

**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 March 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period from **to**

Commission File Number 000-25032



UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

25-1724540
(IRS Employer
Identification No.)

600 Mayer Street
Bridgeville, PA 15017
(Address of principal executive offices, including zip code)
(412) 257-7600
(Registrant's telephone number, including area code)

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

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

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

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

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

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

As of April 24, 2018, there were 7,265,560 shares of the Registrant's common stock outstanding.

Universal Stainless & Alloy Products, Inc.
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Part I. FINANCIAL INFORMATION**Item 1. FINANCIAL STATEMENTS****UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**

(Dollars in Thousands, Except Per Share Information)

(Unaudited)

	Three months ended	
	March 31,	
	2018	2017
Net sales	\$ 63,737	\$ 48,875
Cost of products sold	54,465	44,630
Gross margin	9,272	4,245
Selling, general and administrative expenses	5,207	4,729
Operating income (loss)	4,065	(484)
Interest expense and other financing costs	1,206	1,003
Other (income) expense, net	(43)	(6)
Income (loss) before income taxes	2,902	(1,481)
Provision (benefit) for income taxes	777	(262)
Net income (loss)	\$ 2,125	\$ (1,219)
Net income (loss) per common share - Basic	\$ 0.29	\$ (0.17)
Net income (loss) per common share - Diluted	\$ 0.28	\$ (0.17)
Weighted average shares of common stock outstanding		
Basic	7,261,966	7,216,447
Diluted	7,492,972	7,216,447

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Dollars in Thousands)

(Unaudited)

	Three months ended	
	March 31,	
	2018	2017
Net income (loss)	\$ 2,125	\$ (1,219)
Other Comprehensive income (loss), net of tax		
Unrealized income (loss) on foreign currency contracts	(58)	(31)
Comprehensive income (loss)	<u>\$ 2,067</u>	<u>\$ (1,250)</u>

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands, Except Per Share Information)
(Unaudited)

	<u>March 31, 2018</u>	<u>December 31, 2017</u>
	(Unaudited)	(Derived from audited statements)
ASSETS		
Current assets:		
Cash	\$ 228	\$ 207
Accounts receivable (less allowance for doubtful accounts of \$456 and \$456, respectively)	33,593	24,990
Inventory, net	119,961	116,663
Other current assets	4,047	4,404
Total current assets	<u>157,829</u>	<u>146,264</u>
Property, plant and equipment, net	173,870	174,444
Other long-term assets	8,854	523
Total assets	<u>\$ 340,553</u>	<u>\$ 321,231</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 28,371	\$ 34,898
Accrued employment costs	3,501	4,075
Current portion of long-term debt	6,718	4,707
Other current liabilities	1,177	1,268
Total current liabilities	<u>39,767</u>	<u>44,948</u>
Long-term debt, net	93,187	75,006
Deferred income taxes	10,361	9,605
Other long-term liabilities, net	3,015	4
Total liabilities	146,330	129,563
Stockholders' equity:		
Senior preferred stock, par value \$0.001 per share; 1,980,000 shares authorized; 0 shares issued and outstanding	-	-
Common stock, par value \$0.001 per share; 20,000,000 shares authorized; 7,558,040 and 7,550,642 shares issued, respectively	8	8
Additional paid-in capital	59,001	58,514
Other comprehensive income (loss)	(151)	(93)
Retained earnings	137,655	135,529
Treasury stock, at cost; 292,855 common shares held	<u>(2,290)</u>	<u>(2,290)</u>
Total stockholders' equity	<u>194,223</u>	<u>191,668</u>
Total liabilities and stockholders' equity	<u>\$ 340,553</u>	<u>\$ 321,231</u>

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOW

(Dollars in Thousands)

(Unaudited)

	Three months ended	
	March 31,	
	2018	2017
Operating Activities:		
Net income (loss)	\$ 2,125	\$ (1,219)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation and amortization	4,756	4,717
Deferred income tax	772	(296)
Share-based compensation expense	326	534
Changes in assets and liabilities:		
Accounts receivable, net	(8,604)	(6,523)
Inventory, net	(3,832)	(4,499)
Accounts payable	(7,699)	9,423
Accrued employment costs	(499)	(1,371)
Income taxes	5	32
Other, net	296	(790)
Net cash (used in) provided by operating activities	(12,354)	8
Investing Activity:		
Capital expenditures	(2,485)	(1,413)
Net cash (used in) investing activity	(2,485)	(1,413)
Financing Activities:		
Borrowings under revolving credit facility	128,729	71,863
Payments on revolving credit facility	(107,080)	(68,721)
Proceeds under New Markets Tax Credit financing	3,010	-
Payments on term loan facility, capital leases, and notes	(1,172)	(1,598)
Payments on deferred financing costs	(351)	-
Proceeds from the common stock exercised	54	-
Net cash provided by financing activities	23,190	1,544
Net increase in cash and restricted cash	8,351	139
Cash and restricted cash at beginning of period	207	75
Cash and restricted cash at end of period	\$ 8,558	\$ 214

The following table provides a reconciliation of cash and restricted cash reported within the Consolidated Balance Sheets that sum to the total of the same such amounts shown in the Consolidated Statements of Cash Flow.

	March 31, 2018	March 31, 2017
Cash	\$ 228	\$ 214
Restricted cash included in other long-term assets	8,330	-
Total cash and restricted cash	\$ 8,558	\$ 214

Amounts included in restricted cash represent those funds required to be used pursuant to the construction of a new bar cell unit at the Company's Dunkirk, NY facility. These funds were obtained pursuant to the terms of the New Markets Tax Credit Program.

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

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Nature of Business and Basis of Presentation

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

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

When we obtain an economic interest in an entity, we evaluate the entity to determine if the entity is a VIE, and if we are deemed to be a primary beneficiary. As a part of our evaluation, we are required to qualitatively assess if we are the primary beneficiary of the VIE based on whether we hold the power to direct those matters that most significantly impacted the activities of the VIE and the obligation to absorb losses or the right to receive the benefits of the VIE that could potentially be significant. Refer to Note 6, New Markets Tax Credit Financing Transaction, for a description of the VIE’s included in our consolidated financial statements.

Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”), which supersedes the revenue recognition requirements in ASC 605, “Revenue Recognition.” ASU 2014-09 is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue, cash flows arising from customer contracts, including significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. The Company adopted the provisions of ASU 2014-09 on January 1, 2018, using the modified retrospective approach. Revenue from the Company’s product sales continue to generally be recognized when products are shipped (i.e. point in time). As such, the adoption of ASU 2014-09 had no material effect on revenue, gross margin or operating income; however, the Company has now presented the disclosures required by this new standard, refer to Note 3.

In November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash,” or (“ASU 2016-18”). ASU 2016-18 is intended to clarify how entities present restricted cash in the statement of cash flows. The guidance requires entities to show the changes in the total of cash and cash equivalents and restricted cash in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash in the statement of cash flows. When cash and cash equivalents and restricted cash are presented in more than one line item on the balance sheet, the guidance requires a reconciliation of the totals in the statement of cash flows to the related captions in the balance sheet. This reconciliation can be presented either on the face of the statement of cash flows or in the notes to the financial statements. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017 and is to be applied retrospectively. We adopted ASU 2016-18 in the first quarter of 2018 and applied the guidance retrospectively to our prior period Consolidated Statement of Cash Flow.

Recently Issued Accounting Pronouncements

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

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

In February 2018, the FASB issued ASU 2018-02, “Income Statement – Reporting Comprehensive Income,” that will permit companies the option to reclassify stranded tax effects caused by the newly-enacted U.S. Tax Cuts and Jobs Act from accumulated other comprehensive income to retained earnings. Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. Adoption of the ASU will be optional, and companies will need to disclose if it elects not to adopt the ASU. The ASU will be effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption will be permitted, including adoption in any interim period, for financial statements that have not yet been issued or made available for issuance. Entities will have the option to apply the amendments retrospectively or to record the reclassification as of the beginning of the period of adoption. We are currently evaluating the impact of this guidance on our financial statements and the timing of adoption.

Note 2: Net income (loss) per Common Share

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

	Three months ended	
	March 31,	
	2018	2017
<i>(dollars in thousands, except per share amounts)</i>		
Numerator:		
Net income (loss)	\$ 2,125	\$ (1,219)
Adjustment for interest expense on notes (A)	-	-
Net income (loss), as adjusted	<u>\$ 2,125</u>	<u>\$ (1,219)</u>
Denominator:		
Weighted average number of shares of common stock outstanding	7,261,966	7,216,447
Weighted average effect of dilutive stock options and other stock compensation	<u>231,006</u>	<u>-</u>
Weighted average number of shares of common stock outstanding, as adjusted	<u>7,492,972</u>	<u>7,216,447</u>
Net income per common share:		
Net income (loss) per common share - Basic	<u>\$ 0.29</u>	<u>\$ (0.17)</u>
Net income (loss) per common share - Diluted	<u>\$ 0.28</u>	<u>\$ (0.17)</u>

(A) An adjustment for interest expense on notes was excluded from the loss per share calculation for the three months ended March 31, 2017 as a result of the notes being antidilutive.

We had options to purchase 338,550 and 625,800 shares of common stock outstanding at an average price of \$33.84 and \$30.17 for the three months ended March 31, 2018 and 2017, respectively. The shares were excluded in the computation of diluted net loss per common share for the three months ended March 31, 2017. These outstanding options were not included in the computation of diluted net loss per common share because their respective exercise prices were greater than the average market price of our common stock. The calculation of diluted net loss per common share for the three months ended March 31, 2017 excluded 406,847 shares, for the assumed conversion of notes as a result of being anti-dilutive. The calculation of diluted net loss per common share for the three months ended March 31, 2017 excluded 73,609 shares, for the assumed exercise of stock options as a result of being in a net loss position. In addition, the calculation of diluted net loss per share for the three months ended March 31, 2017 excluded 7,708 shares for the issuance of stock for restricted stock units.

Note 3: Revenue Recognition

The Company's revenues are primarily comprised of sales of products. Revenue is recognized when the Company satisfies its performance obligation under the contract by transferring the promised product to its customer that obtains control of the product. A performance obligation is a promise in a contract to transfer a distinct product to a customer. Most of the Company's contracts have a single performance obligation, as the promise to transfer products or services is not separately identifiable from other promises in the contract and, therefore, not distinct.

Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring products. As such, revenue is recorded net of returns, allowances, customer discounts, and incentives. Sales and other taxes are excluded from revenues. Invoiced shipping and handling costs are included in revenue.

The Company's revenue is primarily from products transferred to customers at a point in time. The Company recognizes revenue at the point in time in which the customer obtains control of the product, which is generally when product title passes to the customer upon shipment.

The Company has evaluated the impact of the new revenue recognition standard on individual customer contracts. We have determined that there are certain customer agreements involving production of specified product grades and shapes that require revenue to be recognized over time, in advance of shipment, due to there being no alternative use for these grades and shapes without significant economic loss. Also, the Company maintains an enforceable right to payment including a normal profit margin from the customer in the event of contract termination. Over-time recognition is a change from prior accounting, which was point-in-time for these products.

The adoption of ASU 2014-09, using the modified retrospective approach, had no material effect on revenue, gross margin or operating income. Additionally, on January 1, 2018 the adoption had an immaterial impact on the company's Consolidated Balance Sheet. As of March 31, 2018 the adoption created contract assets related to services performed, not yet billed. These amounts are included in Accounts Receivable in the Consolidated Balance Sheet as of March 31, 2018. Contract assets recorded as of March 31, 2018 totaled \$2.1 million. The Company does not have any material contract liabilities as of March 31, 2018.

The Company has elected the following practical expedients allowed under ASU 2014-09:

- Shipping costs are not considered to be separate performance obligations.
- Performance obligations are satisfied within one year from a given reporting date, consequently we omit disclosure of the transaction price apportioned to remaining performance obligations on open orders.

The following summarizes our revenue by melt type:

	Three months ended March 31,	
	2018	2017
Net sales:		
Specialty alloys	\$ 50,485	42,405
Premium alloys (A)	11,845	5,833
Conversion services and other sales	1,407	637
Total net sales	<u>\$ 63,737</u>	<u>48,875</u>

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

Note 4: Inventory

Our raw material and starting stock inventory is primarily comprised of ferrous and non-ferrous scrap metal and alloys such as nickel, chrome, molybdenum, cobalt and copper. Our semi-finished and finished steel products are work-in-process in various stages of production or are finished products waiting to be shipped to our customers. Operating materials are primarily comprised of forge dies and production molds and rolls that are consumed over their useful lives. During the three months ended March 31, 2018 and 2017, we amortized these operating materials in the amount of \$0.5 million. This expense is recorded as a component of cost of products sold on the consolidated statements of operations and included as a part of our total depreciation and amortization on the consolidated statements of cash flows. Inventory is stated at the lower of cost or net realizable value with cost principally determined on a weighted average cost method. Such costs include the acquisition cost for raw materials and supplies, direct labor and applied manufacturing overhead. We assess market based upon actual and estimated transactions at or around the balance sheet date. Typically, we reserve for slow-moving inventory and inventory that is being evaluated under our quality control process. The reserves are based upon management's expected method of disposition. Inventories consisted of the following:

<i>(in thousands)</i>	March 31, 2018	December 31, 2017
Raw materials and starting stock	\$ 10,455	\$ 8,527
Semi-finished and finished steel products	100,991	99,820
Operating materials	11,412	10,850
Gross inventory	122,858	119,197
Inventory reserves	(2,897)	(2,534)
Total inventory, net	\$ 119,961	\$ 116,663

Note 5: Long-Term Debt

Long-term debt consisted of the following:

<i>(in thousands)</i>	March 31, 2018	December 31, 2017
Revolving credit facility	\$ 59,673	\$ 38,024
Notes	19,000	19,000
Term loan	20,471	21,541
Capital leases	1,796	1,897
Total debt	100,940	80,462
Less: current portion of long-term debt	(6,718)	(4,707)
Less: deferred financing costs	(1,035)	(749)
Long-term debt	\$ 93,187	\$ 75,006

Credit Facility

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

On April 24, 2018, the Company announced it had amended its Credit Agreement increasing our Revolving Credit Facility by \$8.0 million from \$65.0 million to \$73.0 million. This amendment will provide additional liquidity to the Company. Further, there have been no changes to the financial covenants, and the Company remains in compliance with all covenants. Subsequent to the Company's April 24, 2018 amendment to the Revolving Credit Facility, the Company may request to increase the maximum aggregate principal amount of the borrowings by \$17.0 million prior to January 21, 2020.

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

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

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

Amounts outstanding under the Facilities, at the Company's option, will bear interest at either a base rate plus a margin or a rate based on LIBOR plus a margin, in either case calculated in accordance with the terms of the Credit Agreement. Interest under the Credit Agreement is payable monthly. We elected to use the LIBOR based rate for the majority of the debt outstanding under the Facilities for the three months ended March 31, 2018, which was 3.67% on our Revolving Credit Facility and 4.17% for the Term Loan at March 31, 2018.

The Credit Agreement contains customary affirmative and negative covenants. The Company must maintain a fixed charge coverage ratio of not less than 1.10 to 1.0, in each case measured on a rolling four-quarter basis calculated in accordance with the terms of the Credit Agreement. We were in compliance with our covenants under the Credit Agreement at March 31, 2018 and December 31, 2017.

At March 31, 2018, we had Credit Agreement related deferred financing costs of approximately \$0.7 million. For the three months ended March 31, 2018, we amortized \$0.1 million of deferred financing costs.

\$6.7 million of the current quarter increase in the Revolving Credit Facility was to fund cash restricted for use related to the New Markets Tax Credit Financing Transaction, described in Note 6.

Notes

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

On January 21, 2016, the Company entered into Amended and Restated Notes in the aggregate principal amount of \$20.0 million, each in favor of Gorbert Inc. ("Holder"). The Company's obligations under the Notes are collateralized by a second lien on the same assets of the Company that collateralize the obligations of the Company under the Facilities.

The Notes were originally scheduled to mature on March 17, 2019. On March 30, 2018, the Company provided notification of its intent to extend the maturity date to March 17, 2020 in accordance with the terms of the Notes.

Upon the Company's extension of the maturity date of the Notes to March 17, 2020, principal payments in the aggregate of \$2.0 million will be required to be made in March 2019. In conjunction with the intended extension of the maturity date of the Notes, \$2.0 million has been classified within current portion of long-term debt.

Additionally, the Company has the option to further extend the maturity date of the Notes to March 17, 2021. Extending the maturity date of the Notes to March 17, 2021 would require a principal payment in the aggregate of \$2.0 million to be made in March 2020.

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

The Holder had the right to elect at any time on or prior to August 17, 2017 to convert all or any portion of the outstanding principal amount of the Notes which is an integral multiple of \$0.1. The Holder's conversion rights expired and are no longer subject to exercise.

Capital Leases

The Company occasionally enters into capital lease arrangements. The capital assets and obligations are recorded at the present value of minimum lease payments. The assets are included in Property, Plant and Equipment, net on the Consolidated Balance Sheet and are depreciated over the respective lease terms which range from three to five years. The long-term component of the capital lease obligations is included in Long-term debt and the current component is included in Current portion of long-term debt. During the three months ended March 31, 2018, the Company did not enter into any new capital lease agreements. During the three months ended March 31, 2017, the Company entered into capital lease agreements for which the net present value of the minimum lease payments, at inception, was \$0.3 million.

As of March 31, 2018, future minimum lease payments applicable to capital leases were as follows:

2018	\$	443
2019		591
2020		569
2021		467
2022		56
2023		16
Total minimum capital lease payments	\$	2,142
Less amounts representing interest		(346)
Present value of net minimum capital lease payments	\$	1,796
Less current obligation		(432)
Total long-term capital lease obligation	\$	1,364

For the three months ended March 31, 2018, the amortization of capital lease assets was \$0.1 million, which is included in cost of products sold in the Consolidated Statement of Operations.

Note 6: New Markets Tax Credit Financing Transaction

On March 9, 2018, the Company entered into a financing transaction with PNC New Markets Investment Partners, LLC and Boston Community Capital, Inc. related to a new mid-size bar cell capital project at the Company’s Dunkirk, NY facility. PNC New Markets Investment Partners, LLC made a capital contribution and the Company made a loan to Dunkirk Investment Fund, LLC (“Investment Fund”) under a qualified New Markets Tax Credit (“NMTC”) program. Through this financing transaction, the Company secured low interest financing and the potential for other future benefits related to its mid-size bar cell capital project.

In connection with the financing transaction, the Company loaned \$6.7 million aggregate principal amount (“Leverage Loan”) due in March 2048 to the Investment Fund. Additionally, PNC New Markets Investment Partners, LLC contributed \$3.5 million to the Investment Fund, and as such, PNC New Markets Investment Partners, LLC is entitled to substantially all tax and other benefits derived from the NMTC. The Investment Fund then contributed the proceeds to a community development entity (“CDE”). The CDE then loaned the funds, on similar terms, as the Leverage Loan to Dunkirk Specialty Steel, LLC, a wholly-owned subsidiary of the Company. The CDE loan proceeds are restricted for use on the mid-size bar cell capital project.

The NMTC is subject to 100 percent recapture for a period of seven years as provided in the Internal Revenue Code. The Company is required to comply with various regulations and contractual provisions that apply to the NMTC arrangement. Non-compliance with applicable requirements could result in projected tax benefits not being realized and, therefore, require the Company to indemnify PNC New Markets Investment Partners, LLC for any loss or recapture of NMTCs related to the financing until the Company’s obligation to deliver tax benefits is relieved. The Company does not anticipate any credit recaptures will be required in connection with this arrangement. This transaction also includes a put/call provision whereby the Company may be obligated or entitled to repurchase PNC New Markets Investment Partners, LLC’s interest in the Investment Fund. The Company believes that PNC New Markets Investment Partners, LLC will exercise the put option in March 2025, at the end of the recapture period. The value attributed to the put/call is negligible.

Direct costs incurred in structuring this financing transaction totaled \$0.4 million. These costs were deferred and will be amortized over the term of the loans.

The Company has determined that the Investment Fund and CDE are each a VIE, and that it is the primary beneficiary of each VIE. This conclusion was reached based on the following:

- The ongoing activities of the VIE, collecting and remitting interest and fees, and NMTC compliance were all considered in the initial design and are not expected to significantly affect economic performance throughout the life of the VIE;
- Contractual arrangements obligate the Company to comply with NMTC rules and regulations and provide various other guarantees to the Investment Fund and CDE;
- PNC New Markets Investment Partners, LLC lacks a material interest in the underlying economics of the project; and
- The Company is obligated to absorb losses of the VIE.

Because the Company is the primary beneficiary of each VIE, these entities have been included in the Company’s Consolidated Financial Statements.

As of March 31, 2018, the Company has recorded \$8.3 million as restricted cash which is included in Other long-term assets on the Company's Consolidated Balance Sheet and \$3.0 million as Other long-term liabilities related to this financing transaction. Cash is restricted for use in bar cell capital purchases only. Other long-term liabilities represent funds contributed to the Investment Fund by PNC New Markets Investment Partners, LLC.

Note 7: Fair Value Measurement

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

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

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

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

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

The carrying amounts of our cash, accounts receivable and accounts payable approximated fair value at March 31, 2018 and December 31, 2017 due to their short-term maturities (Level 1). The fair value of the Term Loan, Revolving Credit facility at March 31, 2018 and December 31, 2017 approximated the carrying amount as the interest rate is based upon floating short-term interest rates (Level 2). At March 31, 2018 and December 31, 2017, the fair value of our Notes was approximately \$18.9 and \$18.8 million, respectively (Level 2).

Note 8: Commitments and Contingencies

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

Note 9: Income Taxes

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

For the three months ended March 31, 2018 and 2017, our estimated annual effective tax rates applied to ordinary income (losses) were 18.7% and 20.7%, respectively. The difference between the statutory rate and the projected annual ETR of 18.7% for 2018 is primarily due to the research and development credit. Our estimated ETR incorporated the 21% statutory U.S. corporate income tax rate that was enacted on December 22, 2017 by the Tax Cuts and Jobs Act, for the tax years beginning after December 31, 2017.

Including the effect of discrete items, our effective tax rates for the three months ended March 31, 2018 and 2017 were 26.8% and 17.7%, respectively. The difference between the annual ETR of 18.7% and the quarterly rate of 26.8% for the three months ended March 31, 2018 is primarily related to the expiration of fully vested stock options, which impacted income tax expense by \$0.2 million.

Note 10: Derivatives and Hedging

The Company invoices certain customers in foreign currencies. In order to mitigate the risks associated with fluctuations in exchange rates with the US Dollar, the Company entered into foreign exchange forward contracts during 2018 and 2017 for a portion of these sales and has designated these contracts as cash flow hedges. The notional value of these contracts at March 31, 2018 and December 31, 2017 was \$3.4 million and \$4.5 million, respectively. An accumulated unrealized loss of \$0.1 million was recorded in other comprehensive income at December 31, 2017.

Note 11: Subsequent Event

On April 24, 2018, the Company announced it had amended its Credit Agreement increasing our Revolving Credit Facility by \$8.0 million from \$65.0 million to \$73.0 million. This amendment will provide additional liquidity to the Company. Further, there have been no changes to the financial covenants, and the Company remains in compliance with all covenants.

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

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains or incorporates forward looking statements within the meaning of the Private Securities Reform Act of 1995, which involves risks and uncertainties. The following information should be read in conjunction with the unaudited consolidated financial information and the notes thereto included in this Quarterly Report on Form 10-Q. You should not place undue reliance on these forward looking statements. Actual events or results may differ materially due to competitive factors and other factors referred to in Part 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2017, our other filings with the Securities and Exchange Commission and elsewhere in this Quarterly Report. These factors may cause our actual results to differ materially from any forward looking statement. These forward looking statements are based on current expectations, estimates, forecasts, and projections about the industry and markets in which we operate, and management's beliefs and assumptions. In addition, other written or oral statements that constitute forward looking statements may be made by us or on our behalf. Words such as "expect," "anticipate," "intend," "plan," "believe," "could," "estimate," "may," "target," "project," or variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties, and assumptions that are difficult to predict.

Business Overview

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

Sales in the first quarter of 2018 were \$63.7 million, an increase of \$14.9 million, or 30.4%, from the first quarter of 2017 and an increase of \$13.5 million, or 26.8%, from the fourth quarter of 2017. Net sales increased across most end markets in the first quarter of 2018 compared to the first quarter of 2017 with aerospace up \$9.5 million, or 35.8%, oil & gas up \$3.6 million, or 73.0%, heavy equipment up \$2.4 million, or 30.6%, and general industrial, conversion services and other up \$1.3 million, or 25.0%. These increases were partially offset by lower power generation end market sales of \$1.9 million, or negative 45.9%. Sequentially, compared to the fourth quarter of 2017, aerospace increased by \$7.8 million, or 27.6%, oil & gas increased by \$3.7 million, or 77.2%, heavy equipment sales increased by \$2.5 million, or 33.0%, and general industrial, conversion services and other end markets increased by \$1.5 million, or 28.2%. These increases were partially offset by decreased power generation end market sales of \$2.0 million, or negative 47.1%. During the first quarter of 2018, our net sales of premium alloy products, which we define as all vacuum induction melt products, represented \$11.8 million, or 18.6% of total net sales. This compared to the first quarter of 2017 when premium alloy net sales were \$5.8 million, or 11.9% of total net sales, and the fourth quarter of 2017 when premium alloy net sales were \$7.3 million, or 14.6% of total net sales. Our premium alloy products are primarily sold to the aerospace end market. Our backlog, before surcharges, at March 31, 2018 was \$90.6 million, an increase of \$33.5 million, or 58.8%, compared to the 2017 first quarter-end and an increase of \$12.9 million, or 16.7%, compared to December 31, 2017.

The Company's gross margin for the first quarter of 2018 was \$9.3 million, or 14.5% of net sales, compared to \$4.2 million, or 8.7% of net sales, for the first quarter of 2017 and \$6.2 million, or 12.3% of net sales, for the fourth quarter of 2017. The increase in our gross margin is largely a result of shift in product mix to higher value premium alloy, higher volumes, base price increases, and cost reduction programs.

Selling, General and Administrative ("SG&A") expenses were \$5.2 million, or 8.2% of sales, in the first quarter 2018 compared to \$4.7 million, or 9.7% of sales, in the first quarter of 2017 and \$5.1 million, or 10.2% of sales, in the fourth quarter of 2017. While SG&A decreased as a percent of sales, salary expense and employment costs including employee incentive compensation increased overall spend levels compared to prior periods.

The Company's net income was \$2.1 million for the first quarter of 2018 compared to a net loss of \$1.2 million in the first quarter of 2017 and net income of \$7.9 million in the fourth quarter of 2017. Fourth quarter 2017 net income included a net tax benefit of \$7.9 million primarily attributable to federal tax legislation changes.

With business conditions and demand remaining positive and the continued strength in our order entry and backlog, we are focused on improving gross profit margins as we continue to look forward through 2018.

Results of Operations

Three months ended March 31, 2018 as compared to the three months ended March 31, 2017

<i>(in thousands, except shipped ton information)</i>	Three months ended March 31,					
	2018		2017		Dollar / ton variance	Percentage variance
	Amount	Percentage of net sales	Amount	Percentage of net sales		
Net sales:						
Stainless steel	\$ 42,939	67.4%	\$ 35,033	71.8%	\$ 7,906	22.6%
High-strength low alloy steel	5,203	8.2	4,172	8.5	1,031	24.7
Tool steel	9,641	15.1	7,057	14.4	2,584	36.6
High-temperature alloy steel	4,547	7.1	1,976	4.0	2,571	130.1
Conversion services and other sales	1,407	2.2	637	1.3	770	120.9
Total net sales	63,737	100.0	48,875	100.0	14,862	30.4
Cost of products sold	54,465	85.5	44,630	91.3	9,835	22.0
Gross margin	9,272	14.5	4,245	8.7	5,027	118.4
Selling, general and administrative expenses	5,207	8.2	4,729	9.7	478	10.1
Operating income (loss)	4,065	6.3	(484)	(1.0)	4,549	NM
Interest expense	1,142	1.8	939	1.9	203	21.6
Deferred financing amortization	64	0.1	64	0.1	-	0.0
Other (income) expense, net	(43)	(0.1)	(6)	-	(37)	NM
Income (loss) before income taxes	2,902	4.5	(1,481)	(3.0)	4,383	(295.9)
Provision (benefit) for income taxes	777	1.2	(262)	(0.5)	1,039	(396.6)
Net income (loss)	\$ 2,125	3.3%	\$ (1,219)	(2.5)%	\$ 3,344	(274.3)
Tons shipped	11,156		10,332		824	8.0%
Sales dollars per shipped ton	\$ 5,713		\$ 4,730		\$ 983	20.8%

Market Segment Information

<i>(in thousands)</i>	Three months ended March 31,					
	2018		2017		Dollar variance	Percentage variance
	Amount	Percentage of net sales	Amount	Percentage of net sales		
Net sales:						
Service centers	\$ 44,521	69.9%	\$ 32,729	67.0%	\$ 11,792	36.0%
Original equipment manufacturers	4,482	7.0	4,122	8.4	360	8.7
Rerollers	8,364	13.1	6,553	13.4	1,811	27.6
Forgers	4,963	7.8	4,834	9.9	129	2.7
Conversion services and other sales	1,407	2.2	637	1.3	770	120.9
Total net sales	\$ 63,737	100.0%	\$ 48,875	100.0%	\$ 14,862	30.4%

Melt Type Information

<i>(in thousands)</i>	Three months ended March 31,					
	2018		2017		Dollar variance	Percentage variance
	Amount	Percentage of net sales	Amount	Percentage of net sales		
Net sales:						
Specialty alloys	\$ 50,485	79.2%	\$ 42,405	86.8%	\$ 8,080	19.1%
Premium alloys (A)	11,845	18.6	5,833	11.9	6,012	103.1
Conversion services and other sales	1,407	2.2	637	1.3	770	120.9
Total net sales	\$ 63,737	100.0%	\$ 48,875	100.0%	\$ 14,862	30.4%

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

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

End Market Information

(in thousands)	Three months ended March 31,					
	2018		2017		Dollar variance	Percentage variance
	Amount	Percentage of net sales	Amount	Percentage of net sales		
Net sales:						
Aerospace	\$ 36,235	56.9%	\$ 26,692	54.6%	\$ 9,543	35.8%
Power generation	2,289	3.6	4,234	8.7	(1,945)	(45.9)
Oil & gas	8,459	13.3	4,889	10.0	3,570	73.0
Heavy equipment	10,035	15.7	7,685	15.7	2,350	30.6
General industrial, conversion services and other sales	6,719	10.5	5,375	11.0	1,344	25.0
Total net sales	<u>\$ 63,737</u>	<u>100.0%</u>	<u>\$ 48,875</u>	<u>100.0%</u>	<u>\$ 14,862</u>	<u>30.4%</u>

Net sales:

Net sales for the three months ended March 31, 2018 increased \$14.9 million, or 30.4%, as compared to the three months ended March 31, 2017. This reflects an increase in consolidated shipments and average sales dollar per shipped ton of 8% and 20.8%, respectively. The increase in sales dollars per ton in the three months ended March 31, 2018, compared to the same period in 2017, is primarily the result of shift in mix of products to higher value premium alloy. In addition, announced base price increases and higher surcharges relative to market pricing of raw materials and graphite electrodes contributed to the overall increase in Net sales. Product sales to all end markets, except power generation, increased as noted in the above table. During the three months ended March 31, 2018, premium alloy sales increased by \$6.0 million, or 103.1%, when compared to the three months ended March 31, 2017. As a percent of sales, our premium alloy sales increased to 18.6% of total sales for the three months ended March 31, 2018 compared to 11.9% for the three months ended March 31, 2017. Our premium alloy sales are primarily for the aerospace market and are the principal contributing factor of growth in that end market.

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

The following table reflects the average market values per pound for selected months during the last 9-month period:

	March 2018	December 2017	September 2017	June 2017
Nickel	\$ 6.08	\$ 5.18	\$ 5.10	\$ 4.05
Chrome	\$ 1.44	\$ 1.44	\$ 1.45	\$ 1.44
Molybdenum	\$ 12.96	\$ 9.43	\$ 8.71	\$ 7.55
Carbon scrap	\$ 0.19	\$ 0.18	\$ 0.19	\$ 0.18

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

Gross margin:

Our gross margin, as a percent of sales, was 14.5% for the three months ended March 31, 2018 as compared to 8.7% for the three months ended March 31, 2017. The increase in our gross margin is largely a result of shift in product mix to higher value premium alloy, on higher volumes, base price increases, and cost reduction programs.

Selling, general and administrative expenses:

Our SG&A expenses consist primarily of employee costs, which include salaries, payroll taxes and benefit related costs, legal and accounting services, stock compensation and insurance costs. SG&A expenses increased by \$0.5 million in the three months ended March 31, 2018 as compared to the three months ended March 31, 2017. Salary expense and employment costs including employee incentive compensation increased \$0.6 million, SG&A costs were positively impacted by a \$0.2 million decrease in stock-based compensation. As a percentage of sales, our SG&A expenses were 8.2% of sales for the three months ended March 31, 2018 and 9.7% of sales for the three months ended March 31, 2017.

Interest expense and other financing costs:

Interest expense for the three months ended March 31, 2018 totaled \$1.2 million, compared to \$1.0 million for the three months ended March 31, 2017. The increase in interest expense is attributable to increased Credit Agreement borrowings.

Income tax provision:

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

For the three months ended March 31, 2018 and 2017, our estimated annual effective tax rates applied to ordinary income (losses) were 18.7% and 20.7%, respectively. The difference between the statutory rate and the projected annual ETR of 18.7% for 2018 is primarily due to the research and development credit. Our estimated ETR incorporated the 21% statutory U.S. corporate income tax rate that was enacted on December 22, 2017 by the Tax Cuts and Jobs Act, for tax years beginning after December 31, 2017.

Including the effect of discrete items, our effective tax rates for the three months ended March 31, 2018 and 2017 were 26.8% and 17.7%, respectively. The difference between the annual ETR of 18.7% and the quarterly rate of 26.8% for the three months ended March 31, 2018 is primarily related to the expiration of fully vested stock options, which impacted income tax expense by \$0.2 million.

Net income:

For the first quarter of 2018, the Company recorded net income of \$2.1 million, or \$0.28 per diluted share, compared to a net loss of \$1.2 million, or \$0.17 per diluted share, in the first quarter of 2017.

Liquidity and Capital Resources

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

On March 9, 2018, the Company entered into a financing transaction with PNC New Markets Investment Partners, LLC and Boston Community Capital, Inc. related to a new mid-size bar cell capital project at the Company’s Dunkirk, NY facility. PNC New Markets Investment Partners, LLC made a capital contribution and the Company made a loan to Dunkirk Investment Fund, LLC (“Investment Fund”) under a qualified New Markets Tax Credit (“NMTC”) program. Through this financing transaction, the Company secured low interest financing and the potential for other future benefits related to its mid-size bar cell capital project.

In connection with the financing transaction, the Company loaned \$6.7 million aggregate principal amount (“Leverage Loan”) due in March 2048, to the Investment Fund. Additionally, PNC New Markets Investment Partners, LLC contributed \$3.5 million to the Investment Fund, and as such, PNC New Markets Investment Partners, LLC is entitled to substantially all tax and other benefits derived from the NMTC. The Investment Fund then contributed the proceeds to a community development entity (“CDE”). The CDE then loaned the funds, on similar terms, as the Leverage Loan to Dunkirk Specialty Steel, LLC, a wholly-owned subsidiary of the Company. The CDE loan proceeds are restricted for use on the mid-size bar cell capital project.

Net cash (used in) by provided operating activities:

During the three months ended March 31, 2018, net cash used in operating activities was \$12.4 million. Our net income, adjusted for non-cash expenses, generated \$8.0 million of cash. We utilized \$20.1 million of cash from managed working capital, which we define as net accounts receivable, plus inventory and minus accounts payable. Accounts receivable increased \$8.6 million due to the increase in sales in the first quarter of 2018 compared to the fourth quarter of 2017. Inventories used \$3.8 million in support of the increased backlog with an additional \$7.7 million decrease in accounts payable. Accrued employment costs were reduced by \$0.6 million primarily due to decrease in accrued payroll.

During the three months ended March 31, 2017, our net cash provided by operating activities was approximately break-even. Net loss adjusted for non-cash expenses was \$3.7 million. We utilized \$1.6 million of cash for managed working capital which we define as net accounts receivable, plus inventory and minus accounts payable. Accounts receivable increased \$6.5 million due to the increase in sales in the first quarter of 2017 compared to the fourth quarter of 2016. Inventories used \$4.5 million in support of the increased backlog due to which was more than offset by the \$9.4 million increase in accounts payable due to increased production activity. Accrued employment costs decreased by \$1.4 million due to the payout of 2016 employee incentive compensation, and other activities, primarily medical insurance and employment related taxes, used \$0.8 million of cash.

Net cash (used in) investing activities:

During the three months ended March 31, 2018, we used \$2.5 million in cash for capital expenditures compared to \$1.4 million for the three months ended March 31, 2017. We expect capital expenditures to be higher in 2018 compared to 2017.

Net cash provided by financing activities:

We received \$23.2 million in cash from financing activities for the three months ended March 31, 2018. The increase was driven by higher working capital levels, as well as, borrowings related to the mid-size bar cell capital project at our Dunkirk, NY facility. These borrowings were done in conjunction with utilization of the NMTC financing program, described in Note 6.

We received \$1.5 million in cash from financing activities for the three months ended March 31, 2017. We increased borrowings due to increased working capital requirements resulting from increased sales and backlog.

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

We have a Revolving Credit, Term Loan and Security Agreement (“Credit Agreement”) with PNC Bank, National Association, as administrative agent and co-collateral agent, Bank of America, N.A., as co-collateral agent, and PNC Capital Markets LLC, as sole lead arranger and sole bookrunner. The Credit Agreement provides for a senior secured revolving credit facility not to exceed \$65.0 million (“Revolving Credit Facility”) and a senior secured term loan facility (“Term Loan”) in the amount of \$30.0 million (together with the Revolving Credit Facility, “Facilities”). The Credit Agreement also provides for a letter of credit sub-facility not to exceed \$10.0 million and a swing loan sub-facility not to exceed \$6.5 million.

On April 24, 2018, the Company announced it had amended its Credit Agreement increasing our Revolving Credit Facility by \$8.0 million from \$65.0 million to \$73.0 million. This amendment will provide additional liquidity to the Company. Further, there have been no changes to the financial covenants, and the Company remains in compliance with all covenants. Subsequent to the Company’s April 24, 2018 amendment to the Revolving Credit Facility, the Company may request to increase the maximum aggregate principal amount of the borrowings by \$17.0 million prior to January 21, 2020.

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

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

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

Amounts outstanding under the Facilities, at the Company’s option, will bear interest at either a base rate plus a margin or a rate based on LIBOR plus a margin, in either case calculated in accordance with the terms of the Credit Agreement. Interest under the Credit Agreement is payable monthly. We elected to use the LIBOR based rate for the majority of the debt outstanding under the Facilities for the three months ended March 31, 2018, which was 3.67% on our Revolving Credit Facility and 4.17% for the Term Loan at March 31, 2018.

The Credit Agreement contains customary affirmative and negative covenants. The Company must maintain a fixed charge coverage ratio of not less than 1.10 to 1.0, in each case measured on a rolling four-quarter basis calculated in accordance with the terms of the Credit Agreement. We were in compliance with our covenants under the Credit Agreement at March 31, 2018 and December 31, 2017.

At March 31, 2018, we had Credit Agreement related deferred financing costs of approximately \$0.7 million. For the three months ended March 31, 2018, we amortized \$0.1 million of deferred financing costs.

\$6.7 million of the current quarter increase in the Revolving Credit Facility was to fund cash restricted for use related to the New Markets Tax Credit Financing Transaction, described in Note 6.

Notes

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

On January 21, 2016, the Company entered into Amended and Restated Notes in the aggregate principal amount of \$20.0 million, each in favor of Gorbert Inc. ("Holder"). The Company's obligations under the Notes are collateralized by a second lien on the same assets of the Company that collateralize the obligations of the Company under the Facilities.

The Notes were originally scheduled to mature on March 17, 2019. On March 30, 2018, the Company provided notification of its intent to extend the maturity date to March 17, 2020 in accordance with the terms of the Notes.

Upon the Company's extension of the maturity date of the Notes to March 17, 2020, principal payments in the aggregate of \$2.0 million will be required to be made in March 2019. In conjunction with the intended extension of the maturity date of the Notes, \$2.0 million has been classified within current portion of long-term debt.

Additionally, the Company has the option to further extend the maturity date of the Notes to March 17, 2021. Extending the maturity date of the Notes to March 17, 2021 would require a principal payment in the aggregate of \$2.0 million to be made in March 2020.

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

The Holder had the right to elect at any time on or prior to August 17, 2017 to convert all or any portion of the outstanding principal amount of the Notes which is an integral multiple of \$0.1. The Holder's conversion rights expired and are no longer subject to exercise.

Capital Leases

The Company enters into capital lease arrangements. The capital assets and obligations are recorded at the present value of minimum lease payments. The assets are included in Property, Plant and Equipment, net on the Consolidated Balance Sheet and are depreciated over the respective lease terms which range from three to five years. The long-term component of the capital lease obligations is included in Long-term debt and the current component is included in Current portion of long-term debt. During the three months ended March 31, 2018, the Company did not enter into any new capital lease agreements. During the three months ended March 31, 2017, the Company entered into capital lease agreements for which the net present value of the minimum lease payments, at inception, was \$0.3 million.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has reviewed its market risk and believes there are no significant changes from that disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, except as provided in this Form 10-Q in "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 4. CONTROLS AND PROCEDURES

The Company's management, including the Company's Chairman, President and Chief Executive Officer and its Vice President of Finance, Chief Financial Officer and Treasurer, performed an evaluation of the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the Company's Chairman, President and Chief Executive Officer and its Vice President of Finance, Chief Financial Officer and Treasurer concluded that, as of the end of the fiscal period covered by this quarterly report, the Company's disclosure controls and procedures are effective. During the fiscal quarter ended March 31, 2018, there were no changes in the Company's internal control over financial reporting which have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

There are no material changes from the legal proceedings disclosed in Item 3. of the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Item 1A. RISK FACTORS

There are no material changes from the risk factors disclosed in Item 1A. of the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

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

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not Applicable.

Item 5. OTHER INFORMATION

On April 24, 2018, the Company entered into the Fourth Amendment to Revolving Credit, Term Loan and Security Agreement (the "Fourth Amendment"), by and among the Company, the other Borrowers (as defined in the Fourth Amendment) party thereto, the Lenders (as defined in the Fourth Amendment) and PNC Bank, National Association, as Administrative Agent. The Fourth Amendment amended the Credit Agreement. Pursuant to the Fourth Amendment, the maximum amount of aggregate borrowings permitted under the Revolving Credit Facility has been increased to \$73.0 million from \$65.0 million. In addition, the amount of the swing line sub-facility under the Revolving Credit Facility was increased from \$6.5 million to \$7.3 million. The foregoing is a description of the material terms and conditions of the Fourth Amendment and is not a complete discussion of the Fourth Amendment. Accordingly, the foregoing is qualified in its entirety by reference to the full text of the Fourth Amendment, which is filed as Exhibit 10.2 to this Quarterly Report on Form 10-Q and is incorporated herein by reference.

Item 6. EXHIBITS

Exhibit Number	Exhibit
10.1	<u>Third Amendment to Revolving Credit, Term Loan and Security Agreement, dated March 9, 2018, by and among Universal Stainless & Alloy Products, Inc., the other borrowers party, thereto and PNC Bank National Association, as Administrative Agent (filed herewith).</u>
10.2	<u>Fourth Amendment to Revolving Credit, Term Loan and Security Agreement, dated April 24, 2018, by and among Universal Stainless & Alloy products, Inc., the other borrowers party, thereto and PNC Bank National Association, as Administrative Agent (filed herewith).</u>
10.3	<u>Employment Agreement, dated April 2, 2018, between the Company and Christopher T. Scanlon (filed herewith).</u>
31.1	<u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).</u>
31.2	<u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).</u>
32.1	<u>Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).</u>
101	The following financial information from this Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2018, formatted in XBRL (Extensible Business Reporting Language) and filed electronically herewith: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Comprehensive Income (iv) the Consolidated Statements of Cash Flows; and (v) the Notes to the Consolidated Financial Statements (filed herewith).

SIGNATURES

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

Date: April 25, 2018

/s/ Dennis M. Oates

Dennis M. Oates

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

/s/ Christopher T. Scanlon

Christopher T. Scanlon

Vice President of Finance,
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

THIRD AMENDMENT TO REVOLVING CREDIT, TERM LOAN AND SECURITY AGREEMENT

This Third Amendment to Revolving Credit, Term Loan and Security Agreement (this "Third Amendment") is dated this 9th day of March, 2018, by and among UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC., a Delaware corporation ("Universal"), DUNKIRK SPECIALTY STEEL, LLC, a Delaware limited liability company ("Dunkirk"), NORTH JACKSON SPECIALTY STEEL, LLC, a Delaware limited liability company ("North Jackson") (Universal, Dunkirk, North Jackson are collectively, the "Borrowers", and each a "Borrower"), the LENDERS party hereto, and PNC BANK, NATIONAL ASSOCIATION ("PNC"), in its capacity as administrative agent for the Lenders (hereinafter referred to in such capacity as the "Administrative Agent").

W I T N E S S E T H:

WHEREAS, the Borrowers, the Guarantors party thereto, the Lenders, the Administrative Agent, PNC and BANK OF AMERICA, N.A., as co-collateral agents for Lenders entered into that certain Revolving Credit, Term Loan and Security Agreement, dated as of January 21, 2016, as amended by that certain (i) First Amendment to Revolving Credit, Term Loan and Security Agreement, dated May 12, 2017 and (ii) Second Amendment to Revolving Credit, Term Loan and Security Agreement, dated October 23, 2017 (as further amended, modified, supplemented, extended, renewed or restated from time to time, the "Credit Agreement"); and

WHEREAS, the Borrowers desire to amend certain provisions of the Credit Agreement, and the Lenders and the Administrative Agent agree to permit such amendments pursuant to the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the premises contained herein and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the parties hereto agree as follows:

1. All capitalized terms used herein which are defined in the Credit Agreement shall have the same meanings herein as in the Credit Agreement unless the context herein clearly indicates otherwise.

2. Section 1.2 of the Credit Agreement is hereby amended by inserting the following definitions in their appropriate alphabetical order:

"CDE" shall mean BCC NMTC CDE XXVII LLC, a Massachusetts limited liability company.

"Investment Fund" shall mean Dunkirk Investment Fund, LLC, a Delaware limited liability company.

"Leverage Lender" shall mean Dunkirk Leverage Loan Partners LLC, a Delaware limited liability company.

"Leverage Loan" shall mean that certain loan by Leverage Lender to the Investment Fund in the amount of Six Million Six Hundred Sixty-Five Thousand and No/100 Dollars (\$6,665,000.00) pursuant to the Leverage Loan Documents.

"Leverage Loan Documents" shall mean, collectively, (i) certain Loan and Security Agreement (Leverage Loan), dated the Third Amendment Closing Date, by and between Leverage Lender and the Investment Fund, (ii) that certain Promissory Note (Leverage Loan), dated the Third Amendment Closing Date, made by the Investment Fund in favor of Leverage Lender in the principal amount of \$6,665,000.00, (iii) that certain Forbearance Agreement (Leverage Loan), dated the Third Amendment Closing Date, by and among PNC New Markets Investment Partners, LLC, the Investment Fund and Leverage Lender, and (iv) all other agreements, documents, instruments and/or certificates delivered in connection with the foregoing.

"New Markets Tax Credit" means the "new markets tax credit" program permitted pursuant to Section 45D of the Code.

"NMTC Documents" shall mean, collectively, the Leverage Loan Documents, the QLICI Loan Documents and the Source Loan Documents.

"NMTC Projections" shall mean the Financial Projections, as such term is defined in the QLICI Loan Documents.

"QLICI Loans" shall mean the loans in the aggregate principal amount not to exceed \$9,500,000 made by CDE to Dunkirk pursuant to the QLICI Loan Documents.

"QLICI Loan Documents" shall mean, collectively, (i) that certain Loan Agreement by and between CDE and Dunkirk, dated the Third Amendment Closing Date, (ii) that certain Promissory Note A, dated the Third Amendment Closing Date, made by Dunkirk in favor of CDE in the principal amount of \$6,665,000.00, (iii) that certain Promissory Note B, dated the Third Amendment Closing Date, made by Dunkirk in favor of CDE in the principal amount of \$2,835,000.00, (iv) that certain Guaranty of Payment, dated as of the Third Amendment Closing Date, executed by Universal and North Jackson in favor of CDE, (v) that certain New Markets Tax Credit Compliance Agreement, dated the Third Amendment Closing Date, entered into by Dunkirk, Universal and North Jackson for the benefit of CDE and the Investment Fund, (vi) that certain Account Pledge Agreement (Disbursement Account), dated as of the Third Amendment Closing Date, by and between Dunkirk and CDE, (vii) that certain Deposit Account Control

Agreement (Hard Account Agreement), dated as of the Third Amendment Closing Date, by and among Dunkirk, CDE and PNC Bank, National Association, (viii) that certain Cost Reimbursement Certification and Agreement, dated as of the Third Amendment Closing Date, by Universal and Dunkirk to and for the benefit of CDE, (ix) the NMTC Projections and (x) all other agreements, documents, instruments and/or certificates delivered in connection with the foregoing.

"Source Lender" shall mean Dunkirk Source Lender LLC, a Delaware limited liability company.

"Source Loan" shall mean that certain loan by Universal to Source Lender in the aggregate principal amount of \$299,925 pursuant to the Source Loan Documents.

"Source Loan Documents" shall mean, collectively, (i) that certain Loan Agreement, dated the Third Amendment Closing Date, by and between Universal and Source Lender, (ii) that certain Promissory Note (Source Loan), dated the Third Amendment Closing Date, made by Universal in favor of Source Lender in the principal amount of \$299,925 and (iii) all other agreements, documents, instruments and/or certificates delivered in connection with the foregoing.

"Third Amendment Closing Date" shall mean March 9, 2018.

3. Section 1.2 of the Credit Agreement is hereby amended by deleting the following definitions in their entirety and in their stead inserting the following:

"Availability Block" shall mean Three Million Five Hundred Thousand and 00/100 Dollars (\$3,500,000.00). Upon completion and acceptance by the Co-Collateral Agents of an equipment or Real Property Collateral appraisal in accordance with Section 4.7, the Co-Collateral Agents shall have the right, in their sole discretion upon written notice to the Borrowing Agent, to increase the Availability Block by the positive difference, if any, between (A) One Million Five Hundred Thousand and 00/100 Dollars (\$1,500,000.00), minus (B) the difference between (x) the sum of (i) eighty-five percent (85%) of the net orderly liquidation value of the equipment, (ii) fifty percent (50%) of the fair market value of the Real Property Collateral, and (iii) the then current Availability Block, minus (y) the then current outstanding principal balance of the Term Loan.

"Dunkirk Project" shall mean the Project, as such term is defined in the QLICI Loan Documents.

"Dunkirk Project Capital Expenditures" shall mean Capital Expenditures incurred in connection with the Dunkirk Project.

"Permitted Indebtedness" shall mean: (a) the Obligations; (b) Indebtedness incurred for Capital Expenditures permitted in Section 7.6 hereof; (c) any guarantees of Indebtedness permitted under Section 7.3 hereof; (d) any Indebtedness listed on Schedule 7.8 hereof (including any extensions, renewals or refinancings thereof), provided that the principal amount of such Indebtedness shall not be increased without the prior written consent of the Required Lenders; (e) Indebtedness consisting of Permitted Loans made by one or more Loan Party(ies) to any other Loan Party(ies); (f) Indebtedness under the Gorbert Notes as they exist on the date of this Agreement (including any Refinancing Indebtedness in respect thereof); (g) Interest Rate Hedges, Commodity Hedges and Foreign Currency Hedges that are entered into by Loan Parties to hedge their risks with respect to outstanding Indebtedness of Loan Parties and not for speculative or investment purposes; (h) intercompany Indebtedness owing from one or more Loan Parties to any other one or more Loan Parties in accordance with clause (c) of the definition of Permitted Loans; (i) Indebtedness under the QLICI Loan Documents and (j) unsecured Indebtedness not otherwise permitted pursuant to this definition of Permitted Indebtedness which does not exceed Ten Million and 00/100 Dollars (\$10,000,000.00) in the aggregate at any time outstanding; provided that any such Indebtedness shall be evidenced by documentation satisfactory to the Administrative Agent in its Permitted Discretion.

"Permitted Investments" shall mean investments in: (a) obligations issued or guaranteed by the United States of America or any agency thereof; (b) commercial paper with maturities of not more than 180 days and a published rating of not less than A-1 or P-1 (or the equivalent rating); (c) certificates of time deposit and bankers' acceptances having maturities of not more than 180 days and repurchase agreements backed by United States government securities of a commercial bank if (i) such bank has a combined capital and surplus of at least \$500,000,000, or (ii) its debt obligations, or those of a holding company of which it is a subsidiary, are rated not less than A (or the equivalent rating) by a nationally recognized investment rating agency; (d) U.S. money market funds that invest solely in obligations issued or guaranteed by the United States of America or an agency thereof; (e) Permitted Loans; (f) the equity investment by Universal in Leverage Lender on the Third Amendment Closing Date in the amount of \$6,331,750; and (g) the transactions contemplated by that certain Option Agreement, dated as of the Third Amendment Closing Date, by and between Leverage Lender and PNC New Markets Investment Partners, LLC.

"Permitted Loans" shall mean: (a) the extension of trade credit by a Loan Party to its Customer(s), in the Ordinary Course of Business in connection with a sale of Inventory or rendition of services, in each case on open account terms; (b) loans to employees in the Ordinary Course of Business not to exceed as to all such loans the aggregate amount of Five Hundred Thousand and 00/100 Dollars (\$500,000.00) at any time outstanding; (c) intercompany loans between and among Loan Parties, so long as, at the request of Administrative Agent, each such intercompany loan is evidenced by a promissory note (including, if applicable, any master intercompany note executed by the applicable Loan Party(ies)) on terms and conditions (including terms subordinating payment of the indebtedness evidenced by such note to the prior payment in full of all Obligations) acceptable to Administrative Agent in its sole discretion that has been delivered to Administrative Agent either endorsed in blank or together with an undated instrument of transfer executed in blank by the applicable Loan Party(ies) that are the payee(s) on such note; and (d) the Source Lender Loan and the Leverage Loan.

"Unfunded Capital Expenditures" shall mean all Capital Expenditures of the Loan Parties on a consolidated basis other than those made utilizing the proceeds from financing provided by the applicable seller or third party lenders or proceeds from equity issuances, asset sales or insurance proceeds. For the avoidance of doubt, Capital Expenditures made utilizing Revolving Advances shall be deemed Unfunded Capital Expenditures. Notwithstanding anything in this Agreement to the contrary, Dunkirk Project Capital Expenditures shall not constitute Unfunded Capital Expenditures to the extent they are financed by the \$3,510,000 loan or cash investment to be made by PNC New Markets Investment Partners, LLC to the Investment Fund on or prior to the Third Amendment Closing Date.

4. The definition of "Excluded Property" set forth in Section 1.2 of the Credit Agreement is hereby amended by adding the following new sentence to the end thereof:

In addition to the foregoing, Excluded Property shall include the Equity Interests owned by Universal in Leverage Lender.

5. The definition of "Permitted Encumbrances" set forth in Section 1.2 of the Credit Agreement is hereby amended by (i) deleting the reference therein to " and (k)" and in its stead inserting a reference to "; (k)", and (ii) adding the following new language to the end thereof, immediately prior to the "." at the end of such definition:

; and (l) Liens created pursuant to the documents described in items (vi) and (vii) of the definition of QLICI Loan Documents; provided that such Liens shall secure only those obligations which

they secure on the Third Amendment Closing Date (and extensions, renewals and refinancing of such obligations permitted by Section 7.8 hereof) and shall not subsequently apply to any other property or assets of any Loan Party other than the property and assets to which they apply as of the Third Amendment Closing Date.

6. Section 2.1(a)(A)(y)(ii) of the Credit Agreement is hereby amended by deleting the reference therein to "seventy-five percent (75%) of the Maximum Revolving Advance Amount" and in its stead inserting a reference to "(x) from the Third Amendment Closing Date through and including June 30, 2018, eighty percent (80%) of the Maximum Revolving Advance Amount and (y) from July 1, 2018 and thereafter, seventy-five percent (75%) of the Maximum Revolving Advance Amount".

7. Section 3.3 of the Credit Agreement is hereby amended by adding the following new clause (d) to the end thereof, immediately following clause (c):

(d) On the Third Amendment Closing Date, Borrowers shall pay to Administrative Agent for the ratable benefit of Lenders an amendment fee of Twenty-Five Thousand and 00/100 Dollars (\$25,000.00).

8. The following new Section 5.28 is hereby added to the Credit Agreement, immediately following Section 5.27:

5.28 New Markets Tax Credit Structure. The Dunkirk Project, the related investments and loans permitted hereunder and the transactions contemplated by the NMTC Documents comply in all respects with the New Markets Tax Credit program requirements as set forth in Section 45D of the Code (and all related treasury regulations).

9. Article VII of the Credit Agreement is hereby amended by deleting the reference set forth in the lead-in (or first (1st) sentence) therein to "Loan Party" and in its stead inserting a reference to "Loan Party or Leverage Lender".

10. Section 7.10 of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

7.10 Transactions with Affiliates. Directly or indirectly, purchase, acquire or lease any property from, or sell, transfer or lease any property to, or otherwise enter into any transaction or deal with, any Affiliate, except for (i) transactions among Loan Parties which are not expressly prohibited by the terms of this Agreement and which are in the Ordinary Course of Business, (ii) payment by Loan Parties of dividends and distributions permitted under Section 7.7 hereof, (iii) transactions contemplated by and pursuant to the NMTC Documents, and (iv) transactions disclosed to Administrative Agent in writing, which are in the Ordinary Course of Business, on an arm's-length basis on terms and conditions no

less favorable than terms and conditions which would have been obtainable from a Person other than an Affiliate.

11. Section 7.12(a) of the Credit Agreement is hereby amended to add the following new sentence to the end thereof:

Notwithstanding the foregoing or anything to the contrary contained in this Agreement, effective as of the date of formation thereof, Universal may form Leverage Lender, and Leverage Lender shall not be required to join as a Borrower or a Guarantor pursuant to the provisions of this Section 7.12.

12. Section 7.15 of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

7.15 Amendment of Organizational Documents, Gorbert Documents or NMTC Documents. (A) (i) Change its legal name, (ii) change its form of legal entity (e.g., converting from a corporation to a limited liability company or vice versa), (iii) change its jurisdiction of organization or become (or attempt or purport to become) organized in more than one jurisdiction, or (iv) otherwise amend, modify or waive any term or material provision of its Organizational Documents unless required by law, in any such case without (x) giving at least fifteen (15) days prior written notice of such intended change to Administrative Agent, (y) in the case of any Loan Party, having received from Administrative Agent confirmation that Administrative Agent has taken all steps necessary for Administrative Agent to continue the perfection of and protect the enforceability and priority of its Liens in the Collateral belonging to such Loan Party and in the Equity Interests of such Loan Party and (z) in any case under clause (iv), having received the prior written consent of Administrative Agent and Required Lenders to such amendment, modification or waiver, (B) enter into any amendment, waiver or modification of any Gorbert Document, except as expressly permitted in the Gorbert Subordination Agreement or (C) enter into any amendment, waiver or modification of any NMTC Document without the prior written consent of the Administrative Agent.

13. The provisions of Sections 2 through 12 of this Third Amendment shall not become effective until the Administrative Agent shall have received the following items, each in form and substance acceptable to the Administrative Agent and its counsel:

- (a) this Third Amendment, duly executed by the Borrowers, the Lenders and the Administrative Agent;
- (b) complete copies of the executed NMTC Documents (including all exhibits, schedules and disclosure letters referred to therein or delivered pursuant thereto, if any)

and all amendments thereto, waivers relating thereto and other side letters or agreements affecting the terms thereof;

(c) evidence that the transactions contemplated by the NMTC Documents shall be consummated simultaneously with the effectiveness of this Third Amendment in accordance with the terms and conditions of the NMTC Documents, as heretofore reviewed by the Administrative Agent and without any amendment or waiver thereof not consented to by the Administrative Agent;

(d) payment of all fees and expenses owed to the Administrative Agent (including, without limitation, the fees payable pursuant to Section 7 of this Third Amendment), and the Administrative Agent's counsel in connection with this Third Amendment and the Credit Agreement; and

(e) such other documents in connection with such transactions as the Administrative Agent or said counsel may reasonably request.

14. Each Loan Party hereby reconfirms and reaffirms all representations and warranties, agreements and covenants made by it pursuant to the terms and conditions of the Credit Agreement, except as such representations and warranties, agreements and covenants may have heretofore been amended, modified or waived in writing in accordance with the Credit Agreement, and except any such representations or warranties made as of a specific date or time, which shall have been true and correct in all material respects as of such date or time.

15. Each Loan Party acknowledges and agrees that each and every document, instrument or agreement, which secured the Obligations immediately prior to the entering into of this Third Amendment, continues to secure the Obligations.

16. Each Loan Party represents and warrants to each Agent and each of the Lenders as follows: (i) such Loan Party has the full power to enter into, execute, deliver and carry out this Third Amendment and all such actions have been duly authorized by all necessary proceedings on its part, (ii) neither the execution and delivery of this Third Amendment by such Loan Party nor the consummation of the transactions herein contemplated or compliance with the terms and provisions hereof by any of them will conflict with, constitute a default under or result in any breach of (a) such Loan Party's Organizational Documents or (b) any Law or any Material Contract or instrument or order, writ, judgment, injunction or decree to which such Loan Party is a party or by which it is bound or to which it is subject, or result in the creation or enforcement of any Lien, charge or encumbrance whatsoever upon any property (now or hereafter acquired) of such Loan Party, and (iii) this Third Amendment has been duly and validly executed and delivered by such Loan Party and constitutes the legal, valid and binding obligation of such Loan Party, enforceable against such Loan Party in accordance with its terms, except to the extent that enforceability of this Third Amendment may be limited by any applicable bankruptcy, insolvency, moratorium or similar laws affecting creditors' rights generally.

17. Each Loan Party represents and warrants that (i) no Default or Event of Default exists under the Credit Agreement, nor will any occur as a result of the execution and delivery of this Third Amendment or the performance or observance of any provision hereof or any transaction completed hereby, and (ii) the schedules attached to and made a part of the Credit Agreement, are

true and correct in all material respects as of the date hereof, except as such schedules may have heretofore been amended or modified in writing in accordance with the Credit Agreement or pursuant to this Third Amendment.

18. Each reference to the Credit Agreement that is made in the Credit Agreement or any other document executed or to be executed in connection therewith shall hereafter be construed as a reference to the Credit Agreement as amended hereby.

19. The agreements contained in this Third Amendment are limited to the specific agreements made herein. Except as expressly set forth herein, this Third Amendment shall not by implication or otherwise limit, impair, constitute a waiver of, or otherwise affect the rights and remedies of the Agents or the Lenders under the Credit Agreement or any Other Document, and shall not alter, modify, amend or in any way affect any of the terms, conditions, obligations, covenants or agreements contained in the Credit Agreement or any Other Document, all of which are ratified and affirmed in all respects and shall continue in full force and effect. Nothing herein shall be deemed to entitle any Loan Party to a consent to, or a waiver, amendment, modification or other change of, any of the terms, conditions, obligations, covenants or agreements contained in the Credit Agreement or any Other Document in similar or different circumstances. This Third Amendment shall apply and be effective only with respect to the provisions of the Credit Agreement specifically referred to herein. This Third Amendment amends the Credit Agreement and is not a novation thereof. Nothing expressed or implied in this Third Amendment or any other document contemplated hereby shall be construed as a release or other discharge of any Borrower or any Guarantor under the Credit Agreement or any Other Document from any of its obligations and liabilities thereunder.

20. This Third Amendment may be executed in any number of counterparts and by the different parties hereto on separate counterparts each of which, when so executed, shall be deemed to be an original, but all such counterparts shall constitute but one and the same instrument. Any signature delivered by a party by facsimile or electronic transmission (including email transmission of a PDF image) shall be deemed to be an original signature hereto.

21. This Third Amendment shall be governed by, and shall be construed and enforced in accordance with, the Laws of the Commonwealth of Pennsylvania without regard to the principles of the conflicts of law thereof. Each of the parties hereto irrevocably and unconditionally submits, for itself and its property, to the exclusive jurisdiction and venue of the courts of the Commonwealth of Pennsylvania sitting in Allegheny County, Pennsylvania and the United States District Court for the Western District of Pennsylvania with respect to any suit arising out of or relating to this Third Amendment.

[INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound, by their officers thereunto duly authorized, have executed this Third Amendment on the day and year first above written.

BORROWERS:

WITNESS:

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

/s/ Ziya M. Hajiyev

By: /s/ Paul A. McGrath (SEAL)
Name: Paul A. McGrath
Title: VP Administration, General Counsel

WITNESS:

DUNKIRK SPECIALTY STEEL, LLC

/s/ Ziya M. Hajiyev

By: /s/ Paul A. McGrath (SEAL)
Name: Paul A. McGrath
Title: Executive Officer

WITNESS:

NORTH JACKSON SPECIALTY STEEL, LLC

/s/ Ziya M. Hajiyev

By: /s/ Paul A. McGrath (SEAL)
Name: Paul A. McGrath
Title: Executive Officer

AGENT AND LENDERS:

PNC BANK, NATIONAL ASSOCIATION,
as a Lender and as Administrative Agent

By: /s/ David B. Thayer
Name: David B. Thayer
Title: Vice President

BANK OF AMERICA, N.A., as a Lender

By: /s/ Christy Bowen

Name: Christy Bowen

Title: Vice President

FOURTH AMENDMENT TO REVOLVING CREDIT, TERM LOAN AND SECURITY AGREEMENT

This Fourth Amendment to Revolving Credit, Term Loan and Security Agreement (this "Fourth Amendment") is dated this 24th day of April, 2018, by and among UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC., a Delaware corporation ("Universal"), DUNKIRK SPECIALTY STEEL, LLC, a Delaware limited liability company ("Dunkirk"), NORTH JACKSON SPECIALTY STEEL, LLC, a Delaware limited liability company ("North Jackson") (Universal, Dunkirk, North Jackson are collectively, the "Borrowers", and each a "Borrower"), the LENDERS party hereto, and PNC BANK, NATIONAL ASSOCIATION ("PNC"), in its capacity as administrative agent for the Lenders (hereinafter referred to in such capacity as the "Administrative Agent").

W I T N E S S E T H:

WHEREAS, the Borrowers, the Guarantors party thereto, the Lenders, the Administrative Agent, PNC and BANK OF AMERICA, N.A., as co-collateral agents for Lenders entered into that certain Revolving Credit, Term Loan and Security Agreement, dated as of January 21, 2016, as amended by that certain (i) First Amendment to Revolving Credit, Term Loan and Security Agreement, dated May 12, 2017, (ii) Second Amendment to Revolving Credit, Term Loan and Security Agreement, dated October 23, 2017 and (iii) Third Amendment to Revolving Credit, Term Loan and Security Agreement, dated March 9, 2018 (as further amended, modified, supplemented, extended, renewed or restated from time to time, the "Credit Agreement"); and

WHEREAS, the Borrowers hereby request that the Maximum Revolving Advance Amount be increased by Eight Million and 00/100 Dollars (\$8,000,000.00) in accordance with Section 2.24 of the Credit Agreement, and in connection with the foregoing the Loan Parties desire to amend certain provisions of the Credit Agreement, and the Lenders and the Administrative Agent agree to permit such amendments pursuant to the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the premises contained herein and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the parties hereto agree as follows:

1. All capitalized terms used herein which are defined in the Credit Agreement shall have the same meanings herein as in the Credit Agreement unless the context herein clearly indicates otherwise.

2. Section 1.2 of the Credit Agreement is hereby amended by inserting the following definitions in their appropriate alphabetical order:

"Fourth Amendment" shall mean that certain Fourth Amendment to Revolving Credit, Term Loan and Security Agreement, dated the Fourth Amendment Closing Date, by and among the Borrowers party thereto, the Lenders party thereto and the Administrative Agent.

"Fourth Amendment Closing Date" shall mean April 24, 2018.

3. Section 1.2 of the Credit Agreement is hereby amended by deleting the following definitions in their entirety and in their stead inserting the following:

"Maximum Revolving Advance Amount" shall mean Seventy-Three Million and 00/100 Dollars (\$73,000,000.00) plus any additional increases after the Fourth Amendment Closing Date in accordance with Section 2.24 and minus any permanent reductions in accordance with Section 2.2(f).

"Maximum Swing Loan Advance Amount" shall mean Seven Million Three Hundred Thousand and 00/100 Dollars (\$7,300,000.00); provided that, upon the effective date of each additional increase after the Fourth Amendment Closing Date in the Maximum Revolving Advance Amount in accordance with Section 2.24 or each permanent reduction in accordance with Section 2.2(f), the Maximum Swing Loan Advance Amount shall increase or decrease, as applicable, by an amount equal to ten percent (10%) of the amount of such increase or permanent reduction in the Maximum Revolving Advance Amount.

"Revolving Commitment Amount" shall mean, (i) as to any Lender other than a New Lender, the Revolving Commitment amount (if any) set forth below such Lender's name on the signature pages to the Fourth Amendment (or, in the case of any Lender that became party to this Agreement after the Fourth Amendment Closing Date pursuant to Section 16.3(c) or (d) hereof, the Revolving Commitment amount (if any) of such Lender as set forth in the applicable Commitment Transfer Supplement), and (ii) as to any Lender that is a New Lender, the Revolving Commitment amount provided for in the joinder signed by such New Lender under Section 2.24(a)(x), in each case as the same may be adjusted upon any additional increase after the Fourth Amendment Closing Date by such Lender pursuant to Section 2.24 hereof, or any assignment by or to such Lender pursuant to Section 16.3(c) or (d) hereof.

"Revolving Commitment Percentage" shall mean, (i) as to any Lender other than a New Lender, the Revolving Commitment Percentage (if any) set forth below such Lender's name on the signature pages to the Fourth Amendment (or, in the case of any Lender that became party to this Agreement after the Fourth Amendment Closing Date pursuant to Section 16.3(c) or (d) hereof, the Revolving Commitment Percentage (if any) of such Lender as set forth in the applicable Commitment Transfer Supplement), and (ii) as to any Lender that is a New Lender, the Revolving

Commitment Percentage provided for in the joinder signed by such New Lender under Section 2.24(a)(x), in each case as the same may be adjusted upon any additional increase after the Fourth Amendment Closing Date in the Maximum Revolving Advance Amount pursuant to Section 2.24 hereof, or any assignment by or to such Lender pursuant to Section 16.3(c) or (d) hereof.

4. Notwithstanding the provisions of Section 2.24(a)(v) of the Credit Agreement, by execution of this Fourth Amendment, the Administrative Agent and the Lenders hereby consent to the increase in the Maximum Revolving Advance Amount pursuant to this Fourth Amendment, in accordance with Section 2.24 of the Credit Agreement, for an amount less than Ten Million and 00/100 Dollars (\$10,000,000.00).

5. Section 3.3 of the Credit Agreement is hereby amended by adding the following new clause (e) to the end thereof, immediately following clause (d):

(e) On the Fourth Amendment Closing Date, Borrowers shall pay to Administrative Agent for the ratable benefit of Lenders an amendment fee of Twenty Thousand and 00/100 Dollars (\$20,000.00).

6. The provisions of Sections 2 through 5 of this Fourth Amendment shall not become effective until the Administrative Agent shall have received the following items, each in form and substance acceptable to the Administrative Agent and its counsel:

(a) this Fourth Amendment, duly executed by the Borrowers, the Lenders and the Administrative Agent;

(b) amended and restated Revolving Credit Notes in favor of each Lender, in each case duly executed by the Borrowers;

(c) the results of searches listing all effective financing statements, judgments and tax liens which name any of the Loan Parties, as debtor, together with copies of such financing statements, judgment filings and tax lien filings, none of which, except for Permitted Encumbrances, shall cover any of the Collateral;

(d) the executed legal opinion of K&L Gates LLP, counsel to the Loan Parties;

(e) certificates of an authorized officer/member/manager of each Loan Party, as applicable, as to (i) resolutions of such Loan Party's board of directors or member/manager, as applicable, authorizing such Loan Party to enter into this First Amendment and execute all related documents, (ii) incumbency, and (iii) copies of its organizational documents with any and all amendments thereto (or in the alternative if applicable, certifying that such organizational documents have not been amended since the Closing Date);

(f) good standing certificates for each Loan Party dated not more than thirty (30) days prior to the date hereof, issued by the Secretary of State or other appropriate official of each Loan Party's jurisdiction of formation;

(g) a certificate signed by an Authorized Officer of each Loan Party dated as of the Fourth Amendment Closing Date, certifying that (i) all representations and warranties set forth in this Fourth Amendment, the Credit Agreement and the Other Documents are true and correct in all material respects on and as of such date (except to the extent that by their express terms are made as of a specific date, in which case such representations and warranties shall be true and correct as of such specific date), (ii) each Loan Party is on such date in compliance with all the terms and provisions set forth in this Fourth Amendment, the Credit Agreement and the Other Documents and (iii) on such date no Default or Event of Default has occurred or is continuing;

(h) title bring-down certification with respect to the North Jackson Premises;

(i) updated appraisal with respect to the North Jackson Premises;

(j) evidence of completion of flood insurance due diligence conducted by each Lender and satisfaction of flood insurance compliance by each Lender with respect to the North Jackson Mortgage;

(k) payment of all fees and expenses owed to the Administrative Agent (including, without limitation, the fees payable pursuant to Section 5 of this Fourth Amendment), and the Administrative Agent's counsel in connection with this Fourth Amendment and the Credit Agreement; and

(l) such other documents in connection with such transactions as the Administrative Agent or said counsel may reasonably request.

7. Each Loan Party hereby reconfirms and reaffirms all representations and warranties, agreements and covenants made by it pursuant to the terms and conditions of the Credit Agreement, except as such representations and warranties, agreements and covenants may have heretofore been amended, modified or waived in writing in accordance with the Credit Agreement, and except any such representations or warranties made as of a specific date or time, which shall have been true and correct in all material respects as of such date or time.

8. Each Loan Party acknowledges and agrees that each and every document, instrument or agreement, which secured the Obligations immediately prior to the entering into of this Fourth Amendment, continues to secure the Obligations.

9. Each Loan Party represents and warrants to each Agent and each of the Lenders as follows: (i) such Loan Party has the full power to enter into, execute, deliver and carry out this Fourth Amendment and all such actions have been duly authorized by all necessary proceedings on its part, (ii) neither the execution and delivery of this Fourth Amendment by such Loan Party nor the consummation of the transactions herein contemplated or compliance with the terms and provisions hereof by any of them will conflict with, constitute a default under or result in any breach of (a) such Loan Party's Organizational Documents or (b) any Law or any Material Contract or instrument or order, writ, judgment, injunction or decree to which such Loan Party is a party or by which it is bound or to which it is subject, or result in the creation or enforcement of any Lien, charge or encumbrance whatsoever upon any property (now or hereafter acquired) of such Loan Party, and (iii) this Fourth Amendment has been duly and validly executed and delivered by such Loan Party and constitutes the legal, valid and binding obligation of such Loan Party, enforceable

against such Loan Party in accordance with its terms, except to the extent that enforceability of this Fourth Amendment may be limited by any applicable bankruptcy, insolvency, moratorium or similar laws affecting creditors' rights generally.

10. Each Loan Party represents and warrants that (i) no Default or Event of Default exists under the Credit Agreement, nor will any occur as a result of the execution and delivery of this Fourth Amendment or the performance or observance of any provision hereof or any transaction completed hereby, and (ii) the schedules attached to and made a part of the Credit Agreement, are true and correct in all material respects as of the date hereof, except as such schedules may have heretofore been amended or modified in writing in accordance with the Credit Agreement or pursuant to this Fourth Amendment.

11. Each reference to the Credit Agreement that is made in the Credit Agreement or any other document executed or to be executed in connection therewith shall hereafter be construed as a reference to the Credit Agreement as amended hereby.

12. The agreements contained in this Fourth Amendment are limited to the specific agreements made herein. Except as expressly set forth herein, this Fourth Amendment shall not by implication or otherwise limit, impair, constitute a waiver of, or otherwise affect the rights and remedies of the Agents or the Lenders under the Credit Agreement or any Other Document, and shall not alter, modify, amend or in any way affect any of the terms, conditions, obligations, covenants or agreements contained in the Credit Agreement or any Other Document, all of which are ratified and affirmed in all respects and shall continue in full force and effect. Nothing herein shall be deemed to entitle any Loan Party to a consent to, or a waiver, amendment, modification or other change of, any of the terms, conditions, obligations, covenants or agreements contained in the Credit Agreement or any Other Document in similar or different circumstances. This Fourth Amendment shall apply and be effective only with respect to the provisions of the Credit Agreement specifically referred to herein. This Fourth Amendment amends the Credit Agreement and is not a novation thereof. Nothing expressed or implied in this Fourth Amendment or any other document contemplated hereby shall be construed as a release or other discharge of any Borrower or any Guarantor under the Credit Agreement or any Other Document from any of its obligations and liabilities thereunder.

13. This Fourth Amendment may be executed in any number of counterparts and by the different parties hereto on separate counterparts each of which, when so executed, shall be deemed to be an original, but all such counterparts shall constitute but one and the same instrument. Any signature delivered by a party by facsimile or electronic transmission (including email transmission of a PDF image) shall be deemed to be an original signature hereto.

14. This Fourth Amendment shall be governed by, and shall be construed and enforced in accordance with, the Laws of the Commonwealth of Pennsylvania without regard to the principles of the conflicts of law thereof. Each of the parties hereto irrevocably and unconditionally submits, for itself and its property, to the exclusive jurisdiction and venue of the courts of the Commonwealth of Pennsylvania sitting in Allegheny County, Pennsylvania and the United States District Court for the Western District of Pennsylvania with respect to any suit arising out of or relating to this Fourth Amendment.

[INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound, by their officers thereunto duly authorized, have executed this Fourth Amendment on the day and year first above written.

BORROWERS:

WITNESS:

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

/s/ Christopher T. Scanlon

By: /s/ Paul A. McGrath (SEAL)
Name: Paul A. McGrath
Title: Vice President of Administration, General
Counsel and Secretary

WITNESS:

DUNKIRK SPECIALTY STEEL, LLC

/s/ Christopher T. Scanlon

By: /s/ Paul A. McGrath (SEAL)
Name: Paul A. McGrath
Title: Executive Officer and Secretary

WITNESS:

NORTH JACKSON SPECIALTY STEEL, LLC

/s/ Christopher T. Scanlon

By: /s/ Paul A. McGrath (SEAL)
Name: Paul A. McGrath
Title: Vice President and Secretary

AGENT AND LENDERS:

PNC BANK, NATIONAL ASSOCIATION,
as a Lender and as Administrative Agent

By: /s/ David B. Thayer _____
Name: David B. Thayer
Title: Vice President

Revolving Commitment
Percentage: 50.0000000000%
Revolving Commitment Amount \$36,500,000.00

BANK OF AMERICA, N.A., as a Lender

By: /s/ William J. Wilson

Name: William J. Wilson

Title: Senior Vice President

Revolving Commitment

Percentage: 50.000000000%

Revolving Commitment Amount \$36,500,000.00

EMPLOYMENT AGREEMENT

THIS AGREEMENT made as of the 2nd day of April 2018, by and between UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC., a Delaware corporation (the "Company"), and Christopher T. Scanlon (the "Executive").

WITNESSETH:

In consideration of the covenants and agreements herein contained, and intending to be legally bound hereby, the Company and Executive agree as follows:

Article 1. - Employment

1.1. Employment. The Company agrees to employ Executive, and Executive agrees to serve the Company, for the period stated in Article 2 hereof (the "Term of Employment") and upon the other terms and conditions herein provided.

1.2. Position and Responsibilities. The Company employs Executive, and Executive agrees to serve as Vice President of Finance, Chief Financial Officer and Treasurer of the Company and to accept such other responsibilities as may be assigned to Executive by the Company from time to time during the Term of Employment.

1.3. Duties. During the Term of Employment, Executive shall devote all of his business time, attention, skill and efforts to the faithful performance of his duties hereunder.

1.4. No Breach of Other Obligations. The Executive represents that, in the course of performing services for the Company, he will not breach any agreement he may have with others with respect to confidential information, and will not bring to the Company or use in any way any materials or documents obtained from others under an agreement of confidentiality.

Article 2. - Term

The Term of Employment shall commence as of April 2, 2018 (the "Effective Date"), and shall continue until April 30, 2019 (the "Initial Term"). Thereafter, subject to the termination provisions of this Agreement, this Agreement will be automatically extended for successive one year terms unless either party provides written notice to the other party on or before March 1st of any year, of his or its election not to extend the term of this Agreement.

Article 3. - Compensation

3.1. **Salary.** As compensation to the Executive for the performance of services hereunder, the Company shall pay to the Executive an annual base salary (the "Salary") of \$215,000.00. Installments of the Salary shall be paid to the Executive in accordance with the standard procedure of the Company, which at the present time is once every two weeks. During the period of this Agreement, Executive's salary shall be reviewed at least annually and may be increased if the Board of Directors of the Company acting after approval of the Compensation Committee, determines that an increase is appropriate on the basis of the types of factors it generally takes into account in increasing the salaries of employees similarly situated in the Company.

3.2. **Reimbursement of Expenses.** The Company will reimburse the Executive for those customary and necessary business expenses incurred by him in the performance of his duties and activities on behalf of the Company. Except as provided in this Agreement, such expenses will be reimbursed only on presentation by the Executive of appropriate documentation to substantiate such expenses pursuant to the policies and procedures of the Company governing reimbursement of business expenses to its executives.

3.3. **Participation in Plans.** The Executive shall be entitled to participate in any life, medical, dental, health, hospitalization, travel, accident and/or disability insurance plans and in any sick leave and/or salary continuation plan, vacation (which shall not be less than three (3) weeks per calendar year), holiday pay, retirement or employee benefit plan or program generally offered by the Company to its salaried employees. In addition, Executive shall be entitled to participate in the variable incentive compensation plan as described on Schedule A attached hereto.

Article 4. - Termination of Employment

4.1. **Definitions.** For the purposes hereof:

(a) **"Disability"** shall be deemed to have occurred when the Executive is eligible, due to a health condition, to collect benefits under the Company's short term disability plan and has been determined by the Board of Directors to be unable to perform substantially the duties associated with the Executives position for a period of three months.

(b) **"Cause"** shall mean any of the following: (i) Executive's personal dishonesty or willful misconduct; (ii) Executive's willful violation of any law or material rule or regulation, provided that such violation is demonstrably injurious to the assets, operations or business prospects of the Company; (iii) the conversion or embezzlement for the personal benefit of the Executive of corporate funds or property or a material business opportunity of the Company; (iv) the misuse by the Executive for his personal benefit of any trade secrets or other information of the Company in violation of the provisions of Article 7 of this Agreement; or (v) Executive's material breach of any other provision of this Agreement which is not cured within thirty (30) days of receipt of notice of such breach from Company.

(c) "**Good Reason**" shall, absent the Executive's consent to such action, mean the occurrence of any one of the following: (i) following a Change of Control, the removal of the Vice President of Finance, Chief Financial Officer and Treasurer (by reason other than death, Disability or Cause); (ii) any breach by the Company of a material obligation under this Agreement; (iii) a substantial and material alteration in the nature or status of Executive's duties and responsibilities that renders the Executive's position to be of substantially less responsibility or scope; (iv) a material reduction by the Company in the Executive's Salary, except for proportional across-the-board salary reductions similarly affecting all senior executives of the Company; or (v) any material reduction by the Company of the benefits, taken as a whole, enjoyed by the Executive on the date of this Agreement under any savings, life insurance, medical, health and accident, disability or other employee welfare benefit plans or programs, including vacation programs, provided that this paragraph (v) shall not apply to any proportional across the board reduction or action similarly affecting all senior executives of the Company.

Notwithstanding the foregoing, no event of "Good Reason" shall be deemed to have occurred unless Executive provides to the Chairman of the Compensation Committee of the Board of Directors of the Company written notice of the facts and circumstances which Executive believes constitutes Good Reason under this Section 4.1(c) within 30 days of such initial occurrence and such facts and circumstances are not corrected or otherwise cured by the Company within thirty (30) days of receipt thereof. Termination by Executive for Good Reason must occur within 90 days of the initial occurrence of the Good Reason event.

For purposes of this Agreement, a Change of Control shall be deemed to have occurred on the earlier of (x) if, in any transaction or series of related transactions consummated in a ninety day period, more than fifty percent (50%) of the then outstanding voting common stock of the Company is sold to a person or group; (y) a merger or consolidation of the Company and another entity in which the Company is not the surviving corporation or in which more than fifty percent(50%) of the equity ownership of the Company changes, or (z) the sale of 50% or more of all of the assets of the Company.

(d) "**Notice of Termination**" shall mean written notice which shall indicate the specific termination or resignation provisions in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for such termination or resignation under the provision so indicated and the Company shall submit to the Executive a certified statement signed by the Chairman of the Compensation Committee of the Board of Directors of the Company approving such termination in the case of a Termination by the Company for Cause or Without Cause.

(e) "**Date of Termination**" shall mean the date specified in the Notice of Termination as the effective date the Executive's employment is terminated for any reason or the Executive's effective date of resignation, whichever is earlier.

Article 5. - Compensation Upon Termination

5.1. Death. If the Executive's employment hereunder terminates by reason of his death, his beneficiaries shall be entitled to receive from the Company such amounts as are then provided pursuant to plans, programs or arrangements currently in effect or as approved from time to time by the Board of Directors.

5.2. Disability. If the Executive's employment hereunder terminates by reason of his Disability, the Executive shall be entitled to receive such amounts as are then provided pursuant to Company's then existing disability plans, programs or arrangements. Notwithstanding any provisions herein to the contrary, the Executive shall be entitled to receive all benefits to which the Executive is entitled as a terminated employee under the terms of any of the Company's qualified employee benefit plans and any other plan, program or arrangement relating to retirement or other benefits including, without limitation, any employee stock ownership plan or any plan now in effect or which is established (with approval of the Board of Directors) as a supplement to any of the forenamed plans, except as otherwise provided in such plans as a result of the Executive's termination of employment.

5.3. Cause. If the Executive's employment hereunder is terminated by the Company for Cause, the Company shall pay to the Executive his full base Salary through the Date of Termination but at a rate no greater than that in effect at the time Notice of Termination is given, and the Company shall have no further obligations to the Executive under this Agreement.

5.4. By the Company Without Cause or by the Executive by Resignation for Good Reason. If the Executive's employment hereunder is terminated by the Company without Cause or is terminated by the Executive pursuant to his resignation for Good Reason, then the Executive shall be entitled to the benefits provided below, which shall constitute complete satisfaction of the obligations of the Company to the Executive under this Agreement:

(a) The Company shall pay the Executive his prorated annual base Salary through the Date of Termination at the rate in effect at the time Notice of Termination is given.

(b) Subsequent to the Date of Termination: the Company shall pay as severance pay to the Executive, a severance equal to 12 months of the Executive's base monthly salary at the rate in effect at the time Notice of Termination is given; and such severance payment shall be made over a 12 month period. Any such payment referred to in this section shall be made in accordance with the Company's standard payroll schedule and shall be less applicable taxes and mandatory deductions.

(c) The Company will provide health care benefits under the group policies covering the other corporate employees including Medical, Dental, Vision and Prescription Drugs, subject to any changes made to the group policies, as provided prior to the Date of Termination for the Executive and eligible dependents, that were covered prior to any Date of Termination, for a period of: twelve (12) months at no cost to the Executive. This period of coverage will not reduce the eligible COBRA period.

(d) The Executive shall not be required to mitigate the amount of any payments provided for in this Agreement by seeking other employment or otherwise, nor shall the amount of any payment provided for in this Agreement be reduced by any compensation earned by the Executive as the result of employment by another employer, or otherwise.

(e) Notwithstanding any provisions herein to the contrary, the Executive shall be entitled to receive all benefits to which the Executive is entitled as a terminated employee under the terms of any of the Company's qualified employee benefit plans and any other plan, program or arrangement relating to retirement or other benefits including, without limitation, any employee stock ownership plan or any plan now in effect or which is established (with approval of the Board of Directors) as a supplement to any of the forenamed plans, except as otherwise provided in such plans as a result of the Executive's termination of employment.

**Article 6. - Duties of Executive After
Termination of Employment**

Following any termination of Executive's employment and for a period of ninety (90) days thereafter, the Executive shall fully cooperate with the Company in all matters relating to the winding up and orderly transfer of the Executive's work on behalf of the Company. Not later than the effective date of any termination of the employment, the Executive will immediately deliver to the Company any and all of the Company's property of any kind or nature whatsoever in the Executive's possession, custody or control, including, without limitation any and all Confidential Information as that term is defined in Section 7.1 of this Agreement.

**Article 7. - Confidentiality, Assignment,
Non-Solicitation, Noncompetition**

7.1. **Confidential Relationship.** Executive understands and agrees that all company manuals, company policies, marketing plans and surveys, product designs, schematics, specifications and product location and installation data, formulae, processes, methods, machines, compositions, customer information, ideas, inventions, financial information and plans of the Company and all records, correspondence, files, customer lists, data and other information pertaining to or concerning the Company, its principals, vendors and customers (collectively the "**Confidential Information**") contain valuable confidential information that is owned by the Company, and, therefore, that during the period of employment hereunder and at all times thereafter, Executive shall not utilize such Confidential Information for his own benefit or for the benefit of any person or entity other than the Company, nor shall he divulge or communicate any such Confidential Information to any person or entity without the express authorization of the Company. Confidential Information shall not include any information that is or becomes generally available to the public other than as a result of a disclosure by Executive. The Executive agrees that, on the termination of his employment, he will immediately surrender to the Company any and all Confidential Information in his possession pertaining to the Company and its business.

7.2. Assignment of Rights. All inventions, discoveries, designs, developments, technology, computer programs, writings and reports that are made or conceived of by the Executive in the course of his employment with the Company, whether or not patentable or copyrightable, shall become and remain the sole property of the Company without additional compensation to Executive. The Executive recognizes that all such works shall be considered works-for-hire and hereby transfers and assigns any right, title, copyright and interest that Executive acquires in such works to the Company and will, from time to time, give the Company all reasonable assistance, execute all papers and do all things that may reasonably be required to protect and preserve the rights of the Company in such works.

7.3. Non-Solicitation. The Employee covenants and agrees that (i) during Employee's engagement with the Company, and (ii) for a period of two (2) years following termination, Employee shall not, without the prior written consent of the Company, directly or indirectly, whether for his own account or on behalf of any person, firm, corporation, partnership, association or other entity or enterprise, solicit, recruit, hire or cause to be hired any employees of the Company or any of its affiliates, or any person who was an employee of the Company during the six (6) months preceding the Employee's date of termination of engagement, or solicit or encourage any employee of the Company or any of its affiliates to leave the employment of the Company or any of such affiliates, as applicable.

7.4. Noncompetition. Employee agrees that (i) during Employee's engagement with the Company, Employee shall not engage, directly or indirectly, as an employee, officer, Employee, partner, employees, manager, agent, owner or in any other capacity, in any competition with the Company or any of its subsidiaries. (ii) and for a period of two (2) years following the termination of Employee's engagement for any reason or without reason, Employee shall not in any capacity whether in the capacity as an employee, officer, partner, manager, agent or owner directly or indirectly advise, manage, render or perform services to or for any person or entity which is engaged in a business competitive to that of the Company or any of its subsidiaries within the United States of America.

Article 8. - Source of Payments

All payments provided for under this Agreement shall be paid in cash from the general funds of the Company and no special or separate fund shall be established and no other segregation of assets shall be made to assure payment. No trust or fiduciary relationship with respect to payments shall be deemed created hereby and, to the extent that any person acquires a right to receive payments hereunder, such right shall be no greater than the rights of a general creditor of the Company.

Article 9. - Miscellaneous

9.1. Indulgences, Etc. Neither the failure nor any delay on the part of either party to exercise any right, remedy, power or privilege under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, remedy, power or privilege preclude any other or further exercise of the same or of any other right, remedy, power or privilege, nor shall any waiver of any right, remedy, power or privilege with respect to any occurrence be construed as a waiver of such right, remedy, power or privilege with respect to any other occurrence.

9.2. Notices. All notices or communications hereunder shall be in writing, addressed as follows:

To the Company:

Dennis M. Oates, Chairman, CEO and President
Universal Stainless & Alloy Products, Inc.
600 Mayer Street
Bridgeville, PA 15017

To the Executive:

Mr. Christopher T. Scanlon
3221 Willow Ridge Drive
Bridgeville PA 15017

Any such notice or communication shall be sent by certified or registered mail, return receipt requested, postage prepaid, addressed as above (or to such other address as such party may designate in writing from time to time), and the actual date of receipt, as shown by the receipt therefore, shall determine the time at which notice was given.

9.3. Assignment; Agreement. This Agreement shall be binding upon and inure to the benefit of the heirs and personal representatives of the Executive and the successors and assigns of the Company, but neither this Agreement nor any rights hereunder shall be assignable or otherwise subject to hypothecation by the Executive.

9.4. Entire Agreement; Amendment. This Agreement represents the entire agreement of the parties with respect to the subject matter hereof. This Agreement may be amended or any provision hereof waived at any time only by written agreement of the parties hereto.

9.5. Arbitration Clause. Any and all claims or disputes between Company and Executive arising out of or relating to this employment relationship including but not limited to this Employment Agreement, the hiring, performance or termination of employment and/or cessation of employment with the Company and/or against any employee, officer, alleged agent, director, affiliate, subsidiary or sister company relationship, or relating to an application or candidacy for employment shall be settled by final and binding arbitration administered by the American Arbitration Association under its Employment Arbitration Rules and Mediation Procedures and judgment upon the award rendered by the arbitrator(s) may be confirmed/entered in any court having competent jurisdiction. Any such arbitration shall be conducted by an arbitrator experienced in employment law and any decision or award as a result of any such arbitration proceeding shall be in writing and shall provide an explanation for all conclusions of law and fact. The Executive and Company agree that the Arbitration shall be held in the county and state where Executive currently works for Company or most recently worked for Company. This Agreement and its validity, interpretation, performance and enforcement shall be governed by the laws of the Commonwealth of Pennsylvania. For claims arising under federal law, the Arbitrator(s) shall follow the substantive law applicable to the United States District Court for the Western District of Pennsylvania.

1. **Incentive Compensation.** Executive will be entitled to participate in the Company's Variable Incentive Compensation Plan as modified from time to time by the Board of Directors. The Target award under such plan for the Executive shall be 80% of his annual base salary. Note the bonus is prorated to length of service in the first year. A guaranteed minimum incentive compensation award for 2018 based on continued employment until the payout is made on or before March 15, 2019, for Executive shall be \$50,000.00.
2. **Stock Options.** Executive shall be granted 15,000 stock options on his first day of employment pursuant to the Company's stock option plan. The exercise price of the stock options will be the closing price of the Company's common stock on the day preceding the Grant Date or, if there were no sales on such date, on the last date preceding such date on which a sale was reported.

CERTIFICATION

I, Dennis M. Oates, certify that:

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

Date: April 25, 2018

/s/ Dennis M. Oates

Dennis M. Oates

Chairman, President and Chief Executive Officer

(Principal Executive Officer)

CERTIFICATION

I, Christopher T. Scanlon, certify that:

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

Date: April 25, 2018

/s/ Christopher T. Scanlon

Christopher T. Scanlon
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 March 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned, in the capacities and on the dates indicated below, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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

Date: April 25, 2018

/s/ Dennis M. Oates

Dennis M. Oates

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

Date: April 25, 2018

/s/ Christopher T. Scanlon

Christopher T. Scanlon

Vice President of Finance,

Chief Financial Officer and Treasurer

(Principal Financial and Accounting Officer)