
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2017

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 000-25032



UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

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)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No
As of July 21, 2017, there were 7,228,277 shares of the Registrant's common stock outstanding.

Universal Stainless & Alloy Products, Inc.
Table of Contents

	<u>DESCRIPTION</u>	<u>PAGE NO.</u>
PART I.	<u>FINANCIAL INFORMATION</u>	1
Item 1.	<u>Financial Statements</u>	1
	<u>Consolidated Statements of Operations</u>	1
	<u>Consolidated Statements of Comprehensive Loss</u>	2
	<u>Consolidated Balance Sheets</u>	3
	<u>Consolidated Statements of Cash Flow</u>	4
	<u>Notes to the Unaudited Consolidated Financial Statements</u>	5
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	11
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	19
Item 4.	<u>Controls and Procedures</u>	19
PART II.	<u>OTHER INFORMATION</u>	20
Item 1.	<u>Legal Proceedings</u>	20
Item 1A.	<u>Risk Factors</u>	20
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	20
Item 3.	<u>Defaults Upon Senior Securities</u>	20
Item 4.	<u>Mine Safety Disclosures</u>	20
Item 5.	<u>Other Information</u>	20
Item 6.	<u>Exhibits</u>	20
	<u>SIGNATURES</u>	21

Part I. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Net sales	\$ 52,607	\$ 41,030	\$ 101,482	\$ 80,624
Cost of products sold	<u>45,441</u>	<u>36,691</u>	<u>90,071</u>	<u>74,944</u>
Gross margin	7,166	4,339	11,411	5,680
Selling, general and administrative expenses	<u>4,499</u>	<u>4,591</u>	<u>9,228</u>	<u>8,429</u>
Operating income (loss)	2,667	(252)	2,183	(2,749)
Interest expense and other financing costs	1,084	948	2,087	2,758
Other (income) expense	<u>(14)</u>	<u>39</u>	<u>(20)</u>	<u>92</u>
Income (loss) before income taxes	1,597	(1,239)	116	(5,599)
Provision (benefit) for income taxes	<u>369</u>	<u>(437)</u>	<u>107</u>	<u>(2,357)</u>
Net income (loss)	<u>\$ 1,228</u>	<u>\$ (802)</u>	<u>\$ 9</u>	<u>\$ (3,242)</u>
Net income (loss) per common share - Basic	<u>\$ 0.17</u>	<u>\$ (0.11)</u>	<u>\$ 0.00</u>	<u>\$ (0.45)</u>
Net income (loss) per common share - Diluted	<u>\$ 0.17</u>	<u>\$ (0.11)</u>	<u>\$ 0.00</u>	<u>\$ (0.45)</u>
Weighted average shares of common stock outstanding				
Basic	7,219,423	7,196,891	7,217,943	7,179,746
Diluted	7,360,137	7,196,891	7,333,106	7,179,746

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Dollars in Thousands)
(Unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Net income (loss)	\$ 1,228	\$ (802)	\$ 9	\$ (3,242)
Other comprehensive loss, net of tax				
Reclassification of losses on foreign currency contracts to net income	18	-	18	-
Unrealized loss on foreign currency contracts	(40)	-	(71)	-
Other comprehensive loss	(22)	-	(53)	-
Comprehensive income (loss)	\$ 1,206	\$ (802)	\$ (44)	\$ (3,242)

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)

(Unaudited)

	June 30, 2017	December 31, 2016
	(Unaudited)	(Derived from audited statements)
ASSETS		
Current assets:		
Cash	\$ 97	\$ 75
Accounts receivable (less allowance for doubtful accounts of \$468 and \$309, respectively)	29,030	19,437
Inventory, net	100,140	91,342
Other current assets	4,237	2,729
Total current assets	133,504	113,583
Property, plant and equipment, net	177,408	182,398
Other long-term assets	64	64
Total assets	\$ 310,976	\$ 296,045
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 29,129	\$ 19,906
Accrued employment costs	3,253	3,803
Current portion of long-term debt	4,675	4,579
Other current liabilities	1,051	898
Total current liabilities	38,108	29,186
Long-term debt	73,013	67,998
Deferred income taxes	16,757	17,629
Other long-term liabilities	12	12
Total liabilities	127,890	114,825
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Senior preferred stock, par value \$0.001 per share; 1,980,000 shares authorized; 0 shares issued and outstanding	-	-
Common stock, par value \$0.001 per share; 20,000,000 shares authorized; 7,521,132 and 7,508,154 shares issued, respectively	8	8
Additional paid-in capital	57,470	56,397
Other comprehensive (loss) income	(32)	21
Retained earnings	127,930	127,084
Treasury stock, at cost; 292,855 common shares held	(2,290)	(2,290)
Total stockholders' equity	183,086	181,220
Total liabilities and stockholders' equity	\$ 310,976	\$ 296,045

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOW

(Dollars in Thousands)

(Unaudited)

	Six months ended June 30,	
	2017	2016
Operating Activities:		
Net income (loss)	\$ 9	\$ (3,242)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation and amortization	9,365	9,147
Deferred income tax	(16)	(2,365)
Write-off of deferred financing costs	-	768
Share-based compensation expense	971	684
Net gain on asset disposals	-	(349)
Changes in assets and liabilities:		
Accounts receivable, net	(9,614)	(2,350)
Inventory, net	(9,798)	(2,141)
Accounts payable	8,655	6,140
Accrued employment costs	(550)	186
Income taxes	117	265
Other, net	(752)	19
Net cash (used in) provided by operating activities	(1,613)	6,762
Investing Activities:		
Capital expenditures	(3,068)	(1,736)
Proceeds from sale of property, plant and equipment	-	1,571
Net cash used in investing activities	(3,068)	(165)
Financing Activities:		
Borrowings under revolving credit facility	158,180	131,030
Payments on revolving credit facility	(150,830)	(152,298)
Borrowings under term loan facility	-	30,000
Payments on term loan facility, capital leases, and convertible notes	(2,751)	(15,171)
Payments of deferred financing costs	-	(702)
Proceeds from the issuance of common stock	104	500
Net cash provided by (used in) financing activities	4,703	(6,641)
Net increase (decrease) in cash	22	(44)
Cash at beginning of period	75	112
Cash at end of period	\$ 97	\$ 68

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Nature of Business and Basis of Presentation

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

The accompanying unaudited consolidated statements include the accounts of Universal Stainless & Alloy Products, Inc. and its subsidiaries and are prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial reports and the instructions for Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared under U.S. GAAP have been condensed or omitted pursuant to such regulations. However, we believe that the disclosures are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with our most recently audited financial statements and the notes thereto included in our Annual Report on Form 10-K as filed with the Securities and Exchange Commission. In the opinion of management, the accompanying financial statements include all adjustments necessary to present a fair presentation of the consolidated financial statements for the periods shown. Interim results are not necessarily indicative of the operating results for the full fiscal year or any future period. The preparation of these financial statements in conformity with U.S. GAAP requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. Actual results may differ from our estimates. The consolidated financial statements include our accounts and the accounts of our wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated.

Recently Adopted Accounting Pronouncements

Effective January 1, 2017, we adopted the Financial Accounting Standards Board (“FASB”) Accounting Standard Update (“ASU”) 2016-09 “Improvements to Employee Share-Based Payment Accounting”. This ASU includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. Excess tax benefits for share-based payments will be recorded as a reduction of income taxes and reflected in operating cash flows upon the adoption of this ASU, eliminating additional paid in capital (“APIC”) pools. In addition, the guidance allows for a policy election to account for forfeitures as they occur rather than on an estimated basis. This ASU also eliminates the requirement that excess tax benefits be realized before companies can recognize them. As a result of the implementation of this guidance, we recorded an adjustment to retained earnings of \$0.8 million and a corresponding deferred tax asset for the cumulative effect of excess tax benefits that were not previously recognized. We recorded \$0.1 million of tax expense as discrete items in the six months ended June 30, 2017 for the expiration of stock options. This amount would have been recorded to APIC under the previous guidance. We have elected to account for forfeitures as they occur. This election has not had a material impact on our financial statements.

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

Recently Issued Accounting Pronouncements

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

In February 2016, the FASB issued ASU 2016-2 “Leases (Topic 842)”. The ASU requires lessees to recognize most leases on their balance sheet as a right-of-use asset and a lease liability. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. The criteria for evaluating are similar to those applied in current leases accounting. This guidance is effective for annual and interim reporting periods beginning after December 15, 2018 with early adoption permitted. We are currently evaluating the impact of this guidance on our financial statements and the timing of adoption.

In May 2014, the FASB issued ASU 2014-09 "Revenue from Contracts with Customers (Topic 606)". This topic converges the guidance within U.S. GAAP and International Financial Reporting Standards and supersedes Accounting Standards Codification 605, Revenue Recognition. The new standard requires companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively, and improve guidance for multiple-element arrangements. The new guidance is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. We have completed a preliminary evaluation of this guidance and we do not expect it to have a material impact on our financial statements. We will continue our evaluation of this ASU through the date of adoption.

Note 2: Net (loss) income per Common Share

The following table sets forth the computation of basic and diluted net (loss) income per common share:

	Three months ended		Six months ended	
	June 30,		June 30,	
<i>(dollars in thousands, except per share amounts)</i>	2017	2016	2017	2016
Numerator:				
Net income (loss)	\$ 1,228	\$ (802)	\$ 9	\$ (3,242)
Adjustment for interest expense on convertible notes (A)	-	-	-	-
Net income (loss), as adjusted	<u>\$ 1,228</u>	<u>\$ (802)</u>	<u>\$ 9</u>	<u>\$ (3,242)</u>
Denominator:				
Weighted average number of shares of common stock outstanding	7,219,423	7,196,891	7,217,943	7,179,746
Weighted average effect of dilutive stock options and other stock compensation	<u>140,714</u>	<u>-</u>	<u>115,163</u>	<u>-</u>
Weighted average number of shares of common stock outstanding, as adjusted	<u><u>7,360,137</u></u>	<u><u>7,196,891</u></u>	<u><u>7,333,106</u></u>	<u><u>7,179,746</u></u>
Net income (loss) per common share:				
Net income (loss) per common share - Basic	<u>0.17</u>	<u>(0.11)</u>	<u>0.00</u>	<u>(0.45)</u>
Net income (loss) per common share - Diluted	<u>0.17</u>	<u>(0.11)</u>	<u>0.00</u>	<u>(0.45)</u>

(A) An adjustment for interest expense on convertible notes was excluded from the loss per share calculation for the three and six months ended June 30, 2017 and 2016 as a result of the convertible notes being antidilutive.

We had options to purchase 591,700 and 696,300 shares of common stock outstanding at an average price of \$30.26 and \$28.44, respectively, which were excluded in the computation of diluted net income (loss) per common share for the three months ended June 30, 2017 and 2016, respectively. We had options to purchase 616,200 and 818,250 shares of common stock outstanding at an average price of \$29.90 and \$27.01, respectively, which were excluded in the computation of diluted net income (loss) per common share for the six months ended June 30, 2017 and 2016, respectively. These outstanding options were not included in the computation of diluted net income (loss) per common share because their respective exercise prices were greater than the average market price of our common stock. The calculation of diluted net income (loss) per common share for the three months ended June 30, 2017 and 2016 excluded 410,204 and 407,466 shares, respectively, for the assumed conversion of convertible notes as a result of being anti-dilutive. The calculation of diluted net income (loss) per common share for the six months ended June 30, 2017 and 2016 excluded 408,526 and 409,078 shares, respectively, for the assumed conversion of convertible notes as a result of being anti-dilutive. The calculation of diluted net loss per common share for the three and six months ended June 30, 2016 excluded 5,313 and 1,539 shares, respectively, for the assumed exercise of stock options as a result of being in a net loss position.

Note 3: Inventory

Our raw material and starting stock inventory is primarily comprised of ferrous and non-ferrous scrap metal and alloys such as nickel, chrome, molybdenum, cobalt and copper. Our semi-finished and finished steel products are work-in-process in various stages of production or are finished products waiting to be shipped to our customers. Operating materials are primarily comprised of forge dies and production molds and rolls that are consumed over their useful lives. During the six months ended June 30, 2017 and 2016, we amortized these operating materials in the amount of \$1.0 million and \$0.8 million, respectively. This expense is recorded as a component of cost of products sold on the consolidated statements of operations and included as a part of our total depreciation and amortization on the consolidated statements of cash flows. Inventory is stated at the lower of cost or market with cost principally determined on a weighted average cost method. Such costs include the acquisition cost for raw materials and supplies, direct labor and applied manufacturing overhead. We assess market based upon actual and estimated transactions at or around the balance sheet date. Typically, we reserve for slow-moving inventory and inventory that is being evaluated under our quality control process. The reserves are based upon management's expected method of disposition. Inventories consisted of the following:

<i>(in thousands)</i>	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Raw materials and starting stock	\$ 8,247	\$ 5,769
Semi-finished and finished steel products	83,815	77,510
Operating materials	<u>10,329</u>	<u>9,893</u>
Gross inventory	102,391	93,172
Inventory reserves	<u>(2,251)</u>	<u>(1,830)</u>
Total inventory, net	<u>\$ 100,140</u>	<u>\$ 91,342</u>

Note 4: Long-Term Debt

Long-term debt consisted of the following:

<i>(in thousands)</i>	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Revolving credit facility	\$ 33,896	\$ 26,546
Convertible notes	19,000	19,000
Term loan	23,685	26,273
Capital leases	<u>1,984</u>	<u>1,763</u>
Total debt	78,565	73,582
Less: current portion of long-term debt	(4,675)	(4,579)
Less: deferred financing costs	<u>(877)</u>	<u>(1,005)</u>
Long-term debt	<u>\$ 73,013</u>	<u>\$ 67,998</u>

Credit Facility

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

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

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

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

Amounts outstanding under the Facilities, at the Company's option, will bear interest at either a base rate plus a margin or a rate based on LIBOR plus a margin, in either case calculated in accordance with the terms of the Credit Agreement. Interest under the Credit Agreement is payable monthly. We elected to use the LIBOR based rate for the majority of the debt outstanding under the Facilities for the six months ended June 30, 2017, which was 4.06% on our Revolving Credit Facility and 4.56% for the Term Loan at June 30, 2017.

The Credit Agreement contains customary affirmative and negative covenants. The Company must maintain a fixed charge coverage ratio of not less than 1.10 to 1.0, in each case measured on a rolling four-quarter basis calculated in accordance with the terms of the Credit Agreement. We were in compliance with our covenants under the Credit Agreement at June 30, 2017 and December 31, 2016.

At June 30, 2017, we had deferred financing costs of approximately \$0.9 million. For the six months ended June 30, 2017, we amortized \$0.1 million of deferred financing costs.

Convertible Notes

In connection with the acquisition of the North Jackson facility, in August 2011, we issued \$20.0 million in convertible notes (collectively, the "Notes") to the sellers of the North Jackson facility as partial consideration of the acquisition.

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

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

The Holder may elect at any time on or prior to August 17, 2017 to convert all or any portion of the outstanding principal amount of the Convertible Notes which is an integral multiple of \$100,000. The Convertible Notes are convertible into shares of common stock and, in certain circumstances, cash, securities and/or other assets. The Convertible Notes are convertible based on an initial conversion rate of 21.2 shares of Common Stock per \$1,000 principal amount of the Convertible Notes (equivalent to an initial conversion price of \$47.1675 per share). The conversion rate and the conversion price associated with the Convertible Notes may be adjusted in certain circumstances. The Holder's conversion rights will be void and no longer subject to exercise by the Holder beginning on August 17, 2017.

Capital Leases

The Company enters into capital lease arrangements from time to time. The capital assets and obligations are recorded at the present value of minimum lease payments. The assets are included in Property, plant and equipment, net on the Consolidated Balance Sheet and are depreciated over the respective lease terms which range from three to five years. The long-term component of the capital lease obligations is included in Long-term debt and the current component is included in Current portion of long-term debt. During the six months ended June 30, 2017, the Company entered into capital lease agreements for which the net present value of the minimum lease payments, at inception, was \$0.4 million. These amounts have been excluded from the Consolidated Statement of Cash Flows as they are non-cash.

As of June 30, 2017, future minimum lease payments applicable to capital leases were as follows:

2017	\$	286
2018		571
2019		571
2020		549
2021		447
2022		23
Total minimum capital lease payments	\$	2,447
Less amounts representing interest		(463)
Present value of net minimum capital lease payments	\$	1,984
Less current obligation		(389)
Total long-term capital lease obligation	\$	1,595

For the three and six months ended June 30, 2017 the amortization of capital lease assets was \$0.1 and \$0.2 million, respectively, which is included in cost of products sold in the Consolidated Statement of Operations.

Note 5: Fair Value Measurement

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

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

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

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

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

The carrying amounts of our cash, accounts receivable and accounts payable approximated fair value at June 30, 2017 and December 31, 2016 due to their short-term maturities (Level 1). The fair value of the Term Loan, Revolving Credit facility and swing loans at June 30, 2017 and December 31, 2016 approximated the carrying amount as the interest rate is based upon floating short-term interest rates (Level 2). At June 30, 2017 and December 31, 2016, the fair value of our Convertible Notes was approximately \$18.5 and \$18.4 million, respectively (Level 2).

Note 6: Commitments and Contingencies

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

Note 7: Income Taxes

Management estimates the annual effective income tax rate quarterly, based on current annual forecasted results. Items unrelated to current year ordinary income are recognized entirely in the period identified as a discrete item of tax. The quarterly income tax provision (benefit) is comprised of tax on ordinary income provided at the most recent estimated annual effective tax rate (“ETR”), increased or decreased for the tax effect of discrete items.

For the six months ended June 30, 2017 and 2016, our estimated annual effective tax rates applied to ordinary income (losses) were 22.4% and 42.1%, respectively. The difference between the statutory rate and the projected annual ETR of 22.4%, for 2017, is primarily due to the research and development credit.

Including the effect of discrete items, our effective tax rates for the six months ended June 30, 2017 and 2016 were 92.2% and 42.1%, respectively. The difference between the annual ETR of 22.4% and the rate of 92.2% for the six months ended June 30, 2017 is primarily the result of the adoption of ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting," which now requires tax expense to be recognized as discrete items in the quarter that stock options expire, or are forfeited.

Note 8: Derivatives and Hedging

The Company invoices certain customers in foreign currencies. In order to mitigate the risks associated with fluctuations in exchange rates with the US Dollar, during 2016, the Company entered into foreign exchange forward contracts for a portion of these sales and has designated these contracts as cash flow hedges. The notional value of these contracts at June 30, 2017 and December 31, 2016 was \$1.2 million and \$2.4 million, respectively. An accumulated unrealized loss of \$32,000 was recorded in other comprehensive income at June 30, 2017 and an accumulated unrealized gain of \$21,000 was recorded in other comprehensive income at December 31, 2016.

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

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains or incorporates forward looking statements within the meaning of the Private Securities Reform Act of 1995, which involves risks and uncertainties. The following information should be read in conjunction with the unaudited consolidated financial information and the notes thereto included in this Quarterly Report on Form 10-Q. You should not place undue reliance on these forward looking statements. Actual events or results may differ materially due to competitive factors and other factors referred to in Part 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2016, our other filings with the Securities and Exchange Commission and elsewhere in this Quarterly Report. These factors may cause our actual results to differ materially from any forward looking statement. These forward looking statements are based on current expectations, estimates, forecasts, and projections about the industry and markets in which we operate, and management's beliefs and assumptions. In addition, other written or oral statements that constitute forward looking statements may be made by us or on our behalf. Words such as "expect," "anticipate," "intend," "plan," "believe," "could," "estimate," "may," "target," "project," or variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties, and assumptions that are difficult to predict.

Business Overview

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

Net sales in the second quarter of 2017 were \$52.6 million, an increase of \$11.6 million, or 28.2%, from the second quarter of 2016 and an increase of \$3.7 million, or 7.6%, from the first quarter of 2017. Net sales increased across all end markets in the second quarter of 2017 compared to the second quarter of 2016 with heavy equipment up \$4.6 million, or 104.7%, aerospace up \$2.7 million, or 10.3%, oil & gas up \$2.0 million, or 69.9%, power generation up \$1.3 million, or 39.3%, and general industrial, conversion services and other up \$1.0 million, or 23.6%. Compared to the first quarter of 2017, aerospace end market net sales increased by \$2.3 million, or 8.6%, heavy equipment increased by \$1.3 million, or 16.4%, and power generation increased by \$0.5 million, or 12.8%, while net sales to the general industrial, conversion services and other end market declined by \$0.3 million, or 5.6%, and oil & gas declined by \$0.1 million, or 1.5%. During the second quarter of 2017, our net sales of premium alloy products, which we define as all vacuum induction melt products represented a record \$6.8 million, or 12.9% of total net sales. This compared to the second quarter of 2016 when premium alloy net sales were \$3.8 million, or 9.2% of total net sales, and the first quarter of 2017 when premium alloy net sales were \$5.8 million, or 11.9% of total net sales. Our premium alloy products are primarily sold to the aerospace end market. Our backlog, before surcharges, at June 30, 2017 was \$63.5 million, an increase of \$25.0 million, or 64.8%, compared to the end of the second quarter of 2016 and an increase of \$6.4 million, or 11.2%, compared to March 31, 2017.

The Company's gross margin for the second quarter of 2017 was \$7.2 million, or 13.6% of net sales, compared to \$4.3 million, or 10.6% of net sales, for the second quarter of 2016 and \$4.2 million, or 8.7% of net sales, for the first quarter of 2017. Gross margin in the second quarter of 2017 benefited from the realization of manufacturing productivity savings, improved operating leverage, as well as a more favorable product mix.

Selling, General and Administrative ("SG&A") expenses were \$4.5 million (8.6% of sales) in the second quarter 2017 compared to \$4.6 million (11.2% of sales) in the second quarter of 2016 and \$4.7 million (9.7% of sales) in the first quarter of 2017.

Our net income was \$1.2 million for the second quarter of 2017 compared to a net loss of \$0.8 million in the second quarter of 2016 and a net loss of \$1.2 million in the first quarter of 2017.

With business conditions and demand remaining positive and the continued strength in our order entry and backlog, we are on plan to deliver further progress along with sustained profitability in the third quarter and beyond.

Results of Operations

Three months ended June 30, 2017 as compared to the three months ended June 30, 2016

<i>(in thousands, except shipped ton information)</i>	Three months ended June 30,					
	2017		2016		Dollar / ton variance	Percentage variance
	Amount	Percentage of net sales	Amount	Percentage of net sales		
Net sales:						
Stainless steel	\$ 37,157	70.6%	\$ 30,172	73.5%	\$ 6,985	23.2%
High-strength low alloy steel	3,418	6.5	3,784	9.2	(366)	(9.7)
Tool steel	8,665	16.5	4,305	10.5	4,360	101.3
High-temperature alloy steel	2,901	5.5	1,626	4.0	1,275	78.4
Conversion services and other sales	466	0.9	1,143	2.8	(677)	(59.2)
Total net sales	52,607	100.0	41,030	100.0	11,577	28.2
Cost of products sold	45,441	86.4	36,691	89.4	8,750	23.8
Gross margin	7,166	13.6	4,339	10.6	2,827	65.2
Selling, general and administrative expenses	4,499	8.6	4,591	11.2	(92)	(2.0)
Operating income (loss)	2,667	5.0	(252)	(0.6)	2,919	NM
Interest expense	1,020	1.9	887	2.2	133	15.0
Deferred financing amortization	64	0.1	61	0.1	3	4.9
Other (income) expense	(14)	-	39	0.1	(53)	(135.9)
Income (loss) before income taxes	1,597	3.0	(1,239)	(3.0)	2,836	228.9
Provision (benefit) for income taxes	369	0.7	(437)	(1.1)	806	184.4
Net income (loss)	\$ 1,228	2.3%	\$ (802)	(1.9)%	\$ 2,030	NM
Tons shipped	10,090		8,313		1,777	21.4%
Sales dollars per shipped ton	\$ 5,214		\$ 4,936		\$ 278	5.6%

NM=Not Meaningful

Market Segment Information

<i>(in thousands)</i>	Three months ended June 30,					
	2017		2016		Dollar variance	Percentage variance
	Amount	Percentage of net sales	Amount	Percentage of net sales		
Net sales:						
Service centers	\$ 37,382	71.1%	\$ 29,817	72.6%	\$ 7,565	25.4%
Original equipment manufacturers	4,756	9.0	3,395	8.3	1,361	40.1
Rerollers	5,259	10.0	3,281	8.0	1,978	60.3
Forgers	4,744	9.0	3,394	8.3	1,350	39.8
Conversion services and other sales	466	0.9	1,143	2.8	(677)	(59.2)
Total net sales	\$ 52,607	100.0%	\$ 41,030	100.0%	\$ 11,577	28.2%

Melt Type Information

<i>(in thousands)</i>	Three months ended June 30,					
	2017		2016		Dollar variance	Percentage variance
	Amount	Percentage of net sales	Amount	Percentage of net sales		
Net sales:						
Specialty alloys	\$ 45,371	86.2%	\$ 36,108	88.0%	\$ 9,263	25.7%
Premium alloys (A)	6,770	12.9	3,779	9.2	2,991	79.1
Conversion services and other sales	466	0.9	1,143	2.8	(677)	(59.2)
Total net sales	<u>\$ 52,607</u>	<u>100.0%</u>	<u>\$ 41,030</u>	<u>100.0%</u>	<u>\$ 11,577</u>	<u>28.2%</u>

(A) Premium alloys represent all vacuum induction melted (VIM) products.

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

End Market Information

<i>(in thousands)</i>	Three months ended June 30,					
	2017		2016		Dollar variance	Percentage variance
	Amount	Percentage of net sales	Amount	Percentage of net sales		
Net sales:						
Aerospace	\$ 28,995	55.1%	\$ 26,293	64.0%	\$ 2,702	10.3%
Power generation	4,774	9.1	3,427	8.4	1,347	39.3
Oil & gas	4,814	9.2	2,834	6.9	1,980	69.9
Heavy equipment	8,948	17.0	4,371	10.7	4,577	104.7
General industrial, conversion services and other sales	5,076	9.6	4,105	10.0	971	23.7
Total net sales	<u>\$ 52,607</u>	<u>100.0%</u>	<u>\$ 41,030</u>	<u>100.0%</u>	<u>\$ 11,577</u>	<u>28.2%</u>

Net sales:

Net sales for the three months ended June 30, 2017 increased \$11.6 million, or 28.2%, as compared to the three months ended June 30, 2016. This growth reflects a 21.4% increase in consolidated shipments and a 5.6% increase in average sales dollar per shipped ton. The increase in sales dollars per ton in the three months ended June 30, 2017, compared to the same period in 2016, is primarily the result of the mix of products sold which shifted to more premium products and higher surcharges. Product net sales to all of our end markets increased as noted in the above table. During the three months ended June 30, 2017, premium alloy net sales increased by \$3.0 million when compared to the three months ended June 30, 2016. As a percentage of net sales, our premium alloy net sales increased to 12.9% of total net sales for the three months ended June 30, 2017 compared to 9.2% for the three months ended June 30, 2016. Our premium alloy sales are primarily for the aerospace end market.

Gross margin:

Our gross margin, as a percentage of sales, was 13.6% and 10.6% for the three months ended June 30, 2017 and 2016, respectively. The increase in our gross margin for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016 is primarily from the realization of manufacturing productivity savings, and improved operating leverage.

Selling, general and administrative expenses:

Our SG&A expenses consist primarily of employee costs, which include salaries, payroll taxes and benefit related costs, legal and accounting services, stock compensation and insurance costs. SG&A expenses decreased by approximately \$0.1 million in the three months ended June 30, 2017 as compared to the three months ended June 30, 2016, during which variable compensation costs decreased by \$0.4 million and bad debt expense decreased by \$0.2 million. These decreases were partially offset by higher legal costs of \$0.2 million, higher stock based compensation costs of \$0.2 mil and higher employee relations costs of \$0.1 million. As a percentage of sales, our SG&A expenses were 8.6% and 11.2% for the three months ended June 30, 2017 and 2016, respectively.

Interest expense and other financing costs:

Interest expense for the three months ended June 30, 2017 increased by \$0.1 million compared to the three months ended June 30, 2016 driven primarily by higher interest rates.

Deferred financing amortization was \$0.1 million in the second quarter of 2017 which is consistent with the same period in the prior year.

Income tax provision:

For the three months ended June 30, 2017 and 2016, our estimated annual effective tax rates applied to ordinary income were 22.4% and 42.1%, respectively. The difference between the statutory rate and the projected annual ETR of 22.4%, for 2017, is primarily due to the research and development credit.

Including the effect of discrete items, our effective tax rates for the three months ended June 30, 2017 and 2016 were 23.1% and 35.3%, respectively.

Net income:

For the second quarter of 2017, the Company recorded net income of \$1.2 million, or \$0.17 per diluted share, compared to a net loss of \$0.8 million or \$0.11 per diluted share, in the second quarter of 2016.

Six month ended June 30, 2017 as compared to the six months ended June 30, 2016

<i>(in thousands, except shipped ton information)</i>	Six months ended June 30,					
	2017		2016		Dollar / ton variance	Percentage variance
	Amount	Percentage of net sales	Amount	Percentage of net sales		
Net sales:						
Stainless steel	\$ 72,190	71.1%	\$ 59,449	73.6%	\$ 12,741	21.4%
High-strength low alloy steel	7,590	7.5	7,563	9.4	27	0.4
Tool steel	15,722	15.5	8,207	10.2	7,515	91.6
High-temperature alloy steel	4,877	4.8	3,266	4.1	1,611	49.3
Conversion services and other sales	1,103	1.1	2,139	2.7	(1,036)	(48.4)
Total net sales	101,482	100.0	80,624	100.0	20,858	25.9
Cost of products sold	90,071	88.8	74,944	93.0	15,127	20.2
Gross margin	11,411	11.2	5,680	7.0	5,731	100.9
Selling and administrative expenses	9,228	9.1	8,429	10.5	799	9.5
Operating income (loss)	2,183	2.1	(2,749)	(3.5)	4,932	NM
Interest expense	1,959	1.9	1,870	2.3	89	4.8
Deferred financing amortization	128	0.1	888	1.1	(760)	(85.6)
Other (income) expense	(20)	-	92	0.1	(112)	(121.7)
Income (loss) before income taxes	116	0.1	(5,599)	(7.0)	5,715	102.1
Provision (benefit) for income taxes	107	0.1	(2,357)	(2.9)	2,464	104.5
Net income (loss)	<u>\$ 9</u>	<u>(0.0)%</u>	<u>\$ (3,242)</u>	<u>(4.1)%</u>	<u>\$ 3,251</u>	NM
Tons shipped	<u>20,421</u>		<u>15,884</u>		<u>4,537</u>	28.6%
Sales dollars per shipped ton	<u>\$ 4,969</u>		<u>\$ 5,076</u>		<u>\$ (107)</u>	(2.1)%

NM=Not Meaningful

Market Segment Information

<i>(in thousands)</i>	Six months ended June 30,					
	2017		2016		Dollar variance	Percentage variance
	Amount	Percentage of net sales	Amount	Percentage of net sales		
Net sales:						
Service centers	\$ 70,111	69.2%	\$ 57,331	71.1%	\$ 12,780	22.3%
Original equipment manufacturers	8,878	8.7	7,690	9.5	1,188	15.4
Rerollers	11,812	11.6	6,496	8.1	5,316	81.8
Forgers	9,578	9.4	6,968	8.6	2,610	37.5
Conversion services and other sales	1,103	1.1	2,139	2.7	(1,036)	(48.4)
Total net sales	<u>\$ 101,482</u>	<u>100.0%</u>	<u>\$ 80,624</u>	<u>100.0%</u>	<u>\$ 20,858</u>	25.9%

Melt Type Information

<i>(in thousands)</i>	Six months ended June 30,					
	2017		2016		Dollar variance	Percentage variance
	Amount	Percentage of net sales	Amount	Percentage of net sales		
Net sales:						
Specialty alloys	\$ 87,776	86.5%	\$ 70,644	87.6%	\$ 17,132	24.3%
Premium alloys (A)	12,603	12.4	7,841	9.7	4,762	60.7
Conversion services and other sales	1,103	1.1	2,139	2.7	(1,036)	(48.4)
Total net sales	<u>\$ 101,482</u>	<u>100.0%</u>	<u>\$ 80,624</u>	<u>100.0%</u>	<u>\$ 20,858</u>	25.9%

(A) Premium alloys represent all vacuum induction melted (VIM) products.

End Market Information

<i>(in thousands)</i>	Six months ended June 30,					
	2017		2016		Dollar variance	Percentage variance
	Amount	Percentage of net sales	Amount	Percentage of net sales		
Net sales:						
Aerospace	\$ 55,687	54.8%	\$ 51,659	64.0%	\$ 4,028	7.8%
Power generation	9,008	8.9	6,924	8.6	2,084	30.1
Oil & gas	9,703	9.6	6,179	7.7	3,524	57.0
Heavy equipment	16,633	16.4	8,404	10.4	8,229	97.9
General industrial, conversion services and other sales	10,451	10.3	7,458	9.3	2,993	40.1
Total net sales	<u>\$ 101,482</u>	<u>100.0%</u>	<u>\$ 80,624</u>	<u>100.0%</u>	<u>\$ 20,858</u>	25.9%

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

Net sales:

Net sales for the six months ended June 30, 2017 increased \$20.9 million, or 25.9%, as compared to the six months ended June 30, 2016. This increase reflects a 28.6% increase in consolidated shipments and a 2.1% decrease in average sales dollar per shipped ton. The decrease in sales dollars per ton in the six months ended June 30, 2017, compared to the same period in 2016, is primarily the result of the mix of products sold reflecting more tool steel, which is sold at a lower sales dollar per ton than our other products partially offset by increased shipments of higher value premium alloys. Product net sales to all of our end markets increased as noted in the above table. During the six months ended June 30, 2017, premium alloy net sales increased by \$4.8 million when compared to the six months ended June 30, 2016. As a percentage of net sales, our premium alloy net sales increased to 12.4% of total net sales for the six months ended June 30, 2017 compared to 9.7% for the six months ended June 30, 2016. Our premium alloy sales are primarily for the aerospace end market.

Gross margin:

Our gross margin, as a percentage of net sales, was 11.2% and 7.0% for the six months ended June 30, 2017 and 2016, respectively. The increase in our gross margin for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016 is a result of the better alignment of melt costs and surcharges, and the realization of manufacturing and productivity savings.

Selling, general and administrative expenses:

Our SG&A expenses consist primarily of employee costs, which include salaries, payroll taxes and benefit related costs, legal and accounting services, stock compensation and insurance costs. SG&A expenses increased by approximately \$0.8 million in the six months ended June 30, 2017 as compared to the six months ended June 30, 2016. Approximately \$0.4 million of the increase is due to higher legal expenses, \$0.3 million is due to higher stock based compensation expense and all other SG&A expenses increased by \$0.1 million. As a percentage of sales, our SG&A expenses were 9.1% and 10.5% for the six months ended June 30, 2017 and 2016, respectively.

Interest expense and other financing costs:

Interest expense for the six months ended June 30, 2017 increased by \$0.1 million compared to the six months ended June 30, 2016 due to increased interest rates.

Deferred financing amortization decreased by \$0.8 million for the six months ended June 30, 2017 compared to the same period in the prior year. The decrease is the result of the write off of fees due to entering into a new Credit Agreement in the first quarter of 2016.

Income tax provision:

For the six months ended June 30, 2017 and 2016, our estimated annual effective tax rates applied to ordinary income were 22.4% and 42.1%, respectively. The difference between the statutory rate and the projected annual ETR of 22.4%, for 2017, is primarily due to the research and development credit.

Including the effect of discrete items, our effective tax rates for the six months ended June 30, 2017 and 2016 were 92.2% and 42.1%, respectively. The difference between the annual ETR of 22.4% and the rate of 92.2% for the six months ended June 30, 2017 is primarily related to the adoption of ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting," which now requires tax expense to be recognized as discrete items in the quarter that stock options expire, or are forfeited.

Net income:

For the six months ended June 30, 2017, the Company was breakeven on a net income basis compared to a net loss of \$3.2 million, or \$0.45 per diluted share, for the six months ended June 30, 2016.

Liquidity and Capital Resources

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

Net cash (used in) provided by operating activities:

During the six months ended June 30, 2017, we used \$1.6 million net cash in operating activities. Net income adjusted for non-cash expenses was \$10.3 million. We utilized \$10.7 million of cash for managed working capital which we define as net accounts receivable, plus inventory and minus accounts payable. \$9.6 million of the increase in managed working capital is from accounts receivable due to the increase in net sales in the second quarter of 2017 compared to the fourth quarter of 2016. Inventories used \$9.8 million in support of the increased backlog which was partially offset by the \$8.7 million increase in accounts payable due to increased production activity. Accrued employment costs decreased by \$0.6 million due to the payout of 2016 variable compensation partially offset by other payroll related accruals. Other activities, primarily medical insurance and employment related taxes, used \$0.8 million of cash and was partially offset by \$0.1 million of income taxes.

During the six months ended June 30, 2016, we generated net cash from operating activities of \$6.8 million. Our net loss, adjusted for non-cash expenses, generated \$4.6 million of cash. We generated \$1.6 million of cash from managed working capital which we define as net accounts receivable, plus inventory and minus accounts payable. Our accounts payable increased \$6.1 million due to increased operating activity which was partially offset by higher accounts receivable of \$2.4 million due to higher net sales in the second quarter of 2016 compared to the fourth quarter of 2015. Net inventory increased by \$2.1 million reflecting higher inventory volumes, partially offset by lower unit costs. Income taxes contributed \$0.3 million due to the refund of overpayments in the prior year. All other operating activities contributed \$0.2 million of cash in the six months ended June 30, 2016.

Net cash used in investing activities:

During the six months ended June 30, 2017, we used \$3.1 million in cash for capital expenditures compared to \$1.7 million for the six months ended June 30, 2016. This increase is primarily the result of a capital lease that was entered into during the first quarter of 2016 that reduced capital spending for the six months ended June 30, 2016.

During the six months ended June 30, 2016, we used \$0.2 million in cash for investing activities. We used \$1.7 million for capital expenditures and we received \$1.6 million from the sale of assets including the reimbursement of \$1.1 million of previous capital expenditures for assets that we ultimately leased in the first quarter of 2016.

Net cash provided by (used in) financing activities:

We received \$4.7 million in cash from financing activities for the six months ended June 30, 2017. We increased borrowings under our revolving credit facility by \$7.4 million due to increased working capital requirements resulting from increased net sales and backlog. We paid down \$2.8 million of our term loan and received \$0.1 million for shares issued through our Employee Stock Purchase Plan.

During the six months ended June 30, 2016, our financing activities used \$6.6 million in cash. As a result of entering into the new Credit Agreement on January 21, 2016, the mix of our borrowings has changed. Our net borrowings under revolving credit facilities decreased by \$21.3 million and our net borrowings under our term credit facilities increased by \$15.9 million. We made prepayments of \$1.0 million on our convertible notes in the first quarter of 2016. We paid \$0.7 million in deferred financing costs related to the new Credit Agreement. In conjunction with the new Credit Agreement in the first quarter of 2016, we issued 73,207 shares of the Company's common stock, for which the cash proceeds were \$0.5 million.

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

We continuously monitor market price fluctuations of key raw materials. The market values for these raw materials continue to fluctuate based on supply and demand, market disruptions, and other factors. We maintain sales price surcharge mechanisms on certain of our products, priced at time of shipment, to mitigate the risk of raw material cost fluctuations. There can be no assurance that these sales price adjustments will completely offset our raw material costs.

The following table reflects the average market values per pound for selected months during the last 16-month period:

	<u>June</u> <u>2017</u>	<u>December</u> <u>2016</u>	<u>June</u> <u>2016</u>	<u>December</u> <u>2015</u>
Nickel	\$ 4.05	\$ 5.00	\$ 4.04	\$ 3.94
Chrome	\$ 1.44	\$ 1.26	\$ 0.92	\$ 1.01
Molybdenum	\$ 8.38	\$ 6.81	\$ 8.00	\$ 5.00
Carbon scrap	\$ 0.18	\$ 0.12	\$ 0.11	\$ 0.06

Sources: Nickel is the daily average LME Cash Settlement Price; Chrome and Molybdenum is the final monthly average as published by CRUs; Carbon is the consumer price for #1 Industrial Bundles in the Pittsburgh, PA area as reported in American Metal Market.

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

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

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

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

Amounts outstanding under the Facilities, at the Company’s option, will bear interest at either a base rate plus a margin or a rate based on LIBOR plus a margin, in either case calculated in accordance with the terms of the Credit Agreement. Interest under the Credit Agreement is payable monthly. We elected to use the LIBOR based rate for the majority of the debt outstanding under the Facilities for the six months ended June 30, 2017, which was 4.06% on our Revolving Credit Facility and 4.56% for the Term Loan at June 30, 2017.

The Credit Agreement contains customary affirmative and negative covenants. The Company must maintain a fixed charge coverage ratio of not less than 1.10 to 1.0, in each case measured on a rolling four-quarter basis calculated in accordance with the terms of the Credit Agreement. We were in compliance with our covenants under the Credit Agreement at June 30, 2017 and December 31, 2016.

At June 30, 2017, we had deferred financing costs of approximately \$0.9 million. For the six months ended June 30, 2017, we amortized \$0.1 million of deferred financing costs.

Convertible Notes

In connection with the acquisition of the North Jackson facility, in August 2011, we issued \$20.0 million in convertible notes (collectively, the “Notes”) to the sellers of the North Jackson facility as partial consideration of the acquisition.

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

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

The Holder may elect at any time on or prior to August 17, 2017 to convert all or any portion of the outstanding principal amount of the Convertible Notes which is an integral multiple of \$100,000. The Convertible Notes are convertible into shares of common stock and, in certain circumstances, cash, securities and/or other assets. The Convertible Notes are convertible based on an initial conversion rate of 21.2 shares of Common Stock per \$1,000 principal amount of the Convertible Notes (equivalent to an initial conversion price of \$47.1675 per share). The conversion rate and the conversion price associated with the Convertible Notes may be adjusted in certain circumstances. The Holder’s conversion rights will be void and no longer subject to exercise by the Holder beginning on August 17, 2017.

Capital Leases

The Company enters into capital lease arrangements from time to time. The capital assets and obligations are recorded at the present value of minimum lease payments. The assets are included in Property, plant and equipment, net on the Consolidated Balance Sheet and are depreciated over the respective lease terms which range from three to five years. The long-term component of the capital lease obligations is included in Long-term debt and the current component is included in Current portion of long-term debt. During the six months ended June 30, 2017, the Company entered into capital lease agreements for which the net present value of the minimum lease payments, at inception, was \$0.4 million. These amounts have been excluded from the Consolidated Statement of Cash Flows as they are non-cash.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has reviewed its market risk and believes there are no significant changes from that disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, except as provided in this Form 10-Q in "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 4. CONTROLS AND PROCEDURES

The Company's management, including the Company's Chairman, President and Chief Executive Officer and its Vice President of Finance, Chief Financial Officer and Treasurer, performed an evaluation of the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the Company's Chairman, President and Chief Executive Officer and its Vice President of Finance, Chief Financial Officer and Treasurer concluded that, as of the end of the fiscal period covered by this quarterly report, the Company's disclosure controls and procedures are effective. During the fiscal quarter ended June 30, 2017 there were no changes in the Company's internal control over financial reporting which have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

There are no material changes from the legal proceedings disclosed in Item 3. of the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

Item 1A. RISK FACTORS

There are no material changes from the risk factors disclosed in Item 1A. of the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not Applicable.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

Exhibit Number	Exhibit
10.1	Universal Stainless & Alloy Products, Inc. 2017 Equity Incentive Plan (filed herewith)
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 and Chief Financial Officer pursuant to Rule 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
101	The following financial information from this Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2017, formatted in XBRL (Extensible Business Reporting Language) and filed electronically herewith: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Comprehensive Income (iv) the Consolidated Statements of Cash Flows; and (v) the Notes to the Consolidated Financial Statements (filed herewith).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: July 26, 2017

/s/ Dennis M. Oates

Dennis M. Oates
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

/s/ Ross C. Wilkin

Ross C. Wilkin
Vice President of Finance,
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

**UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.
2017 EQUITY INCENTIVE PLAN**

Universal Stainless & Alloy Products, Inc. sets forth below the terms of its 2017 Equity Incentive Plan.

1. PURPOSE

The Plan is intended to enhance the ability of the Company and its Affiliates to attract and retain highly qualified officers, Non-employee Directors, employees, consultants and advisors. The Plan is also intended to motivate Participants to serve the Company and its Affiliates and to expend maximum effort to improve the business results and earnings of the Company, by providing Participants with an opportunity to acquire or increase a direct proprietary interest in the operations and future success of the Company. To this end, the Plan provides for the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, unrestricted stock, other share-based awards and cash awards. Any of these awards may, but need not, be made as performance incentives to reward attainment of performance goals. Upon becoming effective, the Plan replaces, and no further awards shall be made under, the Prior Plan.

2. DEFINITIONS

For purposes of interpreting the Plan and related documents (including Award Agreements), the following definitions shall apply:

“**Acquiror**” shall have the meaning set forth in **Section 15.2.1**.

“**Affiliate**” means any company or other trade or business that “controls,” is “controlled by” or is “under common control with,” the Company within the meaning of Rule 405 of Regulation C under the Securities Act, including any Subsidiary.

“**Annual Incentive Award**” means a cash-based Performance Award with a performance period that is the Company’s fiscal year or other 12-month (or shorter) performance period as specified under the terms of the Award as approved by the Board.

“**Award**” means a grant under the Plan of an Option, SAR, Restricted Stock, RSU, Other Share-based Award or cash award.

“**Award Agreement**” means a written agreement between the Company and a Participant, or notice from the Company or an Affiliate to a Participant that evidences and sets out the terms of an Award.

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

“**Cause**” shall be defined as that term is defined in the Participant’s offer letter or other applicable employment agreement; or, if there is no such definition, “Cause” means, as determined by the Company in its sole discretion and unless otherwise provided in the applicable Award Agreement: (i) the commission of any act by a Participant constituting financial dishonesty against the Company or its Affiliates; (ii) a Participant’s engaging in any other act of dishonesty, fraud, intentional misrepresentation, moral turpitude, illegality or harassment that would: (a) adversely affect the business or the reputation of the Company or any of its Affiliates with their respective current or prospective customers, suppliers, lenders or other third parties with whom such entity does or might do business or (b) expose the Company or any of its Affiliates to a risk of civil or criminal legal damages, liabilities or penalties; (iii) the repeated failure by a Participant to follow the directives of the chief executive officer of the Company or any of its Affiliates or the Board; or (iv) any material misconduct, violation of the Company’s or Affiliates’ policies or willful and deliberate non-performance of duty by the Participant in connection with the business affairs of the Company or its Affiliates. A Separation from Service for Cause shall be deemed to include a determination by the Company in its sole discretion following a Participant’s Separation from Service that circumstances existing prior to such Separation from Service would have entitled the Company or an Affiliate to have terminated the Participant’s service for Cause. All rights a Participant has or may have under the Plan shall be suspended automatically during the pendency of any investigation by the Company, or during any negotiations between the Company and the Participant, regarding any actual or alleged act or omission by the Participant of the type described in the applicable definition of Cause.

“Change in Control” means, unless otherwise provided in the applicable Award Agreement, the consummation of any of the following events:

(i) during any period of 12 consecutive months, the acquisition, other than from the Company, by any individual, entity or group (within the meaning of Section 13(d)(3) or Section 14(d)(2) of the Exchange Act), other than the Company or any subsidiary, affiliate (within the meaning of Rule 144 promulgated under the Securities Act) or employee benefit plan of the Company, of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of more than 50% of the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the **“Voting Securities”**); or

(ii) a reorganization, merger, consolidation or recapitalization of the Company (a **“Business Combination”**), other than a Business Combination in which more than 50% of the combined voting power of the outstanding voting securities of the surviving or resulting entity immediately following the Business Combination is held by the persons who, immediately prior to the Business Combination, were the holders of the Voting Securities; or

(iii) a complete liquidation or dissolution of the Company, or a sale of all or substantially all of the assets of the Company; or

(iv) during any period of 24 consecutive months, the Incumbent Directors cease to constitute a majority of the Board; **“Incumbent Directors”** means individuals who were members of the Board at the beginning of such period or individuals whose election or nomination for election to the Board by the Stockholders was approved by a vote of at least a majority of the then Incumbent Directors (but excluding any individual whose initial election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors).

Notwithstanding the foregoing, if it is determined that an Award is subject to the requirements of Section 409A and payable upon a Change in Control, the Company will not be deemed to have undergone a Change in Control for purposes of the Plan unless the Company is deemed to have undergone a “change in control event” for purposes of Section 409A.

“Code” means the Internal Revenue Code of 1986.

“Committee” means the Compensation Committee of the Board, or such other committee as determined by the Board. The Compensation Committee of the Board may designate a subcommittee of its members to serve as the Committee for purposes of the Plan (to the extent the Board has not designated another person, committee or entity as the Committee for purposes of the Plan). The Board will cause the Committee to satisfy the applicable requirements of any securities exchange on which the Common Stock may then be listed. For purposes of Awards to Covered Employees intended to qualify as Performance-Based Compensation, to the extent required by Section 162(m), Committee means all of the members of the Compensation Committee who are “outside directors” within the meaning of Section 162(m). For purposes of Awards to Participants who are subject to Section 16 of the Exchange Act, Committee means all of the members of the Compensation Committee who are “non-employee directors” within the meaning of Rule 16b-3 of the Exchange Act.

“Company” means Universal Stainless & Alloy Products, Inc., a Delaware corporation.

“Common Stock” means the common stock of the Company.

“Consultant” means a consultant or advisor that provides bona fide services to the Company or any Affiliate and who qualifies as a consultant or advisor under Form S-8.

“Covered Employee” means a Participant who is a “covered employee” within the meaning of Section 162(m) as qualified by **Section 12.4**.

“Detrimental Conduct” means, as determined by the Company in its sole discretion, the Participant’s serious misconduct or unethical behavior, including any of the following: (i) any violation by the Participant of a restrictive covenant agreement that the Participant has entered into with the Company or an Affiliate (covering, for example, confidentiality, non-competition, non-solicitation, non-disparagement, etc.); (ii) any conduct by the Participant that could result in the Participant’s Separation from Service for Cause; (iii) the commission of a criminal act by the Participant, whether or not performed in the workplace, that subjects, or if generally known would subject, the Company or an Affiliate to public ridicule or embarrassment, or other improper or intentional conduct by the Participant causing reputational harm to the Company, an Affiliate or a client or former client of the Company or an Affiliate; (iv) the Participant’s breach of a fiduciary duty owed to the Company or an Affiliate or a client or former client of the Company or an Affiliate; (v) the Participant’s intentional violation, or grossly negligent disregard, of the Company’s or an Affiliate’s policies, rules or procedures; or (vi) the Participant taking or maintaining trading positions that result in a need to restate financial results in a subsequent reporting period or that result in a significant financial loss to the Company or its Affiliates.

“Disability” shall be defined as that term is defined in the Participant’s offer letter or other applicable employment agreement; or, if there is no such definition, “Disability” means, as determined by the Company in its sole discretion and unless otherwise provided in the applicable Award Agreement, the Participant is unable to perform each of the essential duties of the Participant’s position by reason of a medically determinable physical or mental impairment that is potentially permanent in character or that can be expected to last for a continuous period of not less than 12 months; *provided, however*, that, with respect to rules regarding expiration of an Incentive Stock Option following termination of the Participant’s employment, “Disability” means “permanent and total disability” as set forth in Code Section 22(e)(3).

“Effective Date” means May 3, 2017, the date the Plan was approved by the Stockholders.

“Exchange Act” means the Securities Exchange Act of 1934.

“Fair Market Value” of a Share as of a particular date means (i) if the Common Stock is listed on a national securities exchange, the closing or last price of the Common Stock on the composite tape or other comparable reporting system for the applicable date, or if the applicable date is not a trading day, the trading day immediately preceding the applicable date or (ii) if the Common Stock is not then listed on a national securities exchange, or the value of the Common Stock is not otherwise determinable, such value as determined by the Board.

“Family Member” means a person who is a spouse, former spouse, child, stepchild, grandchild, parent, stepparent, grandparent, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother, sister, brother-in-law or sister-in-law, including adoptive relationships, of the applicable individual, any person sharing the applicable individual’s household (other than a tenant or employee), a trust in which any one or more of these persons have more than 50% of the beneficial interest, a foundation in which any one or more of these persons (or the applicable individual) control the management of assets, and any other entity in which one or more of these persons (or the applicable individual) own more than 50% of the voting interests.

“Grant Date” means the latest to occur of (i) the date as of which the Board approves an Award, (ii) the date on which the recipient of an Award first becomes eligible to receive an Award under **Section 6** or (iii) such other date as may be specified by the Board in the Award Agreement.

“Incentive Stock Option” means an “incentive stock option” within the meaning of Code Section 422.

“New Shares” shall have the meaning set forth in **Section 15.1**.

“Non-employee Director” means a member of the Board or the board of directors of an Affiliate, in each case who is not an officer or employee of the Company or any Affiliate.

“Nonqualified Stock Option” means an Option that is not an Incentive Stock Option.

“Option” means an option to purchase one or more Shares pursuant to the Plan.

“Option Price” means the purchase price for each Share subject to an Option.

“**Other Share-based Awards**” means Awards consisting of Share units, or other Awards, valued in whole or in part by reference to, or otherwise based on, Shares.

“**Participant**” means a person who, as a Service Provider, has been granted an Award under the Plan; *provided* that in the case of the death or Disability of a Participant, the term “Participant” may refer to the Participant’s estate or other legal representative acting in a fiduciary capacity on behalf of the Participant under applicable state law and court supervision.

“**Performance Award**” means an Award made subject to the attainment of performance goals (as described in **Section 12**) over a performance period established by the Committee.

“**Performance-Based Compensation**” means “performance-based compensation” under Section 162(m).

“**Plan**” means this Universal Stainless & Alloy Products, Inc. 2016 Equity Incentive Plan.

“**Policy**” shall have the meaning set forth in **Section 3.2.2**.

“**Prior Plan**” means the Universal Stainless & Alloy Products, Inc. Omnibus Incentive Plan.

“**Purchase Price**” means the purchase price for each Share pursuant to a grant of Restricted Stock.

“**Restricted Period**” shall have the meaning set forth in **Section 10.1**.

“**Restricted Stock**” means restricted Shares, awarded to a Participant pursuant to **Section 10**.

“**Restricted Stock Unit**” or “**RSU**” means a bookkeeping entry representing the right to receive Shares, awarded to a Participant pursuant to **Section 10**.

“**SAR Exercise Price**” means the per Share exercise price of a SAR granted to a Participant.

“**SEC**” means the United States Securities and Exchange Commission.

“**Section 162(m)**” means Code Section 162(m).

“**Section 409A**” means Code Section 409A.

“**Securities Act**” means the Securities Act of 1933.

“**Separation from Service**” means the termination of the applicable Participant’s employment with, and performance of services for, the Company and each Affiliate. Unless otherwise determined by the Company in its sole discretion, if a Participant’s employment or service with the Company or an Affiliate terminates but the Participant continues to provide services to the Company or an Affiliate in a nonemployee director capacity or as an employee or consultant, as applicable, such change in status shall not be deemed a Separation from Service. A Participant employed by, or performing services for, an Affiliate or a division of the Company or an Affiliate shall not be deemed to incur a Separation from Service if such Affiliate or division ceases to be an Affiliate or division of the Company, as the case may be, and the Participant immediately thereafter becomes an employee of (or service provider to), or member of the board of directors of, the Company or an Affiliate or a successor company or an affiliate or subsidiary thereof. Approved temporary absences from employment because of illness, vacation or leave of absence and transfers among the Company and its Affiliates shall not be considered Separations from Service. Notwithstanding the foregoing, with respect to any Award that constitutes nonqualified deferred compensation under Section 409A, “Separation from Service” shall mean a “separation from service” as defined under Section 409A.

“**Service Provider**” means an employee, officer, Non-employee Director or Consultant of the Company or an Affiliate.

“**Share**” means a share of Common Stock.

“**Stock Appreciation Right**” or “**SAR**” means a right granted to a Participant pursuant to **Section 9**.

“**Stockholders**” means the stockholders of the Company.

“**Subsidiary**” means any “subsidiary corporation” of the Company within the meaning of Code Section 424(f).

“**Substitute Award**” means any Award granted in assumption of or in substitution for an award of a company or business acquired by the Company or an Affiliate or with which the Company or an Affiliate combines.

“**Ten Percent Stockholder**” means an individual who owns more than 10% of the total combined voting power of all classes of outstanding stock of the Company, its parent or any of its Subsidiaries. In determining stock ownership, the attribution rules of Code Section 424(d) shall be applied.

“**Termination Date**” means the date that is 10 years after the Effective Date, unless the Plan is earlier terminated by the Board under **Section 5.2**.

3. ADMINISTRATION OF THE PLAN

3.1. General

The Board shall have such powers and authorities related to the administration of the Plan as are consistent with the Company’s certificate of incorporation and bylaws and applicable law. The Board shall have the power and authority to delegate its responsibilities hereunder to the Committee, which shall have full authority to act in accordance with its charter. With respect to the power and authority of the Board to act hereunder, all references to the Board shall be deemed to include a reference to the Committee, unless such power or authority is specifically reserved by the Board. Except as specifically provided in **Section 14** or as otherwise may be required by applicable law, regulatory requirement or the certificate of incorporation or the bylaws of the Company, the Board shall have full power and authority to take all actions and to make all determinations required or provided for under the Plan, any Award or any Award Agreement, and shall have full power and authority to take all such other actions and make all such other determinations that the Board deems to be necessary or appropriate to the administration of the Plan. The Committee shall administer the Plan; *provided, however*, the Board shall retain the right to exercise the authority of the Committee to the extent consistent with applicable law and the applicable requirements of any securities exchange on which the Common Stock may then be listed. All actions, determinations and decisions by the Board or the Committee under the Plan or any Award Agreement, or with respect to any Award, shall be in the sole discretion of the Board and shall be final, binding and conclusive on all persons. Without limitation, the Board shall have full and final power and authority, subject to the other terms of the Plan, to:

- (i) designate Participants;
- (ii) determine the type or types of Awards to be made to Participants;
- (iii) determine the number of Shares to be subject to an Award;
- (iv) establish the terms of each Award (including the Option Price of any Option, the nature and duration of any restriction or condition (or provision for lapse thereof) relating to the vesting, exercise, transfer or forfeiture of an Award or the Shares subject thereto and any terms or conditions that may be necessary to qualify Options as Incentive Stock Options);
- (v) prescribe the form of each Award Agreement; and
- (vi) amend, modify or supplement the terms of any outstanding Award, including the authority, in order to effectuate the purposes of the Plan, to modify Awards to foreign nationals or individuals who are employed outside the United States to recognize differences in local law, tax policy or custom.

3.2. Separation from Service for Cause; Clawbacks; Detrimental Conduct

3.2.1. Separation from Service for Cause

The Company may annul an Award if the Participant incurs a Separation from Service for Cause.

3.2.2. Clawbacks

All awards, amounts or benefits received or outstanding under the Plan shall be subject to clawback, cancellation, recoupment, rescission, payback, reduction or other similar action in accordance with the terms of any Company clawback or similar policy (the “**Policy**”) or any applicable law related to such actions, as may be in effect from time to time. A Participant’s acceptance of an Award shall be deemed to constitute the Participant’s acknowledgement of and consent to the Company’s application, implementation and enforcement of any applicable Policy that may apply to the Participant, whether adopted prior to or following the Effective Date, and any provision of applicable law relating to clawback, cancellation, recoupment, rescission, payback or reduction of compensation, and the Participant’s agreement that the Company may take such actions as may be necessary to effectuate any such policy or applicable law, without further consideration or action.

3.2.3. Detrimental Conduct

Except as otherwise provided by the Board, notwithstanding any provision of the Plan to the contrary, if a Participant engages in Detrimental Conduct, whether during the Participant’s service or after the Participant’s Separation from Service, in addition to any other penalties or restrictions that may apply under the Plan, state law or otherwise, the Participant shall forfeit or pay to the Company the following:

- (a) any and all outstanding Awards granted to the Participant, including Awards that have become vested or exercisable;
- (b) any shares held by the Participant in connection with the Plan that were acquired by the Participant after the Participant’s Separation from Service and within the 12-month period immediately before the Participant’s Separation from Service;
- (c) the profit realized by the Participant from the exercise of any Options or SARs that the Participant exercised after the Participant’s Separation from Service or within the 12-month period immediately before the Participant’s Separation from Service, which profit is the difference between the Option Price of the Option or SAR Exercise Price of the SAR and the Fair Market Value of any shares or cash acquired by the Participant upon exercise of such Option or SAR; and
- (d) the profit realized by the Participant from the sale, or other disposition for consideration, of any shares received by the Participant in connection with the Plan after the Participant’s Separation from Service and within the 12-month period immediately before the Participant’s Separation from Service and where such sale or disposition occurs in such similar time period.

3.3. Deferral Arrangement

The Board may permit or require the deferral of any Award payment into a deferred compensation arrangement, subject to such rules and procedures as it may establish and in accordance with Section 409A, which may include provisions for the payment or crediting of interest or dividend equivalents, including converting such credits into deferred Share units.

3.4. No Liability

No member of the Board or of the Committee shall be liable for any action or determination made in good faith with respect to the Plan, any Award or Award Agreement.

3.5. Book Entry

Notwithstanding any other provision of the Plan to the contrary, the Company may elect to satisfy any requirement under the Plan for the delivery of stock certificates through the use of book entry.

3.6. No Repricing

Notwithstanding any provision of the Plan to the contrary, the repricing of Options or SARs is prohibited without prior approval of the Stockholders. For this purpose, a “repricing” means any of the following (or any other action that has the same effect as any of the following): (i) changing the terms or conditions of an Option or SAR to lower its Option Price or SAR Exercise Price; (ii) any other action that is treated as a “repricing” under generally accepted accounting principles; and (iii) repurchasing for cash or canceling an Option or SAR at a time when its Option Price or SAR Exercise Price is greater than the Fair Market Value of the underlying Shares in exchange for another Award, unless the cancellation and exchange occurs in connection with a change in capitalization or similar change under **Section 15**. A cancellation and exchange under clause (iii) would be considered a “repricing” regardless of whether it is treated as a “repricing” under generally accepted accounting principles and regardless of whether it is voluntary on the part of the Participant.

4. STOCK SUBJECT TO THE PLAN

4.1. Authorized Number of Shares

Subject to adjustment under **Section 15**, the aggregate number of Shares authorized to be awarded under the Plan shall not exceed 568,357. In addition, Shares underlying any outstanding award granted under the Prior Plan that, following the Effective Date, expires, or is terminated, surrendered or forfeited for any reason without issuance of Shares shall be available for the grant of new Awards. As provided in **Section 1**, no new awards shall be granted under the Prior Plan following the Effective Date. Shares issued under the Plan may consist in whole or in part of authorized but unissued Shares, treasury Shares or Shares purchased on the open market or otherwise.

4.2. Share Counting

4.2.1. Any Award settled in cash shall not be counted as issued Shares for any purpose under the Plan.

4.2.2. If any Award expires, or is terminated, surrendered or forfeited, in whole or in part, the unissued Shares covered by such Award shall again be available for the grant of Awards.

4.2.3. If Shares issued pursuant to the Plan are repurchased by, or are surrendered or forfeited to the Company at no more than cost, such Shares shall again be available for the grant of Awards.

4.2.4. If Shares issuable upon exercise, vesting or settlement of an Award, or Shares owned by a Participant (that are not subject to any pledge or other security interest), are surrendered or tendered to the Company in payment of the Option Price or Purchase Price of an Award or any taxes required to be withheld in respect of an Award, in each case, in accordance with the terms of the Plan and any applicable Award Agreement, such surrendered or tendered Shares shall again be available for the grant of Awards.

4.2.5. Substitute Awards shall not be counted against the number of Shares available for the grant of Awards.

4.3. Award Limits

4.3.1. Incentive Stock Options

Subject to adjustment under **Section 15**, 568,357 Shares available for issuance under the Plan shall be available for issuance as Incentive Stock Options.

4.3.2. Individual Award Limits for Section 162(m)—Share-Based Awards

Subject to adjustment under **Section 15**, the maximum number of each type of Award (other than cash-based Performance Awards) granted to any Participant in any calendar year shall not exceed the following number of Shares: (i) Options and SARs—100,000 Shares; and (ii) all share-based Performance Awards (including Restricted Stock, RSUs and Other Share-based Awards that are Performance Awards)—80,000 Shares.

4.3.3. Individual Award Limits for Section 162(m)—Cash-Based Awards

The maximum amount of cash-based Performance Awards intended to qualify as Performance-Based Compensation granted to any Participant in any calendar year shall not exceed the following: (i) Annual Incentive Awards: \$900,000; and (ii) all other cash-based Performance Awards: \$500,000.

4.3.4. Director Awards

The maximum value of Awards granted during any calendar year to any Non-employee Director, taken together with any cash fees paid to such Non-employee Director during the calendar year and the value of awards granted to the Non-employee Director under any other equity compensation plan of the Company or an Affiliate during the calendar year, shall not exceed the following in total value (calculating the value of any Awards or other equity compensation plan awards based on the fair market value as of grant date for financial reporting purposes): (i) \$1,000,000 for the Chair of the Board and (ii) \$500,000 for each Non-employee Director other than the Chair of the Board.

5. EFFECTIVE DATE, DURATION AND AMENDMENTS

5.1. Term

The Plan shall be effective as of the Effective Date, *provided* that it has been approved by the Stockholders. The Plan shall terminate automatically on the 10-year anniversary of the Effective Date and may be terminated on any earlier date as provided in **Section 5.2**.

5.2. Amendment and Termination of the Plan

The Board may, at any time and from time to time, amend, suspend or terminate the Plan as to any Awards that have not been made. An amendment shall be contingent on approval of the Stockholders to the extent stated by the Board, required by applicable law or required by applicable securities exchange listing requirements. No Awards shall be granted after the Termination Date. The applicable terms of the Plan, and any terms applicable to Awards granted prior to the Termination Date, shall survive the termination of the Plan and continue to apply to such Awards. No amendment, suspension or termination of the Plan or any Award shall, without the consent of the Participant, materially impair rights or obligations under any Award theretofore awarded.

6. AWARD ELIGIBILITY AND LIMITATIONS

6.1. Service Providers

Subject to this **Section 6**, Awards may be granted to any Service Provider as the Board may determine and designate from time to time.

6.2. Successive Awards

An eligible person may receive more than one Award, subject to such restrictions as are provided herein.

6.3. Stand-Alone, Additional, Tandem, and Substitute Awards

Awards may be granted either alone or in addition to, in tandem with or in substitution or exchange for, any other Award or any award granted under another plan of the Company, any Affiliate or any business entity to be acquired by the Company or an Affiliate, or any other right of a Participant to receive payment from the Company or any Affiliate. Such additional, tandem or substitute or exchange Awards may be granted at any time. If an Award is granted in substitution or exchange for another award, the Board shall have the right to require the surrender of such other award in consideration for the grant of the new Award. Subject to the requirements of applicable law, the Board may make Awards in substitution or exchange for any other award under another plan of the Company, any Affiliate or any business entity to be acquired by the Company or an Affiliate. In addition, Awards may be granted in lieu of cash compensation, including in lieu of cash amounts payable under other plans of the Company or any Affiliate, in which the value of Shares subject to the Award is equivalent in value to the cash compensation (for example, RSUs or Restricted Stock).

7. AWARD AGREEMENT

The grant of any Award may be contingent upon the Participant executing an appropriate Award Agreement, in such form or forms as the Board may determine. An Award Agreement may be provided in the form of a notice that provides that acceptance of the Award constitutes acceptance of all terms of the Plan and the notice. Award Agreements granted from time to time or at the same time need not contain similar provisions but shall be consistent with the terms of the Plan. Each Award Agreement evidencing an Award of Options shall specify whether such Options are intended to be Nonqualified Stock Options or Incentive Stock Options, and in the absence of such specification, such Options shall be deemed Nonqualified Stock Options.

8. TERMS AND CONDITIONS OF OPTIONS

8.1. Option Price

The Option Price of each Option shall be fixed by the Board and stated in the related Award Agreement. The Option Price of each Option (except those that constitute Substitute Awards) shall be at least the Fair Market Value on the Grant Date; *provided, however*, that in the event that a Participant is a Ten Percent Stockholder as of the Grant Date, the Option Price of an Option granted to such Participant that is intended to be an Incentive Stock Option shall be not less than 110% of the Fair Market Value on the Grant Date. In no case shall the Option Price of any Option be less than the par value of a Share.

8.2. Vesting

Subject to **Section 8.3**, each Option shall become exercisable at such times and under such conditions (including performance requirements) as stated in the Award Agreement.

8.3. Term

Each Option shall terminate, and all rights to purchase Shares thereunder shall cease, upon the expiration of the Option term stated in the Award Agreement not to exceed 10 years from the Grant Date, or under such circumstances and on such date prior thereto as is set forth in the Plan or as may be fixed by the Board and stated in the related Award Agreement; *provided, however*, that in the event that the Participant is a Ten Percent Stockholder, an Option granted to such Participant that is intended to be an Incentive Stock Option at the Grant Date shall not be exercisable after the expiration of five years from its Grant Date.

8.4. Limitations on Exercise of Option

Notwithstanding any other provision of the Plan, in no event may any Option be exercised, in whole or in part, (i) prior to the date the Plan is approved by the Stockholders as provided herein or (ii) after the occurrence of an event that results in termination of the Option.

8.5. Method of Exercise

An Option that is exercisable may be exercised by the Participant's delivery of a notice of exercise to the Company, setting forth the number of Shares with respect to which the Option is to be exercised, accompanied by full payment for the Shares. To be effective, notice of exercise must be made in accordance with procedures established by the Company from time to time.

8.6. Rights of Holders of Options

Unless otherwise provided in the applicable Award Agreement, an individual holding or exercising an Option shall have none of the rights of a Stockholder (for example, the right to receive cash or dividend payments or distributions attributable to the subject Shares or to direct the voting of the subject Shares) until the Shares covered thereby are fully paid and issued to him or her. Except as provided in **Section 15** or the related Award Agreement, no adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date of such issuance.

8.7. Delivery of Stock Certificates

Subject to **Section 3.5**, promptly after the exercise of an Option by a Participant and the payment in full of the Option Price, such Participant shall be entitled to the issuance of a stock certificate or certificates evidencing his or her ownership of the Shares subject to the Option.

8.8. Limitations on Incentive Stock Options

An Option shall constitute an Incentive Stock Option only (i) if the Participant of such Option is an employee of the Company or any Subsidiary of the Company; (ii) to the extent specifically provided in the related Award Agreement; and (iii) to the extent that the aggregate Fair Market Value (determined at the time the Option is granted) of the Shares with respect to which all Incentive Stock Options held by such Participant become exercisable for the first time during any calendar year (under the Plan and all other plans of the Participant's employer and its Affiliates) does not exceed \$100,000. This limitation shall be applied by taking Options into account in the order in which they were granted. No Option shall be treated as an Incentive Stock Option unless the Plan has been approved by the Stockholders in a manner intended to comply with the stockholder approval requirements of Code Section 422(b)(1); *provided* that any Option intended to be an Incentive Stock Option shall not fail to be effective solely on account of a failure to obtain such approval, but rather such Option shall be treated as a Nonqualified Stock Option unless and until such stockholder approval is obtained.

8.9. Early Exercise

An Option may, but need not, include a provision whereby the Participant may elect at any time before the Participant's Separation from Service to exercise the Option as to any part or all of the Shares subject to the Option prior to the full vesting of the Option. Any unvested Shares so purchased may be subject to a repurchase option in favor of the Company or to any other restriction the Board determines to be appropriate.

9. TERMS AND CONDITIONS OF STOCK APPRECIATION RIGHTS

9.1. Right to Payment

A SAR shall confer on the Participant a right to receive, upon exercise thereof, the excess of (i) the Fair Market Value on the date of exercise over (ii) the SAR Exercise Price. The Award Agreement for a SAR (except those that constitute Substitute Awards) shall specify the SAR Exercise Price, which shall be fixed on the Grant Date as not less than the Fair Market Value on that date. SARs may be granted alone or in conjunction with all or part of an Option or at any subsequent time during the term of such Option or in conjunction with all or part of any other Award. A SAR granted in tandem with an outstanding Option following the Grant Date of such Option shall have a grant price that is equal to the Option Price; *provided, however*, that the SAR's grant price may not be less than the Fair Market Value on the Grant Date of the SAR to the extent required by Section 409A.

9.2. Other Terms

The Board shall determine at the Grant Date or thereafter, the time or times at which and the circumstances under which a SAR may be exercised in whole or in part (including based on achievement of performance goals or future service requirements), the time or times at which SARs shall cease to be or become exercisable following Separation from Service or upon other conditions, the method of exercise, whether or not a SAR shall be in tandem or in combination with any other Award and any other terms of any SAR.

9.3. Term of SARs

The term of a SAR granted under the Plan shall be determined by the Board; *provided, however*, that such term shall not exceed 10 years.

9.4. Payment of SAR Amount

Upon exercise of a SAR, a Participant shall be entitled to receive payment from the Company (in cash or Shares, as set forth in the Award Agreement) in an amount determined by multiplying:

- (i) the difference between the Fair Market Value on the date of exercise over the SAR Exercise Price; by
- (ii) the number of Shares with respect to which the SAR is exercised.

10. TERMS AND CONDITIONS OF RESTRICTED STOCK AND RESTRICTED STOCK UNITS

10.1. Restrictions

At the time of grant, the Board may establish a period of time (a “**Restricted Period**”) and any additional restrictions including the satisfaction of corporate or individual performance objectives applicable to an Award of Restricted Stock or RSUs. Each Award of Restricted Stock or RSUs may be subject to a different Restricted Period and additional restrictions. Neither Restricted Stock nor RSUs may be sold, transferred, assigned, pledged or otherwise encumbered or disposed of during the Restricted Period or prior to the satisfaction of any other applicable restrictions.

10.2. Restricted Stock Certificates

The Company shall issue Shares, in the name of each Participant to whom Restricted Stock has been granted, stock certificates or other evidence of ownership representing the total number of Shares of Restricted Stock granted to the Participant, as soon as reasonably practicable after the Grant Date. The Board may provide in an Award Agreement that either (i) the Secretary of the Company shall hold such certificates for the Participant’s benefit until such time as the Restricted Stock is forfeited to the Company or the restrictions lapse or (ii) such certificates shall be delivered to the Participant; *provided, however*, that such certificates shall bear a legend or legends that comply with the applicable securities laws and regulations and make appropriate reference to the restrictions imposed under the Plan and the Award Agreement.

10.3. Rights of Holders of Restricted Stock

Unless otherwise provided in the applicable Award Agreement, holders of Restricted Stock shall have rights as Stockholders, including voting and dividend rights.

10.4. Rights of Holders of RSUs

10.4.1. Settlement of RSUs

RSUs may be settled in cash or Shares, as set forth in the Award Agreement. The Award Agreement shall also set forth whether the RSUs shall be settled (i) within the time period specified in Section 409A for short-term deferrals or (ii) otherwise within the requirements of Section 409A, in which case the Award Agreement shall specify upon which events such RSUs shall be settled.

10.4.2. Voting and Dividend Rights

Unless otherwise provided in the applicable Award Agreement, holders of RSUs shall not have rights as Stockholders, including voting or dividend or dividend equivalents rights.

10.4.3. Creditor’s Rights

A holder of RSUs shall have no rights other than those of a general creditor of the Company. RSUs represent an unfunded and unsecured obligation of the Company, subject to the terms of the applicable Award Agreement.

10.5. Purchase of Restricted Stock

The Participant shall be required, to the extent required by applicable law, to purchase the Restricted Stock from the Company at a Purchase Price equal to the greater of (i) the aggregate par value of the Shares represented by such Restricted Stock or (ii) the Purchase Price, if any, specified in the related Award Agreement. If specified in the Award Agreement, the Purchase Price may be deemed paid by services already rendered. The Purchase Price shall be payable in a form described in **Section 11** or, if so determined by the Board, in consideration for past services rendered.

10.6. Delivery of Shares

Subject to **Section 3.5**, upon the expiration or termination of any Restricted Period and the satisfaction of any other conditions prescribed by the Board, the restrictions applicable to Shares of Restricted Stock or RSUs settled in Shares shall lapse, and, unless otherwise provided in the applicable Award Agreement, a stock certificate for such Shares shall be delivered, free of all such restrictions, to the Participant or the Participant’s beneficiary or estate, as the case may be.

11. FORM OF PAYMENT FOR OPTIONS AND RESTRICTED STOCK

11.1. General Rule

Payment of the Option Price for the Shares purchased pursuant to the exercise of an Option or the Purchase Price for Restricted Stock shall be made in cash or in cash equivalents acceptable to the Company, except as provided in this **Section 11**.

11.2. Surrender of Shares

To the extent the Award Agreement so provides, payment of the Option Price for Shares purchased pursuant to the exercise of an Option or the Purchase Price for Restricted Stock may be made all or in part through the tender to the Company of Shares, which Shares shall be valued, for purposes of determining the extent to which the Option Price or Purchase Price for Restricted Stock has been paid thereby, at their Fair Market Value on the date of exercise or surrender. Notwithstanding the foregoing, in the case of an Incentive Stock Option, the right to make payment in the form of already-owned Shares may be authorized only at the time of grant.

11.3. Cashless Exercise

With respect to an Option only (and not with respect to Restricted Stock), to the extent permitted by law and to the extent the Award Agreement so provides, payment of the Option Price may be made all or in part by delivery (on a form acceptable to the Company) of an irrevocable direction to a licensed securities broker acceptable to the Company to sell Shares and to deliver all or part of the sales proceeds to the Company in payment of the Option Price and any withholding taxes described in **Section 17.3**.

11.4. Other Forms of Payment

To the extent the Award Agreement so provides, payment of the Option Price or the Purchase Price for Restricted Stock may be made in any other form that is consistent with applicable laws, regulations and rules, including the Company's withholding of Shares otherwise due to the exercising Participant.

12. TERMS AND CONDITIONS OF PERFORMANCE AWARDS

12.1. Performance Conditions

The right of a Participant to exercise or receive a grant or settlement of any Award, and the timing thereof, may be subject to such performance conditions as may be specified by the Board. The Board may use such business criteria and other measures of performance as it may deem appropriate in establishing any performance conditions, and may reduce the amounts payable under any Award subject to performance conditions, except as limited under **Section 12.2** in the case of Performance-Based Compensation.

12.2. Performance Awards Granted to Designated Covered Employees

If and to the extent that the Board determines that a Performance Award to be granted to a Participant who is designated by the Board as likely to be a Covered Employee should qualify as Performance-Based Compensation, the grant, exercise or settlement of such Performance Award shall be contingent upon achievement of pre-established performance goals and other terms set forth in this **Section 12.2**. Notwithstanding anything herein to the contrary, the Board may provide for Performance Awards to Covered Employees that are not intended to qualify as Performance-Based Compensation.

12.2.1. Performance Goals Generally

The performance goals for Performance Awards shall consist of one or more business criteria and a targeted level or levels of performance with respect to each of such criteria, as specified by the Board consistent with this **Section 12.2**. Performance goals shall be objective and shall otherwise meet the requirements of Section 162(m), including the requirement that the level or levels of performance targeted by the Board result in the achievement of performance goals being “substantially uncertain.” The Board may determine that Performance Awards shall be granted, exercised or settled upon achievement of any one performance goal or that two or more of the performance goals must be achieved as a condition to grant, exercise or settlement of the Performance Awards. Performance goals may be established on a Company-wide basis, or with respect to one or more business units or Affiliates, as applicable. To the extent consistent with the requirements of Section 162(m), the Committee may determine at the time that goals under this **Section 12** are established the extent to which measurement of performance goals may exclude the impact of charges for restructuring, discontinued operations, extraordinary items, debt redemption or retirement, asset write downs, litigation or claim judgments or settlements, acquisitions or divestitures, foreign exchange gains and losses and other extraordinary, unusual or non-recurring items, and the cumulative effects of tax or accounting changes (each as defined by generally accepted accounting principles and as identified in the Company’s financial statements or other SEC filings). Performance goals may differ for Performance Awards granted to any one Participant or to different Participants.

12.2.2. Business Criteria

One or more of the following business criteria for the Company, on a consolidated basis, and/or specified Affiliates or business units of the Company (except with respect to the total stockholder return and earnings per share criteria), shall be used exclusively by the Committee in establishing performance goals for Performance Awards: (i) cash flow; (ii) earnings per share, as adjusted for any stock split, stock dividend or other recapitalization; (iii) earnings measures (including EBIT and EBITDA); (iv) return on equity; (v) total stockholder return; (vi) share price performance, as adjusted for any stock split, stock dividend or other recapitalization; (vii) return on capital; (viii) revenue; (ix) income; (x) profit margin; (xi) return on operating revenue; (xii) brand recognition or acceptance; (xiii) customer metrics (including customer satisfaction, customer retention, customer profitability or customer contract terms); (xiv) productivity; (xv) expense targets; (xvi) market share; (xvii) cost control measures; (xviii) balance sheet metrics; (xix) strategic initiatives; (xx) implementation, completion or attainment of measurable objectives with respect to recruitment or retention of personnel or employee satisfaction; (xxi) return on assets; (xxii) growth in net sales; (xxiii) the ratio of net sales to net working capital; (xxiv) stockholder value added; (xxv) improvement in management of working capital items (inventory, accounts receivable or accounts payable); (xxvi) sales from newly-introduced products; (xxvii) successful completion of, or achievement of milestones or objectives related to, financing or capital raising transactions, strategic acquisitions or divestitures, joint ventures, partnerships, collaborations or other transactions; (xxviii) product quality, safety, productivity, yield or reliability (on time and complete orders); (xxix) funds from operations; (xxx) regulatory body approval for commercialization of a product; (xxxi) debt levels or reduction or debt ratios; (xxxii) economic value; (xxxiii) operating efficiency; (xxxiv) research and development achievements; or (xxxv) any combination of the forgoing business criteria; *provided, however*, that such business criteria shall include any derivations of business criteria listed above (*e.g.*, income shall include pre-tax income, net income and operating income).

12.2.3. Timing for Establishing Performance Goals

Performance goals shall be established not later than 90 days after the beginning of any performance period applicable to Performance Awards, or at such other date as may be required or permitted for Performance-Based Compensation.

12.2.4. Settlement of Performance Awards; Other Terms

Settlement of Performance Awards may be in cash, Shares, other Awards or other property. The Board may reduce the amount of a settlement otherwise to be made in connection with such Performance Awards.

12.3. Written Determinations

All determinations by the Board as to the establishment of performance goals, the amount of any Performance Award pool or potential individual Performance Awards and the achievement of performance goals relating to Performance Awards, shall be made in writing in the case of any Award intended to qualify as Performance-Based Compensation to the extent required by Section 162(m). To the extent permitted by Section 162(m), the Board may delegate any responsibility relating to Performance Awards.

12.4. Status of Section 12.2 Awards under Section 162(m)

It is the intent of the Company that Performance Awards under **Section 12.2** granted to persons who are designated by the Board as likely to be Covered Employees within the meaning of Section 162(m) shall, if so designated by the Board, qualify as Performance-Based Compensation. Accordingly, the terms of **Section 12.2**, including the definitions of Covered Employee and other terms used therein, shall be interpreted in a manner consistent with Section 162(m). The foregoing notwithstanding, because the Board cannot determine with certainty whether a given Participant will be a Covered Employee with respect to a fiscal year that has not yet been completed, the term Covered Employee as used herein shall mean only a person designated by the Board, at the time of grant of Performance Awards, as likely to be a Covered Employee with respect to that fiscal year. If any provision of the Plan or any agreement relating to such Performance Awards does not comply or is inconsistent with the requirements of Section 162(m), such provision shall be construed or deemed amended to the extent necessary to conform to such requirements.

13. OTHER SHARE-BASED AWARDS

13.1. Grant of Other Share-based Awards

Other Share-based Awards may be granted either alone or in addition to or in conjunction with other Awards. Other Share-based Awards may be granted in lieu of other cash or other compensation to which a Service Provider is entitled from the Company or may be used in the settlement of amounts payable in Shares under any other compensation plan or arrangement of the Company, including any other Company incentive compensation plan. The Board shall have the authority to determine the persons to whom and the time or times at which such Awards will be made, the number of Shares to be granted pursuant to such Awards and all other terms of such Awards. Unless the Board determines otherwise, any such Award shall be confirmed by an Award Agreement, which shall contain such provisions as the Board determines to be necessary or appropriate to carry out the intent of the Plan with respect to such Award.

13.2. Terms of Other Share-based Awards

Any Common Stock subject to Awards made under this **Section 13** may not be sold, assigned, transferred, pledged or otherwise encumbered prior to the date on which the Shares are issued, or, if later, the date on which any applicable restriction, performance or deferral period lapses.

14. REQUIREMENTS OF LAW

14.1. General

The Company shall not be required to sell or issue any Shares under any Award if the sale or issuance of such Shares would constitute a violation by the Participant, any other individual or the Company of any provision of any law or regulation of any governmental authority, including any federal or state securities laws or regulations. If at any time the Board determines that the listing, registration or qualification of any Shares subject to an Award upon any securities exchange or under any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the issuance or purchase of Shares hereunder, no Shares may be issued or sold to the Participant or any other individual exercising an Option pursuant to such Award unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company, and any delay caused thereby shall in no way affect the date of termination of the Award. Specifically, in connection with the Securities Act, upon the exercise of any Option or the delivery of any Shares underlying an Award, unless a registration statement under such Act is in effect with respect to the Shares covered by such Award, the Company shall not be required to sell or issue such Shares unless the Board has received evidence satisfactory to it that the Participant or any other individual exercising an Option may acquire such Shares pursuant to an exemption from registration under the Securities Act. The Company may, but shall in no event be obligated to, register any securities covered hereby pursuant to the Securities Act. The Company shall not be obligated to take any affirmative action in order to cause the exercise of an Option or the issuance of Shares pursuant to the Plan to comply with any law or regulation of any governmental authority. As to any jurisdiction that expressly imposes the requirement that an Option shall not be exercisable until the Shares covered by such Option are registered or are exempt from registration, the exercise of such Option (under circumstances in which the laws of such jurisdiction apply) shall be deemed conditioned upon the effectiveness of such registration or the availability of such an exemption. The Committee may require the Participant to sign such additional documentation, make such representations and furnish such information as it may consider appropriate in connection with the grant of Awards or issuance or delivery of Shares in compliance with applicable laws, rules and regulations.

14.2. Rule 16b-3

During any time when the Company has a class of equity security registered under Section 12 of the Exchange Act, it is the intent of the Company that Awards and the exercise of Options will qualify for the exemption provided by Rule 16b-3 under the Exchange Act. To the extent that any provision of the Plan or action by the Board or Committee does not comply with the requirements of Rule 16b-3, it shall be deemed inoperative to the extent permitted by law and deemed advisable by the Board, and shall not affect the validity of the Plan. In the event that Rule 16b-3 is revised or replaced, the Board may modify the Plan in any respect necessary to satisfy the requirements of, or to take advantage of any features of, the revised exemption or its replacement.

15. EFFECT OF CHANGES IN CAPITALIZATION

15.1. Adjustments for Changes in Capital Structure

Subject to any required action by the Stockholders, in the event of any change in the Common Stock effected without receipt of consideration by the Company, whether through merger, consolidation, reorganization, reincorporation, recapitalization, reclassification, stock dividend, stock split, reverse stock split, split-up, split-off, spin-off, combination of shares, exchange of shares or similar change in the capital structure of the Company, or in the event of payment of a dividend or distribution to the Stockholders in a form other than Shares (excepting normal cash dividends) that has a material effect on the Fair Market Value, appropriate and proportionate adjustments shall be made in the number and class of shares subject to the Plan and to any outstanding Awards, and in the Option Price, SAR Exercise Price or Purchase Price per Share of any outstanding Awards, and to the other terms and conditions of outstanding Awards, in order to prevent dilution or enlargement of Participants' rights under the Plan. For purposes of the foregoing, conversion of any convertible securities of the Company shall not be treated as "effected without receipt of consideration by the Company." If a majority of the Shares that are of the same class as the Shares that are subject to outstanding Awards are exchanged for, converted into or otherwise become (whether or not pursuant to a Change in Control) shares of another corporation (the "**New Shares**"), the Board may unilaterally amend the outstanding Awards to provide that such Awards are for New Shares. In the event of any such amendment, the number of Shares subject to, and the Option Price, SAR Exercise Price or Purchase Price per Share of, and the other terms and conditions of, the outstanding Awards shall be adjusted in a fair and equitable manner. Any fractional share resulting from an adjustment pursuant to this **Section 15.1** shall be rounded down to the nearest whole number and the Option Price, SAR Exercise Price or Purchase Price per share shall be rounded up to the nearest whole cent. In no event may the exercise price of any Award be decreased to an amount less than the par value, if any, of the stock subject to the Award. The Board may also make such adjustments in the terms of any Award to reflect, or related to, such changes in the capital structure of the Company or distributions as it deems appropriate.

15.2. Change in Control

15.2.1. Consequences of a Change in Control

The Board may provide for any one or more of the following in connection with a Change in Control, which such actions need not be the same for all Participants:

(a) **Accelerated Vesting.** The Board may provide in any Award Agreement, or in the event of a Change in Control may take such actions as it deems appropriate to provide, for the acceleration of the exercisability, vesting or settlement in connection with a Change in Control of each or any outstanding Award or portion thereof and Shares acquired pursuant thereto upon such terms, including a Participant's Separation from Service prior to, upon or following such Change in Control, to such extent as determined by the Board.

(b) **Assumption, Continuation or Substitution.** In the event of a Change in Control, the surviving, continuing, successor or purchasing corporation or other business entity or parent thereof, as the case may be (the “**Acquiror**”), may, without the consent of any Participant, either assume or continue the Company’s rights and obligations under each or any Award or portion thereof outstanding immediately prior to the Change in Control or substitute for each or any such outstanding Award or portion thereof a substantially equivalent award with respect to the Acquiror’s stock, as applicable. For purposes of this **Section 15.2.1**, an Award denominated in Shares shall be deemed assumed if, following the Change in Control, the Award confers the right to receive, subject to the terms of the Plan and the applicable Award Agreement, for each Share subject to the Award immediately prior to the Change in Control, the consideration (whether stock, cash, other securities or property or a combination thereof) to which a Stockholder as of the Change in Control was entitled; *provided, however*, that if such consideration is not solely common stock of the Acquiror, the Board may, with the consent of the Acquiror, provide for the consideration to be received upon the exercise or settlement of the Award, for each Share subject to the Award, to consist solely of common stock of the Acquiror equal in Fair Market Value to the per Share consideration received by Stockholders pursuant to the Change in Control. If any portion of such consideration may be received by Stockholders pursuant to the Change in Control on a contingent or delayed basis, the Board may determine such Fair Market Value as of the Change in Control on the basis of the Board’s estimate of the present value of the probable future payment of such consideration. Any Award or portion thereof that is neither assumed or continued by the Acquiror in connection with the Change in Control nor exercised or settled as of the Change in Control shall terminate and cease to be outstanding effective as of the Change in Control.

(c) **Cash-Out of Awards.** The Board may, without the consent of any Participant, determine that, upon the occurrence of a Change in Control, each or any Award or a portion thereof outstanding immediately prior to the Change in Control and not previously exercised or settled shall be canceled in exchange for a payment with respect to each vested Share (and each unvested Share, if so determined by the Board) subject to such canceled Award in (i) cash, (ii) stock of the Company or of a corporation or other business entity that is a party to the Change in Control or (iii) other property that, in any such case, shall be in an amount having a Fair Market Value equal to the Fair Market Value of the consideration to be paid per Share in the Change in Control, reduced by the exercise or purchase price per Share, if any, under such Award. If any portion of such consideration may be received by Stockholders pursuant to the Change in Control on a contingent or delayed basis, the Board may determine such Fair Market Value as of the time of the Change in Control on the basis of the Board’s estimate of the present value of the probable future payment of such consideration. If such determination is made by the Board, the amount of such payment (reduced by applicable withholding taxes, if any) shall be paid to Participants in respect of the vested portions of their canceled Awards as soon as practicable following the date of the Change in Control and in respect of the unvested portions of their canceled Awards in accordance with the vesting schedules applicable to such Awards. For avoidance of doubt, if the amount determined pursuant to this **Section 15.2.1(c)** for an Option or SAR is zero or less, the affected Option or SAR may be cancelled without any payment.

15.3. Adjustments

Adjustments under this **Section 15** related to Shares or other securities of the Company shall be made by the Board. No fractional Shares or other securities shall be issued pursuant to any such adjustment, and any fractions resulting from any such adjustment shall be eliminated in each case by rounding downward to the nearest whole Share.

16. NO LIMITATIONS ON COMPANY

The making of Awards shall not affect or limit in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge, consolidate, dissolve or liquidate, or to sell or transfer all or any part of its business or assets.

17. TERMS APPLICABLE GENERALLY TO AWARDS

17.1. Disclaimer of Rights

No provision in the Plan or in any Award Agreement shall be construed to confer upon any individual the right to remain in the employ or service of the Company or any Affiliate, or to interfere in any way with any contractual or other right or authority of the Company or any Affiliate either to increase or decrease the compensation or other payments to any individual at any time, or to terminate any employment or other relationship between any individual and the Company or any Affiliate. The obligation of the Company to pay any benefits pursuant to the Plan shall be interpreted as a contractual obligation to pay only those amounts described herein, in the manner and under the conditions prescribed herein. The Plan shall in no way be interpreted to require the Company to transfer any amounts to a third party trustee or otherwise hold any amounts in trust or escrow for payment to any Participant or beneficiary under the terms of the Plan.

17.2. Nonexclusivity of the Plan

Neither the adoption of the Plan nor the submission of the Plan to the Stockholders for approval shall be construed as creating any limitations upon the right or authority of the Board or its delegates to adopt such other compensation arrangements as the Board or its delegates determine desirable.

17.3. Withholding Taxes

The Company or an Affiliate, as the case may be, shall have the right to deduct from payments of any kind otherwise due to a Participant any federal, state or local taxes of any kind required by law to be withheld (i) with respect to the vesting of or other lapse of restrictions applicable to an Award, (ii) upon the issuance of any Shares upon the exercise of an Option or SAR or (iii) otherwise due in connection with an Award. At the time of such vesting, lapse or exercise, the Participant shall pay to the Company or the Affiliate, as the case may be, any amount that the Company or the Affiliate may reasonably determine to be necessary to satisfy such withholding obligation. Subject to the prior approval of the Board, the Participant may elect to satisfy such obligations, in whole or in part, (i) by causing the Company or the Affiliate to withhold the minimum required number of Shares otherwise issuable to the Participant as may be necessary to satisfy such withholding obligation or (ii) by delivering to the Company or the Affiliate Shares already owned by the Participant. The Shares so delivered or withheld shall have an aggregate Fair Market Value equal to such withholding obligations. The Fair Market Value of the Shares used to satisfy such withholding obligation shall be determined by the Company or the Affiliate as of the date that the amount of tax to be withheld is to be determined. A Participant who has made an election pursuant to this **Section 17.3** may satisfy his or her withholding obligation only with Shares that are not subject to any repurchase, forfeiture, unfulfilled vesting or other similar requirements.

17.4. Other Provisions; Legends

Each Award Agreement may contain such other terms not inconsistent with the Plan as may be determined by the Board. Any stock certificates for any Shares issued under the Plan shall be subject to such stop-transfer orders and other restrictions as the Company in its sole discretion may deem advisable under the rules, regulations and other requirements of the SEC, any securities exchange on which the Common Stock may then be listed and any applicable federal or state securities law, and the Company in its sole discretion may cause a legend or legends to be placed on such certificates to make appropriate reference to such restrictions.

17.5. Severability

If any provision of the Plan or any Award Agreement shall be determined to be illegal or unenforceable by any court of law in any jurisdiction, the remaining provisions hereof and thereof shall be severable and enforceable in accordance with their terms, and all provisions shall remain enforceable in any other jurisdiction.

17.6. Governing Law

The Plan shall be governed by and construed in accordance with the internal laws of the State of Delaware without regard to the principles of conflicts of law thereof or principles of conflicts of laws of any other jurisdiction that could cause the application of the laws of any jurisdiction other than the State of Delaware. For purposes of resolving any dispute that arises directly or indirectly in connection with the Plan, each Participant, by virtue of receiving an Award, shall be deemed to have submitted to and consented to the exclusive jurisdiction of the Commonwealth of Pennsylvania and to have agreed that any related litigation shall be conducted solely in the courts of Allegheny County, Pennsylvania or the federal courts for the United States for the Western District of Pennsylvania, where the Plan is made and to be performed, and no other courts.

17.7. Section 409A

The Plan is intended to comply with Section 409A, and to the maximum extent permitted, the Plan shall be interpreted and administered to be in compliance therewith. Notwithstanding anything to the contrary in the Plan, to the extent required to avoid accelerated taxation and tax penalties under Section 409A, amounts that would otherwise be payable pursuant to the Plan during the six-month period immediately following the Participant's Separation from Service shall instead be paid on the first payroll date after the six-month anniversary of the Participant's Separation from Service (or the Participant's death, if earlier). Notwithstanding the foregoing, neither the Company nor the Committee shall have any obligation to take any action to prevent the assessment of any excise tax or penalty on any Participant under Section 409A and neither the Company nor the Board shall have any liability to any Participant for such tax or penalty.

17.8. Separation from Service

The Board shall determine the effect of a Separation from Service upon Awards, and such effect shall be set forth in the applicable Award Agreement. Without limiting the foregoing, the Board may provide in the Award Agreements at the time of grant, or any time thereafter with the consent of the Participant, the actions that will be taken upon the occurrence of a Separation from Service, including accelerated vesting or termination, depending upon the circumstances surrounding the Separation from Service.

17.9. Transferability of Awards

17.9.1. Transfers in General

Except as provided in **Section 17.9.2**, no Award shall be assignable or transferable by the Participant to whom it is granted, other than by will or the laws of descent and distribution, and, during the lifetime of the Participant, only the Participant personally (or the Participant's personal representative) may exercise rights under the Plan.

17.9.2. Family Transfers

If authorized in the applicable Award Agreement, a Participant may transfer, not for value, all or part of an Award (other than Incentive Stock Options) to any Family Member. For the purpose of this **Section 17.9.2**, a "not for value" transfer is a transfer that is (a) a gift, (b) a transfer under a domestic relations order in settlement of marital property rights or (c) a transfer to an entity in which more than 50% of the voting interests are owned by Family Members (or the Participant) in exchange for an interest in that entity. Following a transfer under this **Section 17.9.2**, any such Award shall continue to be subject to the same terms as were applicable immediately prior to transfer. Subsequent transfers of transferred Awards are prohibited except to Family Members of the original Participant in accordance with this **Section 17.9.2** or by will or the laws of descent and distribution.

17.10. Dividends and Dividend Equivalent Rights

If specified in the Award Agreement, the recipient of an Award may be entitled to receive, currently or on a deferred basis, dividends or dividend equivalents with respect to the Common Stock or other securities covered by an Award. The terms of a dividend equivalent right may be set forth in the Award Agreement. Dividend equivalents credited to a Participant may be paid currently or may be deemed to be reinvested in additional Shares or other securities of the Company at a price per unit equal to the Fair Market Value on the date that such dividend was paid to Stockholders. Notwithstanding the foregoing, in no event will dividends or dividend equivalents on any Award that is subject to the achievement of performance criteria be payable before the Award has become earned and payable.

17.11. Data Protection

A Participant's acceptance of an Award shall be deemed to constitute the Participant's acknowledgement of and consent to the collection and processing of personal data relating to the Participant so that the Company and the Affiliates can fulfill their obligations and exercise their rights under the Plan and generally administer and manage the Plan. This data shall include data about participation in the Plan and Shares offered or received or purchased or sold under the Plan and other appropriate financial and other data (such as the date on which the Awards were granted) about the Participant and the Participant's participation in the Plan.

17.12. Plan Construction

In the Plan, unless otherwise stated, the following uses apply: (i) references to a statute or law refer to the statute or law and any amendments and any successor statutes or laws, and to all valid and binding governmental regulations, court decisions and other regulatory and judicial authority issued or rendered thereunder, as amended, or their successors, as in effect at the relevant time; (ii) in computing periods from a specified date to a later specified date, the words "from" and "commencing on" (and the like) mean "from and including," and the words "to," "until" and "ending on" (and the like) mean "to and including"; (iii) indications of time of day shall be based upon the time applicable to the location of the principal headquarters of the Company; (iv) the words "include," "includes" and "including" (and the like) mean "include, without limitation," "includes, without limitation" and "including, without limitation" (and the like), respectively; (v) all references to articles and sections are to articles and sections in the Plan; (vi) all words used shall be construed to be of such gender or number as the circumstances and context require; (vii) the captions and headings of articles and sections have been inserted solely for convenience of reference and shall not be considered a part of the Plan, nor shall any of them affect the meaning or interpretation of the Plan or any of its provisions; (viii) any reference to an agreement, plan, policy, form, document or set of documents, and the rights and obligations of the parties under any such agreement, plan, policy, form, document or set of documents, shall mean such agreement, plan, policy, form, document or set of documents as amended from time to time, and any and all modifications, extensions, renewals, substitutions or replacements thereof; and (ix) all accounting terms not specifically defined shall be construed in accordance with GAAP.

Adopted by the Board: January 28, 2017

Approved by the Stockholders: May 3, 2017

Scheduled Termination Date: May 3, 2027

CERTIFICATION

I, Dennis M. Oates, certify that:

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

Date: July 26, 2017

/s/ Dennis M. Oates

Dennis M. Oates
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Ross C. Wilkin, certify that:

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

Date: July 26, 2017

/s/ Ross C. Wilkin

Ross C. Wilkin
Vice President of Finance,
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

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

In connection with the Quarterly Report of Universal Stainless & Alloy Products, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned, in the capacities and on the dates indicated below, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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

Date: July 26, 2017

/s/ Dennis M. Oates

Dennis M. Oates
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

Date: July 26, 2017

/s/ Ross C. Wilkin

Ross C. Wilkin
Vice President of Finance,
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

