
**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 September 30, 2004

OR

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

For the Transition Period from _____ to _____

Commission File Number 0-25032

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

25-1724540
(IRS Employer
Identification No.)

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

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

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 is an accelerated filer (as defined by Rule 12b-2 of the Exchange Act). YES NO

As of November 5, 2004, there were 6,322,890 shares outstanding of the Registrant's Common Stock, \$0.001 par value per share.

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UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

This Quarterly Report on Form 10-Q contains historical information and forward-looking statements that reflect the Company's current views with respect to future events and financial performance. Statements looking forward in time, including statements regarding future growth, cost savings, expanded production capacity, broader product lines, greater capacity to meet customer quality, reliability, price and delivery needs, enhanced competitive posture, effect of new accounting pronouncements and no material financial impact from litigation or contingencies are included in this Form 10-Q pursuant to the "safe harbor" provision of the Private Securities Litigation Reform Act of 1995.

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

Further, the Company operates in an industry sector where securities values may be volatile and may be influenced by economic and other factors beyond the Company's control.

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UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(Dollars in Thousands, Except Per Share Information)
(Unaudited)

	For the Three-month period ended September 30,		For the Nine-month period ended September 30,	
	2004	2003	2004	2003
Net sales	\$ 33,297	\$ 18,625	\$ 83,630	\$ 50,162
Cost of products sold	27,701	17,296	71,576	47,917
Selling and administrative expenses	1,873	1,507	5,348	4,425
Operating income (loss)	3,723	(178)	6,706	(2,180)
Interest expense	(108)	(100)	(302)	(289)
Other income	566	24	577	74
Income (loss) before taxes	4,181	(254)	6,981	(2,395)
Income tax provision (benefit)	1,436	(133)	2,443	(1,251)
Net income (loss)	\$ 2,745	\$ (121)	\$ 4,538	\$ (1,144)
Earnings (loss) per share – Basic	\$ 0.44	\$ (0.02)	\$ 0.72	\$ (0.18)
Earnings (loss) per share – Diluted	\$ 0.43	\$ (0.02)	\$ 0.71	\$ (0.18)
Weighted average shares of Common Stock outstanding				
Basic	6,305,456	6,289,485	6,300,229	6,286,271
Diluted	6,400,188	6,289,485	6,363,656	6,286,271

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

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UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(Dollars in Thousands)

	September 30, 2004	December 31, 2003
	(Unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 549	\$ 4,735
Accounts receivable, (less allowance for doubtful accounts of \$373 and \$163, respectively)	22,629	12,690
Inventory	33,808	22,281
Deferred taxes	1,125	1,222
Other current assets	1,973	3,063
	<u>60,084</u>	<u>43,991</u>
Total current assets	60,084	43,991
Property, plant and equipment, net	40,225	40,176
Other assets	472	758
	<u>100,781</u>	<u>84,925</u>
Total assets	\$ 100,781	\$ 84,925
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Trade accounts payable	\$ 11,787	\$ 6,792
Outstanding checks in excess of bank balance	939	813
Accrued employment costs	2,818	833
Current portion of long-term debt	1,931	1,944
Other current liabilities	1,030	195
	<u>18,505</u>	<u>10,577</u>
Total current liabilities	18,505	10,577
Bank revolver	4,597	—
Long-term debt	4,150	5,599
Deferred taxes	9,451	9,313
	<u>36,703</u>	<u>25,489</u>
Total liabilities	36,703	25,489
Commitments and contingencies		
	—	—
Stockholders' equity		
Senior Preferred Stock, par value \$0.001 per share; 1,980,000 shares authorized; 0 shares issued and outstanding	—	—
Common Stock, par value \$0.001 per share; 10,000,000 shares authorized; 6,575,791` and 6,564,306 shares issued	7	7
Additional paid-in capital	28,433	28,329
Retained earnings	37,269	32,731
Treasury Stock at cost; 269,900 common shares held	(1,631)	(1,631)
	<u>64,078</u>	<u>59,436</u>
Total stockholders' equity	64,078	59,436
Total liabilities and stockholders' equity	\$ 100,781	\$ 84,925

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

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UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)
(Unaudited)

	For the Nine-month period ended September 30,	
	2004	2003
Cash flows from operating activities:		
Net income (loss)	\$ 4,538	\$ (1,144)
Adjustments to reconcile to net cash (used in) provided by operating activities:		
Depreciation and amortization	2,336	2,319
Deferred taxes	480	670
Tax benefit from exercise of stock options	8	—
Changes in assets and liabilities:		
Accounts receivable, net	(9,939)	(2,167)
Inventory	(11,527)	(188)
Trade accounts payable	4,995	2,559
Accrued employment costs	1,985	243
Refundable taxes	1,405	(930)
Other, net	553	227
	<u>(5,166)</u>	<u>1,589</u>
Net cash (used in) provided by operating activities	(5,166)	1,589
Cash flow from investing activities:		
Capital expenditures	(2,377)	(713)
	<u>(2,377)</u>	<u>(713)</u>
Net cash used in investing activities	(2,377)	(713)
Cash flows from financing activities:		
Net borrowings under revolving line of credit	4,597	—
Proceeds from deferred loan agreement	—	200
Repayments of long-term debt	(1,462)	(1,451)
Increase in outstanding checks in excess of bank balance	126	235
Proceeds from the issuance of common stock	96	25
	<u>3,357</u>	<u>(991)</u>
Net cash provided by (used in) financing activities	3,357	(991)
Net decrease in cash and cash equivalents	(4,186)	(115)
Cash and cash equivalents at beginning of period	4,735	3,308
	<u>\$ 549</u>	<u>\$ 3,193</u>
Cash and cash equivalents at end of period	\$ 549	\$ 3,193
Supplemental disclosure of cash flow information:		
Interest paid	\$ 291	\$ 255
Income taxes (refunded) paid	\$ (87)	\$ 7

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

NOTES TO THE UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Note 1 - Basis of Presentation

The accompanying unaudited consolidated condensed financial statements of operations for the three- and nine- month periods ended September 30, 2004 and 2003, balance sheets as of September 30, 2004 and December 31, 2003, and statements of cash flows for the nine-month periods ended September 30, 2004 and 2003, 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, 2003. 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 September 30, 2004 and December 31, 2003 and the consolidated results of operations and of cash flows for the periods ended September 30, 2004 and 2003, and are not necessarily indicative of the results to be expected for the full year.

Note 2 – Common Stock

The reconciliation of the weighted average number of shares of Common Stock outstanding utilized for the earnings per common share computations are as follows:

	For the Three-month period ended September 30,		For the Nine-month period ended September 30,	
	2004	2003	2004	2003
Weighted average number of shares of Common Stock outstanding	6,305,456	6,289,485	6,300,229	6,286,271
Effect of dilutive securities	94,732	—	63,427	—
Weighted average number of shares of Common Stock outstanding, as adjusted	6,400,188	6,289,485	6,363,656	6,286,271

The Company had 9,206 and 3,794 common stock equivalents outstanding for the three- and nine-month periods ended September 30, 2003, respectively, which were not included in the common share computations for earnings (loss) per share as the common stock equivalents are anti-dilutive.

Note 3 – Stock-Based Compensation Plans

The following table illustrates the effect on net income (loss) and earnings per share between the Company's use of the intrinsic value method and the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," to stock-based employee and director compensation (dollars, except per share amounts, in thousands):

	For the Three-month period ended September 30,		For the Nine-month period ended September 30,	
	2004	2003	2004	2003
Net income (loss), as reported	\$ 2,745	\$ (121)	\$ 4,538	\$ (1,144)
Total stock-based compensation expense determined under fair-value based method, net of taxes	(45)	(21)	(131)	(65)
Pro forma net income (loss)	\$ 2,700	\$ (142)	\$ 4,407	\$ (1,209)
Earnings (loss) per common share:				
Basic – as reported	\$ 0.44	\$ (0.02)	\$ 0.72	\$ (0.18)
Basic – pro forma	\$ 0.43	\$ (0.02)	\$ 0.70	\$ (0.19)
Diluted – as reported	\$ 0.43	\$ (0.02)	\$ 0.71	\$ (0.18)
Diluted – pro forma	\$ 0.42	\$ (0.02)	\$ 0.69	\$ (0.19)

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Note 4 – New Accounting Pronouncements

No new accounting pronouncements have been issued during the nine-month period ended September 30, 2004 that would have a material impact on the Company's financial statements. Further, there have been no changes in the Company that would impact the accounting pronouncements disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2003.

Note 5 - Inventory

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

	September 30, 2004	December 31, 2003
Raw materials and supplies	\$ 4,242	\$ 2,265
Semi-finished and finished steel products	27,147	17,743
Operating materials	2,419	2,273
Total inventory	<u>\$ 33,808</u>	<u>\$ 22,281</u>

Note 6 - Property, Plant and Equipment

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

	September 30, 2004	December 31, 2003
Land and land improvements	\$ 1,014	\$ 953
Buildings	6,203	5,987
Machinery and equipment	51,583	49,801
Construction in progress	459	141
	<u>59,259</u>	<u>56,882</u>
Accumulated depreciation	(19,034)	(16,706)
Property, plant and equipment, net	<u>\$ 40,225</u>	<u>\$ 40,176</u>

Property, plant and equipment includes certain buildings and structures located in Bridgeville, PA that were previously leased from Armco, which merged with and into AK Steel in 1999 ("Armco"). In 2003, the Company exercised its option to purchase all of the property permitted under the capital lease with Armco for \$1.

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

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

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Note 7 – Commitments and Contingencies

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

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

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

In connection with the acquisition of the Dunkirk facility, Dunkirk Specialty Steel entered into an order with the New York State Department of Environmental Conservation ("NY DEC") that precludes NY DEC from bringing any action against the Company relating to existing environmental conditions as of February 14, 2002. There can be no assurance that any other party will not assert any claims with respect to environmental conditions at the Dunkirk facility, or that the Company will have the financial resources to discharge any liabilities if legally compelled to do so.

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

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

On April 7, 2003, United States Aviation Underwriters, Inc. ("USAU"), a New York corporation, as managers and on behalf of United States Aircraft Insurance Group ("USAIG"), the Company's Aircraft Products Liability insurance carrier, filed suit in the Court of Common Pleas of Allegheny County, Pennsylvania asking the court for a declaratory judgment as to what actual liability and obligations were applicable to USAIG relating to the insurance policy issued to the Company, and the allegations made by Teledyne. The Company and USAU reached a settlement agreement as of May 1, 2004 regarding the allocation of certain potential costs associated with the Teledyne claim and have agreed to jointly file a motion to have the declaratory suit dismissed. On July 27, 2004, the suit brought by USAU was dismissed.

The Company maintains a supply contract agreement with Talley Metals Technology, Inc. a subsidiary of Carpenter Technology Corporation ("Talley Metals"). While the initial term of the agreement expired December 31, 2002, the agreement continues to automatically renew with the placement of new orders each month and requires a 90-day notice to terminate. In addition, Talley Metals is required under the agreement to purchase a minimum of 1,000 tons of stainless reroll billet products each calendar month and average at least 1,250 tons per month during the last twelve-month period. The value of the contract on a monthly basis will depend on product mix and key raw material prices. Due to market conditions during 2003, the Company waived Talley Metals' requirement to purchase the monthly minimum quantity of stainless reroll billets.

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Note 8 - Business Segments

The Company is comprised of two business segments: Universal Stainless & Alloy Products, which consists of the Bridgeville and Titusville facilities, and Dunkirk Specialty Steel, the Company's wholly owned subsidiary located in Dunkirk, New York. The Universal Stainless & Alloy Products manufacturing process involves melting, remelting, treating and hot and cold rolling of semi-finished and finished specialty steels. Dunkirk Specialty Steel's manufacturing process involves hot rolling and finishing of specialty steel bar, rod and wire products. The segment data are as follows (dollars in thousands):

	For the Three-month period ended September 30,		For the Nine-month period ended September 30,	
	2004	2003	2004	2003
Net sales:				
Universal Stainless & Alloy Products	\$ 31,199	\$ 16,168	\$ 75,526	\$ 43,068
Dunkirk Specialty Steel	9,484	5,225	24,264	15,404
Intersegment	(7,386)	(2,768)	(16,160)	(8,310)
Consolidated total	\$ 33,297	\$ 18,625	\$ 83,630	\$ 50,162
Operating income (loss):				
Universal Stainless & Alloy Products	\$ 2,900	\$ 554	\$ 5,198	\$ (475)
Dunkirk Specialty Steel	1,163	(732)	1,848	(1,705)
Intersegment	(340)	—	(340)	—
Consolidated total	\$ 3,723	\$ (178)	\$ 6,706	\$ (2,180)
Interest expense and other financing costs:				
Universal Stainless & Alloy Products	\$ 72	\$ 64	\$ 198	\$ 179
Dunkirk Specialty Steel	36	36	104	110
Consolidated total	\$ 108	\$ 100	\$ 302	\$ 289
Other income (expense)				
Universal Stainless & Alloy Products	\$ 1	\$ 15	\$ 10	\$ 55
Dunkirk Specialty Steel	565	9	567	19
Consolidated total	\$ 566	\$ 24	\$ 577	\$ 74
Total assets:				
Universal Stainless & Alloy Products			\$ 80,488	\$ 65,025
Dunkirk Specialty Steel			17,558	11,128
Corporate assets			2,735	8,772
			\$ 100,781	\$ 84,925

Dunkirk Specialty Steel's other income for the three- and nine-month period ended September 30, 2004 included \$565,000, net of expenses, related to the delayed receipt of the remaining 2003 import duties awarded the Company under the Continued Dumping and Subsidy Act of 2000 (CDSOA). A substantial portion of the Company's \$604,000 award was withheld at the end of 2003 pending the outcome of a lawsuit challenging the distribution method of the import duties. In September 2004, U.S. Customs notified the Company that a favorable court ruling in July 2004 permits the Company to collect the balance of its 2003 award and participate in future distributions. The Company received the balance of the funds due in October 2004.

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An analysis of the Company's operations for the three- and nine-month periods ended September 30, 2004 and 2003 is as follows (dollars in thousands):

	For the Three-month period ended September 30,		For the Nine-month period ended September 30,	
	2004	2003	2004	2003
Net sales:				
Stainless steel	\$ 26,529	\$ 14,215	\$ 65,586	\$ 38,064
Tool steel	4,277	2,828	11,185	7,328
High-strength low alloy steel	1,160	619	3,085	1,958
High-temperature alloy steel	473	608	1,795	1,750
Conversion services	707	247	1,635	845
Other	151	108	344	217
Total net sales	33,297	18,625	83,630	50,162
Cost of products sold	27,701	17,296	71,576	47,917
Selling and administrative expenses	1,873	1,507	5,348	4,425
Operating income (loss)	\$ 3,723	\$ (178)	\$ 6,706	\$ (2,180)

Market Segment Information

	For the Three-month period ended September 30,		For the Nine-month period ended September 30,	
	2004	2003	2004	2003
Net sales:				
Service centers	\$ 13,443	\$ 7,478	\$ 35,616	\$ 22,333
Rerollers	9,208	5,246	21,465	13,285
Forgers	6,232	3,052	15,181	7,054
Original equipment manufacturers	2,263	1,423	6,101	3,844
Wire redrawers	1,307	1,095	3,346	2,615
Conversion services	707	247	1,635	845
Miscellaneous	137	84	286	186
Total net sales	\$ 33,297	\$ 18,625	\$ 83,630	\$ 50,162
Tons shipped	13,470	9,600	34,667	25,658

Three- and nine-month periods ended September 30, 2004 as compared to the similar period in 2003

Net sales for the three- and nine-month periods ended September 30, 2004 increased \$14.7 million and \$33.5 million, respectively, as compared to the similar periods in 2003. These increases are primarily due to increased shipments within each market segment as well as the adoption of surcharge mechanisms for additional raw material components and other price increases implemented during 2004. In addition, the 2004 financial results have benefited from greater demand of higher value-added niche products due to improved economic conditions. Shipments of aerospace, power generation, petrochemical and tool steel products for the three- and nine-month periods ended September 30, 2004 have increased substantially in comparison to the same prior year periods.

Cost of products sold, as a percentage of net sales, was 83.2% and 92.9% for the three-month periods ended September 30, 2004 and 2003, respectively, and was 85.6% and 95.5% for the nine-month periods ended September 30, 2004 and 2003, respectively. The decreases are primarily due to increased production volumes, improved mix of products shipped and higher selling prices, partially offset by higher raw material, labor, utility and other manufacturing supply costs.

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Selling and administrative expenses increased by \$366,000 and \$923,000 in the three- and nine-month periods ended September 30, 2004, respectively, as compared to similar periods in 2003. These increases are primarily due to higher employment costs. In addition, the Company increased its bad debt reserve by \$176,000 as a result of a customer filing for Chapter 11 bankruptcy protection during the three-month period ended September 30, 2004.

Interest expense and other financing costs increased by \$8,000 and \$13,000 for the three- and nine-month periods ended September 30, 2004 as compared to the similar periods in 2003. The increases were primarily due to an increased use of the revolving line of credit, partially offset by the continued reduction in long-term debt outstanding.

Other income for the three- and nine-month periods ended September 30, 2004 included \$565,000, net of expenses, related to the delayed receipt of the remaining 2003 import duties awarded the Company under the Continued Dumping and Subsidy Act of 2000 (CDSOA). A substantial portion of the Company's \$604,000 award was withheld at the end of 2003 pending the outcome of a lawsuit challenging the distribution method of the import duties. In September 2004, U.S. Customs notified the Company that a favorable court ruling in July 2004 permits the Company to collect the balance of its 2003 award and participate in future distributions. The Company received the balance of the funds due in October 2004.

During the three-month period ended September 30, 2004, the Company's estimated annual effective income tax rate decreased from 36.0%, which was utilized through June 30, 2004, to 35.0%. The effective income rate utilized in the current period reflects the anticipated effect of the Company's permanent tax deductions against expected income levels in 2004. The reduction increased net income by \$70,000 for the three-month period ended September 30, 2004.

Business Segment Results

An analysis of the net sales and operating income for the reportable segments for the three- and nine-month periods ended September 30, 2004 and 2003 is as follows (dollars in thousands):

Universal Stainless & Alloy Products Segment

	For the Three-month period ended September 30,		For the Nine-month period ended September 30,	
	2004	2003	2004	2003
Net sales:				
Stainless steel	\$ 18,373	\$ 9,805	\$ 45,469	\$ 24,865
Tool steel	4,155	2,744	10,902	6,924
High-strength low alloy steel	575	313	1,387	1,184
High-temperature alloy steel	451	438	1,526	1,463
Conversion services	632	208	1,356	716
Other	146	108	298	202
	<u>24,332</u>	<u>13,616</u>	<u>60,938</u>	<u>35,354</u>
Intersegment	6,867	2,552	14,588	7,714
	<u>31,199</u>	<u>16,168</u>	<u>75,526</u>	<u>43,068</u>
Material cost of sales	14,999	6,247	33,923	15,887
Operation cost of sales	11,990	8,362	32,733	24,733
Selling and administrative expenses	1,310	1,005	3,672	2,923
	<u>\$ 2,900</u>	<u>\$ 554</u>	<u>\$ 5,198</u>	<u>\$ (475)</u>

Net sales for the three- and nine-month periods ended September 30, 2004 for this segment, which consists of the Bridgeville and Titusville facilities, increased by \$15.0 million, or 93%, in comparison to the three-month period ended September 30, 2003 and \$32.5 million, or 75%, in comparison to the similar 2003 nine-month period. These increases are primarily due to increased shipments within each market segment as well as the adoption of surcharge mechanisms for additional raw material components and other price increases implemented during 2004. In addition, the 2004 financial results have benefited from greater demand of higher value-added niche products due to improved economic conditions. Shipments of aerospace, power generation, petrochemical and tool steel products for the three- and nine-month periods ended September 30, 2004 have increased substantially in comparison to the same prior year periods.

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Operating income for the Universal Stainless & Alloy Products segment increased by \$2.3 million for the three-month period ended September 30, 2004 as compared to September 30, 2003 and increased by \$5.7 million for the nine-month period ended September 30, 2004. The increases are primarily due to increased production volumes, improved mix of products shipped and higher selling prices, partially offset by higher raw material, labor, utility and other manufacturing supply costs.

Dunkirk Specialty Steel Segment

	For the Three-month period ended September 30,		For the Nine-month period ended September 30,	
	2004	2003	2004	2003
Net sales:				
Stainless steel	\$ 8,156	\$ 4,410	\$ 20,117	\$ 13,199
Tool steel	122	84	283	404
High-strength low alloy steel	585	306	1,698	774
High-temperature alloy steel	22	170	269	287
Conversion services	75	39	279	129
Other	5	—	46	15
	<u>8,965</u>	<u>5,009</u>	<u>22,692</u>	<u>14,808</u>
Intersegment	519	216	1,572	596
Total net sales	9,484	5,225	24,264	15,404
Material cost of sales	4,716	3,170	12,095	8,723
Operation cost of sales	3,042	2,285	8,645	6,884
Selling and administrative expenses	563	502	1,676	1,502
Operating income (loss)	<u>\$ 1,163</u>	<u>\$ (732)</u>	<u>\$ 1,848</u>	<u>\$ (1,705)</u>

Net sales for the three- and nine-month periods ended September 30, 2004 for this segment increased by \$4.3 million, or 82%, in comparison to the three-month period ended September 30, 2003 and \$8.9 million, or 58%, in comparison to the similar 2003 nine-month period. These increases are primarily due to increased shipments within each market segment as well as the adoption of surcharge mechanisms for additional raw material components and other price increases implemented during 2004. In addition, the 2004 financial results have benefited from greater demand of higher value-added niche products due to improved economic conditions. Shipments of aerospace, power generation, and petrochemical products for the three- and nine-month periods ended September 30, 2004 have increased substantially in comparison to the same prior year periods.

Operating income increased by \$1.9 million for the three-month period ended September 30, 2004 as compared to September 30, 2003 and increased by \$3.6 million for the nine-month period ended September 30, 2004. The increases are primarily due to increased production volumes, improved mix of products shipped and higher selling prices, partially offset by higher raw material, labor, utility and other manufacturing supply costs.

Liquidity and Capital Resources

The Company has financed its operating activities through cash on hand at the beginning of the period and additional borrowings. At September 30, 2004, working capital approximated \$41.6 million, as compared to \$33.4 million at December 31, 2003. The ratio of current assets to current liabilities decreased from 4.2:1 at December 31, 2003 to 3.3:1 at September 30, 2004. The debt to capitalization ratio was 14.3% at September 30, 2004 and 11.3% at December 31, 2003.

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Cash received from sales of \$73.6 million and \$48.5 million for the nine-month periods ended September 30, 2004 and 2003 represent the primary source of cash from operations. An analysis of the primary uses of cash from operations is as follows:

	For the Nine-month period ended September 30,	
	2004	2003
Raw material purchases	\$ 40,284	\$ 17,005
Employment costs	17,994	14,337
Utilities	9,004	7,092
Other	11,488	8,488
Total uses of cash from operations	\$ 78,770	\$ 46,922

Cash used to fund raw material purchases, employment costs and utilities increased during the nine-month period ended September 30, 2004 in comparison to the similar year-ago period primarily due to increased sales and higher transaction prices. The Company continuously monitors market price fluctuations of its key raw materials. The following table reflects the average market value per pound for selected months impacting raw material costs for the nine-month periods ended September 30, 2003 and 2004.

	December 2002	September 2003	December 2003	September 2004
Nickle	\$ 3.26	\$ 4.52	\$ 6.43	\$ 6.02
Chrome	\$ 0.33	\$ 0.47	\$ 0.54	\$ 0.68
Molybdenum	\$ 3.51	\$ 6.14	\$ 7.10	\$ 18.14
Carbon Scrap	\$ 0.06	\$ 0.08	\$ 0.09	\$ 0.17

The market values for these raw materials, most notably carbon scrap, have continued to increase in 2004. The Company began to calculate its nickel surcharge using an \$0.18 per pound premium over the London Metal Exchange (LME) prices on February 4, 2004, implemented an iron surcharge component on February 16, 2004, expanded the use of surcharges to include tool steel products on May 1, 2004 and implemented a manganese surcharge component on June 1, 2004. The nickel surcharge premium per pound was increased from \$0.18 to \$0.23 on August 1, 2004. In addition, the Company has experienced higher energy, transportation and manufacturing supply costs during 2004. In response, the Company has announced several sales price increases during 2004. There can be no assurance that these sales price increases will completely offset the Company's rising costs.

The Company had capital expenditures for the nine-month period ended September 30, 2004 of \$2.4 million. These funds have been primarily used to purchase additional annealing furnaces, saws and a reheat furnace for the Company's Universal Rolling mill located at its Bridgeville facility to meet the increased market demand for the Company's products.

Effective January 1, 2003, the Company entered into a \$200,000 Deferred Loan Agreement maturing on December 31, 2006 with the City of Dunkirk, New York. No principal or interest payments will be required under the Deferred Loan Agreement provided the Company hires 30 new employees and more than 50% of those jobs are made available to certain Dunkirk City residents. The Company believes it will meet the conditions of the Deferred Loan Agreement. Therefore, the proceeds have been applied to reduce the acquisition cost of new equipment at the Company's Dunkirk facility.

The Company satisfies its capital requirements primarily through the sale of Common Stock and the issuance of long-term debt. The Company does not maintain off-balance sheet arrangements other than operating leases nor does it participate in non-exchange traded contracts requiring fair value accounting treatment or material related party transaction arrangements.

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At September 28, 2004, the Company increased its revolving line of credit with PNC Bank from \$6.5 million to \$15 million to finance increased working capital requirements in response to the growing demand for the Company's products and increased production capacity created as a result of its capital expenditures. At September 30, 2004 the Company had \$10.4 million available for borrowings. The Company is in compliance with its covenants as of September 30, 2004.

The Company anticipates that it will fund its 2004 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.

2004 Outlook

These are forward-looking statements for purposes of the Private Securities Litigation Reform Act of 1995, and actual results may vary.

The Company estimates that fourth quarter 2004 sales will range from \$32 to \$37 million and that its earnings per diluted share will range from \$0.32 to \$0.37 before the impact of any monies the Company may receive related to the CDSOA for the current year. In the fourth quarter of 2003, sales were \$18.8 million and the Company incurred a net loss per diluted share of \$0.04. The following factors were considered in developing these estimates:

- The Company's total backlog approximated \$60 million on September 30, 2004, as compared to \$49 million on June 30, 2004 reflecting continued strength in all of the Company's markets.
- Capital improvements implemented in the second and third quarters of 2004, including the addition of a reheat furnace to increase throughput at the Bridgeville blooming mill, should fully benefit the fourth quarter of 2004.
- Sales from the Dunkirk Specialty Steel segment are expected to approximate the 2004 third quarter sales of \$9.5 million. Additional sales are dependent upon the level of inventory management initiatives implemented by the service center industry near the end of the year.
- The Company expects raw material costs to remain volatile for the balance of the year. Its electricity costs will increase by approximately \$200,000 per month in the fourth quarter due to a recent Public Utility Commission ruling that has reduced the number of off-peak power hours available to conduct its melting operations at the Bridgeville facility. The Company has retained a consultant to recommend energy-saving initiatives and is currently negotiating its 2005 energy contract.

New Accounting Pronouncements

No new accounting pronouncements have been issued during the three-month period ended September 30, 2004 that would have a material impact on the Company's financial statements. Further the Company has reviewed the status of its accounting pronouncements 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, 2003, except as provided in this Form 10-Q.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES 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, 2003, 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

An evaluation was performed under the supervision and with the participation of our management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, management, including the CEO and CFO, concluded that our disclosure controls and procedures were effective as of September 30, 2004 to ensure that information required to be disclosed in reports that we file or submit under the Securities and Exchange Act of 1934 is recorded, processed, summarized and reported in accordance with the rules and forms of the Securities and Exchange Commission. During the quarter ended September 30, 2004, there were no significant changes in our internal controls or in other factors that could significantly affect internal controls.

Part II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

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

On April 7, 2003, United States Aviation Underwriters, Inc. (“USAU”), a New York corporation, as managers and on behalf of United States Aircraft Insurance Group (“USAIG”), the Company’s Aircraft Products Liability insurance carrier, filed suit in the Court of Common Pleas of Allegheny County, Pennsylvania asking the court for a declaratory judgment as to what actual liability and obligations were applicable to USAIG relating to the insurance policy issued to the Company, and the allocations made by Teledyne. The Company and USAU reached a settlement agreement as of May 1, 2004 regarding the allocation of certain potential costs associated with the Teledyne claim and have agreed to jointly file a motion to have the declaratory suit dismissed. On July 27, 2004, the suit brought by USAU was dismissed.

Item 6. EXHIBITS

- 10.1 Eighth Amendment to the Second Amended and Restated Credit Agreement, dated as of September 28, 2004, between the Company and PNC Bank, National Association (filed herewith).
- 10.2 Third Amended and Restated Revolving Credit Note, dated as of September 28, 2004, by and between the Company and PNC Bank, National Association (filed herewith).
- 10.3 Amendment No. 1 to Second Amended and Restated Security Agreement and Collateral Assignment, dated as of September 28, 2004, by and between the Company and PNC Bank, National Association (filed herewith).
- 31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 32.1 Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (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: November 9, 2004

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

/s/ C. M. McAninch

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

Date: November 9, 2004

/s/ Richard M. Ubinger

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

**EIGHTH AMENDMENT
TO SECOND AMENDED AND RESTATED CREDIT AGREEMENT**

This EIGHTH AMENDMENT TO SECOND AMENDED AND RESTATED CREDIT AGREEMENT (this "Amendment") is dated as of September 28, 2004, and entered into by and between UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC., a corporation organized and existing under the laws of the State 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, as amended prior to the date hereof, 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 "Existing Credit Agreement").

WITNESSETH:

WHEREAS, the Borrower and the Bank have entered into the Existing Credit Agreement; and

WHEREAS, the Borrower has requested an increase of the Revolving Credit Commitment to \$15,000,000, the Bank has agreed to such increase in the Revolving Credit Commitment and to other modifications of the Existing 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 EXISTING CREDIT AGREEMENT

Section 1.01 Amendments to Section 1.1 of the Existing Credit Agreement.

(a) The following defined terms and the definitions therefor are hereby added to Section 1.1 of the Existing Credit Agreement and inserted in correct alphabetical order:

Eighth Amendment: The Eighth Amendment to Second Amended and Restated Credit Agreement entered into by and between the Borrower and the Bank and dated as of September 28, 2004.

Eighth Amendment Effective Date: September 28, 2004, or such later date as all of the conditions set forth in the Eighth Amendment have either been satisfied by the Borrower or waived in writing by the Bank.

Eighth Amendment Loan Documents: Collectively, the Eighth Amendment, that certain Third Amendment and Restated Revolving Credit Note of the Borrower dated September 28, 2004, and drawn in the face amount of \$15,000,000.00 to the order of the Bank and the other amendment to the Loan Documents executed and delivered by the Borrower in connection with the Eighth Amendment, together with such other documents, instruments, agreements and certificates executed and delivered in connection with the Eighth Amendment.

(b) The following defined terms and the definitions therefor are hereby amended and restated in their entirety as follows:

Revolving Credit Commitment: The obligation of the Bank to make available to the Borrower an amount which, when added to the aggregate Stated Amounts of all Letters of Credit, (including any unreimbursed draws on Letters of Credit which have not yet been converted to Loans) does not exceed the lesser of (i) \$15,000,000.00 or (ii) the Borrowing Base.

Revolving Credit Termination Date: June 30, 2006, 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 Amendment to Section 2.8 of the Existing Credit Agreement. Section 2.8 of the Existing Credit Agreement is hereby amended to add a new Subsection 2.8f which shall read as follows:

2.8f Eighth Amendment Closing Fee. The Borrower shall pay to the Bank on the Eighth Amendment Effective Date an amendment fee equal to \$21,250.

Section 1.03 Amendment to Exhibits to the Existing Credit Agreement. Exhibit "A" attached to the Existing Credit Agreement is hereby deleted and there is substituted therefor the Exhibit "A" attached to this Amendment.

Section 1.04 No Other Amendments. The amendments to the Existing Credit Agreement set forth herein do not either implicitly or explicitly alter, waive or amend, except as expressly provided in this Amendment, the provisions of the Existing 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 Existing Credit Agreement with respect to any such violation. Nothing in this 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 Existing 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 Amendment, (i) the Borrower hereby repeats and remakes herein, for the benefit of the Bank, the representations and warranties made by the Borrower in Sections 4.1 through 4.23, inclusive, of the Existing Credit Agreement, as amended hereby, except that for purposes hereof such representations and warranties shall be deemed to extend to and cover this Amendment and are remade as of the Eighth Amendment Effective Date, and (ii) the Borrower hereby represents and warrants that on and as the Eighth Amendment Effective Date that no Default or Event of Default has occurred and is continuing.

Section 2.02. Legal Authority. As an inducement to the Bank to enter into this Amendment and to increase the Revolving Credit Commitment, the Borrower hereby represents and warrants that the Borrower is duly authorized to execute and deliver this Amendment and each of the Eighth Amendment Loan Documents; all necessary corporate action to authorize the execution and delivery of this Amendment and the other Eighth Amendment Loan Documents has been properly taken; and it is, and will continue to be, duly authorized to borrow under the Existing Credit Agreement, as amended hereby, and to perform all of the other terms and provisions of this Amendment, the Existing Credit Agreement, as amended hereby, and the other Loan Documents.

Section 2.03. Validity of this Amendment. As an inducement to the Bank to enter into this Amendment and to increase the Revolving Credit Commitment, the Borrower hereby represents and warrants that the execution and delivery of this Amendment does not, and the performance by the Borrower of its obligations under this Amendment, the Existing Credit Agreement, as amended hereby, and the other Loan Documents will not contravene any provision of law, of the Borrower's certificate of incorporation, by-laws or other organizational documents or the provisions of any agreement to which the Borrower is a party or by which the Borrower is bound; this Amendment and the other Eighth Amendment Loan Documents constitute the legal, valid and binding obligations of the Borrower enforceable in accordance with their respective terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other similar laws affecting the enforcement of creditors' rights generally and except as such enforceability may be limited by the availability of equitable remedies.

Section 2.04. Financial Statements. The Borrower has furnished to the Bank (i) the audited consolidated balance sheets and the related audited consolidated statements of income, cash flow and changes in financial position of the Borrower as at the Borrower's fiscal year ending December 31, 2003, and (ii) the unaudited consolidated balance sheets and the related unaudited consolidated statements of income, cash flow and changes in financial position of the Borrower as at the Borrower's fiscal quarter ending June 30, 2004. All such financial statements, including the related notes, have been prepared in accordance with GAAP, except as expressly noted therein, and fairly present the consolidated financial position of the Borrower as at the dates thereof and the results and consolidated results of the operations and the changes in the financial position of the Borrower and its consolidated subsidiaries. The Borrower and its

consolidated subsidiaries have no material liabilities, whether direct or indirect, fixed or contingent, and no liability for taxes, long-term leases or unusual forward or long-term commitments as of the date of such financial statements which are not reflected in such financial statements or in the notes thereto.

Section 2.05. Absence of Litigation. Except as set forth in Schedule 2.05 attached hereto, as of the Eighth Amendment Effective Date, there are no actions, suits, investigations, litigation or governmental proceedings pending or, to the Borrower's knowledge, threatened against the Borrower or any of its consolidated subsidiaries or any of their respective properties, which would have a material adverse effect on the Borrower and its consolidated subsidiaries taken as a whole, or which purport to affect the legality, validity or enforceability of this Amendment, the other Eighth Amendment Loan Documents, the Existing Credit Agreement, as amended hereby.

ARTICLE III
CONDITIONS PRECEDENT

Section 3.01 Conditions Precedent. Each of the following shall be a condition precedent to the effectiveness of this Amendment:

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

(i) A duly executed counterpart original of this Amendment executed by Borrower, and consented to by USAP Holdings, Inc., a Delaware corporation, as a subordinated creditor, and Dunkirk, as a guarantor;

(ii) The Revolving Credit Note of the Borrower in the face amount of \$15,000,000.00 duly executed by Borrower.

(iii) The First Amendment to Second Amended and Restated Security Agreement and Collateral Assignment duly executed by Borrower.

(iv) The Disclosure of Confession of Judgement duly executed by Borrower.

(v) 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;

(vi) A certificate from the Secretary of the Borrower certifying the corporate resolutions of the Borrower authorizing the execution and delivery of this Amendment and the officers of the Borrower authorized to execute and deliver this Amendment on behalf of the Borrower; and

(vii) Such other instruments, documents, opinions of counsel, certificates, lien searches and good standing certificates as the Bank shall reasonably require, all of which shall be satisfactory in form and content to the Bank

(b) The following statements shall be true and correct on the Eighth Amendment Effective Date, and the Borrower shall deliver to the Bank a certificate certifying that:

(i) after giving effect to this Eighth Amendment, the representations and warranties made pursuant to this Amendment and in the other Loan Documents, as amended hereby, are true and correct on and as of the Eighth Amendment Effective Date as though made on and as of such date;

(ii) no petition by or against the Borrower or any Subsidiary of the Borrower has at any time been filed under the United States Bankruptcy Code or under any similar act;

(iii) after giving effect to this Eighth Amendment, 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 Amendment;

(iv) after giving effect to this Eighth Amendment, 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) after giving effect to this Eighth Amendment, 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 Existing Credit Agreement and the other Loan Documents.

ARTICLE IV GENERAL PROVISIONS

Section 4.01 Ratification of Terms. Except as expressly amended by this Amendment, the Existing 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 EXISTING 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 Amendment in connection with the Existing Credit Agreement, any of the other Loan

Documents or the transactions contemplated thereby may refer to the Existing Credit Agreement without making specific reference to this Amendment, but nevertheless all such references shall include this Amendment unless the context requires otherwise. From and after the Eighth Amendment Effective Date, all references in the Existing Credit Agreement and each of the other Loan Documents to the Existing Credit Agreement shall be deemed to be references to the Existing Credit Agreement, as amended hereby.

Section 4.03 Incorporation Into Existing Credit Agreement. This Amendment is deemed incorporated into the Existing Credit Agreement. To the extent that any term or provision of this Amendment is or may be deemed expressly inconsistent with any term or provision of the Existing Credit Agreement, the terms and provisions hereof shall control.

Section 4.04 Counterparts. This 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 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 Existing 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 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 Amendment and the other documents, instruments and certificates delivered in connection herewith.

Section 4.08 GOVERNING LAW. THIS 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 Amendment are for purposes of reference only and shall not be deemed to be a part hereof.

Section 4.10 Real Property Collateral. The Borrower hereby acknowledges that the Bank continues to evaluate its collateral position with respect to the Loans and as an accommodation to the Borrower has increased the Revolving Credit Commitment without the full completion of such review. The Borrower hereby undertakes and agrees to grant the Bank a first and prior lien on, and security interest in, the Borrower's fee and leasehold interest in the

Bridgeville Property and related parcels within 60 days of a written request by the Bank. In addition to the execution of such mortgage documents as the Bank may reasonably request, the Borrower shall deliver to the Bank a real property search which verifies the Bank first lien position with respect to the Bridgeville Property and related parcels upon recordation of the mortgage documents, a flood certificate setting forth the flood plain status of the mortgaged property or any lawfully required flood insurance naming the Bank as loss payable and additional insured, and an environmental indemnity agreement in form and substance reasonably satisfactory to the Bank.

IN WITNESS WHEREOF, the parties hereto, with the intent to be legally bound hereby, have caused this Eighth 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 September 28, 2004.

ATTEST:

UNIVERSAL STAINLESS & ALLOY
PRODUCTS, INC.

By: /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/ David B. Gookin

Name: David B. Gookin
Title: Senior Vice President

**THIRD AMENDED AND RESTATED
REVOLVING CREDIT NOTE**

\$15,000,000.00

Pittsburgh, Pennsylvania
September 28, 2004

THIS THIRD AMENDED AND RESTATED REVOLVING CREDIT NOTE (this Third Amended and Restated Revolving Credit Note, together with all extensions, renewals, amendments, modifications, supplements, substitutions and replacements hereto and hereof, is hereinafter referred to as this "Revolving Credit Note") is executed and delivered under and pursuant to the terms of that certain Second Amended and Restated Credit Agreement dated as of January 30, 1998, by and between UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC. (the "Borrower") and PNC BANK, NATIONAL ASSOCIATION (the "Bank") as amended through that certain Eighth Amendment to Second Amendment and Restated Agreement dated as of September 28, 2004, by and between the Borrower and the Bank (the Second Amended and Restated Credit Agreement, as so amended, together with all exhibits and schedules thereto, together with all further amendments, modifications, supplements, extensions, renewals, substitutions and replacements thereto and thereof is hereinafter referred to as the "Credit Agreement").

FOR VALUE RECEIVED the Borrower promises to pay to the order of the Bank at the Bank's principal office at One PNC Plaza, 249 Fifth Avenue, Pittsburgh, Pennsylvania 15222 the lesser of (i) FIFTEEN MILLION DOLLARS (\$15,000,000) or (ii) the aggregate unpaid principal amount of all Loans and advances made by the Bank to the Borrower pursuant to Section 2.1 of the Credit Agreement and reflected on the Loan Account maintained by the Bank pursuant to Section 2.7 of the Credit Agreement.

The outstanding principal balance hereunder shall be due and payable in its entirety at maturity, whether on the Revolving Credit Termination Date, upon acceleration, or otherwise, all as more fully described in the Credit Agreement.

Interest on the unpaid principal balance hereof shall be due and payable on the dates and at the times set forth in the Credit Agreement and at maturity, whether on the Revolving Credit Termination Date, upon acceleration, or otherwise, and shall be calculated and paid in accordance with the terms of the Credit Agreement. The interest rate will be adjusted, when necessary and if appropriate, in accordance with the terms of the Credit Agreement. Interest payments shall be made at the office of the Bank set forth above.

This Revolving Credit Note is the Revolving Credit Note referred to in the Credit Agreement. Reference is made to the provisions in the Credit Agreement for the prepayment hereof and the acceleration of the maturity hereof. All of the terms, conditions, covenants, representations and warranties of the Credit Agreement are incorporated herein by reference as if same were more fully set forth at length herein. All capitalized terms used herein as defined terms which are not defined herein but which are defined in the Credit Agreement shall have the same meanings herein as are given to them in the Credit Agreement.

Upon the occurrence of any Event of Default specified in the Credit Agreement, the principal hereof and accrued interest hereon may become forthwith due and payable, all as provided in the Credit Agreement.

This Third Amended and Restated Revolving Credit Note amends and restates in its entirety, and continues to evidence the Indebtedness evidenced by, the Second Amended and Restated Revolving Credit Note dated January 30, 1998, in the principal amount of \$6,500,000 made payable by the Borrower to the Bank. No such advances have been made or are being made by the Bank to satisfy the Obligations evidenced by such Amended and Restated Revolving Credit Note, and this Third Amended and Restated Revolving Credit Note is not a novation thereof. Nothing herein shall be construed to release, cancel, terminate or otherwise impair the status or priority of the liens and security interests granted by the Borrower as security for the Obligations evidenced by such Second Amended and Restated Revolving Credit Note, all of which such liens and security interests shall continue to secure the payment and performance of this Revolving Credit Note.

Demand, presentation, protest and notice of dishonor are hereby waived.

POWER TO CONFESS JUDGMENT The Borrower hereby empowers any attorney of any court of record within the Commonwealth of Pennsylvania, after the occurrence of any Event of Default, to appear for the Borrower and, with or without complaint filed, confess judgment, or a series of judgments, against the Borrower in favor of the Bank or any holder hereof for the entire principal balance of this Revolving Credit Note and all accrued interest, together with costs of suit and an attorney's commission of the greater of 5% of such principal and interest or \$1,000 added as a reasonable attorney's fee, and for doing so, this Revolving Credit Note or a copy verified by affidavit shall be a sufficient warrant. The Borrower hereby forever waives and releases all errors in said proceedings and all rights of appeal and all relief from any and all appraisal, stay or exemption laws of any state now in force or hereafter enacted. Interest on any such judgment shall accrue at the Default Rate.

No single exercise of the foregoing power to confess judgment, or a series of judgments, shall be deemed to exhaust the power, whether or not any such exercise shall be held by any court to be invalid, voidable, or void, but the power shall continue undiminished and it may be exercised from time to time as often as the Bank shall elect until such time as the Bank shall have received payment in full of the debt, interest and costs.

Upon the Borrower's payment in full of all amounts due by the Borrower to the Bank hereunder, and upon the Borrower's full discharge and satisfaction of all of the other Obligations under the Credit Agreement and the termination of the Revolving Credit Commitment, the Bank shall mark this Note "PAID" and return it to the Borrower.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the Borrower, with the intent to be legally bound hereby, has caused this Revolving Credit Note to be executed by its duly authorized officer as of the date first written above.

ATTEST:

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

By: /s/ Paul A. McGrath

By: /s/ Richard M. Ubinger (SEAL)

Name: Paul A. McGrath
Title: Vice President Operations,
General Counsel and Secretary

Name: Richard M. Ubinger
Title: Vice President Finance,
Chief Financial Officer and Treasurer

**AMENDMENT NO. 1 TO SECOND AMENDED AND RESTATED
SECURITY AGREEMENT AND COLLATERAL ASSIGNMENT**

THIS AMENDMENT NO. 1 TO SECOND AMENDED AND RESTATED SECURITY AGREEMENT AND COLLATERAL ASSIGNMENT (this "**Amendment No. 1**") dated as of September 28, 2004, is made and entered into by UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC., a Delaware corporation (the "**Debtor**"), and PNC BANK, NATIONAL ASSOCIATION, a national banking association (the "**Secured Party**"), and amends that certain Second Amended and Restated Security Agreement and Collateral Assignment dated as of January 30, 1998 (such Second Amended and Restated Security Agreement and Collateral Assignment herein referred to as the "**Existing Security Agreement**"), made by and between the Debtor and the Secured Party.

WITNESSETH:

WHEREAS, the Debtor and the Secured Party have entered into that certain Second Amended and Restated Credit Agreement dated as of January 30, 1998, as amended prior to the date hereof (such Credit Agreement, as so amended, herein referred to as the "**Existing Credit Agreement**"), pursuant to which PNC BANK, NATIONAL ASSOCIATION, as lender, has established for the Debtor a revolving credit, letter of credit issuance and term loan facility, all on the terms and conditions set forth in the Existing Credit Agreement;

WHEREAS, the Debtor and the Secured Party have entered into that certain Eighth Amendment to Second Amended and Restated Credit Agreement (the "**Eighth Amendment to Credit Agreement**") dated as of September 28, 2004, pursuant to which the Secured Party has agreed to increase the Revolving Credit Commitment to the maximum available amount at any one time outstanding of \$15,000,000.00 and to certain other amendments to the Existing Credit Agreement, all on the terms and conditions set forth in the Eighth Amendment to Credit Agreement (the Existing Credit Agreement, as amended by the Eighth Amendment to Credit Agreement, as the same may be further supplemented, amended, modified or restated from time to time, is herein referred to as the "**Credit Agreement**");

WHEREAS, the Debtor has heretofore executed and delivered to the Secured Party, the Existing Security Agreement in order to secure the payment in full, without limitation, of certain indebtedness and other obligations, including without limitation the payment of and performance of the Obligations of the Debtor pursuant to the terms of the Existing Credit Agreement and the other Loan Documents;

WHEREAS, the Debtor desires to amend the Existing Security Agreement as set forth herein to, among other things, amend, supplement and confirm the description of the indebtedness and other obligations secured by the Existing Security Agreement, as amended hereby;

WHEREAS, the security granted in, and pursuant to, the Existing Security Agreement shall continue as security for the indebtedness and other obligations secured by the Existing Security Agreement, as amended by this Amendment No. 1; and the Existing Security Agreement, as amended hereby, shall continue to remain in full force and effect (the Existing

Security Agreement, as amended by this Amendment No. 1, and as it may be further amended, modified, extended, supplemented or restated from time to time, the “**Security Agreement**”); and

WHEREAS, the Debtor and the Secured Party each desire to amend the Existing Security Agreement in accordance with the terms and provisions of this Amendment No. 1.

NOW, THEREFORE, in consideration of the premises (each of which is incorporated herein by reference) and the mutual promises and the mutual covenants made herein and in the Existing Security Agreement and other valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and with the intent to be legally bound hereby, the parties hereto agree as follows:

ARTICLE I
AMENDMENTS TO ORIGINAL SECURITY AGREEMENT

Section 1.01 Definitions and Certain Conventions. (a) Terms defined in the Credit Agreement and not otherwise expressly defined in this Amendment No. 1 or in the Existing Security Agreement, as amended hereby, are used herein and in the Existing Security Agreement, as amended hereby, as defined in the Credit Agreement.

(b) From and after the date hereof, references to all capitalized terms used in the Existing Security Agreement, as amended hereby, and not otherwise defined in the Existing Security Agreement, as amended hereby, shall be deemed to be references to such terms as amended or otherwise modified in connection with the Credit Agreement and this Amendment No. 1.

(c) Whenever required by the context of this Amendment No. 1, the singular shall include the plural, and vice-versa; and the masculine gender shall include the feminine and neuter genders, and vice-versa.

Section 1.02 Amendment to WHEREAS CLAUSES of the Existing Security Agreement. The first WHEREAS CLAUSE to the Existing Security Agreement is hereby amended and restated to read as follows:

WHEREAS, pursuant to a Second Amended and Restated Credit Agreement dated as of January 30, 1998, by and between the Debtor, as the borrower, and the Secured Party, as the lender, as amended through that certain Eighth Amendment to Second Amended and Restated Credit Agreement dated as of September 28, 2004, by and between the Debtor, as the borrower, and the Secured Party, as the lender (such Second Amended and Restated Credit Agreement, as so amended, and all exhibits and schedules attached thereto, together with all further amendments, modifications, supplements, extensions, renewals, substitutions and replacements thereto and thereof, is referred to herein as the “Credit Agreement”), the Secured Party has agreed to make available to the Debtor a revolving credit/letter of credit facility in an aggregate principal amount not to exceed \$15,000,000.00, and a Term Loan in the principal amount of

\$15,000,000.00, which Indebtedness will be evidenced by the Third Amended and Restated Revolving Credit Note dated September 28, 2004 in the face amount of \$15,000,000.00 and the Term Note dated January 30, 1998 in the face amount of \$15,000,000.00, respectively (collectively, the "Notes"), with interest to be accrued on each as more fully set forth in the Credit Agreement and each to be repaid at the times and places and in the manner set forth in the Credit Agreement, and containing other terms and provisions as set forth in the Credit Agreement and such Notes; and

**ARTICLE II
SUPPLEMENTAL SECURITY INTEREST**

Section 2.01 Grant of Security Interest. In order to secure the prompt, full and complete performance of, and payment when due of, all of the Obligations (as such term is defined in the Credit Agreement), whether now existing or hereafter accruing, including without limitation the Obligations (whether now existing or hereafter accruing) of the Debtor under and pursuant to the Credit Agreement, the Notes and the other Loan Documents executed and delivered by the Debtor from time to time in connection with the Credit Agreement, as they may be amended, modified or supplemented from time to time, (including without limitation thereto, the obligation, liability and duty of the Debtor to repay the Notes), the Debtor hereby grants to the Secured Party, and its successors and assigns, a perfected and continuing Lien prior to all other Liens (except for Permitted Liens, but only to the extent permitted by the Credit Agreement) in, and does hereby convey, hypothecate, mortgage, pledge and assign to the Secured Party, and its successors and assigns, as collateral security therefore, each and all of the Debtor's rights, titles, interests, estates, claims and demands in, to and under, or derived from, the Collateral (as such term is defined in the Existing Security Agreement), wherever located and whether now owned or existing or hereafter acquired, arising or created.

Upon the full discharge and satisfaction of the Obligations (including without limitation the payment in full of the Notes), the termination of the Revolving Credit Commitment, the cancellation of all Letters of Credit issued under and pursuant to the Credit Agreement, all rights herein assigned to the Secured Party hereunder shall terminate, and all estate, right, title and interest of the Secured Party in and to each and every one of the items of Collateral shall revert to the Debtor. Thereafter, the Secured Party shall file all requisite termination statements and do all such other acts as are reasonably required of it to evidence the termination of the security interest granted hereby

Section 2.02 Confirmation. The Debtor hereby confirms in all respects the grant of the security interest in the Collateral pursuant to the Existing Security Agreement. Except as expressly amended by this Amendment No. 1 and except (with respect solely to the representations and warranties contained in the Existing Security Agreement) as provided in Article III hereof, the Existing Security Agreement and all of the grants, assignments and pledges of liens and security interests made therein, and all of the rights, privileges, remedies, powers and immunities of the Secured Party contained therein and all of the other terms, conditions, representations, warranties, covenants and agreements set forth therein are hereby specifically ratified and confirmed by the Debtor and shall remain in full force and effect and shall be made

and accepted as of the date of this Amendment No. 1 as well as at the time they were first made and accepted.

Without limiting the generality of the preceding paragraph of this Section 2.02, the Debtor hereby expressly acknowledges and agrees (i) that the terms "Obligations" as used in the Existing Security Agreement includes (as obligations, liabilities and indebtedness of the Debtor to the Secured Party secured by the Debtor pursuant to a pledge of its assets as described in the Existing Security Agreement), without limiting the definition of the term "Obligations" as defined in the Existing Credit Agreement, the due, complete and punctual payment, performance and observance by the Debtor, and its successors and assigns, of all of the terms, covenants, conditions, agreements and undertakings on the part of the Debtor to be performed or observed under the Eighth Amendment to Credit Agreement, and that certain Third Amended and Restated Revolving Credit Note dated September 28, 2004 in the face amount of \$15,000,000.00 and drawn by the Borrower to the order of the Bank, (ii) that this Amendment No. 1, and this acknowledgments herein set forth, are executed and delivered for the benefit of the Secured Party, (iii) that the Secured Party may rely on the execution and delivery of this Amendment No. 1, and this acknowledgment herein set forth, in entering into the Eighth Amendment to Credit Agreement, increase the maximum amount of the Revolving Credit Commitment, and accepting the amended and restated Revolving Credit Note of the Borrower issued in connection with the Eighth Amendment to Credit Agreement and (iv) that the obligations, liabilities and indebtedness of the Debtor to the Bank secured by the Existing Security Agreement continue to be secured by the Existing Security Agreement as amended by this Amendment No. 1.

ARTICLE III SUPPLEMENTAL REPRESENTATIONS

The Debtor hereby represents and warrants to the Secured Party, which representations and warranties shall survive the execution and delivery of this Amendment No. 1, as follows:

Section 3.01 Incorporation by Reference. The Debtor hereby incorporates herein by reference and repeats herein for the benefit of the Secured Party each of the representations and warranties made by the Debtor in the Existing Security Agreement and for purposes hereof such representations and warranties shall be deemed to extend to and cover this Amendment No. 1; and such representations and warranties shall be deemed to have been made and undertaken as of the date of this Amendment No. 1 as well as at the time they were first made and undertaken.

Section 3.02. Legal Authority. As an inducement to the Bank enter into the Eighth Amendment to Credit Agreement and to increase the Revolving Credit Commitment, the Borrower hereby represents and warrants that the Borrower is duly authorized to execute and deliver this Amendment No. 1; all necessary corporate action to authorize the execution and delivery of this Amendment No. 1 has been properly taken; and it is, and will continue to be, duly authorized to perform all of the other terms and provisions of this Amendment No. 1 and the Existing Security Agreement.

Section 3.03. Validity of this Amendment. As an inducement to the Bank to enter into the Eighth Amendment to Credit Agreement and to increase the Revolving Credit Commitment, the Borrower hereby represents and warrants that the execution and delivery of this Amendment No. 1 does not, and the performance by the Borrower of its obligations under this Amendment No. 1, the Existing Security Agreement, as amended hereby, and the other Loan Documents will not contravene any provision of law, of the Borrower's certificate of incorporation, by-laws or other organizational documents or the provisions of any agreement to which the Borrower is a party or by which the Borrower is bound; this Amendment No. 1 constitutes the legal, valid and binding obligation of the Borrower enforceable in accordance with their respective terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other similar laws affecting the enforcement of creditors' rights generally and except as such enforceability may be limited by the availability of equitable remedies.

**ARTICLE IV
MISCELLANEOUS**

Section 4.01 Counterparts. This Amendment No. 1 may be executed in any number of counterparts, and by the different parties hereto on separate counterparts, each of which when so executed and delivered shall be an original, but all of which together shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Amendment No. 1 by telecopier shall be as effective as delivery of a manually executed counterpart of this Amendment No. 1.

Section 4.02 Effective Date. From and after the date first above written, all references in the Existing Security Agreement to such Existing Security Agreement shall be deemed to be references to such Existing Security Agreement as amended hereby. To the extent that any term or provision of this Amendment No. 1 is or may be deemed expressly inconsistent with any term or provision of the Existing Security Agreement or any other Loan Document, the terms and provisions hereof shall control.

Section 4.03 References. All notices, communications, agreements, certificates, documents and other instruments executed and delivered after the execution and delivery of this Amendment No. 1 may refer to the Existing Security Agreement without making specific reference to this Amendment No. 1, but nevertheless all such references shall include this Amendment No. 1 unless the context requires otherwise.

Section 4.04 Continuation. Except as expressly amended hereby, the grants, conveyances and other transfers, and the covenants, conditions, agreements, terms and provisions, of the Existing Security Agreement are hereby confirmed and ratified and shall remain in full force and effect and shall be deemed to have been made and accepted as of the date of this Amendment No. 1 as well as at the time they were first made and accepted. This Amendment No. 1 shall be construed in connection with and as part of the Existing Security Agreement; and the Existing Security Agreement is hereby modified to include this Amendment No. 1. Nothing contained in this Amendment No. 1 shall be construed to release, cancel, terminate, postpone or otherwise impair the status, perfection date or priority of the liens and

security interests created by the Existing Security Agreement to secure the payment and performance of the Obligations. All such liens and security interests created by the Existing Security Agreement shall continue to exist under the terms of the Existing Security Agreement as amended by this Amendment No. 1.

Section 4.05 Incorporation of Covenants. All of the covenants, conditions, agreements, terms, provisions, representations and warranties of the Existing Security Agreement which are not inconsistent with the covenants, conditions, agreements, terms, provisions, representations and warranties of this Amendment No. 1 are hereby incorporated herein by reference and made parts hereof. Each reference to the terms of Credit Agreement, Note(s), Security Agreement and Loan Document(s) in the covenants, conditions, agreements, terms, provisions, representations and warranties of the Existing Security Agreement which are incorporated herein shall be deemed to be a reference to such terms as heretofore and now amended, modified or supplemented (including as amended by this Amendment No. 1) and as one or more may be amended, modified or supplemented hereafter.

Section 4.06 Covenant to Perform. The Debtor will perform, observe and comply with each and everyone of the covenants, conditions, agreements, terms and provisions contained in this Amendment No. 1 and in the Existing Security Agreement, as amended by this Amendment No. 1, on the part of the Debtor to be performed, observed, or complied with, in accordance with the covenants, conditions, agreements, terms and provisions of this Amendment No. 1 and of the Existing Security Agreement, as amended by this Amendment No. 1.

Section 4.07 Binding Effect. The covenants, conditions, agreements, terms and provisions contained in this Amendment No. 1 and in the Existing Security Agreement as amended by this Amendment No. 1 shall bind, and the benefits thereof shall inure to, the respective successors and assigns of the Debtor and the Secured Party.

Section 4.08 Entire Agreement. This Amendment No. 1 contains the entire agreement between the parties hereto relating to the subject matter hereof; there are merged herein all prior representations, promises and conditions, whether oral or written, in connection with the subject matter hereof, and any representations, promises or conditions not incorporated herein shall not be binding upon the parties hereto.

Section 4.09 Severability. Whenever possible each provision of this Amendment No. 1 shall be interpreted in such manner as to be effective and valid under applicable law but if any provision of this Amendment No. 1 or any part of such provision shall be prohibited by or invalid under applicable law, such provision or part thereof shall be ineffective to the extent of such prohibition or invalidity without invalidating the remainder of such provision or the remaining provisions of this Amendment No. 1.

Section 4.10 Governing Law. **THIS AMENDMENT NO. 1 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 OR GIVING EFFECT TO THE PRINCIPLES THEREOF REGARDING CONFLICTS OF LAW.**

Section 4.11 Headings. The headings of this Amendment No. 1 are for purposes of reference only and shall not limit or otherwise affect the meaning thereof.

Section 4.12 Voluntary Actions. This Amendment No. 1 is freely and voluntarily given to the Secured Party by the undersigned Debtor without any duress or coercion after the undersigned Debtor has either consulted with counsel or been given an opportunity to do so, and the Debtor has carefully and completely read all of the terms and provisions of this Amendment No. 1.

Section 4.13 No Other Amendments. The amendments to the Existing Security Agreement set forth herein do not either implicitly or explicitly alter, waive or amend, except as expressly provided in this Amendment No. 1, the other provisions of the Existing Security 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 does it impair any rights or remedies of the Secured Party under the Existing Security Agreement with respect to any such violation.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, and intending to be legally bound hereby, the undersigned have duly executed this Amendment No. 1 to Second Amended and Restated Security Agreement and Collateral Assignment the date first above written.

WITNESS/ATTEST:

By: _____
 /s/ PAUL A. MCGRATH
 Name: Paul A. McGrath
 Title: Vice President Operations
 General Counsel and Secretary

DEBTOR:

UNIVERSAL STAINLESS & ALLOY
PRODUCTS, INC., a Delaware corporation

By: _____
 /s/ RICHARD M. UBINGER (SEAL)
 Name: Richard M. Ubinger
 Title: Vice President Finance, Chief
 Financial Officer and Treasurer

BANK:

PNC BANK, NATIONAL ASSOCIATION

By: _____
 /s/ DAVID B. GOOKIN
 Name: David B. Gookin
 Title: Senior Vice President

CERTIFICATIONS

I, Clarence M. McAninch, President and Chief Executive Officer of Universal Stainless & Alloy Products, Inc., 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)) for the registrant and we 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) 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
 - c) 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 fiscal 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, to the registrant's auditors and the audit committee of the 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: November 9, 2004

/s/ C. M. McAninch

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

CERTIFICATIONS

I, Richard M. Ubinger, Vice President of Finance, Chief Financial Officer and Treasurer of Universal Stainless & Alloy Products, Inc., certify that:

1. I have reviewed this 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)) for the registrant and we 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) 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
 - c) 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 fiscal 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, to the registrant's auditors and the audit committee of the 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: November 9, 2004

/s/ Richard M. Ubinger

Richard M. Ubinger
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 September 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Clarence M. McAninch, President and Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

Date: November 9, 2004

/s/ C. M. McAninch

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

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request. This certification accompanies the Form 10-Q and shall not be treated as having been filed as part of the Form 10-Q.

In connection with the Quarterly Report of Universal Stainless & Alloy Products, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard M. Ubinger, Vice President of Finance, Chief Financial Officer and Treasurer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

Date: November 9, 2004

/s/ Richard M. Ubinger

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

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request. This certification accompanies the Form 10-Q and shall not be treated as having been filed as part of the Form 10-Q.