

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, 2000

OR

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

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 0-25032

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.  
(Exact name of Registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

25-1724540  
(IRS Employer  
Identification No.)

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

(412) 257-7600  
(Telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes    X    No  
-----

As of August 11, 2000, there were 6,072,564 outstanding shares of the Registrant's Common Stock, \$.001 par value.

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

This Quarterly Report on Form 10-Q contains historical information and forward-looking statements. Statements looking forward are included in this Form 10-Q pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. They involve known and unknown risks and uncertainties such as but not limited to expected market conditions that may cause the Company's actual results to differ from future performance suggested herein. In the context of forward-looking information provided in this Form 10-Q and in other reports, please refer to the discussion of risk factors detailed in, as well as the other information contained in, the Company's filings with the Securities and Exchange Commission during the past 12 months.

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

|  |   |
|--|---|
| Consolidated Condensed Statements of Operations                    | 2 |
| Consolidated Condensed Balance Sheets                              | 3 |
| Consolidated Condensed Statements of Cash Flows                    | 4 |
| Notes to the Unaudited Consolidated Condensed Financial Statements | 5 |

|   |   |
|---|---|
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 7 |
|---|---|

|  |   |
|--|---|
| Item 3. Quantitative and Qualitative Disclosures About Market Risk | 9 |
|--|---|

## PART II. OTHER INFORMATION

|   |    |
|---|----|
| Item 4. Submission of Matters to a Vote of Security Holders | 10 |
|---|----|

|  |    |
|--|----|
| Item 6. Exhibits and Reports on Form 8-K | 10 |
|--|----|

|            |    |
|------------|----|
| SIGNATURES | 11 |
|------------|----|

1

## Part I. FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

## Universal Stainless &amp; Alloy Products, Inc.

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

|  | For the<br>Three-month period ended<br>June 30, |          | For the<br>Six-month period ended<br>June 30, |          |
|--|---|----------|---|----------|
|  | 2000  | 1999     | 2000  | 1999     |
| Net sales                                  | \$19,012  | \$15,485 | \$37,101                                      | \$29,973 |
| Cost of products sold                      | 15,227  | 13,940   | 30,630  | 26,901   |
| Selling and administrative expenses        | 1,433   | 970      | 2,535   | 1,984    |
| Operating income                           | 2,352   | 575      | 3,936   | 1,088    |
| Interest expense and other financing costs | (231)   | (188)    | (458)   | (339)    |
| Other income (expense), net                | (19)  | 8        | 2   | 13       |
| Income before taxes                        | 2,102   | 395      | 3,480   | 762      |
| Income taxes                               | 736   | 146      | 1,218   | 282      |
| Net income                                 | \$ 1,366  | \$ 249   | \$ 2,262                                      | \$ 480   |
| Earnings per common share                  |   |          |   |          |
| Basic                                      | \$ 0.22   | \$ 0.04  | \$ 0.37                                       | \$ 0.08  |
| Diluted                                    | \$ 0.22   | \$ 0.04  | \$ 0.37                                       | \$ 0.08  |

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

2

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS  
(Dollars in Thousands)

|   | June 30, 2000<br>(Unaudited) | December 31, 1999 |
|---|------------------------------|-------------------|
| ASSETS  |                              |                   |
| Current assets  |                              |                   |
| Cash and cash equivalents   | \$ 358                       | \$ 868            |
| Accounts receivable (less allowance for doubtful accounts of \$448 and \$418)   | 12,905                       | 12,113            |
| Inventory   | 20,483                       | 15,730            |
| Other current assets  | 1,622                        | 1,564             |
|   | -----                        | -----             |
| Total current assets  | 35,368                       | 30,275            |
| Property, plant and equipment, net  | 38,079                       | 36,989            |
| Other assets  | 878                          | 915               |
|   | -----                        | -----             |
| Total assets  | \$74,325                     | \$68,179          |
|   | =====                        | =====             |
| LIABILITIES AND STOCKHOLDERS' EQUITY  |                              |                   |
| Current liabilities   |                              |                   |
| Trade accounts payable and bank overdrafts  | \$ 8,345                     | \$ 6,584          |
| Current portion of long-term debt   | 1,828                        | 1,836             |
| Accrued employment costs  | 1,396                        | 727               |
| Other current liabilities   | 1,338                        | 328               |
|   | -----                        | -----             |
| Total current liabilities   | 12,907                       | 9,475             |
| Long-term debt  | 10,225                       | 10,005            |
| Deferred taxes  | 5,253                        | 5,046             |
|   | -----                        | -----             |
| Total liabilities   | 28,385                       | 24,526            |
|   | -----                        | -----             |
| Commitments and contingencies   | --                           | --                |
| Stockholders' equity  |                              |                   |
| Senior Preferred Stock, par value \$.001 per share; liquidation value \$100 per share; 2,000,000 shares authorized; and 0 shares issued and outstanding | --                           | --                |
| Common Stock, par value \$.001 per share; 10,000,000 shares authorized; 6,334,739 and 6,330,416 shares issued   | 6                            | 6                 |
| Additional paid-in capital  | 25,863                       | 25,838            |
| Retained earnings   | 21,615                       | 19,353            |
| Treasury Stock at cost; 257,900 common shares held  | (1,544)                      | (1,544)           |
|   | -----                        | -----             |
| Total stockholders' equity  | 45,940                       | 43,653            |
|   | -----                        | -----             |
| Total liabilities and stockholders' equity  | \$74,325                     | \$68,179          |
|   | =====                        | =====             |

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

3

Universal Stainless & Alloy Products, Inc.

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

|   | For the Six-month period ended<br>June 30, |         |
|---|--|---------|
|   | 2000                                       | 1999    |
|   | ----                                       | ----    |
| Cash flow from operating activities:  |  |         |
| Net income  | \$ 2,262                                   | \$ 480  |
| Adjustments to reconcile to net cash and cash equivalents provided by operating activities: |  |         |
| Depreciation and amortization   | 1,188                                      | 1,014   |
| Deferred taxes  | 65   | 702     |
| Changes in assets and liabilities:  |  |         |
| Accounts receivable, net  | (792)                                      | (2,086) |
| Inventory   | (4,753)                                    | 684     |
| Trade accounts payable and bank overdrafts  | 1,761                                      | 1,607   |
| Accrued employment costs  | 669  | 28      |
| Other, net  | 1,144                                      | 879     |
|   | -----                                      | -----   |
| Net cash provided by operating activities   | 1,544                                      | 3,308   |
|   | -----                                      | -----   |

|   |         |          |
|---|---------|----------|
| Cash flow from investing activities:                |         |          |
| Capital expenditures                                | (2,291) | (2,420)  |
|   | -----   | -----    |
| Net cash used in investing activities               | (2,291) | (2,420)  |
|   | -----   | -----    |
| Cash flow from financing activities:                |         |          |
| Proceeds from issuance of Common Stock              | 25      | 26       |
| Net borrowing under revolving line of credit        | 1,125   | --       |
| Long-term debt payments                             | (913)   | (208)    |
| Purchase of Treasury Stock                          | --      | (875)    |
|   | -----   | -----    |
| Net cash provided by (used in) financing activities | 237     | (1,057)  |
|   | -----   | -----    |
| Net decrease in cash                                | (510)   | (169)    |
| Cash and cash equivalents at beginning of period    | 868     | 1,437    |
|   | -----   | -----    |
| Cash and cash equivalents at end of period          | \$ 358  | \$ 1,268 |
|   | =====   | =====    |
| Supplemental disclosure of cash flow information:   |         |          |
| Interest paid (net of amount capitalized)           | \$ 442  | \$ 345   |
| Income taxes paid                                   | \$ 627  | \$ 3     |

The accompanying notes are an integral part of these financial statements

4

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

NOTES TO THE UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

- 1) The accompanying unaudited, consolidated condensed financial statements of operations for the three- and six-month periods ended June 30, 2000 and 1999, balance sheets as of June 30, 2000 and December 31, 1999, and statements of cash flows for the six-month periods ended June 30, 2000 and 1999 have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, these statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 1999. In the opinion of management, the accompanying unaudited, condensed consolidated financial statements contain all adjustments, all of which were of a normal recurring nature, necessary to present fairly, in all material respects, the consolidated financial position at June 30, 2000 and December 31, 1999 and the consolidated results of operations and of cash flows for the periods ended June 30, 2000 and 1999, and are not necessarily indicative of the results to be expected for the full year.
- 2) The reconciliation of the weighted average number of shares of Common Stock outstanding utilized for the earnings per common share computations are as follows:

|   | For the<br>Three-month period ended<br>June 30, |           | For the<br>Six-month period ended<br>June 30, |           |
|---|---|-----------|---|-----------|
|   | 2000  | 1999      | 2000  | 1999      |
|   | -----   | -----     | -----   | -----     |
| Weighted average number of shares<br>of Common Stock outstanding  | 6,072,564                                       | 6,102,593 | 6,072,540                                     | 6,132,954 |
| Assuming exercise of stock options and warrants<br>reduced by the number of shares which could have<br>been purchased with the proceeds from exercise<br>of such stock options and warrants | 3,907   | --        | 3,738   | --        |
|   | -----   | -----     | -----   | -----     |
| Weighted average number of shares<br>of Common Stock outstanding,<br>as adjusted  | 6,076,471                                       | 6,102,593 | 6,076,278                                     | 6,132,954 |
|   | =====   | =====     | =====   | =====     |

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

|                            | June 30, 2000 | December 31, 1999 |
|----------------------------|---------------|-------------------|
| Raw materials and supplies | \$ 1,769      | \$ 2,427          |

|   |          |          |
|---|----------|----------|
| Semi-finished and finished steel products | 15,573   | 10,208   |
| Operating materials                       | 3,141    | 3,095    |
|   | -----    | -----    |
| Total inventory                           | \$20,483 | \$15,730 |
|   | =====    | =====    |

5

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

|                                    | June 30, 2000 | December 31, 1999 |
|------------------------------------|---------------|-------------------|
| Land and land improvements         | \$ 822        | \$ 822            |
| Buildings                          | 3,344         | 3,337             |
| Machinery and equipment            | 39,181        | 37,329            |
| Construction in progress           | 1,238         | 835               |
|                                    | -----         | -----             |
|                                    | 44,585        | 42,323            |
| Accumulated depreciation           | (6,506)       | (5,334)           |
|                                    | -----         | -----             |
| Property, plant and equipment, net | \$38,079      | \$36,989          |
|                                    | =====         | =====             |

5) The Company has reviewed the status of its environmental contingencies 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, 1999.

6

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

An analysis of the Company's operations for the three- and six-month periods ended June 30, 2000 and 1999 are as follows (dollars in thousands):

|                                     | For the<br>Three-Month Period Ended<br>June 30, |          | For the<br>Six-Month Period Ended<br>June 30, |          |
|-------------------------------------|---|----------|---|----------|
|                                     | 2000  | 1999     | 2000  | 1999     |
|                                     | -----   | -----    | -----   | -----    |
| Net sales                           |   |          |   |          |
| Stainless steel                     | \$15,604  | \$12,383 | \$30,169                                      | \$24,258 |
| Tool steel                          | 2,028   | 1,478    | 4,255   | 2,935    |
| High temperature alloy steel        | 398   | 556      | 765   | 1,202    |
| Conversion services                 | 448   | 669      | 788   | 1,142    |
| Other                               | 534   | 399      | 1,124   | 436      |
|                                     | -----   | -----    | -----   | -----    |
| Total net sales                     | \$19,012  | \$15,485 | \$37,101                                      | \$29,973 |
|                                     | -----   | -----    | -----   | -----    |
| Cost of products sold               |   |          |   |          |
| Raw materials                       | 6,953   | 5,699    | 13,542  | 10,662   |
| Other                               | 8,274   | 8,241    | 17,088  | 16,239   |
|                                     | -----   | -----    | -----   | -----    |
| Total cost of products sold         | 15,227  | 13,940   | 30,630  | 26,901   |
|                                     | -----   | -----    | -----   | -----    |
| Selling and administrative expenses | 1,433   | 970      | 2,535   | 1,984    |
|                                     | -----   | -----    | -----   | -----    |
| Operating income                    | \$ 2,352  | \$ 575   | \$ 3,936                                      | \$ 1,088 |
|                                     | =====   | =====    | =====   | =====    |

Three- and six-month periods ended June 30, 2000 as compared to the similar periods in 1999

The Increase in net sales for the three- and six-month periods ended June 30, 2000 as compared to the similar periods in 1999 reflects an improved sales mix of products and price increases to cover higher material and energy costs, partially offset by a decrease in total tons shipped. The Company shipped approximately 9,700 tons and 11,300 tons for the three-month periods ended June 30, 2000 and 1999 respectively, and 20,549 tons and 21,514 tons for the six-month period ended June 30, 2000 and 1999, respectively. The improved sales mix of products was primarily due to increased shipments of power generation and aerospace products to the Company's reroller and forging market customers and of tool steel and bar mill products to the Company's service center customers. In

addition, sales revenue from special shape products shipped to original equipment manufacturers increased by 70% and 56% for the three- and six-month periods ended June 30, 2000 in comparison to the similar periods in 1999.

Cost of products sold, as a percentage of net sales, was 80.1% and 90.0% for the three-month periods ended June 30, 2000 and 1999, respectively, and was 82.6% and 89.8% for the six-month periods ended June 30, 2000 and 1999, respectively. This decrease is primarily due to the impact of the change in the mix of products shipped, improved operating results at the bar mill and higher sales prices.

Selling and administrative expenses increased \$463,000 in the three-month period ended June 30, 2000 as compared to June 30, 1999 and increased \$551,000 for the six-month period ended June 30, 2000 as compared to June 30, 1999. The increases reflect higher employment costs and a non-recurring pre-tax bad debt charge of \$142,000.

Interest expense and other financing costs increased by \$43,000 in the three-month period ended June 30, 2000 as compared to the three-month period ended June 30, 1999 and increased \$119,000 in the six-month period ended June 30, 2000 as compared to the six-month period ended June 30, 1999. The increases were primarily due to a reduction in capitalized interest, higher interest rates on the PNC Term Loan and interest expense associated with borrowings from the PNC revolving credit facility ("PNC Line").

7

The effective income tax rate utilized in the three- and six-month periods ended June 30, 2000 and 1999 was 35.0% and 37.0%, respectively. The effective income tax rate utilized in the current period reflects the anticipated effect of the Company's permanent tax deductions against expected income levels in 2000.

#### FINANCIAL CONDITION

The Company has financed its 2000 operating activities through cash flows from operations, cash on hand and borrowings from the PNC Line. At June 30, 2000, working capital approximated \$22.5 million, as compared to \$20.8 million at December 31, 1999. The ratio of current assets to current liabilities decreased from 3.2:1 at December 31, 1999 to 2.7:1 at June 30, 2000. The debt to capitalization was 21% at June 30, 2000 and December 31, 1999. The decrease in the ratio of current assets to current liabilities is primarily due to a decrease in cash and an increase in liabilities to fund operations due to an increase in product demand and higher raw material and energy costs.

The Company's capital expenditures approximated \$2.3 million for the six-month period ended June 30, 2000, which primarily relates to the installation of a new billet grinder, overhead crane and building repairs at the Bridgeville facility. At June 30, 2000, the Company had outstanding purchase commitments in addition to the expenditures incurred to date of approximately \$0.3 million. These expenditures are expected to be funded substantially from internally generated funds and additional borrowings. As of June 30, 2000, the Company has \$5.4 million available for borrowings under the PNC Line. On May 25, 2000 the company entered into a second amendment to the second amended and restated credit agreement between Universal Stainless & Alloy Products, Inc. and PNC Bank, National Association which extended the term of the PNC Line to April 30, 2002.

There were no shares of Common Stock repurchased by the Company during the six-month period ended June 30, 2000. The Company is authorized to repurchase an additional 57,100 shares of Common Stock as of June 30, 2000.

The Company anticipates that it will continue to fund its 2000 working capital requirements, its capital expenditures, and the stock repurchase program primarily from funds generated from operations and borrowings. The Company's long-term liquidity requirements, including capital expenditures, are expected to be financed by a combination of internally generated funds, borrowings and other sources of external financing if needed.

#### 2000 OUTLOOK

At June 30, 2000, the Company's backlog was approximately 18% higher than the backlog at June 30, 1999. The current backlog reflects strong demand for power

generation products and an improved demand for aerospace products. This combined with continued operational improvements, should continue to generate improved financial results in the second half of 2000.

8

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company has reviewed the status of 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, 1999.

9

Part II. OTHER INFORMATION

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

The Annual Meeting of Stockholders of Universal Stainless & Alloy Products, Inc. was held on May 23, 2000, for the purpose of electing a board of directors and approving the appointment of auditors. Proxies for meeting were solicited pursuant to section 14(a) of the Securities Exchange Act of 1934 and there was no solicitation in opposition to management's solicitation.

All of the management's nominees for directors as listed in the proxy statement were elected by the following vote:

|             | Shares Voted "For" | Shares "Withheld" | Shares Not Voted |
|-------------|--------------------|-------------------|------------------|
| D. Dunn     | 5,027,361          | 108,250           | 936,905          |
| G. Keane    | 5,028,161          | 107,450           | 936,905          |
| C. McAninch | 4,676,661          | 458,950           | 936,905          |
| U. Toledano | 5,028,261          | 107,350           | 936,905          |
| D. Wise     | 5,028,261          | 107,350           | 936,905          |

The appointment of PricewaterhouseCoopers LLP as independent auditors was approved by the following vote:

| Shares Voted "For" | Shares Voted "Against" | Shares "Abstaining" | Shares Not Voted |
|--------------------|------------------------|---------------------|------------------|
| 5,125,911          | 3,900                  | 5,800               | 936,905          |

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits

10.1 Second Amendment to the Second Amended and Restated Credit Agreement dated May 25, 2000 by and between the Company and PNC Bank, National Association (filed herewith).

27.1 Financial Data Schedule

b. The Company filed no reports on Form 8-K for the quarter ended June 30, 2000.

10

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the

registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

Date: August 11, 2000  
-----

/s/ Clarence M. McAninch  
-----

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

Date: August 11, 2000  
-----

/s/ Richard M. Ubinger  
-----

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



SECOND AMENDMENT TO SECOND AMENDED  
AND RESTATED CREDIT AGREEMENT

This SECOND AMENDMENT TO SECOND AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT (this "Second Amendment") is made as of May 25, 2000 and entered into by and between UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC., a corporation organized and existing under the laws of Delaware (the "Borrower") and PNC BANK, NATIONAL ASSOCIATION (the "Bank") and amends that certain Second Amended and Restated Credit Agreement dated as of January 30, 1998 by and between the Borrower and the Bank (the Second Amended and Restated Credit Agreement, as amended prior to the date hereof, is hereinafter referred to as the "Original Credit Agreement").

WITNESSETH:

WHEREAS, the Borrower and the Bank entered into the Original Credit Agreement; and

WHEREAS, upon the request of the Borrower, the Bank has agreed to modify the Original Credit Agreement, all as more particularly set forth herein.

NOW THEREFORE, in consideration of the foregoing premises, the mutual covenants and agreements contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and with the intent to be legally bound hereby, the parties hereto agree as follows:

ARTICLE I  
AMENDMENTS TO ORIGINAL CREDIT AGREEMENT  
-----

Section 1.01 No Other Amendments or Waivers. (a) The following defined terms and -----  
the definitions therefor are hereby added to Section 1.1 of the Original Credit Agreement and inserted in correct alphabetical order:

Second Amendment: The Second Amendment to Second Amended and -----  
Restated Credit Agreement entered into by and between the Borrower and the Bank and dated as of May 25, 2000.

Second Amendment Effective Date: May 25, 2000, or such later date -----  
as all of the conditions set forth in the Second Amendment have either been satisfied by the Borrower or waived in writing by the Bank.

(b) The definition for the following defined term contained in the Original Credit Agreement is hereby amended and restated in its entirety as follows:

Revolving Credit Termination Date: April 30, 2002, as such date may -----  
be extended upon the terms and conditions set forth in Section 2.1f, or if any such day is not a Business Day, the Business Day next preceding such date.

Section 1.02. No Other Amendments. The amendments to the Original Credit -----  
Agreement set forth herein do not either implicitly alter, waiver or amend, except as expressly provided in this Second Amendment, the provisions of the Original Credit Agreement. The amendments set forth herein do not waive, now or in the future, compliance with any other covenant, term or condition to be performed or complied with nor do they impair any rights or remedies of the Bank under the Original Credit Agreement with respect to any such violation. Nothing

in this Second Amendment shall be deemed or construed to be a waiver or release of, or a limitation upon, the Bank's exercise of any of its rights and remedies under the Original Credit Agreement or any other document or instrument delivered in connection therewith, whether arising as a consequence of any Events of Default which may now exist or otherwise, and all such rights and remedies are hereby expressly reserved.

ARTICLE II  
BORROWER'S SUPPLEMENTAL REPRESENTATIONS  
-----

Section 2.01 Incorporation by Reference. As an inducement to the Bank to enter  
-----

into this Second Amendment, the Borrower hereby repeats herein for the benefit of the Bank each of the representations and warranties made by the Borrower in the Original Credit Agreement, as amended hereby, except that for purposes hereof such representations and warranties shall be deemed to extend to and over this Second Amendment.

ARTICLE III  
CONDITIONS PRECEDENT  
-----

Section 3.01 Conditions Precedent. Each of the following shall be a condition  
-----

precedent to the effectiveness of this Second Amendment:

(a) The Bank shall have received, on or before the Second Amendment Effective Date, the following items, each, unless otherwise indicated, dated on or before the Second Amendment Effective Date and in form and substance satisfactory to the Bank:

- (i) A duly executed counterpart original of this Second Amendment;
- (ii) A certificate from the Secretary of the Borrower certifying that the Articles of Incorporation and Bylaws of the Borrower previously delivered to the Bank are true, complete, and correct; and
- (iii) Such other instruments, documents and opinions of counsel as the bank shall reasonably require, all of which shall be satisfactory in form and content to the Bank.

- 2 -

(b) The following statements shall be true and correct on the Second Amendment Effective Date and the Bank shall have received a certificate signed by an Authorized Officer of the Borrower, dated the Second Amendment Effective Date, stating that:

- (i) the representations and warranties made pursuant to this Second Amendment and in the other Loan Documents, as amended hereby, are true and correct on and as of the Second Amendment Effective Date as though made on and as of such date;
- (ii) no petition by or against the Borrower has at any time been filed under the United States Bankruptcy Code or under any similar act;
- (iii) no Event of Default or event which with the giving of notice, the passage of time or both would become an Event of Default has occurred and is continuing, or would result from the execution of or performance under this Second Amendment;
- (iv) no material adverse change in the properties, business, operations, financial condition or prospects of the Borrower has occurred which has not been disclosed in writing to the Bank; and
- (v) the Borrower has in all material respects performed all agreements, covenants and conditions required to be performed on or prior to the date hereof under the Original Credit Agreement

and the other Loan Documents.

ARTICLE IV  
GENERAL PROVISIONS  
-----

Section 4.01 Ratification of Terms. Except as expressly amended by this  
-----

Second Amendment, the Original Credit Agreement and each and every representation, warranty, covenant, term and condition contained therein is specifically ratified and confirmed. The Borrower hereby confirms that any collateral for the Obligations, including but not limited to liens, Encumbrances, security interests, mortgages and pledges granted by the Borrower or third parties, shall continue unimpaired and in full force and effect. The Borrower expressly ratifies and confirms the confession of judgment and waiver of jury trial provisions contained in the Original Credit Agreement and the other Loan Documents.

Section 4.02 References. All notices, communications, agreements, certificates,  
-----

documents or other instruments executed and delivered after the execution and delivery of this Second Amendment in connection with the Original Credit Agreement, any of the other Loan Documents or the transactions contemplated thereby may refer to the Original Credit Agreement without making specific reference to this Second Amendment, but nevertheless all such references shall include this Second Amendment unless the context requires otherwise. From and after the Second Amendment Effective Date, all references in the Original Credit Agreement and each of the other Loan Documents to the Original Credit Agreement shall be deemed to be references to the Original Credit Agreement, as amended hereby.

- 3 -

Section 4.03 Incorporation Into Original Credit Agreement. This Second  
-----

Amendment is deemed incorporated into the Original Credit Agreement. To the extent that any term or provision of this Second Amendment is or may be deemed expressly inconsistent with any term or provision of the Original Credit Agreement, the terms and provisions hereof shall control.

Section 4.04 Counterparts. This Second Amendment may be executed in different  
-----

counterparts, each of which when executed by the Borrower and the Bank shall be regarded as an original, and all such counterparts shall constitute one Second Amendment.

Section 4.05 Capitalized Terms. Except for proper nouns and as otherwise  
-----

defined herein, capitalized terms used herein as defined terms shall have the same meanings herein as are ascribed to them in the Original Credit Agreement, as amended hereby.

Section 4.06 Taxes. The Borrower shall pay any and all stamp and other taxes  
-----

and fees payable or determined to be payable in connection with the execution, delivery, filing and recording of this Second Amendment and such other documents and instruments as are delivered in connection herewith and agrees to save the Bank harmless from and against any and all liabilities with respect to or resulting from any delay in paying or omission to pay such taxes and fees.

Section 4.07 Costs and Expenses. The Borrower will pay all costs and expenses  
-----

of the Bank (including, without limitation, the reasonable fees and the disbursements of the Bank's counsel, Tucker Arensberg, P.C.) in connection with the preparation, execution and delivery of this Second Amendment and the other documents, instruments and certificates delivered in connection herewith.

Section 4.08 GOVERNING LAW. THIS SECOND AMENDMENT AND THE RIGHTS AND  
-----

OBLIGATIONS HEREUNDER SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE COMMONWEALTH OF PENNSYLVANIA WITHOUT REGARD TO THE PROVISIONS THEREOF REGARDING CONFLICTS OF LAW.

Section 4.09 Headings. The headings of the sections in this Second Amendment  
-----  
are for purposes of reference only and shall not be deemed to be a part hereof.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

- 4 -

IN WITNESS WHEREOF, the parties hereto, with the intent to be legally bound hereby, have caused this Second Amendment to Second Amended and Restated Credit Agreement to be duly executed by their respective proper and duly authorized officers as a document under seal, as of the day and year first above written.

ATTEST:

UNIVERSAL STAINLESS & ALLOY PRODUCTS,  
INC.

/s/ PAUL A. McGRATH  
-----

BY: /s/ RICHARD M. UBINGER (SEAL)  
-----

NAME: PAUL A. McGRATH  
TITLE: SECRETARY

NAME: RICHARD M. UBINGER  
TITLE: CHIEF FINANCIAL OFFICER

PNC BANK, NATIONAL ASSOCIATION

BY: /s/ TROY BROWN (SEAL)  
-----

NAME: TROY BROWN  
TITLE: ASSISTANT VICE PRESIDENT

- 5 -

<ARTICLE> 5

<LEGEND>

This schedule contains summary financial information extracted from the June 30, 2000 Financial Statements included in the Company's Form 10-Q and is qualified in its entirety by reference to such Form 10-Q.

</LEGEND>

<MULTIPLIER> 1,000

|                              |       |             |
|------------------------------|-------|-------------|
| <PERIOD-TYPE>                | 6-MOS |             |
| <FISCAL-YEAR-END>            |       | DEC-31-2000 |
| <PERIOD-START>               |       | JAN-01-2000 |
| <PERIOD-END>                 |       | JUN-30-2000 |
| <CASH>                       |       | 358         |
| <SECURITIES>                 |       | 0           |
| <RECEIVABLES>                |       | 13,353      |
| <ALLOWANCES>                 |       | (448)       |
| <INVENTORY>                  |       | 20,483      |
| <CURRENT-ASSETS>             |       | 35,368      |
| <PP&E>                       |       | 44,585      |
| <DEPRECIATION>               |       | (6,506)     |
| <TOTAL-ASSETS>               |       | 74,325      |
| <CURRENT-LIABILITIES>        |       | 12,907      |
| <BONDS>                      |       | 10,225      |
| <PREFERRED-MANDATORY>        |       | 0           |
| <PREFERRED>                  |       | 0           |
| <COMMON>                     |       | 6           |
| <OTHER-SE>                   |       | 45,934      |
| <TOTAL-LIABILITY-AND-EQUITY> |       | 74,325      |
| <SALES>                      |       | 37,101      |
| <TOTAL-REVENUES>             |       | 37,101      |
| <CGS>                        |       | 30,630      |
| <TOTAL-COSTS>                |       | 30,630      |
| <OTHER-EXPENSES>             |       | 2,536       |
| <LOSS-PROVISION>             |       | 169         |
| <INTEREST-EXPENSE>           |       | 434         |
| <INCOME-PRETAX>              |       | 3,480       |
| <INCOME-TAX>                 |       | 1,218       |
| <INCOME-CONTINUING>          |       | 2,262       |
| <DISCONTINUED>               |       | 0           |
| <EXTRAORDINARY>              |       | 0           |
| <CHANGES>                    |       | 0           |
| <NET-INCOME>                 |       | 2,262       |
| <EPS-BASIC>                  |       | .37         |
| <EPS-DILUTED>                |       | .37         |