
**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, 2003

OR

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

For the Transition Period from _____ to _____

Commission File Number 0-25032

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

25-1724540
(IRS Employer
Identification No.)

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

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

Securities registered pursuant to Section 12(b) of the Act:
None

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

Title of Class
Common Stock, par value \$.001 per share

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 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 if whether the registrant is an accelerated filer 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 February 23, 2004, based on the closing price of \$9.35 per share on that date, was \$37,454,810. For the purposes of this disclosure only, the registrant has assumed that its directors, executive officers, and beneficial owners of 5% or more of the registrant's Common Stock are the affiliates of the registrant.

As of February 23, 2004, there were 6,294,406 shares of the Registrant's Common Stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Annual Report to Stockholders and definitive Proxy Statement for the Annual Meeting of Stockholders scheduled to be held May 18, 2004, are incorporated into Parts II and III of this Form 10-K, respectively.

[Table of Contents](#)

TABLE OF CONTENTS

PART I

Item 1.	Business	1
Item 2.	Properties	10
Item 3.	Legal Proceedings	10
Item 4.	Submission of Matters to a Vote of Security Holders	11

PART II

Item 5.	Market for the Registrant's Common Equity, Related Stockholder Matters and Equity Securities	12
Item 6.	Selected Financial Data	13
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	13
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	13
Item 8.	Financial Statements and Supplementary Data	14
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	14
Item 9A.	Controls and Procedures	14

PART III

Item 10.	Directors and Executive Officers of the Company	15
Item 11.	Executive Compensation	15
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	15
Item 13.	Certain Relationships and Related Transactions	15
Item 14.	Principal Accountant Fees and Services	15

PART IV

Item 15.	Exhibits, Financial Statement Schedules, and Reports on Form 8-K	16
----------	--	----

PART I

ITEM 1. BUSINESS

General

Universal Stainless & Alloy Products, Inc. (the “Company”), which was incorporated in 1994, manufactures and markets semi-finished and finished specialty steel products, including stainless steel, tool steel and certain other alloyed steels. The Company’s manufacturing process involves melting, remelting, treating, hot and cold rolling, machining and cold drawing of semi-finished and finished specialty steels. The Company’s products are sold to rollers, forgers, service centers, original equipment manufacturers and wire redrawers. The Company’s customers further process its products for use in a variety of industries, including the power generation, aerospace, petrochemical and heavy equipment manufacturing industries. The Company also performs conversion services on materials supplied by customers that lack certain of the Company’s production facilities or that are subject to their own capacity constraints.

The Company’s products are manufactured in a wide variety of grades, widths and gauges in response to customer specifications at three operating locations. At its Bridgeville facility, the Company produces specialty steel products in the form of long products (ingots, blooms, billets and bars) and flat rolled products (slabs and plates). Certain grades requiring vacuum-arc remelting are transported to the Titusville facility to complete that process and transported back to the Bridgeville facility for further processing. The semi-finished long products are primarily used by the Company’s Dunkirk facility and certain customers to produce finished bar, rod and wire products, and the semi-finished flat rolled products are used by customers to produce fine-gauge plate, sheet and strip products. The finished bar products manufactured by the Company are primarily used by service center customers for distribution to a variety of end users. The Company also produces customized shapes primarily for original equipment manufacturers that are cold rolled from purchased coiled strip, flat bar or extruded bar at its Precision Rolled Products department (“PRP”), located at its 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, high speed and tool steels, electrical steels, high temperature alloys, magnetic alloys and electronic alloys. Specialty steels are made with a high alloy content, which enables their 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. Annual domestic consumption of specialty steels approximates three million tons according to the Specialty Steel Industry of North America (“SSINA”). Of this amount, approximately two million tons of specialty steels consumed domestically represent stainless steel sheet and strip and electrical alloy products that the Company does not produce.

The Company primarily manufactures its products within the following product lines:

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 rust, corrosion and heat. Stainless steel is used, among other applications, in the automotive, aerospace and power generation industries, as well as in the manufacture of food handling, health and medical, chemical processing and pollution control equipment. The

[Table of Contents](#)

increased number of applications for stainless steel has resulted in the development of a greater variety of stainless steel metallurgical grades than carbon steel.

Tool Steel. Tool steels contain elements of manganese, silicon, chrome and molybdenum to produce specific hardness characteristics that enable them 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 a very high nickel content relative to other types of specialty steels. High-temperature alloy steels are manufactured for use generally in the aerospace industry.

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 element of nickel, chrome and molybdenum in such steels typically exceed 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.

Net sales by principal product line were as follows:

For the years ended December 31,	2003	2002	2001
(dollars in thousands)			
Stainless steel	\$52,546	\$56,813	\$76,908
Tool steel	9,673	6,643	4,503
High-strength low alloy steel	2,869	2,213	3,379
High-temperature alloy steel	2,482	3,474	2,471
Conversion service	1,079	1,495	3,054
Other	340	239	343
Total net sales	\$68,989	\$70,877	\$90,658

Raw Materials

The Company's Bridgeville facility depends on the delivery of key raw materials for its day-to-day operations. These key raw materials are ferrous and non-ferrous scrap metal and alloys, primarily consisting of nickel, ferrochrome, molybdenum and silicon. Scrap metal is primarily generated by industrial sources and is purchased through a number of scrap brokers and dealers. Alloys are generally purchased from domestic agents and originate from South Africa, Canada, South America, and Russia. Political disruptions in countries such as these could cause supply interruptions and affect the availability and price of the raw materials purchased by the Company.

The Bridgeville facility supplies semi-finished specialty steel products as starting materials to the Company's Titusville and Dunkirk facilities. Semi-finished specialty steel starting materials not capable of being produced by the Company cost competitively, which is primarily for its PRP operation, are purchased from other suppliers. The Company completes the manufacturing process to customer specifications. The Company generally purchases these starting materials from steel strip coil suppliers, extruders, flat rolled producers and service centers. The Company believes that adequate supplies of starting material will continue to be available.

The cost of raw materials approximates one-half of the Company's total cost of products sold. Raw material prices vary based on numerous factors, including quality, and are subject to frequent market fluctuations and future prices cannot be predicted with any degree of certainty. Therefore, the Company does not maintain any long-term written agreements with any of its raw material suppliers. The Company has implemented a sales price surcharge mechanism on its products to help offset the impact of raw material price fluctuations.

[Table of Contents](#)

Energy Agreements

The production of specialty steel requires the ready availability of substantial amounts of electricity, natural gas and certain industrial and refining gases. Electricity and natural gas are consumed within each of the Company's operations and the industrial and refining gases, including oxygen, nitrogen and argon, are primarily consumed within the melting operations. The Company has long-term supply agreements for all of its energy requirements.

While the Company believes that its energy agreements allow it to compete effectively within the specialty steel industry, the potential of curtailments exists as a result of decreased supplies during periods of increased demand for electricity and natural gas. These interruptions not only can adversely affect the operating performance of the Company, but also can lead to increased costs for energy.

Customers

The Company's five largest customers in the aggregate accounted for approximately 52% of net sales for the year ended December 31, 2003. Talley Metals Technology, Inc., a subsidiary of Carpenter Technology Corporation ("Talley Metals"), and its affiliates accounted for 25% of the Company's net sales. No other customer accounted for more than 10% of the Company's net sales for the year ended December 31, 2003.

The Company maintains a supply contract agreement with Talley Metals. While the initial term of the agreement expired December 31, 2002, the agreement continues to automatically renew with the placement of new orders each month and requires a ninety-day notice to terminate by either party. In addition, Talley Metals is required under the agreement to purchase a minimum of 1,000 tons of stainless reroll billet products each calendar month and average at least 1,250 tons per month during the last twelve-month period. The value of the contract on a monthly basis will depend on product mix and key raw material prices. During 2002 and 2003, Talley Metals did not comply with the monthly minimum purchase requirement due to market conditions. The Company has entered into negotiations with Talley Metals to modify the terms of the agreement. The Company has granted a waiver and expects to continue granting a waiver from this requirement until the terms of the contract are renegotiated.

A principal element of the Company's business strategy is to seek new customers so that over time it will reduce its dependence on one or a small number of customers. The addition of Dunkirk Specialty Steel provides the opportunity to reduce the Company's dependence on any customer. The Company's customer base increased from 372 at December 31, 2002 to 399 at December 31, 2003, primarily as a result of the addition of Dunkirk Specialty Steel. While the Company added 90 new customers during 2003, it lost 63 customers due to financial conditions and industry consolidation.

Backlog

The Company primarily manufactures products to meet specific customer orders, generally fulfilling orders in eight weeks or less for its semi-finished products and in 16 weeks or less for its finished products. The Company's backlog of orders on hand as of December 31, 2003, was approximately \$21 million as compared to \$14 million at the same time in 2002. The increase in the backlog is primarily due to improving economic conditions impacting the product demand of the Company's customer base and the reduction of competitors due to the increased number of bankruptcy filings within the industry. Customer orders are generally subject to cancellation with the payment of a penalty charge prior to delivery. The Company's backlog may not be indicative of actual sales and therefore should not be used as a measure of future revenue.

Competition

Competition in the Company's markets is based upon product quality, delivery capability, customer service and price. Maintaining high standards of product quality while keeping production costs at competitive levels is essential to the Company's ability to compete in its markets. The ability of a manufacturer to respond quickly to customer orders is currently, and is expected to remain, important in the specialty steel market.

[Table of Contents](#)

Annual domestic consumption of specialty steel products of the type manufactured by the Company approximates 1 million tons. The Company further restricts its participation in this market by limiting the volume of commodity stainless steel products it markets because of the highly competitive nature of that business.

The Company believes ten domestic companies that manufacture one or more similar specialty steel products are major competitors. There are many smaller producing companies and converting companies in the United States who are also considered to be competitors of the Company. New production capacity planned within the next several years are expected to be focused on the production of commodity stainless steel products and not a substantial threat to the products emphasized by the Company.

High import penetration of specialty steel products, especially stainless and tool steels, also impact the competitive nature within the United States. Unfair pricing practices by foreign producers have resulted in high import penetration into the U.S. markets that the Company now participates in. According to SSINA, import penetration for the year ended December 31, 2002 was 42% for stainless bar and 65% for stainless rod.

On October 22, 2001, the U.S. International Trade Commission determined that import of certain stainless steel and alloy tool steel products are seriously injuring the domestic specialty steel industry. On March 5, 2002, President Bush imposed tariffs on certain imported stainless steel rod, bar and wire products ranging from 6% to 15% over the next three years under Section 201 of the 1974 Trade Act. During the 2002 second quarter, the Company experienced a significant increase in demand for commodity reroller products. This trend did not continue beyond the 2002 second quarter. President Bush ended the imposed tariffs on December 4, 2003.

The assets purchased by Dunkirk Specialty Steel were previously owned and operated by AL Tech Specialty Steel, Inc. and Empire Specialty Steel, Inc. During their ownership, both organizations participated in several anti-dumping lawsuits with other domestic specialty steel producers. The Company expects to join other domestic producers in the filing of future trade actions against foreign producers.

The Continued Dumping and Subsidy Act of 2000 ("CDSOA") provides for payment of import duties collected by the U. S. Treasury to domestic companies injured by unfair foreign trade practices. The actions taken by AL Tech Specialty Steel, Inc. and Empire Specialty Steel, Inc. permitted the Company to receive \$310,000, net of expenses, representing their appropriate share of the import duties collected during the past fiscal year. In 2003, the Company received notice that it was awarded \$604,000, of which \$10,000 was received. The remaining payment has been delayed pending the outcome of a hearing before the U.S. Court of Appeals for the Federal Circuit (U.S. Court of Appeals") in a lawsuit challenging the distribution method of the import duties.

The Company expects to benefit from CDSOA in future years unless the Act is repealed or the U.S. Court of Appeals renders an unfavorable decision. The amount of future benefits is dependent on the amount of import duties collected and the relationship of Dunkirk Specialty Steel's claim in relation to claims filed by other domestic specialty steel producers.

The Company also faces competition from producers of certain materials, particularly aluminum, composites and plastics. Any competitive factors that adversely affects the market for finished products manufactured by the Company or its customers could indirectly adversely affect the demand for the Company's specialty steel products. See "Risk Factors – Competition".

Employee Relations

The Company considers the maintenance of good relations with its employees to be important to the successful conduct of its business. The Company has profit-sharing plans for certain salaried employees and all of its United Steelworkers of America (the "USWA") represented employees and has equity ownership programs for all of its eligible employees, in an effort to forge an alliance between its employee's interests and those of the Company's stockholders. At December 31, 2003, the Company had 220 employees at its Bridgeville facility, 43 employees at its Titusville facility and 120 employees at its Dunkirk facility, of whom 174, 38 and 95 were USWA members, respectively.

[Table of Contents](#)

Collective Bargaining Agreements

In December 2002, the Company and the USWA completed negotiation of a new six-year comprehensive collective bargaining agreement (the “Bridgeville CBA”) that recognizes the USWA as the exclusive representative for the Company’s hourly Bridgeville employees with respect to the terms and conditions of their employment. The basic structure of the Bridgeville CBA is similar to its prior agreements.

In February 2000, the Company and the USWA completed negotiation of a new sixty-seven (67) month comprehensive collective bargaining agreement for employees at the Titusville facility (the “Titusville CBA”). The Titusville CBA is similar to the original five-year agreement for the Titusville employees.

In October 2001, the Company and the USWA entered into a six-year comprehensive collective bargaining agreement, that became effective on February 14, 2002, for employees at the Dunkirk facility (the “Dunkirk CBA”). The Dunkirk CBA is similar to the collective bargaining agreements at Bridgeville and Titusville.

Employee Benefit Plans

The Company provides group life and health insurance plans for its hourly and salary employees. Profit-sharing plans that cover certain salaried employees and all hourly employees provide for the sharing of pre-tax profits in excess of specified amounts. The Company also maintains separate 401(k) retirement plans for its hourly and salary employees. Pursuant to each plan, participants may elect to make pre-tax and after-tax contributions to the plan, subject to certain limitations imposed under the Internal Revenue Code of 1986, as amended (the “Code”). In addition, the Company is required to make periodic contributions to the plans based on service.

Effective January 6, 2003, the Company began to participate in the Steelworkers Pension Trust (“Trust”), a multi-employer defined benefit pension plan, that is open to all hourly and salaried employees associated with the Bridgeville facility. The Company makes 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. The hourly employees may continue their contributions to the 401(k) retirement plan even though the Company contributions ceased. The Company also makes a monthly contribution to the 401(k) retirement plan on behalf of each salaried employee participating in the Trust. The amount of the contribution will be dependent upon each salaried employee’s contribution to the 401(k) retirement plan.

Employee Stock Purchase Plan

Under the 1996 Employee Stock Purchase Plan (the “Plan”), the Company is authorized to issue up to 90,000 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 the Company’s 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, 2003, the Company has issued 62,663 shares of Common Stock since the plan’s inception.

Safety

The Company has established and seeks to maintain appropriate safety standards and policies for its employees. To encourage plant safety, the USWA Agreements provide that employees will be entitled to receive 50% of the savings, if any, of reduced workers’ compensation insurance premiums obtained due to reductions in the state experience modifier issued to the Company.

Environmental

The Company is subject to 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. The Company may be liable for the remediation of contamination associated with generation, handling and disposal activities. The Company is subject periodically to environmental compliance reviews by various regulatory offices. The Company monitors its compliance with Environmental Laws applicable to it and, accordingly, believes that it is currently in compliance with all laws and regulations in all material respects. Environmental costs could be

[Table of Contents](#)

incurred which may be significant, related to environmental compliance at any time or from time to time in the future.

Bridgeville Facility

The Company has not incurred to date and does not anticipate incurring any significant remediation costs from environmental conditions at the Bridgeville facility. The Company does not expect that any remediation that may be required at the Bridgeville facility will have a material adverse effect on the Company's results of operations, liquidity or financial condition.

Titusville Facility

The Company operates its production and processing equipment that was acquired from Armco on real property the Company owns. Armco has agreed to indemnify the Company to the extent of \$3.0 million in the aggregate against liability for environmental matters that pertain to environmental conditions existing on or under the Titusville facility prior to June 2, 1995. In addition, Armco has agreed to indemnify the Company for any liabilities arising out of environmental conditions existing offsite as of June 2, 1995, and that indemnification is not subject to the \$3.0 million limitation. The Company believes the amount and terms of Armco's indemnity are sufficient to protect the Company against environmental liabilities arising at the Titusville facility from environmental conditions existing as of June 2, 1995.

In connection with the acquisition of the Titusville facility, the Company conducted a Phase I and Phase II environmental study (the "Study") of the parcel of real estate acquired. The Study noted that as is typical of the Titusville, Pennsylvania area generally, there is regional soil and groundwater hydrocarbon contamination present, reflecting the fact that this area contains natural petroleum deposits and that petroleum-refining operations had been conducted nearby. To date, no environmental governmental authority has contacted the Company concerning this matter. The Company believes it unlikely that it or Armco will be required to provide cleanup at the Titusville facility for the local hydrocarbon contamination. If the Company accelerates the timing or increases the cost of any environmental obligation retained by Armco, except as required by law or for the protection of public health or for the safety of its employees, the Company shall bear such accelerated or increased cost. Any accelerated or increased cost of an environmental obligation retained by Armco resulting from the Company seeking financing or from the sale of less than a controlling interest in the voting stock of the Company shall be borne equally by Armco and the Company.

The Company's primary remedies for reimbursement from Armco for losses stemming from pre-closing environmental conditions at the Titusville facility is the agreed to indemnity. The Company believes the amount and terms of the Armco indemnity are sufficient to protect the Company against environmental liabilities arising from environmental conditions at the Titusville facility prior to June 2, 1995. There can be no assurance, however, that the indemnity will fully cover all environmental liabilities incurred at the Titusville facility by the Company and there can be no assurance that the Company will have the financial resources to discharge those liabilities if legally compelled to do so.

Dunkirk Facility

In connection with the acquisition of the Dunkirk facility, Dunkirk Specialty Steel entered into an order with the New York State Department of Environmental Conservation ("NY DEC") that precludes NY DEC from bringing any action against the Company. In addition, the order releases the Company from any and all claims and liabilities arising from, or related to, the existing environmental conditions at the Dunkirk facility. There can be no assurance that any other party will not assert any claims with respect to environmental conditions at the Dunkirk facility, or that the Company will have the financial resources to discharge any liabilities if legally compelled to do so.

See "Risk Factors—Environmental Issues."

[Table of Contents](#)

Executive Officers

The following table sets forth, as of December 31, 2003, certain information with respect to the executive officers of the Company:

<u>NAME (AGE)</u>	<u>EXECUTIVE OFFICER SINCE</u>	<u>POSITION</u>
Clarence M. McAninch (68)	1994	President and Chief Executive Officer
Paul McGrath (52)	1996	Vice President of Operations, General Counsel and Secretary
Richard M. Ubinger (44)	1994	Vice President of Finance, Chief Financial Officer and Treasurer

Clarence M. McAninch, 68, has been President and Chief Executive Officer and a Director of the Company since July 1994. Mr. McAninch served as Vice President, Sales and Marketing, of the Stainless and Alloy Products Division of Armco from 1992 to 1994.

Paul A. McGrath, 52, has been Vice President of Operations of the Company since March 2001, General Counsel and Director of Employee Relations since January 1995 and was appointed Secretary in May 1996. Prior thereto, he was employed by Westinghouse Electric Corporation for approximately 24 years in various management positions.

Richard M. Ubinger, 44, has been Vice President of Finance of the Company since March 2001, Chief Financial Officer and Principal Accounting Officer of the Company since August 1994 and was appointed Assistant Secretary in November 1995 and Treasurer in May 1996. From 1981 to 1994, Mr. Ubinger was employed by Price Waterhouse LLP (currently known as PricewaterhouseCoopers LLP) in its audit department, and he served in the capacity of Senior Manager for Price Waterhouse LLP from 1990 to 1994. Mr. Ubinger is a Certified Public Accountant.

Patents and Trademarks

The Company does not consider its business to be materially dependent on patent or trademark protection, and believes it owns or maintains effective licenses covering all the intellectual property used in its business. The Company seeks to protect its proprietary information by use of confidentiality and non-competition agreements with certain employees.

Available Information

Copies of the Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports, are available free of charge on the Company's website at www.univstainless.com as soon as reasonably practicable after such reports are filed with the Securities and Exchange Commission.

[Table of Contents](#)

Risk Factors

The Company's business and results of operations are subject to a wide range of substantial business and economic factors including, but not limited to, the factors discussed below, many of which are not within the Company's control.

Limited Operating History of Dunkirk Specialty Steel

On February 14, 2002, Dunkirk Specialty Steel acquired certain assets of the idled Dunkirk, New York production facility of Empire Specialty Steel, Inc. On March 14, 2002, Dunkirk Specialty Steel commenced operations and reported an operating loss of \$4.1 million through December 31, 2003. The Company has only a limited operating history from which an evaluation of the prospects for Dunkirk Specialty Steel may be made. Those prospects must be considered in light of the numerous risks, expenses, problems and difficulties frequently encountered in connection with the establishment of a business and the competitive environment in which the Company, as well as Dunkirk Specialty Steel, operates. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Business Segment Results."

Significant Customer and Concentrated Customer Base

For the year ended December 31, 2003, Talley Metals and its affiliates accounted for approximately 25% of the Company's net sales. The Company's five largest customers in the aggregate accounted for approximately 52% of net sales. An adverse change in, or termination of, the Company's relationship with one or more of its major customers or one or more of its market segments could have a material adverse effect upon the Company. See "Business—Customers."

Competition

The Company competes with domestic and foreign sources of specialty steel products. In addition, many of the finished products sold by the Company's 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 affects the market for finished products manufactured by the Company or its customers could indirectly adversely affect the demand for the Company's semi-finished products. Additionally, the Company's 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 the Company's field is intense and is expected to continue to be so in the foreseeable future. There can be no assurance that the Company will be able to compete successfully in the future. See "Business—Competition."

Supply of Raw Materials and Cost of Raw Materials

The Company relies on a limited number of suppliers, some of which are foreign owned, for its raw material needs which currently approximates one-third of the Company's total cost of products sold. Raw material prices are affected by cyclical, seasonal and other market factors. Alloys consumed by the Company are primarily available 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 used by the Company. The Company does not maintain long-term supply agreements with any of its independent suppliers. If its supply of raw materials were interrupted, the Company 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 the Company's results of operations. In addition, significant increases in the price of the Company's principal raw materials could adversely affect the Company's financial results. See "Business—Raw Materials," and "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources."

Reliance on Energy Agreements

The manufacturing of specialty steels is an energy intensive industry. While the Company believes that its energy agreements allow it to compete effectively within the specialty steel industry, the Company is subjected to curtailments as a result of decreased supplies and increased demand for electricity and natural gas. These interruptions not only can adversely affect the operating performance of the Company, but also can lead to increased costs for energy. See "Business – Energy Agreements."

[Table of Contents](#)

Reliance on Critical Manufacturing Equipment

The Company's manufacturing processes are dependent upon certain critical pieces of specialty steel making equipment, such as the Company's electric arc-furnace and 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 the Company's operations would not be substantially curtailed which may have a negative effect on the Company's financial results. See "Properties."

Environmental Issues

The Company is subject to demanding federal, state and local environmental laws and regulations ("Environmental Laws") governing, among other things, air emissions, waste water discharge and solid and hazardous waste disposal. The Company leases or owns certain real property previously owned and used by Armco, which merged with and into AK Steel in 1999 ("Armco"). In connection with the acquisition of the Titusville facility, Armco agreed to retain responsibility for certain environmental liabilities and agreed to indemnify the Company for environmental liabilities existing prior to the transaction date. The Company has filed no claims against Armco since the inception of the acquisition agreements. Because the indemnification is the Company's primary remedy against Armco for a given environmental liability, the Company will be materially dependent upon that indemnity should any environmental liability arise. There can be no assurance that the indemnities from Armco will fully cover any or all environmental liabilities, and there can be no assurance that the Company will have the financial resources to discharge the liabilities if legally compelled to do so.

The Armco indemnity does not cover any liability incurred at the Titusville facility with respect to violations of Environmental Laws enacted after June 2, 1995. There is no assurance that the Company will not incur any such liability.

The Company entered into an order with the New York State Department of Environmental Conservation ("NY DEC") that precludes NY DEC from bringing any action against the Company, and releases the Company from any and all claims and liabilities arising from or related to the existing environmental conditions at the Dunkirk facility. There can be no assurance that any other party will not assert any claims with respect to environmental conditions at the Dunkirk facility, or that the Company will have the financial resources to discharge any liabilities if legally compelled to do so.

Environmental laws and regulations have changed rapidly in recent years, and the Company may be subject to increasingly stringent environmental standards in the future. See "Business—Environmental."

Legal Matter

The Company is currently defending itself in a suit that alleges it manufactured steel product, utilized in the manufacturing of crankshafts, that was defective. After in-depth investigation, it is the Company's position that the suit is without merit. In addition, the Company's insurance carrier has filed suit seeking a declaratory judgement identifying the liabilities and obligations of the insurance company related to this matter. While the Company believes that insurance coverage is available for the defense and damages, if any, relating to the claim, an unfavorable ruling in both suits could have a material adverse effect on the Company's financial condition. See "Legal Proceedings."

[Table of Contents](#)

ITEM 2. PROPERTIES

The Company exercised its option under a capital lease with Armco, which merged with and into AK Steel in 1999, to purchase substantially all of its Bridgeville facility from AK Steel in 2003, except for the ESR building. The Bridgeville facility consists of approximately 600,000 square feet of floor space on approximately 50 acres. The Bridgeville facility contains melting, electro-slag 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

The ESR building, which houses the Company's four electro-slag remelting furnaces and ancillary equipment, is not included in the option to purchase. The Company will continue to operate the equipment in the ESR building under the existing lease that was extended to March 8, 2005. The Company has entered into negotiations with AK Steel to purchase the ESR building. In the event the ESR building is not purchased, or the lease is not extended beyond March 8, 2005, the relocation of the ESR equipment would have an adverse material effect on the financial condition of the Company.

The Company owns its Titusville facility, which consists of approximately 10 acres and includes seven separate buildings, including two principal buildings of approximately 265,000 square feet in total area. The Titusville facility contains vacuum-arc remelting and various rolling and finishing equipment.

The Company owns its Dunkirk facility, which consists of approximately 800,000 square feet of floor space on approximately 79 acres. The Dunkirk facility processes semi-finished billet and bar stock through one of more of its four rolling mills. The products are then finished and shipped as finished bar, rod and wire products

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

ITEM 3. LEGAL PROCEEDINGS

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

In 2002, Teledyne was unsuccessful in its pursuit of a similar claim brought against another specialty steel producer who supplied the same steel product. After in-depth investigation, it is the Company's position that the suit is without merit and it intends to vigorously defend that position. Additionally, the Company believes that it has insurance coverage that is available for this claim. At this time, the Company is engaged in discovery and believes that the final disposition of this suit will not have a material adverse effect on the financial condition and the results of operations of the Company.

On April 7, 2003, United States Aviation Underwriters, Inc., ("USAU") a New York corporation, as managers and on behalf of United States Aircraft Insurance Group ("USAIG"), the Company's Aircraft Products Liability insurance carrier, filed suit in the Court of Common Pleas of Allegheny County, Pennsylvania asking the court for a declaratory judgement as to what actual liability and obligations were applicable to USAIG relating to the

[Table of Contents](#)

insurance policy issued to the Company, and the allegations made by Teledyne. At this time, the Company is engaged in discovery and believes that USAIG is responsible for providing defense and damage coverage with regard to the Teledyne allegations. To date USAIG has provided for and continues to provide for a defense to the Teledyne claim. While the Company believes that insurance coverage is available for the defense and damages, if any, relating to the Teledyne claim, an unfavorable ruling in both the USAIG suit and the Teledyne claim could have a material adverse effect on the Company's financial condition.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of 2003.

PART II

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

At December 31, 2003, a total of 6,564,306 shares of the Company's Common Stock, par value \$.001 per share, were issued and held by approximately 183 holders of record. A substantial number of the outstanding shares of Common Stock were owned of record on said date by "Cede & Co.," the nominee for Depository Trust Company, which is the clearing agency for most broker-dealers. Management believes that these shares are beneficially owned by customers of these broker-dealers and that the number of beneficial owners of the Company's Common Stock is substantially greater than 183. In addition, 269,900 shares of the issued Common Stock of the Company were held in treasury at December 31, 2003.

Certain holders of Common Stock and the Company are party to a stockholder agreement. That agreement maintains in effect certain registration rights granted to non-management stockholders, which provides to them two demand registration rights exercisable at any time upon written request for the registration of Restricted Shares of Common Stock having an aggregate net offering price of at least \$5,000,000 (the "Registrable Securities").

Price Range of Common Stock

The Common Stock is listed on the Nasdaq National Market under the symbol "USAP." The following table sets forth the range of high and low sale prices per share of Common Stock, for the periods indicated below:

	2003		2002	
	High	Low	High	Low
First quarter	\$ 6.44	\$4.92	\$11.59	\$ 8.30
Second quarter	\$ 6.60	\$4.40	\$16.40	\$10.36
Third quarter	\$ 8.14	\$5.86	\$11.75	\$ 5.26
Fourth quarter	\$11.73	\$7.62	\$ 7.65	\$ 4.86

The Company has never paid a cash dividend on its Common Stock and currently has no plans to pay dividends in the foreseeable future. The PNC Credit Agreement contains restrictions on the Company's ability to pay dividends on Common Stock.

Equity Compensation Plan Information

Securities authorized for issuance under equity compensation plans at December 31, 2003 are as follows:

Plan Category	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans ^(a)
Equity compensation plans Approved by security holders	482,999	\$ 8.99	273,995
Equity compensation plans not approved by security holders	—	—	—
Total	482,999	\$ 8.99	273,995

^(a) Includes 246,668 shares of common stock on stock options not issued under the Stock Incentive Plan and 27,337 available under the 1996 Employee Stock Purchase Plan.

[Table of Contents](#)

Preferred Stock

The Company's Certificate of Incorporation provides that the Company may, by vote of its 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.

The Company has no outstanding Preferred Stock and has no plans to issue any of the authorized Preferred Stock.

Dividends

The Company has never paid a cash dividend on its Common Stock and currently has no plans to pay dividends in the foreseeable future. The Company's Credit Agreement with PNC Bank currently limits the payment of cash dividends payable on its Common Stock to 50% of the Company's excess cash flow per fiscal year. Excess cash flow represents the amount of the Company's earnings before interest, taxes, depreciation and amortization that is greater than the sum of the Company's payments for interest, income taxes, the principal portion of long-term debt and capital lease obligations, and capital expenditures. Therefore, the Company would be restricted from granting a dividend for the year ended December 31, 2003.

ITEM 6. SELECTED FINANCIAL DATA

The information called for by this item is set forth on page 32 of the Annual Report to Stockholders for the year ended December 31, 2003, which is incorporated herein.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information called for by this item is set forth on pages 8 through 16 of the Annual Report to Stockholders for the year ended December 31, 2003, which is incorporated herein.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by this item is set forth on page 13 of the Annual Report to Stockholders for the year ended December 31, 2003, which is incorporated herein.

[Table of Contents](#)

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information called for by this item is set forth on pages 18 through 31 of the Annual Report to Stockholders for the year ended December 31, 2003, which is incorporated herein.

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

On September 5, 2003, the Company notified PricewaterhouseCoopers LLP that it was being dismissed as its independent accountants. In connection with its audits for the two most recent fiscal years and through September 5, 2003, there were no disagreements with PricewaterhouseCoopers LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements if not resolved to the satisfaction of PricewaterhouseCoopers LLP would have caused them to make reference thereto in their reports on the financial statements for such years.

Effective on September 5, 2003, the Company engaged Schneider Downs & Co., Inc. as its new independent accountants. Prior to its appointment as independent accountants, Schneider Downs & Co., Inc. had not been consulted by the Company on any of the matters referenced in Regulation S-K Item 304 (a) (2).

ITEM 9A. CONTROLS AND PROCEDURES

The Company's management performed an evaluation of the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the Company's President and Chief Executive Officer and the Vice President of Finance, Chief Financial Officer and Treasurer concluded that, as of the end of the fiscal year covered by this annual report, the Company's disclosure controls and procedures are effective in the timely identification of material information required to be included in the Company's periodic filings with the SEC. During the year ended December 31, 2003, there have been no changes in the Company's internal control over financial reporting identified in connection with the evaluation thereof, which have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

The information concerning the directors of the Company is set forth in the Proxy Statement (the “Proxy Statement”) to be sent to stockholders in connection with the Company’s Annual Meeting of Stockholders to be held on May 18, 2004, 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, the Company’s Proxy Statement is not to be deemed filed as part of this report for the purposes of this Item.

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 Company’s 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 Company’s Proxy Statement is not to be deemed filed as part of this report for the purposes of this Item.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

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 Company’s Proxy Statement is not to be deemed filed as part of this report for the purposes of this Item.

[Table of Contents](#)

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this Annual Report on Form 10-K:

1) Consolidated Financial Statements:

The following report of independent accountants and consolidated financial information of the Company included in the accompanying Annual Report, are incorporated in this Form 10-K Annual Report.

<u>Financial Statements</u>	<u>Pages of Annual Report to Stockholders</u>
Report of Schneider Downs & Co., Inc., Independent Accountants	17
Consolidated Statement of Operations for the three years ended December 31, 2003	18
Consolidated Balance Sheets as of December 31, 2003 and 2002	19
Consolidated Statement of Cash Flows for the three years ended December 31, 2003	20
Notes to the Consolidated Financial Statements	21-31
Five-year Summary	32

The report of the Company's former independent accountants follows:

Report of Independent Accountants

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

In our opinion, the consolidated balance sheet at December 31, 2002 and the related consolidated statements of operations and of cash flows for each of the two years in the period ended December 31, 2002, included in the accompanying Annual Report and incorporated in this Form 10-K Annual Report, present fairly, in all material respects, the financial position, results of operations and cash flows of Universal Stainless & Alloy Products, Inc., and its subsidiaries (the Company) at December 31, 2002 and for each of the two years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Pittsburgh, Pennsylvania
February 18, 2003

[Table of Contents](#)

2) Consolidated Financial Statement Schedules:

The following financial statement schedule is included herewith on page 22 and made a part hereof; Schedule II (Valuation and Qualifying Accounts).

3) Exhibits:

<u>EXHIBIT NUMBER</u>	<u>DESCRIPTION</u>
2.1	Certificate of Merger, dated July 29, 1994, between Universal Stainless & Alloy Products, Inc., a Pennsylvania corporation, and the Company (incorporated herein by reference to Exhibit 2.1 to Registration No. 33-85310).
2.2	Agreement and Plan of Merger, dated July 28, 1994, among Universal Stainless & Alloy Products, Inc., a Pennsylvania corporation, and the Company (incorporated herein by reference to Exhibit 2.2 to Registration No. 33-85310).
3.1	Amended and Restated Certificate of Incorporation (incorporated herein by reference to Exhibit 3.1 to Registration No. 33-85310).
3.2	By-laws of the Company (incorporated herein by reference to Exhibit 3.2 to Registration No. 33-85310).
4.1	Specimen Copy of Stock Certificate for shares of Common Stock (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).
10.1	Stockholders Agreement dated as of August 1, 1994, by and among the Company and its existing stockholders (incorporated herein by reference to Exhibit 10.1 to Registration No. 33-85310).
10.2	Asset Purchase Agreement, dated August 15, 1994, by and between the Company and Armco Inc., as amended by letter agreement, dated October 5, 1994, by and between the Company and Armco, Inc. (incorporated herein by reference to Exhibit 10.2 to Registration No. 33-85310).
10.3	Lease Agreement, dated August 15, 1994, by and between Armco Inc. and the Company (incorporated herein by reference to Exhibit 10.3 to Registration No. 33-85310).
10.4	Security Agreement dated August 15, 1994, by and between the Company and Armco Inc (incorporated herein by reference to Exhibit 10.4 to Registration No. 33-85310).

Table of Contents

<u>EXHIBIT NUMBER</u>	<u>DESCRIPTION</u>
10.5	Asset and Real Property Purchase Agreement dated as of June 2, 1995, by and between Armco Inc. and the Company (incorporated herein by reference to Exhibit 2.3 to Registration No. 33-97896).
10.6	Employment Agreement dated November 20, 1998 by and between the Company and Clarence M. McAninch (incorporated herein by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998).
10.7	Employment Agreement dated January 1, 1998 between the Company and Paul McGrath (incorporated herein by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).
10.8	Employment Agreement dated January 1, 1998 between the Company and Richard M. Ubinger (incorporated herein by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).
10.9	Stock Incentive Plan (incorporated herein by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.10	Second Amended and Restated Credit Agreement, dated as of January 30, 1998, between the Company and PNC Bank, National Association, with Exhibits and Schedules (incorporated herein by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).
10.11	Security Agreement and Collateral Assignment, dated as of January 30, 1998, by and between the Company and PNC Bank, National Association (incorporated herein by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).
10.12	Note, dated as of January 30, 1998, by and between the Company and PNC Bank, National Association (incorporated herein by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).
10.13	Landlord's Waiver, dated as of January 30, 1998, by Armco Inc (incorporated herein by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).
10.14	Open-End Leasehold Mortgage, Collateral Assignment and Security Agreement dated as of January 30, 1998, by the Company in favor of PNC Bank, National Association (incorporated herein by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).
10.15	First Amendment to Second Amended and Restated Credit Agreement, dated as of December 31, 1998, between the Company and PNC Bank, National Association (incorporated herein by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998).
10.16	Second Amendment to Second Amended and Restated Credit Agreement, dated as of May 25, 2000, between the Company and PNC Bank, National Association (incorporated herein by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000).
10.17	Third Amendment to the Second Amended and Restated Credit Agreement, dated as of June 29, 2001, between the Company and PNC Bank, National Association (incorporated herein by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).

Table of Contents

<u>EXHIBIT NUMBER</u>	<u>DESCRIPTION</u>
10.18	Fourth Amendment to the Second Amended and Restated Credit Agreement, dated as of May 31, 2002, between the Company and PNC Bank, National Association (incorporated herein by reference to Exhibit 10.26 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2002).
10.19	Fifth Amendment to the Second Amended and Restated Credit Agreement, dated as of February 18, 2003, between the Company and PNC Bank, National Association (incorporated herein by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.20	Sixth Amendment to the Second Amended and Restated Credit Agreement, dated as of June 30, 2003, between the Company and PNC Bank, National Association (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2003).
10.21	Seventh Amendment to the Second Amended and Restated Credit Agreement, dated as of October 20, 2003, between the Company and PNC Bank, National Association (incorporated herein by reference to Exhibit 10.29 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2003).
10.22	Loan Agreement, dated October 3, 1995, by and between the Company and Commonwealth of Pennsylvania (incorporated herein by reference to Exhibit 10.20 to Registration No. 33-97896).
10.23	Note, dated October 3, 1995, for the principal sum of \$500,000, by the Company, in favor of the Commonwealth of Pennsylvania (incorporated herein by reference to Exhibit 10.21 to Registration No. 33-97896).
10.24	Security Agreement dated October 3, 1995, by and between the Company and the Commonwealth of Pennsylvania (incorporated herein by reference to Exhibit 10.22 to Registration No. 33-97896).
10.25	Supply Contract Agreement, dated as of July 1, 2001, between the Company and Talley Metals Technology, Inc. a subsidiary of Carpenter Technology Corporation (incorporated herein by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
10.26	Personal Property Asset Purchase Agreement, dated as of February 8, 2002, between the Company and New York Job Development Authority (incorporated herein by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
10.27	Real Property Asset Purchase Agreement, dated as of February 8, 2002, between the Company and New York Job Development Authority (incorporated herein by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
10.28	Promissory Note, dated as of February 13, 2002, between the Company and New York Job Development Authority (incorporated herein by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
10.29	Promissory Note, dated as of February 14, 2002, between the Company and New York Job Development Authority (incorporated herein by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
13.1	Selected pages of the Company's 2003 Annual Report to Stockholders (filed herewith).
21.1	Subsidiaries of Registrant (filed herewith).

[Table of Contents](#)

<u>EXHIBIT NUMBER</u>	<u>DESCRIPTION</u>
23.1	Consent of Schneider Downs & Co., Inc. (filed herewith).
23.2	Consent of PricewaterhouseCoopers LLP (filed herewith).
24.1	Powers of Attorney (included on the signature page herein).
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification of Chief Executive Officer pursuant to Rule 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.2	Certification of Chief Financial Officer pursuant to Rule 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)

(b) The following reports on Form 8-K were filed during the fourth quarter of 2003:

A report on Form 8-K was filed on October 2, 2003. The report covered an announcement by the Company and the Employee Stock Purchase Plan (the "Plan") under Item 4, Changes in Registrant's Certifying Accountant, that the Plan changed independent accountants.

A report on Form 8-K was filed on October 22, 2003. The report covered a press release under Item 12, Results of Operations and Financial Condition, relating to the Company's financial results for the three-month and nine-month period ended September 30, 2003.

REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULE

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

Our audit of the consolidated financial statements referred to in our report dated February 23, 2004, appearing in the 2003 Annual Report to Stockholders of Universal Stainless & Alloy Products, Inc. (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 15(a)(2) of this Form 10-K as it relates to the year ended December 31, 2003. In our opinion, this financial statement schedule for the year ended December 31, 2003 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ Schneider Downs & Co., Inc.
Schneider Downs & Co., Inc.
Pittsburgh, Pennsylvania
February 23, 2004

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

Our audits of the consolidated financial statements referred to in our report dated February 18, 2003, appearing in this Annual Report on Form 10-K also included an audit of the financial statement schedule listed in Item 15(a)(2) of this Form 10-K as it relates to the years ended December 31, 2002 and 2001. In our opinion, this financial statement schedule for the two years ended December 31, 2002 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Pittsburgh, Pennsylvania
February 18, 2003

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended December 31, 2001, 2002 and 2003
(Dollars in thousands)

	<u>Balance at Beginning Of Year</u>	<u>Charged to Costs and Expenses</u>	<u>Deductions</u>	<u>Balance at End of Year</u>
Inventory reserve:				
Year ended December 31, 2001	\$ 469	\$ 332	\$ (321)	\$ 480
Year ended December 31, 2002	480	678	(221)	937
Year ended December 31, 2003	937	1,281	(1,193)	1,025
Allowance for doubtful accounts:				
Year ended December 31, 2001	\$ 192	\$ 336	\$ (94)	\$ 434
Year ended December 31, 2002	434	47	(183)	298
Year ended December 31, 2003	298	52	(187)	163

2003 FINANCIAL REVIEW

8	Management's Discussion and Analysis of Financial Condition and Results of Operations
17	Report of Management
17	Report of Independent Accountants
18	Consolidated Statement of Operations
19	Consolidated Balance Sheets
20	Consolidated Statement of Cash Flows
21	Notes to the Consolidated Financial Statements
32	Five-year Summary

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

On February 8, 2002, the Company, through its wholly-owned subsidiary, Dunkirk Specialty Steel, LLC ("Dunkirk Specialty Steel") entered into a Property Asset Purchase Agreement and a Real Property Purchase Agreement (the "Purchase Agreements") with the New York Job Development Authority (the "JDA") to acquire certain assets and real property formerly owned by Empire Specialty Steel, Inc. at its idled production facility located in Dunkirk, New York. These transactions were completed on February 14, 2002 and the facility became operational on March 14, 2002.

An analysis of the Company's operations is as follows:

For the years ended December 31,	2003		2002		2001	
	Amount	%	Amount	%	Amount	%
<i>(dollars in thousands)</i>						
Net Sales						
Stainless steel	\$52,546	76.2%	\$56,813	80.1%	\$76,908	84.8%
Tool steel	9,673	14.0	6,643	9.4	4,503	5.0
High-strength low alloy steel	2,869	4.1	2,213	3.1	3,379	3.7
High-temperature alloy steel	2,482	3.6	3,474	4.9	2,471	2.7
Conversion services	1,079	1.6	1,495	2.1	3,054	3.4
Other	340	0.5	239	0.4	343	0.4
Total net sales	68,989	100.0	70,877	100.0	90,658	100.0
Total cost of products sold	65,534	95.0	61,971	87.4	71,915	79.4
Selling and administrative expenses	5,837	8.5	5,883	8.3	6,199	6.8
Operating income (loss)	\$ (2,382)	(3.5)%	\$ 3,023	4.3%	\$ 12,544	13.8%

Net sales by market segment are as follows:

For the years ended December 31,	2003		2002		2001	
	Amount	%	Amount	%	Amount	%
<i>(dollars in thousands)</i>						
Service centers	\$29,150	42.3%	\$23,478	33.1%	\$19,178	21.2%
Rerollers	20,240	29.3	26,791	37.8	31,936	35.2
Forgers	9,773	14.2	8,370	11.8	18,484	20.4
Original equipment manufacturers	5,124	7.4	8,578	12.1	17,714	19.5
Wire redrawers	3,328	4.8	1,926	2.7	—	—
Conversion services	1,079	1.6	1,495	2.1	3,054	3.4
Miscellaneous	295	0.4	239	0.4	292	0.3
Net sales	\$68,989	100.0%	\$70,877	100.0%	\$90,658	100.0%
Tons shipped	35,100		38,400		46,800	

2003 Results as Compared to 2002 The decrease in net sales in 2003 reflects reduced demand for commodity reroller and power generation products, which was partially offset by increased demand for petrochemical, tool steel and aerospace products. During the first half of 2002, demand for commodity reroller products had increased as a result of the Section 201 tariffs imposed by President Bush in March 2002 on imported specialty steel products. This trend did not continue beyond that period. The decline in demand for power generation products continued in 2003 primarily due to production cutbacks of power generation equipment initiated in 2002. Increased demand for aerospace and petrochemical products is primarily due to the increased product capabilities resulting from the acquisition of Dunkirk Specialty Steel in 2002. The increase in tool steel demand is primarily attributable to the Company increasing its market share from a new customer obtained in 2002.

Cost of products sold, as a percent of net sales, increased in 2003 as compared to 2002. This increase is primarily due to higher raw material, labor and energy costs, as well as shifts in product mix and lower production volumes during the first six months of 2003. In addition, Dunkirk Specialty Steel has not generated sufficient production volumes to operate profitably.

Selling and administrative expenses remained relatively constant between 2002 and 2003. Increased business insurance costs in 2003 were more than offset by a \$267,000 one-time charge for production process, security and maintenance modifications enacted while the Bridgeville facility operated under a day-to-day extension of its collective bargaining agreement from August 31, 2002 to December 7, 2002.

Interest expense and other financing costs decreased from \$455,000 in 2002 to \$383,000 in 2003. The decrease was primarily due to the Company continuing to fund the scheduled payments on existing debt without incurring additional debt.

Other income (expense), net decreased from \$457,000 in 2002 to \$128,000 in 2003. The decrease was primarily due to the receipt of \$310,000, net of expenses, under the Continued Dumping and Subsidy Act of 2000 ("CDSOA") in 2002. In 2003, the Company received notice that it was awarded \$604,000, of which \$10,000 was received. The remaining payment has been delayed pending the outcome of a hearing before the U.S. Court of Appeals for the Federal Circuit in a lawsuit challenging the distribution method of the import duties. The Company will not record the uncollected portion of the award as income unless the funds are collected.

The 2003 effective income tax rate was 46.3% compared to 30.8% in 2002. The increase in the effective income tax rate is primarily attributable to the impact of recognizing a loss in 2003 against the tax credit benefits generated by the Company from operating Dunkirk Specialty Steel within a New York State Empire Zone. The Company recognized \$185,000 of these income tax credits in 2003 in comparison to \$340,000 in 2002.

2002 Results as Compared to 2001 The decrease in net sales in 2002 reflects reduced demand from two important end markets, aerospace and power generation. Net sales to those markets in 2002 decreased 36% and 53%, respectively, from 2001. These declines are primarily due to production cutbacks of power generation equipment and commercial aircraft. Sales of bar, rod and wire products from Dunkirk Specialty Steel, and increased sales of tool steel and commodity reroller products have partially offset the lower sales to the power generation and aerospace markets. During the first half of 2002, management believed the increase in demand for tool steel products represented the beginning of an economic recovery. In addition, the increase in demand for commodity reroller products reflected the impact of the Section 201 tariffs imposed by President Bush in March 2002 on imported specialty steel products. These trends did not continue during the second half of the year.

Cost of products sold, as a percent of net sales, increased in 2002 as compared to 2001. This increase is primarily due to the shift in product mix, lower production volumes at the Bridgeville and Titusville facilities, and the start-up costs incurred relating to Dunkirk Specialty Steel.

Selling and administrative expenses decreased by \$316,000 in 2002 as compared to 2001. The Bridgeville facility operated under a day-to-day extension of its collective bargaining agreement from August 31, 2002 to December 7, 2002. While the facility operated under the extension, management modified certain aspects of the facility's normal operations relating to production processes, security and maintenance to accommodate the situation. These modifications resulted in a \$267,000 increase in selling and administrative expenses. This event and the inclusion of direct expenses of \$740,000 associated with Dunkirk Specialty Steel were more than offset by a \$283,000 decrease in bad debt expense and the absence of several significant charges in 2001. The 2001 charges included a \$200,000 charge to demolish certain vacant buildings within the Bridgeville facility, a \$190,000 obligation to a former Vice President of Operations and a \$115,000 charge for the services of an investment banking firm.

Interest expense and other financing costs decreased from \$576,000 in 2001 to \$455,000 in 2002. The decrease was primarily due to a reduction in borrowings under the revolving line of credit with PNC Bank and lower interest rates between the two periods. This decrease was partially offset by the amortization of the discount recognized on the debt issued in conjunction with the acquisition of the Empire Specialty Steel assets by Dunkirk Specialty Steel.

Other income (expense), net increased from \$57,000 in 2001 to \$457,000 in 2002. The increase was primarily due to an increase in cash available for investing during the respective periods and the receipt of \$310,000, net of expenses, under the CDSOA.

The 2002 effective income tax rate was 30.8% compared to 36.5% in 2001. The decrease in the effective income tax rate is primarily attributable to tax credit benefits and the impact of permanent tax differences applied against lower levels of income in 2002. Dunkirk Specialty Steel operates within a New York State Empire Zone that allowed the Company to recognize \$340,000 of income tax credits in 2002.

Business Segment Results

The Company is comprised of three operating locations and one corporate headquarters. For segment reporting, the Bridgeville and Titusville facilities have been aggregated into one reportable segment, Universal Stainless & Alloy Products, because of the management reporting structure in place. The Universal Stainless & Alloy Products manufacturing process involves melting, remelting, treating and hot and cold rolling of semi-finished and finished specialty steels. A second reportable segment, Dunkirk Specialty Steel, was created in 2002 as a result of the acquisition of certain assets and real property formerly owned by Empire Specialty Steel, Inc. Dunkirk Specialty Steel's manufacturing process involves hot rolling and finishing specialty steel bar, rod and wire products.

Universal Stainless & Alloy Products Segment An analysis of the segment's operations is as follows:

For the years ended December 31,	2003		2002		2001	
	Amount	%	Amount	%	Amount	%
<i>(dollars in thousands)</i>						
Net Sales						
Stainless steel	\$35,946	60.3%	\$48,193	68.7%	\$76,908	84.8%
Tool steel	9,097	15.3	6,568	9.4	4,503	5.0
High-temperature alloy steel	1,965	3.3	3,237	4.6	3,379	3.7
High-strength low alloy steel	1,672	2.8	1,922	2.8	2,471	2.7
Conversion services	926	1.6	1,400	2.0	3,054	3.4
Other	302	0.5	220	0.3	343	0.4
	<u>49,908</u>	<u>83.8</u>	<u>61,540</u>	<u>87.8</u>	<u>90,658</u>	<u>100.0</u>
Intersegment	9,677	16.2	8,580	12.2	—	—
	<u>59,585</u>	<u>100.0</u>	<u>70,120</u>	<u>100.0</u>	<u>90,658</u>	<u>100.0</u>
Total net sales	59,585	100.0	70,120	100.0	90,658	100.0
Material cost of sales	28,969	48.6	30,084	42.9	25,990	28.7
Operation cost of sales	26,947	45.2	30,466	43.4	45,925	50.7
Selling and administrative expenses	3,918	6.6	4,557	6.5	6,199	6.8
	<u>59,834</u>	<u>100.0</u>	<u>70,107</u>	<u>100.0</u>	<u>88,114</u>	<u>100.0</u>
Operating income (loss)	\$ (249)	(0.4)%	\$ 5,013	7.2%	\$ 12,544	13.8%

Net sales for the year ended December 31, 2003 decreased \$10.5 million, or 15%, in comparison to the year ended December 31, 2002 primarily due to a 47% and 32% decline in revenues associated with commodity reroll and power generation products, respectively. These declines were partially offset by a 39% increase in tool steel product revenues. Operating income (loss) for the year ended December 31, 2003 decreased \$5.3 million primarily due to higher raw material, labor and energy costs, partially offset by an improved product mix.

Net sales for the year ended December 31, 2002 decreased \$20.5 million, or 23%, in comparison to the year ended December 31, 2001 primarily due to a 57% and 43% decline in revenues associated with power generation and aerospace products, respectively. These declines were partially offset by a 62% and 46% increase in commodity reroll and tool steel product revenues, respectively. Operating income for the year ended December 31, 2002 decreased \$7.5 million primarily due to lower production volumes and an unfavorable shift in product mix.

Dunkirk Specialty Steel Segment An analysis of the segment's operations is as follows:

For the years ended December 31,	2003		2002	
	Amount	%	Amount	%
<i>(dollars in thousands)</i>				
Net Sales				
Stainless steel	\$16,600	83.5%	\$ 8,620	82.2%
High-strength low alloy steel	1,197	6.0	291	2.8
Tool steel	576	2.9	75	0.7
High-temperature alloy steel	517	2.6	237	2.3
Conversion services	153	0.8	95	0.9
Other	38	0.2	19	0.2
	<u>19,081</u>	<u>96.0</u>	<u>9,337</u>	<u>89.1</u>
Intersegment	794	4.0	1,146	10.9
	<u>19,875</u>	<u>100.0</u>	<u>10,483</u>	<u>100.0</u>
Total net sales	19,875	100.0	10,483	100.0
Material cost of sales	11,080	55.7	5,945	56.7
Operation cost of sales	9,009	45.3	5,202	49.6
Selling and administrative expenses	1,919	9.7	1,326	12.7
	<u>22,917</u>	<u>115.7</u>	<u>13,799</u>	<u>131.7</u>
Operating income (loss)	\$ (2,133)	(10.7)%	\$ (1,990)	(19.0)%

Net sales for the year ended December 31, 2003 increased \$9.4 million, or 90%, in comparison to the year ended December 31, 2002 primarily due to more than 100% increases in revenue associated with aerospace and petrochemical products. The operating loss for the year ended December 31, 2003 increased \$143,000 primarily due to a \$947,000 increase in fixed manufacturing costs and selling and administrative costs partially offset by higher direct margins attributable to cost reduction initiatives implemented in the manufacturing process.

Net sales for the year ended December 31, 2002 primarily reflect sales of commodity, aerospace and petrochemical products to service centers, OEMs and wire redrawers. The operating loss primarily relates to the start-up costs incurred since February 14, 2002 and production volumes below the level necessary to sufficiently absorb the period costs incurred.

Liquidity and Capital Resources

The Company generated cash flow from operations of \$3.8 million in each year ended December 31, 2003 and 2002. Cash received from sales of \$68.4 million and \$72.2 million for the years ended December 31, 2003 and 2002, respectively, represent the primary source of cash from operations. An analysis of the primary uses of cash is as follows:

For the years ended December 31,	2003		2002	
	Amount	%	Amount	%
<i>(dollars in thousands)</i>				
Raw material purchases	\$22,628	35.0%	\$23,548	34.5%
Employment costs	19,518	30.2	19,383	28.3
Utilities	9,689	15.0	7,960	11.6
Other	12,828	19.8	17,498	25.6
Total uses of cash	\$64,663	100.0%	\$68,389	100.0%

Raw material purchases decreased in 2003 in comparison to 2002 primarily due to lower quantities of product purchased partially offset by higher transaction prices. Increased employment and utility costs are primarily due to higher costs and the impact of Dunkirk Specialty Steel operating for the full year of 2003, partially offset by lower production volumes at the Company's Bridgeville and Titusville facilities. The reduction in other uses of cash is primarily attributable to receiving \$1.5 million of federal and state income tax refunds in 2003 as compared to paying \$1.3 million for federal and state income taxes in 2002, as well as lower production volumes.

At December 31, 2003, working capital approximated \$33.4 million, as compared to \$33.5 million at December 31, 2002. Reductions in inventory during 2003 were partially offset by increased raw material costs incurred during the year. The cost of raw materials contained within work-in-process inventory is approximately \$2.1 million higher at December 31, 2003, as compared to December 31, 2002, as a result of increased raw material transaction prices. The Company continuously monitors market price fluctuations of its key raw materials. The following table reflects the average market value per pound for selected months during the last twelve-month period.

	December 2002	March 2003	June 2003	September 2003	December 2003
Nickel	\$ 3.26	\$3.80	\$4.03	\$ 4.52	\$ 6.43
Chrome	\$ 0.33	\$0.40	\$0.45	\$ 0.47	\$ 0.54
Molybdenum	\$ 3.51	\$4.68	\$5.63	\$ 6.14	\$ 7.10
Carbon Scrap	\$ 0.06	\$0.07	\$0.06	\$ 0.08	\$ 0.09

Increased demand from foreign (primarily China) and domestic sources caused raw material market values to rise significantly between June 2003 and December 2003. The market values for these raw materials, most notably carbon scrap, have continued to increase in 2004. In response, the Company announced sales price increases of 3% effective January 2, 2004 and an additional 4% effective February 4, 2004. In addition, the Company began to calculate its nickel surcharge using an \$0.18 per pound premium over the London Metal Exchange prices on February 4, 2004. In response to the unprecedented market value increase in carbon scrap of approximately 40% since December 2003, the Company changed its raw material surcharge formula to include an iron surcharge component on February 16, 2004. There can be no assurance that these sales price increases will completely offset its rising costs or that adequate supplies of raw materials will continue to be available to meet market demand.

Capital Expenditures and Investments The Company's capital expenditures, excluding the costs of the Dunkirk Specialty Steel acquisition in 2002, were approximately \$1.2 million and \$4.2 million in 2003 and 2002, respectively. The reduction in capital expenditures in 2003 is primarily due to the market conditions experienced during the first half of 2003. In addition, the 2003 capital expenditures were partially offset by the Company entering into a \$200,000 Deferred Loan Agreement maturing on December 31, 2006 with the Dunkirk Local Development Corporation. No principal or interest payments will be required under the Deferred Loan Agreement provided that the Company hires 30 new employees and more than 50% of those jobs are made available to certain Dunkirk City residents. The Company believes that it will meet the conditions of the Deferred Loan Agreement, although it can make no assurances to that effect. Therefore, the proceeds have been applied to reduce the acquisition cost of new equipment at the Company's Dunkirk facility.

Capital expenditures are expected to approximate \$4.0 million in 2004, based on current market conditions, and will be used primarily to upgrade or replace various pieces of equipment at the Bridgeville, Titusville and Dunkirk facilities. Commitments of additional capital expenditures may occur if market conditions continue to improve.

Capital Resources Including Off-Balance Sheet Arrangements The Company does not maintain off-balance sheet arrangements nor does it participate in non-exchange traded contracts requiring fair value accounting treatment or material related party transaction arrangements.

PNC Credit Agreement The Company maintains a credit agreement with PNC Bank for a \$6.5 million revolving credit facility ("PNC Line") through April 30, 2005. This credit agreement also includes a term loan ("PNC Term Loan") scheduled to mature in June 2006 and is collateralized by substantially all of the Company's assets.

Interest on borrowings under the PNC Line and the PNC Term Loan is based on short-term market rates, which may be further adjusted based upon the Company maintaining certain financial ratios. In addition, the Company pays a commitment fee of 0.5% per annum on the unused portion of the PNC Line. As a condition of the PNC Line and the PNC Term Loan, the Company is required to maintain certain levels of net worth, working capital and other financial ratios; to limit the amount of capital expenditures it may incur without PNC Bank's approval; and to restrict the payment of dividends.

In 2003, the Company executed the Seventh Amendment to the Second Amended and Restated Credit Agreement with PNC Bank. The amendment replaced certain financial covenants with an asset-based funding formula that will permit the Company full access to the PNC Line. As of December 31, 2003, the Company was in compliance with all financial ratios and restrictive covenants in effect. The Company believes it will maintain compliance with the financial covenants in effect throughout 2004.

Government Financing Programs The Company has entered into several separate loan agreements with the Commonwealth of Pennsylvania's Department of Commerce aggregating \$1.6 million with terms ending between the years 2002 and 2016. The loans bear interest at rates ranging from 5% to 6% per annum. In 1996, the Company entered into a ten-year, 6% interest-bearing loan agreement with the Redevelopment Authority of Allegheny County Economic Development Fund in the amount of \$1,514,000.

On February 14, 2002, Dunkirk Specialty Steel issued two ten-year, 5% interest-bearing notes payable to the JDA (the "JDA Notes") for the combined amount of \$3.0 million. No principal or interest payments were due under the notes during the first year. The notes were recorded net of a \$143,000 debt discount, of which \$125,000 was amortized in 2002 and included as interest expense. The balance was amortized and included as interest expense in 2003.

Stock-Based Financing Activity The Company issued 9,768 and 207,366 shares of its Common Stock for the years ended December 31, 2003 and 2002, respectively, through its two stock-based compensation plans. In 2002, certain members of the Company's Board of Directors exercised 200,000 stock options issued under the Stock Incentive Plan for \$1.9 million plus related tax benefits of \$417,000. The remaining shares were issued to employees participating in the Employee Stock Purchase Plan.

On October 19, 1998, the Company initiated a stock repurchase program to repurchase up to 315,000 shares of its outstanding Common Stock in open market transactions at market prices. The Company repurchased no shares of Common Stock during 2003 and 2002. The Company is authorized to repurchase 45,100 additional shares of Common Stock under this program as of December 31, 2003.

Short- and Long-Term Liquidity The Company expects to meet substantially all of its short-term liquidity requirements resulting from operations and current capital investment plans with internally generated funds and borrowings under the PNC Credit Agreement. At December 31, 2003, the Company had \$4.7 million in cash and \$6.5 million available under the PNC Line. In addition, the ratio of current assets to current liabilities at December 31, 2003 was 4.2:1 and the debt to total capitalization ratio was 11.3%.

The Company's long-term liquidity depends upon its ability to obtain additional orders from its customers, attract new customers and control costs during periods of low demand or pricing. At this time, management intends to continue monitoring its discretionary spending closely until the Company returns to profitable operations.

Contractual Obligations At December 31, 2003, the Company had the following contractual obligations:

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
<i>(dollars in thousands)</i>					
Long-term debt	\$ 8,476	\$ 2,219	\$3,717	\$936	\$ 1,604
Capital lease obligations	80	33	47	—	—
Operating lease obligations	206	67	86	53	—
Purchase obligations	1,931	1,931	—	—	—
Total contractual obligations	\$10,693	\$ 4,250	\$3,850	\$989	\$ 1,604

Long-term debt includes the PNC Term Loan. The Company has fixed the rate of interest at 3.77% through December 12, 2004. The table assumes the Company will maintain that interest rate until maturity. Purchase obligations include the value of all open purchase orders with established quantities and purchase prices as well as minimum purchase commitments under various utility contracts. One utility contract expires in August 2004. The table assumes the minimum monthly payment under this contract is \$60,000.

Market Risk The Company does not use derivative financial instruments to reduce its financial risk. The Company's customers and suppliers absorb fluctuations in foreign currency exchange rates. In addition, the Company does not maintain long-term, fixed cost supply agreements for its major raw material and natural gas requirements. Prices for the Company's raw materials and natural gas requirements are subject to frequent market fluctuations, and profit margins may decline in the event market values increase. Selling price increases and surcharges are implemented to offset raw material and natural gas market price increases.

The Company is exposed to market risk from changes in interest rates related to its long-term debt. At December 31, 2003, \$3.8 million of the Company's total long-term debt and capital lease obligations has fixed interest rates. The remaining \$3.7 million represents the PNC Term Loan outstanding balance that bears a variable interest rate.

Supply Contract The Company maintains a supply contract agreement with Talley Metals Technology, Inc., a subsidiary of Carpenter Technology Corporation ("Talley Metals"). While the initial term of the agreement expired December 31, 2002, the agreement continues to automatically renew with the placement of new orders each month and requires a 90-day written notice to terminate by either party. In addition, Talley Metals is required under the agreement to purchase a minimum of 1,000 tons of stainless reroll billet products each calendar month and average at least 1,250 tons per month during the last twelve-month period. The value of the contract on a monthly basis will depend on product mix and key raw material prices. During 2002 and 2003, Talley Metals did not comply with the monthly minimum purchase requirement due to market conditions. The Company has entered into negotiations with Talley Metals to modify the terms of the agreement. The Company has granted a waiver and expects to continue granting a waiver from this requirement until the terms of the contract are renegotiated.

Import Protections On October 22, 2001, the U.S. International Trade Commission determined that imports of certain stainless steel and alloy tool steel products were seriously injuring the domestic specialty steel industry. On March 5, 2002, President Bush imposed tariffs on certain imported stainless steel rod, bar and wire products ranging from 6% to 15% over the next three years under Section 201 of the 1974 Trade Act. During the 2002 second quarter, the Company experienced a significant increase in demand for commodity reroller products. This trend did not continue beyond the 2002 second quarter. President Bush ended the imposed tariffs on December 4, 2003.

The assets purchased by Dunkirk Specialty Steel were previously owned and operated by AL Tech Specialty Steel, Inc. and Empire Specialty Steel, Inc. During their ownership, both organizations participated in several anti-dumping lawsuits with other domestic specialty steel producers. CDSOA provides for payment of import duties collected by the U.S. Treasury to domestic companies injured by unfair foreign trade practices. In accordance with CDSOA, the Company filed claims to receive their appropriate share of the import duties collected and received \$310,000, net of expenses in 2002. In 2003, the Company received notice that it was awarded \$604,000, of which \$10,000 was received. The remaining payment has been delayed pending the outcome of a hearing before the U.S. Court of Appeals for the Federal Circuit ("U.S. Court of Appeals") in a lawsuit challenging the distribution method of the import duties. The Company will not record the uncollected portion of the award as income unless the funds are collected.

The Company expects to benefit from CDSOA in future years unless the Act is repealed or the U.S. Court of Appeals renders an unfavorable decision. The amount of future benefits is dependent on the amount of import duties collected and the relationship of Dunkirk Specialty Steel's claim in relation to claims filed by other domestic specialty steel producers.

Bridgeville Lease Property, plant and equipment includes a capital lease with Armco, which merged with and into AK Steel in 1999 ("Armco"), for the land and certain buildings and structures located in Bridgeville (the "Bridgeville Lease"). The Bridgeville Lease is for a ten-year term, which commenced on August 15, 1994 at a rental of \$1 per year plus payment of real and personal property taxes and other charges associated with the property. In 2003, the Company exercised its option to purchase all of the property permitted under the capital lease with Armco for \$1.

The ESR building, which houses the Company's four electro-slag remelting furnaces and ancillary equipment, was not included in the option to purchase. The Company will continue to operate the equipment in the ESR building under the existing lease that was extended to March 8, 2005. The Company has entered into negotiations with AK Steel to purchase the ESR building. In the event the ESR building is not purchased, or the lease is not extended beyond March 8, 2005, the relocation of the ESR equipment would have an adverse material effect on the financial condition of the Company.

Contingent Items

Environmental Matters The Company, as well as other steel companies, is subject to demanding environmental standards imposed by federal, state and local environmental laws and regulations. The Company is not aware of any environmental condition that currently exists at any of its facilities that would cause a material adverse effect on the financial condition of the Company.

In connection with the Company's June 2, 1995 agreement with Armco to purchase certain assets and a parcel of real property located at Titusville, Armco agreed to indemnify the Company up to \$3.0 million in the aggregate for liabilities under environmental laws arising out of conditions on or under the Titusville property existing prior to June 2, 1995. Armco also agreed to indemnify the Company for any liabilities arising out of environmental conditions existing off-site as of June 2, 1995, and that indemnification is not subject to the \$3.0 million limitation.

The Company has filed no claims against Armco since the inception of the acquisition agreement. In addition, management is not aware of any financial difficulties being experienced by AK Steel, as successor to Armco, that would prevent its performance under the acquisition agreement.

In connection with the acquisition of the Dunkirk facility, Dunkirk Specialty Steel entered into an order with the New York State Department of Environmental Conservation ("NY DEC") that precludes NY DEC from bringing any action against the Company. In addition, the order releases the Company from any and all claims and liabilities arising from, or related to, the existing environmental conditions at the Dunkirk facility. There can be no assurance that any other party will not assert any claims with respect to environmental conditions at the Dunkirk facility, or that the Company will have the financial resources to discharge any liabilities if legally compelled to do so.

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

In 2002, Teledyne was unsuccessful in its pursuit of a similar claim brought against another specialty steel producer who supplied the same steel product. After in-depth investigation, it is the Company's position that the suit is without merit and it intends to vigorously defend that position. Additionally, the Company believes that it has insurance coverage that is available for this claim. At this time, the Company is engaged in discovery and believes that the final disposition of this suit will not have a material adverse effect on the financial condition and the results of operations of the Company.

On April 7, 2003, United States Aviation Underwriters, Inc. ("USAU"), a New York corporation, as managers and on behalf of United States Aircraft Insurance Group ("USAIG"), the Company's Aircraft Products Liability insurance carrier, filed suit in the Court of Common Pleas of Allegheny County, Pennsylvania asking the court for a declaratory judgment as to what actual liability and obligations were applicable to USAIG relating to the insurance policy issued to the Company, and the allegations made by Teledyne. At this time, the Company is engaged in discovery and believes that USAIG is responsible for providing defense and damage coverage with regard to the Teledyne allegations. To date, USAIG has provided for and continues to provide for a defense to the Teledyne claim. While the Company believes that insurance coverage is available for the defense and damages, if any, relating to the Teledyne claim, an unfavorable ruling in both the USAIG suit and the Teledyne claim could have a material adverse effect on the Company's financial condition.

Critical Accounting Policies and New Accounting Pronouncements

Critical Accounting Policies Revenue recognition is the most critical accounting policy of the Company. The Company manufactures specialty steel product in accordance with customer purchase orders that contain specific product requirements. Each purchase order provides detailed information regarding the requirements for product acceptance. Executed material certification forms are completed indicating the Company's compliance with the customer purchase order before the specialty steel products are packaged and shipped to the customer. Revenue is generally recognized at point of shipment because risk of loss and title has transferred. Revenue is also recognized in certain situations in which products available for shipment are held at the Company's facility beyond the stated shipment date at the customer's specific request.

In addition, management constantly monitors the ability to collect its unpaid sales invoices and the valuation of its inventory. The allowance for doubtful accounts includes the value of outstanding invoices issued to customers currently operating under the protection of the federal bankruptcy law and other amounts that are deemed potentially not collectible. An inventory reserve is provided for material on hand for which management believes cost exceeds fair market value and for material on hand for more than one year not assigned to a specific customer order.

Long-lived assets are reviewed for impairment annually by operating facility. An impairment write-down will be recognized whenever events or changes in circumstances indicate that the carrying value may not be recoverable through estimated future undiscounted cash flows. The Company has not recognized an impairment write-down on any of its assets held at December 31, 2003.

In addition, management assesses the need to record a valuation allowance to reduce deferred tax assets to the amount that is more likely than not to be realized. The Company believes it will generate sufficient income in addition to taxable income generated from the reversal of its temporary differences to utilize the deferred tax assets recorded at December 31, 2003.

New Accounting Pronouncements In June 2002, the FASB issued SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"). This statement supersedes Emerging Issues Task Force Issue No. 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)." SFAS 146 requires the recognition of a liability for costs associated with an exit or disposal activity when incurred. SFAS 146 also establishes that the liability should initially be measured and recorded at fair value. The Company adopted the provisions of SFAS 146 in 2003, which did not have a material impact on the Company's consolidated financial position or results of operations.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 requires that upon issuance of a guarantee, a guarantor must recognize a liability for the fair value of an obligation assumed under a guarantee. FIN 45 also requires additional disclosures by a guarantor in its interim and annual financial statements about the obligations associated with guarantees issued. The recognition provisions of FIN 45 will be effective for any guarantees that are issued or modified after December 31, 2002. The Company adopted the provisions of FIN 45 in 2003, which did not have a material impact on the Company's consolidated financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock-Based Compensation – Transition and Disclosure – an Amendment of FASB Statement No. 123" ("SFAS 148"). This statement amends SFAS No. 123 "Accounting for Stock-Based Compensation" to provide alternative methods of voluntarily transitioning to the fair value based method of accounting for stock-based employee compensation. SFAS 148 also requires disclosure of the method used to account for stock-based employee compensation and the effect of the method on reported results in both annual and interim financial statements. The Company does not intend to change its current method of accounting for stock-based employee compensation unless required by the issuance of a new pronouncement. The Company adopted the disclosure requirements of SFAS 148 as of December 31, 2002.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities ("VIE") – an Interpretation of ARB No. 51" which was revised in December 2003 ("FIN 46"). FIN 46 clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The Company adopted the provisions of FIN 46 in 2003, which did not have a material impact on the Company's consolidated financial position or results of operations.

In April 2003, the FASB issued Statement No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging" ("SFAS 149"). This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities". The Company adopted the provisions of SFAS 149 in 2003, which did not have a material impact on the Company's consolidated financial position or results of operations.

In May 2003, the FASB issued Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" ("SFAS 150"). This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). The Company adopted the provisions of SFAS 150 in 2003, which did not have a material impact on the Company's consolidated financial position or results of operations.

Future Outlook

The Company enters 2004 with a total backlog of \$21 million and expects demand for power generation, petrochemical and tool steel products to improve throughout the year. The Company also expects that its results will improve in 2004 in conjunction with the pace of the domestic economy's recovery, the market's increasing acceptance of Dunkirk Specialty Steel as a reliable supplier of quality specialty steel bar, rod and wire products, and the acceptance of sales price increases beyond raw material surcharges.

Forward-Looking Information Safe Harbor

The Management's Discussion and Analysis and other sections of this Annual Report contain forward-looking statements that reflect the Company's current views with respect to future events and financial performance. Statements looking forward in time, including statements regarding future growth, cost savings, expanded production capacity, broader product lines, greater capacity to meet customer quality reliability, price and delivery needs, enhanced competitive posture, effect of new accounting pronouncements and no material financial impact from litigation or contingencies are included in this Annual Report pursuant to the "safe harbor" provision of the Private Securities Litigation Reform Act of 1995.

The Company's actual results will be affected by a wide range of factors including the limited operating history of Dunkirk Specialty Steel, LLC; the concentrated nature of the Company's customer base to date and the Company's dependence on its significant customers; the receipt, pricing and timing of future customer orders; changes in product mix; the limited number of raw material and energy suppliers and significant fluctuations that may occur in raw material and energy prices; the Company's reliance on certain critical manufacturing equipment; the ability to acquire the ESR Building prior to the expiration of the Armco Lease; the Company's ongoing requirement for continued compliance with environmental laws; and the ultimate outcome of the Company's current and future litigation matters. Many of these factors are not within the Company's control and involve known and unknown risks and uncertainties that may cause the Company's actual results in future periods to be materially different from any future performance suggested herein. Any unfavorable change in the foregoing or other factors could have a material adverse effect on the Company's business, financial condition and results of operations.

Further, the Company operates in an industry sector where securities values may be volatile and may be influenced by economic and other factors beyond the Company's control. For a discussion of these and other matters, refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2003 and other reports on file with the Securities and Exchange Commission.

REPORT OF MANAGEMENT**To the Stockholders of Universal Stainless & Alloy Products, Inc.**

The financial statements and related information contained in this report were prepared in conformity with accounting principles generally accepted in the United States of America and, as such, include amounts based on management's best judgments and estimates. We maintain a system of policies, procedures and controls designed to provide reasonable assurance that transactions are properly executed, recorded and included within the financial statements and that the Company's assets are safeguarded from improper or unauthorized use. The Audit Committee of the Board of Directors, composed of independent directors, meets regularly with management and our independent accountants to discuss audit results and financial reporting matters. The independent accountants have full access to the Audit Committee without our presence.

/s/ Clarence M. McAninch

/s/ Richard M. Ubinger

Clarence M. McAninch
President and Chief Executive Officer

Richard M. Ubinger
Vice President of Finance,
Chief Financial Officer and Treasurer

February 23, 2004

REPORT OF INDEPENDENT ACCOUNTANTS**To the Board of Directors and Stockholders of Universal Stainless & Alloy Products, Inc.**

We have audited the accompanying consolidated balance sheet of Universal Stainless & Alloy Products, Inc. and subsidiaries (the Company) as of December 31, 2003, and the related consolidated statements of operations, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of Universal Stainless & Alloy Products, Inc. as of December 31, 2002 and 2001 were audited by other auditors whose report dated February 18, 2003 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Universal Stainless & Alloy Products, Inc. and subsidiaries as of December 31, 2003, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Schneider Downs and Co., Inc.

Schneider Downs and Co., Inc.
Pittsburgh, Pennsylvania

February 23, 2004

CONSOLIDATED STATEMENT OF OPERATIONS

For the years ended December 31,	2003	2002	2001
<i>(dollars in thousands, except per share information)</i>			
Net sales	\$ 68,989	\$ 70,877	\$ 90,658
Cost of products sold	65,534	61,971	71,915
Selling and administrative expenses	5,837	5,883	6,199
Operating income (loss)	(2,382)	3,023	12,544
Interest expense and other financing costs	(383)	(455)	(576)
Other income (expense), net	128	457	57
Income (loss) before taxes	(2,637)	3,025	12,025
Provision (benefit) for income taxes	(1,220)	933	4,386
Net income (loss)	\$ (1,417)	\$ 2,092	\$ 7,639
Earnings (Loss) Per Common Share			
Basic	\$ (0.23)	\$ 0.34	\$ 1.26
Diluted	\$ (0.23)	\$ 0.34	\$ 1.25
Weighted average number of shares of Common Stock outstanding	6,287,088	6,203,800	6,080,045

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

CONSOLIDATED BALANCE SHEETS

December 31,	2003	2002
<i>(dollars in thousands)</i>		
Assets		
Current Assets		
Cash and cash equivalents	\$ 4,735	\$ 3,308
Accounts receivable (less allowance for doubtful accounts of \$163 and \$298)	12,690	11,550
Inventory	22,281	22,717
Deferred taxes	1,222	1,127
Other current assets	3,063	2,454
	<u>43,991</u>	<u>41,156</u>
Total current assets	43,991	41,156
Property, plant and equipment, net	40,176	42,246
Other assets	758	642
	<u>758</u>	<u>642</u>
Total assets	<u>\$84,925</u>	<u>\$84,044</u>
Liabilities and Stockholders' Equity		
Current Liabilities		
Trade accounts payable	\$ 6,792	\$ 4,190
Outstanding checks in excess of bank balance	813	275
Current portion of long-term debt	1,944	1,971
Accrued employment costs	833	1,019
Other current liabilities	195	163
	<u>10,577</u>	<u>7,618</u>
Total current liabilities	10,577	7,618
Long-term debt	5,599	7,502
Deferred taxes	9,313	8,123
	<u>9,313</u>	<u>8,123</u>
Total liabilities	<u>25,489</u>	<u>23,243</u>
Commitments and Contingencies		
Stockholders' Equity		
Senior Preferred Stock, par value \$0.001 per share; 1,980,000 shares authorized; 0 shares issued and outstanding	—	—
Common Stock, par value \$0.001 per share; 10,000,000 shares authorized; 6,564,306 and 6,554,538 shares issued	7	7
Additional paid-in capital	28,329	28,277
Retained earnings	32,731	34,148
	<u>32,731</u>	<u>34,148</u>
Treasury Stock at cost; 269,900 common shares held	(1,631)	(1,631)
	<u>(1,631)</u>	<u>(1,631)</u>
Total stockholders' equity	59,436	60,801
	<u>59,436</u>	<u>60,801</u>
Total liabilities and stockholders' equity	<u>\$84,925</u>	<u>\$84,044</u>

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31,	2003	2002	2001
<i>(dollars in thousands, except per share information)</i>			
Cash Flows from Operating Activities			
Net income (loss)	\$(1,417)	\$ 2,092	\$ 7,639
Adjustments to reconcile to net cash and cash equivalents provided by operating activities:			
Depreciation and amortization	3,093	3,271	2,782
Deferred taxes	996	596	1,087
Tax benefit from exercise of stock options	—	417	—
Changes in assets and liabilities:			
Accounts receivable, net	(1,140)	1,150	(438)
Inventory	436	(859)	888
Accounts payable	2,602	(407)	(1,027)
Accrued employment costs	(186)	(543)	265
Refundable income taxes paid	(729)	(990)	—
Other, net	123	(903)	709
Net cash provided by operating activities	<u>3,778</u>	<u>3,824</u>	<u>11,905</u>
Cash Flows from Investing Activities			
Acquisition of assets and real property through purchase agreements	—	(1,283)	—
Capital expenditures	(1,193)	(4,194)	(5,253)
Net cash used in investing activities	<u>(1,193)</u>	<u>(5,477)</u>	<u>(5,253)</u>
Cash Flows from Financing Activities			
Proceeds from long-term debt	—	—	136
Proceeds from deferred loan agreement	200	—	—
Long-term debt repayment	(1,948)	(1,831)	(1,821)
Borrowings under revolving line of credit	—	—	8,893
Repayments under revolving line of credit	—	—	(8,893)
Increase (decrease) in outstanding checks in excess of bank balance	538	(582)	(588)
Proceeds from issuance of Common Stock	52	1,920	53
Purchase of Treasury Stock	—	—	(87)
Net cash used in financing activities	<u>(1,158)</u>	<u>(493)</u>	<u>(2,307)</u>
Net increase (decrease) in cash and cash equivalents	<u>1,427</u>	<u>(2,146)</u>	<u>4,345</u>
Cash and cash equivalents at beginning of period	<u>3,308</u>	<u>5,454</u>	<u>1,109</u>
Cash and cash equivalents at end of period	<u>\$ 4,735</u>	<u>\$ 3,308</u>	<u>\$ 5,454</u>
Supplemental Disclosure of Cash Flow Information			
Interest paid (net of amount capitalized)	\$ 348	\$ 318	\$ 605
Income taxes paid (refund)	\$(1,453)	\$ 1,329	\$ 3,144

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Significant Accounting Policies

Description of the Company Universal Stainless & Alloy Products, Inc. (the "Company") manufactures and markets semi-finished and finished specialty steel products, including stainless steel, tool steel and certain other alloyed steels. The Company's manufacturing process involves melting, remelting, treating and hot and cold rolling of semi-finished and finished specialty steels. The Company's products are sold to rerollers, forgers, service centers, original equipment manufacturers, which primarily include the power generation and aerospace industries, and wire redrawers. The Company also performs conversion services on materials supplied by customers that lack certain of the Company's production facilities or that are subject to their own capacity constraints.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Basis of Consolidation The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The Company has no interests in any unconsolidated entity nor does it have any off-balance sheet financing arrangements other than operating leases.

Cash and Cash Equivalents Cash equivalents are stated at cost plus accrued interest, which approximates market value, and include only securities having a maturity of three months or less at the time of purchase.

Concentration of Credit Risk Financial instruments that potentially subject the Company to concentrations of credit risk are cash and cash equivalents and accounts receivable. The Company limits its credit risk associated with cash and cash equivalents by placing its investments in high-grade short-term instruments. With respect to accounts receivable, the Company limits its credit risks by performing ongoing credit evaluations and, when deemed necessary, requiring letters of credit, guarantees or collateral. The allowance for doubtful accounts includes the value of outstanding invoices issued to customers currently operating under the protection of the federal bankruptcy law and other amounts that are deemed potentially not collectible.

Inventories Inventories are stated at the lower of cost or market with cost principally determined by the first-in, first-out (FIFO) method. The average cost method is also utilized. Such costs include the acquisition cost for raw materials and supplies, direct labor and applied manufacturing overhead. Provisions are made for slow-moving inventory based upon management's expected method of disposition.

The Company purchases scrap metal and alloy additives, principally nickel, chrome and molybdenum, for its 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 used by the Company. The Company maintains sales price surcharges to help offset the impact of raw material price fluctuations.

Included in inventory are operating materials consisting of production molds and rolls that will normally be consumed within one year.

Property, Plant and Equipment Property, plant and equipment are recorded at cost. Costs incurred in connection with the construction or major rebuild of facilities, including interest directly related to the project, are capitalized as construction in progress. No depreciation is recognized on these assets until placed in service. Maintenance and repairs are charged to expense as incurred, and costs of improvements and renewals are capitalized. Major maintenance costs are expensed in the same annual period as incurred; however, the estimated costs are expensed throughout the year on a pro rata basis. Maintenance expense for the fiscal year 2003, 2002 and 2001 was \$6,151,000, \$6,390,000 and \$6,611,000, respectively.

Depreciation and amortization are 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 5 and 25 years, and the estimated useful lives of machinery and equipment are between 5 and 20 years. Direct costs incurred in the development and implementation of internal-use software are capitalized and recorded within property, plant and equipment, and amortized on a straight-line basis over its anticipated useful life, which generally does not exceed three years. Depreciation and amortization expense for fiscal year 2003, 2002 and 2001 was \$3,063,000, \$3,130,000 and \$2,764,000, respectively.

The Company's manufacturing processes are dependent upon certain pieces of specialty steelmaking equipment, such as the Company's electric arc furnace and universal rolling mill. In the event a critical piece of equipment should become inoperative as a result of an unexpected equipment failure, there can be no assurance that the Company's operations would not be substantially curtailed.

Long-Lived Asset Impairment Long-lived assets, including property, plant and equipment 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 book value. Based on management's assessment of the carrying values of such long-lived assets, no impairment reserve has been deemed necessary as of December 31, 2003 and 2002.

Revenue Recognition Revenue from the sale of products is recognized when both risk of loss and title has 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 are accounted for primarily as a reduction to gross sales after the matter has been researched and an acceptable resolution has been reached.

Income Taxes Deferred income taxes are provided for 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 financial statements. The Company uses 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 such asset will not be realized.

Stock-Based Compensation Plans The Company accounts for stock-based employee and director compensation using the intrinsic value method. No stock-based employee compensation cost is reflected in net income unless the exercise price of the options granted does not equal market value of the underlying common stock on the date of grant. The tax effects of exercising stock options are added to additional paid-in capital at the exercise date.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of issued Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), to stock-based employee compensation:

For the years ended December 31,	2003	2002	2001
<i>(dollars in thousands, except per share information)</i>			
Net income (loss), as reported	\$(1,417)	\$2,092	\$7,639
Total stock-based compensation expense determined under fair value based method, net of taxes	(118)	(129)	(131)
Pro forma net income (loss)	\$(1,535)	\$1,963	\$7,508
Earnings (loss) Per Share			
Basic – as reported	\$ (0.23)	\$ 0.34	\$ 1.26
Basic – pro forma	\$ (0.24)	\$ 0.32	\$ 1.23
Diluted – as reported	\$ (0.23)	\$ 0.34	\$ 1.25
Diluted – pro forma	\$ (0.24)	\$ 0.31	\$ 1.23

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants issued in 2003, 2002 and 2001, respectively: dividend yield of 0.0% for each year; interest rate of 3.0%, 3.7% and 5.0%; expected volatility of 54.0%, 53.0% and 50.0%; and expected lives for options of five years.

Earnings Per Common Share Basic earnings per common share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share is computed by dividing net income by the weighted-average number of common shares outstanding plus all dilutive potential common shares outstanding during the period. Dilutive common shares are determined using the treasury stock method. Under the treasury stock method, exercise of options and warrants are assumed at the beginning of the period when the average stock price during the period exceeds the exercise price of outstanding options and warrants, and common shares are assumed issued. The assumed proceeds from the exercise of stock options and warrants are used to purchase common stock at the average market price during the period. The incremental shares to be issued are considered to be the dilutive potential common shares outstanding.

New Accounting Pronouncements In June 2002, the FASB issued SFAS No. 146 “Accounting for Costs Associated with Exit or Disposal Activities” (“SFAS 146”). This statement supersedes Emerging Issues Task Force Issue No. 94-3 “Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring).” SFAS 146 requires the recognition of a liability for costs associated with an exit or disposal activity when incurred. SFAS 146 also establishes that the liability should initially be measured and recorded at fair value. The Company adopted the provisions of SFAS 146 in 2003, which did not have a material impact on the Company’s consolidated financial position or results of operations

In November 2002, the FASB issued FASB Interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others” (“FIN 45”). FIN 45 requires that upon issuance of a guarantee, a guarantor must recognize a liability for the fair value of an obligation assumed under a guarantee. FIN 45 also requires additional disclosures by a guarantor in its interim and annual financial statements about the obligations associated with guarantees issued. The recognition provisions of FIN 45 will be effective for any guarantees that are issued or modified after December 31, 2002. The Company adopted the provisions of FIN 45 in 2003, which did not have a material impact on the Company’s consolidated financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148 “Accounting for Stock-Based Compensation – Transition and Disclosure – an Amendment of FASB Statement No. 123” (“SFAS 148”). This statement amends SFAS No. 123 “Accounting for Stock-Based Compensation” to provide alternative methods of voluntarily transitioning to the fair value based method of accounting for stock-based employee compensation. SFAS 148 also requires disclosure of the method used to account for stock-based employee compensation and the effect of the method on reported results in both annual and interim financial statements. The Company does not intend to change its current method of accounting for stock-based employee compensation unless required by the issuance of a new pronouncement. The Company adopted the disclosure requirements of SFAS 148 as of December 31, 2002.

In January 2003, the FASB issued FASB Interpretation No. 46, “Consolidation of Variable Interest Entities (“VIE”) – an Interpretation of ARB No. 51” which was revised in December 2003 (“FIN 46”). FIN 46 clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The Company adopted the provisions of FIN 46 in 2003, which did not have a material impact on the Company’s consolidated financial position or results of operations.

In April 2003, the FASB issued Statement No. 149, “Amendment of Statement 133 on Derivative Instruments and Hedging” (“SFAS 149”). This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FASB Statement No. 133, “Accounting for Derivative Instruments and Hedging Activities”. The Company adopted the provisions of SFAS 149 in 2003, which did not have a material impact on the Company’s consolidated financial position or results of operations.

In May 2003, the FASB issued Statement No. 150, “Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity” (“SFAS 150”). This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). The Company adopted the provisions of SFAS 150 in 2003, which did not have a material impact on the Company’s consolidated financial position or results of operations.

Note 2: Inventory

The major classes of inventory are as follows:

December 31,	2003	2002
<i>(dollars in thousands)</i>		
Raw materials and supplies	\$ 2,265	\$ 1,719
Semi-finished and finished steel products	17,743	18,588
Operating materials	2,273	2,410
Total inventory	\$22,281	\$22,717

Note 3: Property, Plant and Equipment

Property, plant and equipment consists of the following:

December 31,	2003	2002
<i>(dollars in thousands)</i>		
Land and land improvements	\$ 953	\$ 822
Buildings	5,987	5,987
Machinery and equipment	49,801	48,110
Construction in progress	141	980
	<u>56,882</u>	<u>55,899</u>
Accumulated depreciation	(16,706)	(13,653)
Property, plant and equipment, net	<u>\$ 40,176</u>	<u>\$ 42,246</u>

Property, plant and equipment includes a capital lease with Armco, which merged with and into AK Steel in 1999 ("Armco"), for the land and certain buildings and structures located in Bridgeville (the "Bridgeville Lease"). The Bridgeville Lease is for a ten-year term, which commenced on August 15, 1994 at a rental of \$1 per year plus payment of real and personal property taxes and other charges associated with the property. In 2003, the Company exercised its option to purchase all of the property permitted under the capital lease with Armco for \$1.

The ESR building, which houses the Company's four electro-slag remelting furnaces and ancillary equipment, was not included in the option to purchase. The Company will continue to operate the equipment in the ESR building under the existing lease that was extended to March 8, 2005. The Company has entered into negotiations with AK Steel to purchase the ESR building. In the event the ESR building is not purchased, or the lease is not extended beyond March 8, 2005, the relocation of the ESR equipment would have an adverse material effect on the financial condition of the Company.

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

Note 4: Long-Term Debt and Other Financing

Long-term debt consists of the following:

December 31,	2003	2002
<i>(dollars in thousands)</i>		
PNC Term Loan	\$ 3,700	\$ 5,100
Government debt	3,770	4,252
Capital lease obligations	73	121
	<u>7,543</u>	<u>9,473</u>
Less amounts due within one year	(1,944)	(1,971)
Total long-term debt	<u>\$ 5,599</u>	<u>\$ 7,502</u>

The Company maintains a credit agreement with PNC Bank for a \$6,500,000 revolving credit facility ("PNC Line") through April 30, 2005. This credit agreement, which also includes a term loan scheduled to mature in June 2006 ("PNC Term Loan"), is collateralized by substantially all of the Company's assets.

Interest on borrowings under the PNC Line and the PNC Term Loan is based on short-term market rates, which may be further adjusted based upon the Company maintaining certain financial ratios. In addition, the Company pays a commitment fee of 0.5% per annum on the unused portion of the PNC Line. As a condition of the PNC Line and the PNC Term Loan, the Company is required to maintain certain levels of net worth, working capital and other financial ratios; to limit the amount of capital expenditures it may incur without PNC Bank's approval; and to restrict the payment of dividends. The Company was in compliance with all financial ratios and restrictive covenants at December 31, 2003.

The Company has entered into several separate loan agreements with the Commonwealth of Pennsylvania's Department of Commerce aggregating \$1,600,000 with terms ending between the years 2002 and 2016. The loans bear interest at rates ranging from 5% to 6% per annum. In 1996, the Company entered into a ten-year, 6% interest-bearing loan agreement with the Redevelopment Authority of Allegheny County Economic Development Fund in the amount of \$1,514,000.

On February 14, 2002, Dunkirk Specialty Steel, LLC (“Dunkirk Specialty Steel”) issued two ten-year, 5% interest-bearing notes payable to the New York Job Development Authority (the “JDA”) for the combined amount of \$3,000,000 (“JDA Notes”). No principal or interest payments are due under the JDA Notes during the first year. The JDA Notes were recorded net of a \$143,000 debt discount, of which \$125,000 was amortized in 2002 and included as interest expense. The balance was amortized and included as interest expense in 2003.

The Company leases certain equipment and vehicles. The aggregate annual principal payments due under the Company’s long-term debt and minimum lease payments under capitalized and operating leases are as follows:

For the years ended December 31,	2004	2005	2006	2007	2008	Thereafter	Deductions	Total
<i>(dollars in thousands)</i>								
Long-term debt	\$ 1,915	\$ 2,013	\$ 1,341	\$ 364	\$ 383	\$ 1,454	—	\$ 7,470
Capital lease minimum payments	33	33	14	—	—	—	(7)	73
Operating lease minimum payments	67	50	36	30	23	—	—	206

Note 5: Income Taxes

Components of the provision (benefit) for income taxes are as follows:

For the years ended December 31,	2003	2002	2001
<i>(dollars in thousands)</i>			
Current Provision (Benefit)			
Federal	\$ (2,217)	\$ 453	\$ 3,160
State	1	(116)	139
	<u>(2,216)</u>	<u>337</u>	<u>3,299</u>
Deferred Provision (Benefit)			
Federal	1,271	602	903
State	(275)	(6)	184
	<u>996</u>	<u>596</u>	<u>1,087</u>
Provision (benefit) for income taxes	<u>\$ (1,220)</u>	<u>\$ 933</u>	<u>\$ 4,386</u>

A reconciliation of the federal statutory tax rate and the Company’s effective tax rate is as follows:

For the years ended December 31,	2003	2002	2001
Federal statutory tax	(34.0)%	34.0%	34.0%
State income taxes, net of federal tax impact	(5.5)	4.5	2.7
Government grants, net of federal tax impact	(4.9)	(7.2)	(0.4)
Other, net	(1.9)	(0.5)	0.2
Effective income tax rate	<u>(46.3)%</u>	<u>30.8%</u>	<u>36.5%</u>

Dunkirk Specialty Steel operates in a New York State Empire Zone and is qualified to benefit from investments made and employees hired at the Dunkirk, NY facility for up to fifteen years. The Company recognized tax credit benefits of \$195,000 and \$340,000 for fiscal year 2003 and 2002, respectively, of which \$10,000 and \$170,000 was applied against the respective year’s current tax provision. The balance will be applied against future tax liabilities for income apportioned to New York State. The Company believes it will generate sufficient income in addition to taxable income generated from the reversal of its temporary differences to utilize this tax credit.

Deferred taxes result from the following:

December 31,	2003	2002
<i>(dollars in thousands)</i>		
Deferred Tax Assets		
Receivables	\$ 70	\$ 130
Inventory	1,010	861
Accrued liabilities	142	136
	<u>1,222</u>	<u>1,127</u>
Federal and state tax carryforwards	570	470
	<u>1,797</u>	<u>\$ 1,597</u>
Deferred Tax Liabilities		
Property, plant and equipment	\$ 9,313	\$ 8,123

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC. 2003 ANNUAL REPORT

Federal and state tax carryforwards as of December 31, 2003 include federal alternative minimum tax and New York Empire Zone tax credits totaling \$243,000 with no expiration date. The remaining balance relates to net operating loss carryforwards allocated to certain states which expire within 5 to 20 years.

Note 6: Stockholders' Equity

	Common Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Shares	Treasury Stock
<i>(dollars in thousands)</i>						
Balance at December 31, 2000	6,339,128	\$ 6	\$ 25,888	\$24,417	257,900	\$(1,544)
Common Stock issuance under Employee Stock Purchase Plan	8,044		53			
Purchase of Treasury Stock					12,000	(87)
Net income				7,639		
Balance at December 31, 2001	6,347,172	6	25,941	32,056	269,900	(1,631)
Common Stock issuance under Employee Stock Purchase Plan	7,366		44			
Exercise of Stock Options	200,000	1	1,875			
Tax benefit from exercise of Stock Options			417			
Net income				2,092		
Balance at December 31, 2002	6,554,538	\$ 7	\$ 28,277	\$34,148	269,900	\$(1,631)
Common Stock issuance under Employee Stock Purchase Plan	9,768		52			
Net loss				(1,417)		
Balance at December 31, 2003	6,564,306	\$ 7	\$ 28,329	\$32,731	269,900	\$(1,631)

On October 19, 1998, the Company initiated a stock repurchase program to repurchase up to 315,000 shares of its outstanding Common Stock in open market transactions at market prices. The Company is authorized to repurchase 45,100 additional shares of Common Stock under this program as of December 31, 2003.

The Company has 1,980,000 authorized shares of Senior Preferred Stock. At December 31, 2003 and 2002, there were no shares issued or outstanding.

Note 7: Basic and Diluted Earnings Per Share

The computation of basic and diluted earnings per share for the years ended December 31, 2003, 2002 and 2001 is performed as follows:

	2003		2002		2001	
	Income	Shares	Income	Shares	Income	Shares
<i>(dollars in thousands, except share and per share amounts)</i>						
Income (loss) available to common Stockholders	\$(1,417)	6,287,088	\$2,092	6,203,800	\$7,639	6,080,045
Effect of dilutive securities		—		32,048		17,379
Income available to common Stockholders plus assumed conversion	\$(1,417)	6,287,088	\$2,092	6,235,848	\$7,639	6,097,424
Earnings (Loss) Per Common Share						
Basic	\$ (0.23)		\$ 0.34		\$ 1.26	
Diluted	\$ (0.23)		\$ 0.34		\$ 1.25	

The Company had 10,536 common stock equivalents outstanding for fiscal 2003 which were not included in the common share computations for earnings (loss) per share as the common stock equivalents are anti-dilutive.

Note 8: Stock-Based Compensation Plans

At December 31, 2003, the Company has three incentive compensation plans that are described below:

Stock Incentive Plan

The Company maintains the Stock Incentive Plan that has been adopted and amended from time to time by the Company's Board of Directors, and approved by its stockholders. The Stock Incentive Plan permits the issuance of stock options to non-employee directors, other than those directors owning more than 5% of the Company's outstanding Common Stock, officers and other key employees of the Company who are expected to contribute to the Company's future growth and success. The Company may grant options up to a maximum of 950,000 shares of Common Stock, of which 246,668 are available for grant at December 31, 2003. The option price 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 the Stock Incentive Plan will expire no later than ten years after the grant date.

A summary of the Stock Incentive Plan activity as of and for the years ended December 31, 2003, 2002 and 2001 is presented below:

	2003		2002		2001	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Fixed Options						
Outstanding at beginning of year	427,999	\$ 9.38	617,500	\$ 9.36	522,500	\$ 9.58
Granted	56,500	5.91	25,000	10.31	100,000	8.22
Exercised	—	—	(200,000)	9.40	—	—
Forfeited	(1,500)	7.10	(14,501)	9.86	(5,000)	9.88
Outstanding at end of year	482,999	\$ 8.99	427,999	\$ 9.38	617,500	\$ 9.36
Options exercisable at year-end	379,160		331,996		472,746	
Weighted-average fair value of options granted during the year		\$ 2.93		\$ 5.09		\$ 4.07

The following table summarizes information about stock options outstanding at December 31, 2003:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$ 5.12 to \$ 7.35	177,166	7.7	\$ 6.50	91,664	\$ 6.83
\$ 8.00 to \$ 9.94	182,533	4.2	\$ 9.61	168,364	\$ 9.65
\$10.25 to \$15.60	123,300	3.1	\$ 11.66	119,132	\$ 11.52
Outstanding at end of year	482,999	5.2	\$ 8.99	379,160	\$ 9.55

Employee Stock Purchase Plan

Under the 1996 Employee Stock Purchase Plan (the "Stock Purchase Plan"), the Company is authorized to issue up to 90,000 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 the Company's 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, 2003, the Company has issued 62,663 shares of Common Stock since the plan's inception.

Cash Incentive Plans

The Company has a management cash incentive plan covering certain key executives and employees and profit-sharing plans that cover the remaining employees. The profit-sharing plans provide for the sharing of pre-tax profits in excess of specified amounts. For the years ended December 31, 2003, 2002 and 2001, the Company expensed \$168,000, \$511,000 and \$1,949,000, respectively, under these plans.

Note 9: Retirement Plans

The Company has defined contribution retirement plans that cover substantially all employees. The Company accrues its contributions to the hourly employee plan based on time worked while contributions to the salaried plan are accrued as a fixed amount per month. Company contributions to both plans are funded periodically.

Effective January 6, 2003, the Company began to participate in the Steelworkers Pension Trust ("Trust"), a multi-employer defined benefit pension plan that is open to all hourly and salaried employees associated with the Bridgeville facility. The Company makes 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. The hourly employees may continue their contributions to the defined contribution retirement plan even though the Company contributions ceased. The Company also makes a contribution to the defined contribution retirement plan on behalf of each salaried employee participating in the Trust. The amount of the contribution will be dependent upon each salaried employee's contribution to the defined contribution retirement plan.

The total expense for the years ended December 31, 2003, 2002 and 2001 was \$512,000, \$418,000 and \$413,000, respectively.

No other post-retirement benefit plans exist.

Note 10: Commitments and Contingencies

The Company, as well as other steel companies, is subject to demanding environmental standards imposed by federal, state and local environmental laws and regulations. The Company is not aware of any environmental condition that currently exists at any of its facilities that would cause a material adverse effect on the financial condition of the Company.

In connection with the Company's June 2, 1995 agreement with Armco to purchase certain assets and a parcel of real property located at Titusville, Armco agreed to indemnify the Company up to \$3,000,000 in the aggregate for liabilities under environmental laws arising out of conditions on or under the Titusville property existing prior to June 2, 1995. Armco also agreed to indemnify the Company for any liabilities arising out of environmental conditions existing off-site as of June 2, 1995, and that indemnification is not subject to the \$3,000,000 limitation.

The Company has filed no claims against Armco since the inception of the acquisition agreement. In addition, management is not aware of any financial difficulties being experienced by AK Steel, as successor to Armco, that would prevent its performance under the acquisition agreement.

In connection with the acquisition of the Dunkirk facility, Dunkirk Specialty Steel entered into an order with the New York State Department of Environmental Conservation ("NY DEC") that precludes NY DEC from bringing any action against the Company. In addition, the order releases the Company from any and all claims and liabilities arising from, or related to, the existing environmental conditions at the Dunkirk facility. There can be no assurance that any other party will not assert any claims with respect to environmental conditions at the Dunkirk facility, or that the Company will have the financial resources to discharge any liabilities if legally compelled to do so.

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

In 2002, Teledyne was unsuccessful in its pursuit of a similar claim brought against another specialty steel producer who supplied the same steel product. After in-depth investigation, it is the Company's position that the suit is without merit and it intends to vigorously defend that position. Additionally, the Company believes that it has insurance coverage that is available for this claim. At this time, the Company is engaged in discovery and believes that the final disposition of this suit will not have a material adverse effect on the financial condition and the results of operations of the Company.

On April 7, 2003, United States Aviation Underwriters, Inc. ("USAU"), a New York corporation, as managers and on behalf of United States Aircraft Insurance Group ("USAIG"), the Company's Aircraft Products Liability insurance carrier, filed suit in the Court of Common Pleas of Allegheny County, Pennsylvania asking the court for a declaratory judgment as to what actual liability and obligations were applicable to USAIG relating to the insurance policy issued to the Company, and the allegations made by Teledyne. At this time, the Company is engaged in discovery and believes that USAIG is responsible for providing defense and damage coverage with regard to the Teledyne allegations. To date, USAIG has provided for and continues to provide for a defense to the Teledyne claim. While the Company believes that insurance coverage is available for the defense and damages, if any, relating to the Teledyne claim, an unfavorable ruling in both the USAIG suit and the Teledyne claim could have a material adverse effect on the Company's financial condition.

The Company maintains a supply contract agreement with Talley Metals Technology, Inc., a subsidiary of Carpenter Technology Corporation (“Talley Metals”). While the initial term of the agreement expired December 31, 2002, the agreement continues to automatically renew with the placement of new orders each month and requires a 90-day notice to terminate. In addition, Talley Metals is required under the agreement to purchase a minimum of 1,000 tons of stainless reroll billet products each calendar month and average at least 1,250 per month during the last twelve-month period. The value of the contract on a monthly basis will depend on product mix and key raw material prices. During 2002 and 2003, Talley Metals did not comply with the monthly minimum purchase requirement due to market conditions. The Company has entered into negotiations with Talley Metals to modify the terms of the agreement. The Company has granted a waiver and expects to continue granting a waiver from this requirement until the terms of the contract are renegotiated.

Note 11: Segment and Related Information

The Company is comprised of three operating locations and one corporate headquarters. For segment reporting, the Bridgeville and Titusville facilities have been aggregated into one reportable segment, Universal Stainless & Alloy Products, because of the management reporting structure in place. The Universal Stainless & Alloy Products manufacturing process involves melting, remelting, treating and hot and cold rolling of semi-finished and finished specialty steels. A second reportable segment, Dunkirk Specialty Steel, was created in 2002 with the acquisition of certain assets and real property formerly owned by Empire Specialty Steel, Inc. Dunkirk Specialty Steel’s manufacturing process involves hot rolling and finishing specialty steel bar, rod and wire products.

The accounting policies of both reportable segments are the same as those described in the Summary of Significant Accounting Policies. Sales between the segments are generally made at market-related prices. Corporate assets are primarily cash and cash equivalents, prepaid expenses, deferred income taxes and property, plant and equipment.

For the years ended December 31,	2003	2002	2001
<i>(dollars in thousands)</i>			
Net Sales			
Universal Stainless & Alloy Products	\$ 59,585	\$ 70,120	\$ 90,658
Dunkirk Specialty Steel	19,875	10,483	—
Intersegment	(10,471)	(9,726)	—
	<u>\$ 68,989</u>	<u>\$ 70,877</u>	<u>\$ 90,658</u>
Operating Income (Loss)			
Universal Stainless & Alloy Products	\$ (249)	\$ 5,013	\$ 12,544
Dunkirk Specialty Steel	(2,133)	(1,990)	—
	<u>\$ (2,382)</u>	<u>\$ 3,023</u>	<u>\$ 12,544</u>
Interest Expense and Other Financing Costs^(a)			
Universal Stainless & Alloy Products	\$ 238	\$ 330	\$ 576
Dunkirk Specialty Steel	145	125	—
	<u>\$ 383</u>	<u>\$ 455</u>	<u>\$ 576</u>
Other Income (Expense), Net			
Universal Stainless & Alloy Products	\$ 85	\$ 119	\$ 57
Dunkirk Specialty Steel	43	338	—
	<u>\$ 128</u>	<u>\$ 457</u>	<u>\$ 57</u>
Depreciation and Amortization			
Universal Stainless & Alloy Products	\$ 2,961	\$ 3,049	\$ 2,764
Dunkirk Specialty Steel	102	81	—
	<u>\$ 3,063</u>	<u>\$ 3,130</u>	<u>\$ 2,764</u>
Capital Expenditures			
Universal Stainless & Alloy Products	\$ 940	\$ 2,104	\$ 5,253
Dunkirk Specialty Steel	253	1,928	—
Corporate	—	162	—
	<u>\$ 1,193</u>	<u>\$ 4,194</u>	<u>\$ 5,253</u>

^(a) Includes amortization of deferred financing costs and debt discount of \$30,000, \$141,000 and \$18,000 for the years ended December 31, 2003, 2002 and 2001, respectively.

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC. 2003 ANNUAL REPORT

December 31,	2003	2002
<i>(dollars in thousands)</i>		
Assets		
Universal Stainless & Alloy Products	\$65,025	\$65,413
Dunkirk Specialty Steel	11,128	12,337
Corporate	8,772	6,294
	\$84,925	\$84,044

The following table presents net sales by product line:

For the years ended December 31,	2003	2002	2001
<i>(dollars in thousands)</i>			
Stainless steel	\$52,546	\$56,813	\$76,908
Tool steel	9,673	6,643	4,503
High-strength low alloy steel	2,869	2,213	3,379
High-temperature alloy steel	2,482	3,474	2,471
Conversion services	1,079	1,495	3,054
Other	340	239	343
Total net sales	\$68,989	\$70,877	\$90,658

Net sales to the Company's largest customer and its affiliates, which were generated primarily from the Bridgeville operation, approximated 25%, 35% and 32% of total 2003, 2002 and 2001 sales, respectively. The accounts receivable balances from this customer comprised approximately 24% and 26% of total accounts receivable at December 31, 2003 and 2002, respectively.

The Company derives less than 10% of its revenues from markets outside of the United States and the Company has no assets located outside the United States.

Note 12: Acquisition

On February 8, 2002, Dunkirk Specialty Steel entered into a Personal Property Asset Purchase Agreement and a Real Property Purchase Agreement (the "Purchase Agreements") with the JDA to acquire certain assets and real property formerly owned by Empire Specialty Steel, Inc., at its idled production facility located in Dunkirk, New York. These transactions were completed on February 14, 2002 and the plant became operational on March 14, 2002. Pursuant to the Purchase Agreements, Dunkirk Specialty Steel paid \$1,283,000 in cash and issued the JDA Notes. The purchase price, including related acquisition costs and adjustments for the discounted value of the JDA Notes, was \$4,140,000. \$3,958,000 was allocated to inventory and \$182,000 was allocated to assets held for sale.

Through December 31, 2003, the Company has sold certain assets for \$31,000 and has invested \$33,000 to prepare certain assets for sale. While the specific identification of individual assets to be sold continues, management intends to sell an office building located on the property. Based on available information, management believes the market value of the office building supports the recorded asset value. Future costs will be expensed as incurred in accordance with SFAS 146.

The assets purchased by Dunkirk Specialty Steel were previously owned and operated by AL Tech Specialty Steel, Inc. and Empire Specialty Steel, Inc. During their ownership, both organizations participated in several anti-dumping lawsuits with other domestic specialty steel producers. The Continued Dumping and Subsidy Act of 2000 ("CDSOA") provides for payment of import duties collected by the U.S. Treasury to domestic companies injured by unfair foreign trade practices. In accordance with CDSOA, the Company filed claims to receive their appropriate share of the import duties collected. In 2002, the Company received \$310,000, net of expenses, which is included in other income. In 2003, the Company received notice that it was awarded \$604,000, of which \$10,000 was received. The remaining payment has been delayed pending the outcome of a hearing before the U.S. Court of Appeals for the Federal Circuit in a lawsuit challenging the distribution method of the import duties. The Company will not record the uncollected portion of the award as income unless the funds are collected.

Note 13: 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>				
2003 Data				
Net sales	\$14,700	\$16,837	\$18,625	\$18,827
Gross profit	20	896	1,329	1,210
Operating income (loss)	(1,373)	(629)	(178)	(202)
Net income (loss)	(583)	(440)	(121)	(273)
Earnings (loss) per common share:				
Basic	\$ (0.09)	\$ (0.07)	\$ (0.02)	\$ (0.04)
Diluted	\$ (0.09)	\$ (0.07)	\$ (0.02)	\$ (0.04)
2002 Data				
Net sales	\$17,596	\$21,422	\$15,919	\$15,940
Gross profit	3,351	2,848	1,739	968
Operating income (loss)	1,978	1,311	198	(464)
Net income (loss)	1,206	777	191	(82)
Earnings (loss) per common share:				
Basic	\$ 0.20	\$ 0.13	\$ 0.03	\$ (0.01)
Diluted	\$ 0.20	\$ 0.12	\$ 0.03	\$ (0.01)

Earnings per share amounts for each quarter are required to be computed independently. As a result, their sum may not equal the total year earnings per share amounts.

FIVE-YEAR SUMMARY

For the years ended December 31,	2003	2002	2001	2000 ^(a)	1999
<i>(dollars in thousands, except per share amounts)</i>					
Summary of Operations					
Net sales	\$68,989	\$70,877	\$90,658	\$88,347	\$66,663
Operating income (loss)	(2,382)	3,023	12,544	11,488	3,731
Income (loss) before cumulative effect of accounting change	(1,417)	2,092	7,639	6,610	2,103
Cumulative effect of accounting change, net of tax	—	—	—	(1,546)	—
Net income (loss)	(1,417)	2,092	7,639	5,064	2,103
Pro Forma Summary of Operations^(b)					
Net sales	\$68,989	\$70,877	\$90,658	\$88,347	\$63,330
Operating income (loss)	(2,382)	3,023	12,544	11,488	3,373
Net income (loss)	(1,417)	2,092	7,639	6,610	1,854
Financial Position at Year-End					
Working capital	\$33,414	\$33,538	\$28,655	\$23,558	\$20,800
Total assets	84,925	84,044	79,446	73,747	68,179
Total debt	7,543	9,473	8,322	10,007	11,841
Stockholders' equity	59,436	60,801	56,372	48,767	43,653
Common Share Data					
Basic earnings (loss) per share:					
As reported	\$ (0.23)	\$ 0.34	\$ 1.26	\$ 0.83	\$ 0.34
Pro forma under SAB 101 ^(b)	(0.23)	0.34	1.26	1.09	0.30
Diluted earnings (loss) per share:					
As reported	(0.23)	0.34	1.25	0.83	0.34
Pro forma under SAB 101 ^(b)	(0.23)	0.34	1.25	1.09	0.30
Stockholders' equity	9.44	9.67	9.28	8.03	7.19
Other Data					
Cash flow provided by (used in):					
Operating activities	\$ 3,378	\$ 3,824	\$11,905	\$ 6,285	\$ 4,967
Investing activities	(1,193)	(5,477)	(5,253)	(4,598)	(3,366)
Financing activities	(1,158)	(493)	(2,307)	(1,446)	(2,170)
Capital expenditures	1,193	4,194	5,253	4,598	3,366
Depreciation and amortization	3,093	3,271	2,782	2,466	2,101
Return on stockholders' equity	(2.3)%	3.7%	13.6%	10.4%	4.8%
Debt to total capitalization	11.3	13.5	12.9	17.0	21.3
Employees	383	393	304	280	277
Customers	399	372	288	250	235
Average Shares Outstanding					
<i>(in thousands)</i>					
Basic	6,287	6,204	6,080	6,075	6,111
Diluted	6,287	6,236	6,097	6,080	6,111

^(a) Includes \$12,462,000 of net sales and \$9,988,000 of cost of sales associated with revenues recognized in 1999 but deferred until 2000 as a result of implementing Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101). The 2000 results of operations also include the impact of changing the Company's Standard Terms and Conditions to more closely reflect the substance of its sales transactions.

^(b) Includes the effect of implementing SAB 101 as required under generally accepted accounting principles in 2000.

Exhibit 21.1

Subsidiaries of Registrant

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

Doing Business As

State of Incorporation

Dunkirk Specialty Steel, LLC
USAP Holdings, Inc.

Delaware
Delaware

Exhibit 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Prospectus constituting part of the Registration Statements on Form S-8 (No. 33-90970, No. 333-13509, No. 333-13511, No. 333-13599 and No. 333-100263) of Universal Stainless & Alloy Products, Inc. of our report dated February 23, 2004, which appears in the Annual Report to Stockholders, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated February 23, 2004 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ Schneider Downs & Co., Inc.
Schneider Downs & Co., Inc.
Pittsburgh, Pennsylvania
March 3, 2004

Exhibit 23.2

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Prospectus constituting part of the Registration Statements on Form S-8 (No. 33-90970, No. 333-13509, No. 333-13511, No. 333-13599 and No. 333-100263) of Universal Stainless & Alloy Products, Inc. of our report dated February 18, 2003, which appears in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated February 18, 2003 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Pittsburgh, Pennsylvania
March 3, 2004

Exhibit 31.1

CERTIFICATION

I, Clarence M. McAninch, President and Chief Executive Officer of Universal Stainless & Alloy Products, Inc., 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 annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
 - c) disclosed in this annual 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 this 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 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, 2004

/s/ C. M. MCANINCH

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

Exhibit 31.2

CERTIFICATION

I, Richard M. Ubinger, Vice President of Finance, Chief Financial Officer and Treasurer of Universal Stainless & Alloy Products, Inc., 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 annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
 - c) disclosed in this annual 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 this 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 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, 2004

/s/ RICHARD M. UBINGER

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

Exhibit 32.1

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

In connection with the Annual Report of Universal Stainless & Alloy Products, Inc. (the "Company") on Form 10-K for the year ended December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Clarence M. McAninch, President and Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

Date: February 23, 2004

/s/ C. M. MCANINCH

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

Exhibit 32.2

**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 of Universal Stainless & Alloy Products, Inc. (the "Company") on Form 10-K for the year ended December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard M. Ubinger, Vice President of Finance, Chief Financial Officer and Treasurer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

Date: February 23, 2004

/s/ RICHARD M. UBINGER

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