose, California 95125

Miriam Turk  
c/o Herbert Turk  
2132 Cedarwood Lane  
San Jose, California 95125

Steve Hourigan  
277 Park Avenue  
New York, New York 10017

## SUBSIDIARIES OF REGISTRANT

Below are the only active wholly-owned subsidiaries of the registrant and its jurisdiction of organization.

<u>Doing Business As</u>	<u>State of Incorporation</u>
Dunkirk Specialty Steel, LLC	Delaware
North Jackson Specialty Steel, LLC	Delaware

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-13509, No. 333-13511, No. 333-100263, No. 333-136984, No. 333-184334, No. 333-184335, No. 333-184336, No. 333-212065 and No. 333-217794) and on Form S-3 (No. 333-212064) of Universal Stainless & Alloy Products, Inc. of our report dated February 23, 2018, relating to the consolidated financial statements of Universal Stainless & Alloy Products, Inc. as of December 31, 2017 and 2016 and for each of the years in the three-year period ended December 31, 2017 and consolidated financial statement schedule listed in Item 15(2) and the effectiveness of internal control over financial reporting as of December 31, 2017, which appears in this Form 10-K.

/s/ Schneider Downs & Co., Inc.

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania

February 23, 2018

## CERTIFICATION

I, Dennis M. Oates, certify that:

1. I have reviewed this Annual Report on Form 10-K of Universal Stainless & Alloy Products, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth 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.
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of 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: February 23, 2018

/s/ Dennis M. Oates

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Dennis M. Oates

Chairman, President and Chief Executive Officer  
(Principal Executive Officer)

## CERTIFICATION

I, Dennis M. Oates, certify that:

1. I have reviewed this Annual Report on Form 10-K of Universal Stainless & Alloy Products, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth 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 of internal control over financial reporting, to the registrant's auditors and the audit committee of 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: February 23, 2018

/s/ Dennis M. Oates

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Dennis M. Oates

Chairman, President, Chief Executive Officer and Director  
(Principal Financial and Accounting Officer)

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

In connection with the Annual Report on Form 10-K of Universal Stainless & Alloy Products, Inc. (the "Company") for the year ended December 31, 2017 as filed with the SEC on the date hereof (the "Report"), each of the undersigned, in the capacities and on the dates indicated below, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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

Date: February 23, 2018

/s/ Dennis M. Oates

Dennis M. Oates

Chairman, President and Chief Executive Officer

(Principal Executive, Financial and Accounting Officer)