

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 1998
OR

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

For the Transition Period from _____ to _____

Commission File Number 0-25032

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

DELAWARE
(State or other jurisdiction of
incorporation or organization)

25-1724540
(IRS employer
Identification No.)

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

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

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

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

Title of Class

Common Stock, par value \$.001 per share

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

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K ((S)229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the voting stock held by non-affiliates of the registrant on March 26, 1999, based on the closing price of \$6.00 per share on that date, was \$15,427,566. For the purposes of this disclosure only, the registrant has assumed that its directors, executive officers, and beneficial owners of 5% or more of the registrant's Common Stock are the affiliates of the registrant.

As of March 26, 1999, there were 6,320,036 shares of the Registrant's Common Stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Annual Report to Stockholders for the year ended December 31, 1998, and definitive Proxy Statement for the Annual Meeting of Stockholders scheduled to be held May 25, 1999, are incorporated by reference into Parts II and III of this Form 10-K.

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PART I

ITEM 1. BUSINESS

General

Universal Stainless & Alloy Products, Inc. (the "Company"), which was incorporated in 1994, manufactures and markets semi-finished and finished specialty steel products, including stainless steel, tool steel and certain other alloyed steels. The Company's products are sold to rerollers, forgers, service centers and original equipment manufacturers. The Company's products are further processed by its customers for use primarily in the heavy equipment manufacturing, power generation and aerospace industries. The Company also provides conversion services on materials supplied by customers that lack certain of the Company's production facilities or that are subject to their own capacity constraints.

The Company's products are manufactured in a wide variety of grades, widths and gauges in response to customer specifications. The Company is capable of producing specialty steel products that include long products (ingots, blooms, billets and bars), which are primarily used by customers to produce bar, rod and wire, and flat rolled products (slabs and plates), which are used by customers to produce fine-gauge plate, sheet and strip products. The Company also produces customized shapes that are cold rolled from purchased coiled strip, flat bar or extruded bar at its Precision Rolled Products department ("PRP").

Industry Overview

The specialty steel industry is a relatively small but distinct segment of the overall steel industry. Specialty steels include stainless steels, high speed and tool steels, electrical steels, high temperature alloys, magnetic alloys and electronic alloys. Specialty steels are made with a high alloy content, which enables their use in environments that demand exceptional hardness, toughness, strength and resistance to heat, corrosion or abrasion, or combinations thereof. Specialty steels generally must conform to more demanding customer specifications for consistency, straightness and surface finish than carbon steels.

The Company primarily manufactures stainless steel, tool steel and certain other alloyed steels, including:

Stainless Steel. Stainless steel, which represents the largest part of the specialty steel market, contains elements such as nickel, chrome and molybdenum that give it unique qualities of resistance to rust, corrosion and heat, high strength, good wear characteristics, natural attractiveness and ease of maintenance. Stainless steel is used, among other applications, in the automotive, aircraft and aerospace industries and in the manufacture of food handling, chemical processing, pollution control and medical and health equipment. The large number of applications for stainless steel has resulted in the development of a greater variety of stainless steel metallurgical grades than carbon steel.

Tool Steel. Tool steels contain elements of manganese, silicon, chrome and molybdenum to produce specific hardness characteristics that enable them to form, cut, shape and shear other materials in the manufacturing process. These hardness characteristics are brought out by heating and cooling at precise rates in the heat treating process. Tool steels are utilized in the manufacture of metals, plastics, pharmaceuticals, electronics, optics and paper and aluminum

extrusions.

High Temperature Alloy Steel. These steels are designed to meet critical requirements of heat resistance and structural integrity. They generally have a very high nickel content relative to other types of specialty steels. High temperature alloy steels are manufactured for use generally in the aerospace industry.

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High Strength Low Alloy Steel. High strength low alloy steel is a relative term that refers to those steels that maintain alloying elements that range in versatility. The alloy element of such steels as nickel, chrome and molybdenum typically exceed the alloy element of carbon steel but not that of high temperature alloy steel.

Net sales by principal product line were as follows (dollars in thousands):

Year ended December 31,	1998	1997	1996
	----	----	----
Stainless steel	\$53,661,000	\$60,700,000	\$46,903,000
Tool steel	7,548,000	10,467,000	8,019,000
High-temperature alloy steel	4,387,000	2,636,000	728,000
Conversion service	3,690,000	4,834,000	3,804,000
Other	3,309,000	2,664,000	804,000
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	\$72,595,000	\$81,301,000	\$60,258,000
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Raw Materials

Scrap Metal

The Company's major raw material is ferrous scrap metal, which is generated principally from industrial, automotive, demolition and railroad sources and is purchased in the open market through a number of scrap brokers and dealers or by direct purchase. The Company purchases approximately 80% of its scrap metal from three principal domestic suppliers. The long-term demand for scrap metal and its importance to the domestic specialty steel industry may be expected to increase as steelmakers continue to expand scrap metal-based electric furnace capacity with additions to or replacements of existing integrated specialty steel manufacturing facilities that use iron ore, coke and limestone as their raw materials. The high quality of the Company's products requires use of premium grades of scrap metal, the supply of which is more limited. The Company has not experienced difficulty to date in purchasing adequate scrap metal for its production processes. The Company believes that adequate supplies of scrap metal will continue to be available in sufficient quantities for the foreseeable future.

Alloys

The Company purchases various materials for use as alloy additions, some of which come from Canada (principally nickel) and other foreign countries. Certain of those alloys (principally chrome) are supplied by South African manufacturers and any political disruptions in that country could interfere with the delivery of those materials.

PRP Starting Materials

PRP's principal starting materials consist of metallic flat bar, extruded "near shaped" bar and coiled strip, which the Company cold rolls to customer specification to produce special shapes. The Company generally purchases those starting materials from steel strip coil suppliers, extruders, flat rolled producers and service centers. The Company believes that adequate supplies of starting material for PRP will continue to be available in sufficient quantities for the foreseeable future.

The cost of raw material is approximately 45% of the Company's total cost of

products sold. Raw material prices vary based on numerous factors, including quality, and are subject to frequent market fluctuations and future prices cannot be predicted with any degree of certainty. Therefore, the Company does not maintain any long-term written agreements with any of its raw material suppliers. The Company has established arrangements with certain raw material suppliers that permit the Company to purchase certain raw materials at set prices for up to 30 days, which may protect the Company against short-term price increases in raw materials after it has agreed to manufacture products for its customers at specified prices, which reflect those set raw material prices.

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Customers

The Company's principal customers are rerollers, forgers, service centers and original equipment manufacturers, which primarily include the power generation and aerospace industries. For the year ended December 31, 1998, Talley Metals Technology, Inc., a subsidiary of Carpenter Technology Corporation, and its affiliates accounted for 35% of the Company's net sales. No other customer accounted for more than 10% of the Company's net sales for the year ended December 31, 1998. The Company's five largest customers in the aggregate accounted for approximately 57% of net sales. A principal element of the Company's business strategy is to seek new customers so that over time it will reduce its dependence on one or a small number of customers. The Company's customer base increased from 167 at December 31, 1997 to 200 at December 31, 1998.

The Company's products are marketed directly to its customers by Company personnel, including the Company's President and Chief Executive Officer, its PRP General Manager, five full-time sales persons and two independent sales representatives. In view of the relatively small number of prospective customers for the Company's customized products, the strong business relationships with its customers and the thorough product knowledge and substantial experience with actual and prospective customers of those management and marketing persons, the Company believes its sales force is adequate for its current and immediately foreseeable needs.

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Backlog

The Company manufactures products to meet specific customer orders, generally fulfilling orders in eight weeks or less, and consequently does not manufacture for inventory purposes. The Company's backlog of orders on hand as of December 31, 1998, was approximately \$10.8 million as compared to \$20.9 million at the same time in 1997. The decrease in backlog of orders on hand as of December 31, 1998 as compared to December 31, 1997 primarily resulted from increased import levels and lower selling prices due to competition. Customer orders are generally subject to cancellation with the payment of a penalty charge prior to delivery. The Company's backlog may not be indicative of actual sales and therefore should not be used as a measure of future revenue.

Competition

The Company believes itself to be one of approximately 20 domestic manufacturers that produce specialty steel and one of approximately five domestic specialty steel manufacturers that produce special shapes. Of that number of firms that produce specialty steel, the Company believes five companies currently compete within the Company's selected markets, although other specialty steel mills have the capability of producing, and hence competing with, some of or all the Company's specialty steel products.

Major competitors of the Company in the specialty steel market include fully integrated specialty steel producers such as Allegheny-Teledyne, Inc.; Carpenter Technology Corporation; AL Tech Specialty Steel Corporation; Slater Steels Corporation; and The Timken Company. Although Electralloy, a subsidiary of G.O. Carlson Inc., and First Mississippi Steels, Inc. generally produce only stainless steel ingots, they can also compete with the Company by utilizing outside conversion services. Additionally, there are several smaller electric arc furnace melt shops that also produce specialty steel. The major competitors of the Company in the special shapes market served by PRP include Rathbone Precision Metals, Inc., a subsidiary of Carpenter Technology Corporation; Precision Shapes, Inc.; and J.T. Slocomb Company.

Competition in the Company's markets is based upon product quality, delivery capability, customer service and price. Maintaining high standards of product quality while keeping production costs at competitive levels is essential to the Company's ability to compete in its markets. The ability of a manufacturer to respond quickly to customer orders currently is, and is expected to remain, important in the specialty steel market. The Company believes its universal rolling mill provides it with a competitive advantage as the only domestic mill that can produce both long product and flat rolled product. The Company believes it has the ability to fill customers' orders in a shorter lead time for delivery of those products than a fully-integrated specialty steel mill currently can achieve, which provides it with another competitive advantage. The short lead time may also enable the Company to avoid maintaining a high level of inventory of raw materials, thereby reducing the Company's cost of production.

The domestic specialty steel industry is frequently affected by general economic conditions. Further, the Company also faces competition from producers of certain materials, particularly aluminum, composites and plastics, that compete with steel in many markets. In addition, many of the finished products sold by the Company's customers are in direct competition with finished products manufactured by foreign sources, which may affect the demand for those customers' products. Any competitive factor that adversely affects the market for finished products manufactured by the Company's customers could indirectly adversely affect the demand for the Company's specialty steel products.

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Employee Relations

The Company considers the maintenance of good relations with its employees to be important to the successful conduct of its business. The Company has profit-sharing plans for certain salaried employees and all of its United Steel Workers of America (USWA) employees and has equity ownership programs for all of its eligible employees, in an effort to forge an alliance between its employees interests and those of the Company's stockholders. At December 31, 1998, the Company had 224 employees at its Bridgeville facility and 56 employees at its Titusville facility, of whom 176 and 47 were USWA members located in Bridgeville and Titusville, respectively.

In August 1997, the Company and the USWA completed negotiation of a new five-year comprehensive collective bargaining agreement (the "Bridgeville CBA") that recognizes the USWA as the exclusive representative for the Company's hourly Bridgeville employees with respect to the terms and conditions of their employment. The basic structure of the Bridgeville CBA is similar to the original four-year agreement which contained certain wage, benefit and work rule terms which permitted the Company to be competitive in the domestic specialty steel industry.

In connection with the June 1995 acquisition of the Titusville facility the Company entered into a five-year collective bargaining agreement with the USWA covering employees at the Titusville facility (the "Titusville CBA"). The Titusville CBA contains substantially similar terms to those included in the Bridgeville CBA, but each of the agreements is separate and neither agreement is conditioned on the renewal of or compliance with the other agreement.

The Company has profit-sharing plans that cover certain salaried employees and all hourly employees. The profit-sharing plans provide for the sharing of pre-tax profits in excess of specified amounts. The Company maintains separate 401(k) retirement plans for its hourly and salary employees. Pursuant to each plan, participants may elect to make pre-tax contributions to the plan, subject to certain limitations imposed under the Internal Revenue Code of 1986, as amended (the "Code"). Company matching contributions are not permitted under the plans. In addition, the Company is required to make semi-annual contributions to the plans based on service. The Company also provides life insurance and health coverage for its hourly and salary employees.

Armco Agreement

Armco, the former owner of certain assets of the Company, retained responsibility for any employee benefit obligations existing prior to August 15, 1994 with respect to persons previously employed at the Bridgeville facility. In addition, Armco agreed to indemnify the Company up to \$3.0 million in the aggregate with respect to any such liabilities that may arise prior to August

15, 2004.

Employee Stock Purchase Plan

Under the 1996 Employee Stock Purchase Plan (the "Plan"), the Company is authorized to issue up to 90,000 shares of Common Stock to its full-time employees, nearly all of whom are eligible to participate. Under the terms of the Plan, employees can choose as of January 1 and July 1 of each year to have up to 10% of their total earnings withheld to purchase up to 100 shares of the Company's Common Stock each six-month period. The purchase price of the stock is 85% of the lower of its beginning-of-the-period or end-of-the-period market prices.

Safety

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

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Executive Officers

The following table sets forth, as of December 31, 1998, certain information with respect to the executive officers of the Company:

NAME (AGE)	EXECUTIVE OFFICER SINCE	POSITION
Clarence M. McAninch (63)	1994	President and Chief Executive Officer
A. Bruce Kennedy (40)	1998	Vice President, Operations
Paul McGrath (47)	1997	Director of Employee Relations, General Counsel and Secretary
Richard M. Ubinger (39)	1994	Chief Financial Officer, Principal Accounting Officer and Treasurer

Clarence M. McAninch, 63, has been President and Chief Executive Officer and a Director of the Company since July 1994. Mr. McAninch served as Vice President, Sales and Marketing, of the Stainless and Alloy Products Division of Armco Inc. from 1992 to 1994.

A. Bruce Kennedy, 40, has been Vice President, Operations since August 1998. Mr. Kennedy was employed by Kurtz Steel Company for the previous 17 years, most recently as President and Chief Executive Officer from January 1991 to May 1998.

Paul A. McGrath, 47, has been General Counsel and Director of Employee Relations since January 1995 and was appointed Secretary in May 1996. Prior thereto, he was employed by Westinghouse Electric Corporation for approximately 24 years in various management positions.

Richard M. Ubinger, 39, has been Chief Financial Officer and Principal Accounting Officer of the Company since August 1994, and was appointed Assistant Secretary in November 1995 and Treasurer in May 1996. From 1981 to 1994, Mr. Ubinger was employed by Price Waterhouse LLP (currently known as PricewaterhouseCoopers LLP) in its audit department, and he served in the capacity of Senior Manager for Price Waterhouse LLP since 1990. Mr. Ubinger is a Certified Public Accountant.

Patents and Trademarks

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

Risk Factors

The Company's business and results of operations are subject to a wide range of substantial business and economic factors including, but not limited to the

factors discussed below, many of which are not within the Company's control.

Significant Customer and Concentrated Customer Base

For the year ended December 31, 1998, the Company's largest customer, Talley Metals Technology, Inc., a subsidiary of Carpenter Technology Corporation, and its affiliates accounted for approximately 35% of the Company's net sales. The Company's five largest customers in the aggregate accounted for approximately 57% of net sales. An adverse change in, or termination of, the Company's relationship with one or more of its major customers or one or more of its market segments could have a material adverse effect upon the Company. In addition, a number of the Company's customers are also competitors of the Company. See "Business--Customers" and "Business--Competition".

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Reliance on Critical Manufacturing Equipment

The Company's manufacturing processes are dependent upon certain critical pieces of specialty steelmaking equipment, such as the Company's electric arc-furnace and universal rolling mill. In the event a critical piece of equipment should become inoperative as a result of unexpected equipment failure, there can be no assurance that the Company's operations would not be substantially curtailed which may have a negative effect on the Company's financial results. See "Properties."

Competition

The Company competes with domestic and foreign sources of specialty steel products. In addition, many of the finished products sold by the Company's customers are in direct competition with finished products manufactured by foreign sources, which may affect the demand for those customers' products. Any competitive factor that adversely affects the market for finished products manufactured by the Company's customers could indirectly adversely affect the demand for the Company's semi-finished products. Additionally, the Company's products compete with products fashioned from alternative materials such as aluminum, composites and plastics, the production of which includes domestic and foreign enterprises. Competition in the Company's field is intense and is expected to continue to be so in the foreseeable future. There can be no assurance that the Company will be able to compete successfully in the future. See "Business--Competition."

Environmental Issues

The Company is subject to demanding federal, state and local environmental laws and regulations ("Environmental Laws") governing, among other things, air emissions, waste water discharge and solid and hazardous waste disposal. The Company leases or owns certain real property and operates equipment previously owned and used in the manufacture of steel products by Armco. In connection with the acquisition of the Bridgeville facility assets, Armco agreed to retain responsibility for certain liabilities asserted against Armco under Environmental Laws. Because the indemnification is the Company's exclusive remedy against Armco for a given environmental liability, the Company will be materially dependent upon that indemnity should any environmental liability arise. There can be no assurance that the indemnities from Armco will fully cover any or all environmental liabilities, and there can be no assurance that the Company will have the financial resources to discharge the liabilities if legally compelled to do so.

Environmental laws and regulations have changed rapidly in recent years, and the Company may be subject to increasingly stringent environmental standards in the future. The Armco indemnities do not cover liability with respect to violations of Environmental Laws or the existence of environmental conditions stemming from any changes, modifications or amendments to Environmental Laws effective after August 15, 1994, with respect to the Bridgeville facility, or effective after June 2, 1995, with respect to the Titusville facility, and there is no assurance that the Company will not incur any such liability. See "Properties--Environmental Compliance."

Supply of Raw Materials and Cost of Raw Materials

The Company relies on a limited number of suppliers, some of which are foreign owned, for its raw material needs which currently account for approximately 45% of the Company's total cost of products sold. Raw material prices are

affected by cyclical, seasonal and other market factors. In addition, the supply of premium grades of scrap metal used by the Company is more limited than the supply of lower grades of scrap metal. Further, nickel and chrome, key ingredients in certain alloys produced by the Company and significant cost components, are available substantially only from foreign sources, some of which are located in countries that may be subject to unstable political and economic conditions. Those conditions might disrupt supplies or affect the prices of the raw materials used by the Company. The Company does not maintain long-term supply agreements with any of its independent suppliers. If its supply of raw materials were interrupted, the Company might not be able to obtain sufficient quantities of raw materials, or obtain sufficient quantities of such materials at satisfactory prices, which, in either case, could adversely affect the Company's results of operations. In addition, significant increases in the

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price of the Company's principal raw materials could adversely affect the Company's financial results. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business--Raw Materials."

Year 2000 Readiness Disclosure

The following statements are provided pursuant to the provisions of the Year 2000 Information and Readiness Disclosure Act of 1998.

Since inception in August 1994, the Company has been engaged in a program to modernize and replace its computerized production control and management information systems. Although not the primary purpose of the program, the new systems were designed to avoid any Year 2000 problems that might otherwise arise. In addition, the Company has identified and tested all other critical pieces of equipment and has not identified any non-compliance issues internally. Therefore, the Company believes that its internal systems will be Year 2000 compliant in all material respects without incurring significant expenditures. Any expenditures will be financed with cash from operations.

The Company currently believes the most significant impact of the Year 2000 issue could be an interrupted supply of goods and services from the Company's vendors and interrupted supply of orders from the Company's customers. In order to assess the state of readiness, surveys have been sent to all major vendors and customers to determine the current status of their Year 2000 evaluation. Responses have been received from approximately 70 percent of these vendors and customers in which each respondent has confirmed that efforts to become Year 2000 compliant are, at a minimum, in process. Due to the uncertainties associated with the ability of critical vendors and customers to resolve any known or unknown Year 2000 compliance issues, the Company may experience a material adverse effect on future results of operations if such issues are not resolved. While no contingency plans have been established at the present time, contingency plans will be developed to mitigate any risk identified.

ITEM 2. PROPERTIES

The Company leases its Bridgeville facility from Armco (the "Armco Lease") and owns the Titusville facility. The Bridgeville facility is leased pursuant to a long-term lease from Armco for ten years from August 15, 1994, which includes the payment by the Company of real and personal property taxes, water and sewage charges, special assessment and insurance premiums associated therewith, with three five-year options to renew on the same terms at the sole discretion of the Company. The Armco Lease provides the Company with an option to purchase substantially all of the leased premises for \$1 any time during the term of the Armco Lease prior to August 15, 2015. The building that houses the electro-slag remelting equipment, which is nearby, but not contiguously located, to the other facilities, is included in the ten-year initial lease term only. The Company anticipates relocating the equipment it owns in that facility in close proximity to the melt shop complex in an existing building prior to the expiration of that initial ten-year term. The Armco Lease is assignable with the written consent of Armco, which consent cannot be unreasonably withheld. The Company is responsible for compliance with all environmental laws related to the property subsequent to August 15, 1994, subject to liabilities Armco retained and indemnification obligations under the asset agreement related to the Bridgeville facility (the "Asset Agreement").

In early 1999, the Company successfully completed the round-bar finishing facility at the Bridgeville location. The facility includes heat treating and processing equipment which enables the Company to produce completely finished 2-

inch to 6-inch round bar products.

The Bridgeville facility consists of approximately 600,000 square feet of floor space on approximately 50 acres. The Bridgeville facility contains melting, electro-slag remelting, conditioning, rolling, annealing and various other processing equipment. Substantially all products shipped from the Bridgeville facility are processed through its melt shop and universal rolling mill operations.

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

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

Environmental Compliance

The Company is subject to Environmental Laws, including those governing discharges of pollutants into the air and water, the generation, handling and disposal of solid and hazardous substances and the remediation of contamination associated with generation, handling and disposal activities. The Company is subject periodically to environmental compliance reviews by various regulatory offices. Additionally, the Company monitors its compliance with Environmental Laws applicable to it and, accordingly, believes that it is currently in compliance with all laws and regulations in all material respects. The Company has not made to date and does not anticipate making any significant expenditures for environmental control facilities, but could incur costs, which may be significant, related to environmental compliance at any time or from time to time in the future.

Bridgeville Facility

The Company has not incurred to date and does not anticipate incurring any remediation costs from environmental conditions at the Bridgeville facility. The Company does not expect that any remediation that may be required at the Bridgeville facility will have a material adverse effect on the Company's results of operations, liquidity or financial condition. The Company operates production and processing equipment, which it owns, on real property that is leased from Armco. Armco remains contractually obligated for environmental matters, including compliance with laws governing the removal of hazardous materials and the elimination of hazardous conditions, which stem from any operations or activities at the leased Bridgeville facility prior to August 15, 1994. In addition, Armco has agreed to indemnify the Company against any liability arising as a result of any of those matters with respect to the Bridgeville facility to the extent of \$6.0 million in the aggregate until 2004 and has further agreed (subject to the indemnity limits) to pay up to \$250,000 for each 30-day period and up to \$1.0 million in reimbursement for certain non-recoverable operating costs should the Company's business be interrupted by reason of matters arising under Environmental Laws that stem from occurrences prior to August 15, 1994. Except as required by law or for the protection of public health or the safety of its employees, the Company is contractually prohibited from taking voluntary or discretionary action to accelerate or delay the timing, or increase the cost of, Armco's environmental obligations with respect to the Bridgeville facility. Prior to entering into the Asset Agreement, Armco and the Company identified certain environmental conditions existing at the Bridgeville facility, including asbestos in various structures, oils and electrical devices containing PCBs, that Armco or the Company has remediated at Armco's expense. The Company's Bridgeville facility includes an overhead and rooftop system (the "bag house") to remove waste gases generated by its melting operations. The bag house facility associated with that system collects oxides and non-metallic residue for reclaiming purposes. An independent reclaiming contractor purchases the oxides and non-metallic residue, removes the residue and converts it into metallic form for sale back to the Company as scrap metal. This reclaiming process enables the Company to dispose of the unwanted residue, while at the same time recovering some raw materials

for the manufacture of specialty steel.

Titusville Facility

The Company operates its production and processing equipment that was acquired from Armco on real property the Company owns. Armco has agreed to indemnify the Company to the extent of \$3.0 million in the aggregate against liability for environmental matters, including compliance with laws governing the

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removal of hazardous materials and the elimination of hazardous conditions, which pertain to environmental conditions existing on or under the Titusville facility prior to June 2, 1995. In addition, Armco has agreed to indemnify the Company for any liabilities arising out of environmental conditions existing offsite as of June 2, 1995, and that indemnification is not subject to the \$3.0 million limitation. In connection with the acquisition of the Titusville facility, the Company conducted a Phase I and Phase II environmental study (the "Study") of the parcel of real estate acquired, and the Company believes the amount and terms of Armco's indemnity are sufficient to protect the Company against environmental liabilities arising at the Titusville facility from environmental conditions existing as of June 2, 1995. The Study revealed asbestos in certain areas adjacent to the Titusville facility, which Armco has remediated at its expense, and some electrical equipment containing PCBs that the Company is remediating at its expense, which is not material. Additionally, the Study noted that as is typical of the Titusville, Pennsylvania area generally, there is regional soil and groundwater hydrocarbon contamination present at above applicable cleanup standards, reflecting the fact that this area contains natural petroleum deposits and that petroleum refining operations had been conducted nearby. Any contamination of this type on the Company's property flows from outside its boundaries, to the extent it is not indigenous to the underlying ground. The Company believes it unlikely that it or Armco will be required to provide cleanup at the Titusville facility for the local hydrocarbon contamination or, if it were, the Company believes this action would be part of a large program addressing the entire area. To date, the Company has not been contacted by any environmental governmental authority concerning this matter. Notwithstanding Armco's indemnification obligations with respect to the Titusville facility, if the Company accelerates the timing or increases the cost of any environmental obligation retained by Armco except as required by law or for the protection of public health or the safety of its employees, the Company shall bear such accelerated or increased cost. If the Company accelerates the timing or increases the cost of any environmental obligation retained by Armco with respect to the Titusville facility as a result of seeking financing or the sale of less than a controlling interest in the voting stock of the Company, such accelerated or increased cost shall be borne equally by Armco and the Company. Certain processes that were employed by Armco, and certain facilities used by Armco that may have involved or been the site of activities that could have caused environmental pollution at the Titusville facility, are not employed or used by the Company. There may be other environmental conditions that have not been identified by regulatory authorities but which may later be determined to require remediation.

The Company's exclusive remedies for reimbursement from Armco for losses stemming from pre-closing environmental conditions at each of the Bridgeville facility and the Titusville facility are the indemnities agreed to with respect to each of the facilities. There can be no assurance that those indemnities will fully cover all environmental liabilities, especially if the relevant regulatory authorities or others were to proceed solely against the Company with respect to those liabilities at the Bridgeville facility that arise out of conditions existing prior to the commencement of the Armco Lease on August 15, 1994 (an event the Company believes is unlikely), and there can be no assurance that the Company will have the financial resources to discharge those liabilities if legally compelled to do so. See "Risk Factors--Environmental Issues."

Based on the foregoing and the experience of its senior executives with respect to both Armco's and the Company's facilities and the equipment and processes employed at the Bridgeville facility, and the results of the Phase I and Phase II environmental study of the Titusville facility, the Company believes the amount and terms of the Armco indemnities are sufficient to protect the Company against environmental liabilities arising from environmental conditions prior to August 15, 1994, with respect to the Bridgeville facility, and prior to June 2, 1995, with respect to the Titusville facility.

ITEM 3. LEGAL PROCEEDINGS

There are no material legal proceedings pending or, to the Company's best knowledge, threatened against the Company.

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

No matters were submitted to a vote of security holders during the fourth quarter of 1998.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

At December 31, 1998, a total of 6,320,036 shares of the Company's Common Stock, par value \$.001 per share, were issued and outstanding, and held by approximately 211 holders of record.

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

Price Range of Common Stock

The information called for by this item is set forth on page 35 of the Annual Report to Stockholders for the year ended December 31, 1998, which is incorporated herein by reference.

Preferred Stock

The Company's Certificate of Incorporation provides that the Company may, by vote of its Board of Directors, issue the Preferred Stock in one or more series having the rights, preferences, privileges and restrictions thereon, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series or designation of such series, without further vote or action by the stockholders. The issuance of Preferred Stock may have the effect of delaying, deferring or preventing a change in control of the Company without further action by the stockholders and may adversely affect the voting and other rights of the holders of Common Stock. The issuance of Preferred Stock with voting and conversion rights may adversely affect the voting power of the holders of Common Stock, including the loss of voting control to others.

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

Dividends

The Company has never paid a cash dividend on its Common Stock and currently has no plans to pay dividends in the foreseeable future. Restrictions contained in the Company's Credit Agreement with PNC currently prohibits the payment of cash dividends on Common Stock.

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ITEM 6. SELECTED FINANCIAL DATA

The information called for by this item is set forth on page 36 of the Annual Report to Stockholders for the year ended December 31, 1998, which is incorporated herein by reference.

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

The information called for by this item is set forth on pages 15 through 19 of the Annual Report to Stockholders for the year ended December 31, 1998, which

are incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Prices for the Company's raw materials are subject to frequent market fluctuations. The Company does not maintain long term supply agreements for its raw material needs. Raw material price increases are normally off-set by selling price increases and surcharges.

The Company is exposed to market risk from changes in interest rates related to its long-term debt. At December 31, 1998, the Company's total long-term debt, including the current portion was \$12,958,000. Of that amount, \$2,958,000 has fixed rates and \$10,000,000 bears a variable rate. Assuming a 10% increase in interest rates on the Company's variable rate (an increase from the December 31, 1998 interest rate of 6.34% to an interest rate of 6.98%), annual interest expense would be approximately \$63,000 higher based on the December 31, 1998 balance of variable rate debt.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information called for by this item is set forth on pages 21 through 34 of the Annual Report to Stockholders for the year ended December 31, 1998, which are incorporated herein by reference.

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

None.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

The information concerning the directors of the Company is set forth in the Proxy Statement (the "Proxy Statement") to be sent to stockholders in connection with the Company's Annual Meeting of Stockholders to be held on May 25, 1999, under the heading "Proposal No. 1--Election of Directors," which information is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information concerning executive compensation is set forth in the Proxy Statement under the heading "Executive Compensation," which information is incorporated by reference. With the exception of the information specifically incorporated herein by reference, the Company's Proxy Statement is not to be deemed filed as part of this report for the purposes of this Item.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information concerning security ownership of certain beneficial owners and management is set forth in the Proxy Statement under the heading "Security Ownership of Certain Beneficial Owners and Management," which information is incorporated by reference. With the exception of the information specifically incorporated herein by reference, the Company's Proxy Statement is not to be deemed filed as part of this report for the purposes of this Item.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

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ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

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

1) Consolidated Financial Statements:

The consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP, appearing on pages 20 through 34 of the

accompanying Annual Report, are incorporated by reference in this Form 10-K Annual Report.

2) Consolidated Financial Statement Schedules:

All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and have therefore been omitted.

3) Exhibits:

Exhibit -----			
Number -----	Description -----		Page No. -----
2.1	Certificate of Merger, dated July 29, 1994, between Universal Stainless & Alloy Products, Inc., a Pennsylvania Corporation, and the Company (incorporated herein by reference to Exhibit 2.1 to Registration No. 33-85310).		
2.2	Agreement and Plan of Merger, dated July 28, 1994, among Universal Stainless & Alloy Products, Inc., a Pennsylvania Corporation, and the Company (incorporated herein by reference to Exhibit 2.2 to Registration No. 33-85310).		
2.3	Asset and Real Property Purchase Agreement, dated as of June 2, 1995, by and between Armco Inc. and the Company (incorporated herein by reference to Exhibit 2.3 to Registration No. 33-97896).		
3.1	Amended and Restated Certificate of Incorporation (incorporated herein by reference to Exhibit 3.1 to Registration No. 33-85310).		
3.2	By-laws of the Company (incorporated herein by reference to Exhibit 3.2 to Registration No. 33-85310).		
4.1	Specimen copy of Stock Certificate for shares of Common Stock (filed herewith).		
4.2	Form of Representative's Warrant Agreement (including Form of Representative's Warrant Certificate) (incorporated herein by reference to Exhibit 4.2 to Registration No. 33-85310).		
10.1	Stockholders Agreement, dated as of August 1, 1994, by and among the Company and its existing stockholders (incorporated herein by reference to Exhibit 10.8 to Registration No. 33-85310).		
10.2	Asset Purchase Agreement, dated August 15, 1994, by and between the Company and Armco Inc., as amended by letter agreement, dated October 5, 1994, by and between the Company and Armco, Inc. (incorporated herein by reference to Exhibit 10.12 to Registration No. 33-85310).		
10.3	Lease Agreement, dated August 15, 1994, by and between Armco Inc. and the Company (incorporated herein by reference to Exhibit 10.9 to Registration No. 33-85310).		
10.4	Security Agreement, dated August 15, 1994, by and between the Company and Armco Inc. (incorporated herein by reference to Exhibit 10.21 to Registration No. 33-85310).		
10.5	Employment Agreement, dated November 20, 1998 by and between the Company and Clarence M. McAninch (filed herewith).		

EXHIBIT -----			
NUMBER -----	DESCRIPTION -----		PAGE NO. -----
10.6	Employment Agreement, dated August 15, 1998, by and between the Company and Daniel J. DeCola, Sr. (filed herewith).		
10.7	Employment Agreement, dated August 1, 1998, by and between the Company and A. Bruce Kennedy (filed herewith).		
10.8	Employment Agreement dated January 1, 1998 between the Company and Paul McGrath (incorporated herein by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).		
10.9	Employment Agreement dated January 1, 1998 between the Company and Richard M. Ubinger (incorporated herein by reference to Exhibit 10.26 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).		
10.10	1994 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.25 to Registration No. 33-85310).		
10.11	Collective Bargaining Agreement, dated May 3, 1995, by and between the Company and United Steelworkers of America (incorporated herein by reference to Exhibit 10.42 to Registration No. 33-97896).		
10.12	Collective Bargaining Agreement, dated September 1, 1997, by and between the Company and United Steelworkers of America (incorporated herein by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).		
10.13	Credit Agreement, dated as of January 30, 1998, between the Company and PNC Bank, National Association, with Exhibits and Schedules (incorporated herein by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).		
10.14	Security Agreement and Collateral Assignment, dated as of January 30, 1998, by and between the Company and PNC Bank, National Association (incorporated herein by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).		
10.15	Note, dated as of January 30, 1998, by and between the Company and PNC Bank, National Association (incorporated herein by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).		
10.16	Landlord's Waiver, dated as of January 30, 1998, by Armco Inc (incorporated herein by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).		
10.17	Open-End Leasehold Mortgage, Collateral Assignment and Security Agreement dated as of January 30, 1998, by the Company in favor of PNC Bank, National Association (incorporated herein by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).		
10.18	First Amendment to Credit Agreement, dated as of December 31, 1998, between the Company and PNC Bank, National Association (filed herein).		
10.19	Supply Contract Agreement, dated as of January 1, 1999, between the Company and Talley Metals Technology, Inc. a subsidiary of Carpenter Technologies, Inc. (filed herein).		
10.20	Loan Agreement, dated October 3, 1995, by and between the Company and Commonwealth of Pennsylvania (incorporated herein by reference to Exhibit 10.47 to Registration No. 33-97896).		
10.21	Note, dated October 3, 1995, for the principal sum of \$500,000, by the Company, in favor of the Commonwealth of Pennsylvania (incorporated herein by reference to Exhibit 10.48 to Registration No. 33-97896).		

EXHIBIT ----- NUMBER -----	DESCRIPTION -----	PAGE NO. -----
10.22	Security Agreement, dated October 3, 1995, by and between the Company and the Commonwealth of Pennsylvania (incorporated herein by reference to Exhibit 10.48 to Registration No. 33-97896).	
10.23	Underwriting Agreement, dated December 14, 1994, among the Company and Keane Securities Co., Inc., as representatives of the several underwriters (incorporated herein by reference to Exhibit 10.52 to Registration No. 33-85310).	
10.24	Equipment Purchase Agreement dated as of November 6, 1997 between the Company and Hetran, Inc. for the purchase of certain bar finishing equipment (incorporated herein by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).	
13.01	Selected pages of the Company's 1998 Annual Report to Shareholders incorporated by reference into Parts II and III of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998.	
23.01	Consent of PricewaterhouseCoopers LLP.	
24.01	Powers of Attorney (included on the signature page hereto).	
27.01	Financial Data Schedule	

(b) The following reports on Form 8-K were filed during the fourth quarter of 1998:

The Company's Current Reports on Form 8-K, dated October 19, 1998 and November 25, 1998.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, on March 30, 1999.

Universal Stainless & Alloy Products, Inc.

By: /s/ C. M. McAninch

Clarence M. McAninch
President and Chief Executive Officer

Power of Attorney

Each of the officers and directors of Universal Stainless & Alloy Products, Inc., whose signature appears below in so signing also makes, constitutes and appoints Clarence M. McAninch and Paul A. McGrath, and each of them acting alone, his true and lawful attorney-in-fact, with full power of substitution, for him in any and all capacities, to execute and cause to be filed with the Securities Exchange Commission any and all amendment or amendments to this Report on Form 10-K, with exhibits thereto and other documents connected therewith and to perform any acts necessary to be done in order to file such documents, and hereby ratifies and confirms all that said attorney-in-fact or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities and Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Signature -----	Title -----	Date ----
/s/ C. M. McAninch ----- Clarence M. McAninch	President, Chief Executive Officer and Director	March 30, 1999
/s/ Richard M. Ubinger ----- Richard M. Ubinger	Chief Financial Officer and Treasurer, (Principal Accounting Officer)	March 30, 1999
/s/ Douglas M. Dunn ----- Douglas M. Dunn	Director	March 30, 1999
/s/ George F. Keane ----- George F. Keane	Director	March 30, 1999
/s/ Udi Toledano ----- Udi Toledano	Director	March 30, 1999
/s/ D. Leonard Wise ----- D. Leonard Wise	Director	March 30, 1999

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

- TEN COM -- as tenants in common
- TEN ENT -- as tenants by the entireties
- JT TEN -- as joint tenants with right of survivorship and not as tenants in common

UNIF GIFT MIN ACT-- _____ Custodian _____
 (Cust) (Minor)
 under Uniform Gifts to Minors
 Act _____
 (State)

Additional abbreviations may also be used though not in the above list.

For value received, _____ hereby sell, assign and transfer unto

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING ZIP CODE, OF ASSIGNEE)

_____ shares
of the common stock represented by the within Certificate, and do hereby irrevocably constitute and appoint

_____ Attorney
to transfer the said stock on the books of the within named Company with full power of substitution in the premises.

Dated _____

NOTICE: THE SIGNATURE TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS WRITTEN UPON THE FACE OF THIS CERTIFICATE IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATSOEVER.

SIGNATURE(S) GUARANTEED: _____
 THE SIGNATURE(S) SHOULD BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (BANKS, STOCKBROKERS, SAVINGS AND LOAN ASSOCIATIONS AND CREDIT UNIONS WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM) PURSUANT TO S.E.C. RULE 17Ad-15.

KEEP THIS CERTIFICATE IN A SAFE PLACE. IF IT IS LOST, STOLEN, MUTILATED OR DESTROYED, THE CORPORATION WILL REQUIRE A BOND OF INDEMNITY AS A CONDITION TO THE ISSUANCE OF A REPLACEMENT CERTIFICATE.

EMPLOYMENT AGREEMENT

THIS AGREEMENT made as of the 20th day of November, 1998

by and between UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC., a Delaware corporation (the "Company"), and Clarence M. McAninch (the "Employee").

WITNESSETH:

In consideration of the covenants and agreements herein contained, and intending to be legally bound hereby, the Company and Employee agree that this Agreement supercedes any previous and/or existing Employment Agreement between the parties. Any notices or other requirements required for termination of previous agreements are hereby considered given. The Company and Employee further agree as follows:

Article 1. - Employment

1.1. Employment. The Company agrees to employ Employee, and Employee 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 hereby employs Employee, and Employee agrees to serve as President and Chief Executive Officer of the Company and to accept such other responsibilities as may be assigned to Employee, subject to the general direction, approval and control of the directives of the Board of Directors, from time to time during the Term of Employment.

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

Article 2. - Term

The Term of Employment shall commence as of November 20, 1998 (the "Effective Date"), and shall continue until the 1st anniversary of the Effective Date (the "Expiration Date"), unless sooner terminated by one of the parties as permitted in this Agreement or the term of the Agreement will automatically extend for one-year periods, expiring on November 20th of each subsequent year, barring a notice by the Company not to extend, delivered at least sixty (60) days prior to any expiration date.

Article 3. - Compensation

3.1. Salary. As compensation to the Employee for the performance of services hereunder, the Company shall pay to the Employee a base salary (the "Salary") of Two hundred thousand dollars (\$200,000.00) per year. Installments of the Salary shall be paid to the Employee in accordance with the standard procedure of the Company, which at the present time is once every two (2) weeks. During the period of this Agreement, Employee's salary shall be reviewed at least annually and may be adjusted if the Board of Directors of the Company (the

"Board"), the Compensation Committee (the "Compensation Committee") or the Compensation Sub-Committee ("Sub-Committee") determines that an adjustment is

appropriate on the basis of the types of factors it generally takes into account in adjusting the salaries of employees of the Company.

3.2 Bonus The Employee shall be eligible to receive a bonus, as

additional compensation, as approved by the Board, or the Compensation Committee, or the Sub-Committee.

3.3 Reimbursement of Expenses. The Company will reimburse the

Employee 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 Employee of appropriate documentation to substantiate such expenses pursuant to the policies and procedures of the Company governing reimbursement of business expenses to its Employees.

3.4 Participation in Plans. The Employee shall be entitled to

participate in any applicable incentive compensation or bonus plan, medical, dental, health, hospitalization, travel, accident, life, and/or disability insurance plans and in any sick leave and/or salary continuation plan, vacation (which shall not be less than two (2) weeks per year), holiday pay, retirement or employee benefit plan or program generally offered by the Company to its salaried employees, or as specified herein.

3.5 Automobile. In recognition of Employee's need of an automobile

for business purposes, Employer shall provide Employee with an automobile, a late-model sedan manufactured by a United States automobile manufacturer, including all related maintenance, repairs, insurance and other costs, and a modern portable telephone for carrying out his duties under this Agreement.

3.6 Insurance. (a) Employer may, in its sole and absolute

discretion, at any time after the execution of this Agreement, apply for and procure as owner for its own benefit life insurance or disability insurance on Employee, in such amounts and in such form or forms as Employer may determine. The Employee shall, at the request of Employer, subject to such medical examinations, supply such information and execute such documents as may be required by the insurance company or companies to whom Employer has applied for such insurance.

(b) Employer shall also apply for and procure for Employee's benefit a life insurance policy on Employee, listing Employee's designated beneficiaries, in the amount of two million dollars (\$2,000,000) for the term of this Agreement.

3.7 Physical Condition of Employee. In entering into this

Agreement, Employer is relying on the good health and physical condition of Employee. Employee hereby represents and warrants to Employer that, to the best of his knowledge and belief, he is in good health and physical condition and knows of no mental or physical limitation which could cause him to be unable to perform his duties under the terms of this Agreement.

3.8 Right to Indemnification. The Company shall indemnify and hold

harmless, to the fullest extent permitted by applicable law as it presently exists or may hereafter be amended, the Employee who was or is made or is threatened to be made a party or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "proceeding") by reason of the fact that the Employee, is or was an officer of the Company, including service with respect to employee benefit plans, against all liability and loss suffered and expenses (including attorneys' fees) reasonably incurred by the Employee. The Company shall be required to indemnify the Employee in connection with a proceeding (or part thereof) initiated by the Employee only if the proceeding (or part thereof) was authorized by the Board of Directors of the Company.

The Company shall pay the expenses (including attorney's fees) incurred in defending any proceeding in advance of its final disposition, provided, however, that the payment of expenses incurred by a director or

officer in advance of the final disposition of the proceeding shall be made only upon receipt of an undertaking by the director or officer to repay all amounts advanced if it should be ultimately determined that the director or officer is not entitled to be indemnified under this Article or otherwise.

If a claim for indemnification or payment of expenses under this Article is not paid in full within sixty days after a written claim therefore has been received by the Corporation, the claimant may file suit to recover the unpaid amount of such claim and, if successful in whole or in part, shall be entitled to be paid the expense of prosecuting such claim. In any such action the Company shall have the burden of proving that the claimant was not entitled to the requested indemnification or payment of expenses under applicable law.

The rights conferred on the Employee by this Section 3.8 shall not be exclusive of any other rights which such person may have or hereafter acquire under any statute, provision of the Restated Certificate of Incorporation, the Company By-Laws, agreement, vote of stockholders or disinterested directors or otherwise.

The Company's obligation, if any, to indemnify the Employee who was or is serving at its request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, enterprise or nonprofit entity shall be reduced by any amount such person may collect as indemnification from such other corporation, partnership, joint venture, trust, enterprise or nonprofit enterprise.

3.9 Adherence to Standards. Employee shall adhere to all the

policies, practices and procedures as set forth expressly, in writing, by Employer's Board of Directors and shall not, knowingly and intentionally, during the term of his employment with Employer, engage in any conduct, or expressly condone any act or conduct of other persons, which causes Employer to be (i) in violation of any law or statute, unless such action is approved by Employer's Board of Directors or (ii) in violation of any express directives or resolutions of Employer's Board of Directors; provided however, if Employee discovers a violation of law in which he did not participate which has exposed Employer to liability, he shall report such violation to the Board of Directors immediately upon discovery of such violation, at which time he shall have fulfilled his obligations hereunder with respect to that violation, and shall not be in breach of this Section 3.9 in connection with that violation.

Article 4. - Termination of Employment

4.1. Definitions. For the purposes hereof:

(a) "Disability" shall be deemed to have occurred at the same time as the Employee has been determined to be entitled to benefits under the Company's Short Term or Long Term Disability Plan then in effect.

(b) "Cause" shall mean any of the following: (i) Employee's personal dishonesty, incompetence or willful misconduct; (ii) Employee's willful violation of any law or material rule or regulation, provided that such violation is demonstrably and materially injurious to the assets, operations or business prospects of the Company; (iii) the conversion or embezzlement for the personal benefit of the Employee of corporate funds or property or a material business opportunity of the Company; (iv) the misuse by the Employee 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) Employee'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 Employee's express written consent to such action, mean the occurrence of any one of the following: (i) following a

Change of Control, the removal of the Employee as President and Chief Executive Officer of the Company (by reason other than death, disability or cause); (ii) any material breach by the Company of its respective or joint obligations contained in this Agreement not cured within 30 days after written notice; (iii) the assignment to the Employee of any duties inconsistent with his status as President and Chief Executive Officer of the Company or a substantial alteration in the nature or status of the Employee's duties and responsibilities which renders the Employee's position to be of less dignity, responsibility or scope; (iv) a reduction by the Company in the Employee's annual base salary as in effect on the date hereof or as the same may be increased from time to time, except for proportional across-the-board salary reductions due to economic conditions of the Company similarly affecting all Executive Employees of the Company, for at least six (6) months, provided, however, that in no event shall the Employee's base salary be reduced by more than fifteen percent (15%) below the per year amount set forth in Section 3.1 hereof without the Employee's consent; (v) the relocation of the principal executive offices of the Company to a location outside the Greater Pittsburgh Metropolitan area or the Company's requiring the Employee to be based anywhere other than Company's principal executive offices except for required travel on Company's business; or (vi) any material reduction by the Company of the benefits enjoyed by the Employee under any of the savings, life insurance, medical, health-and-accident, disability or other employee welfare benefit plans or programs, including vacation days, corporate time, provided that this paragraph (vi) shall not apply to any proportional across-the-board reduction or action similarly affecting all executives of the Company; (vii) within sixty (60) days of receipt of notice not to extend this Agreement, the employee may elect to resign for "Good Reason" in which case the notice not to extend shall constitute notice to the Company by the employee of the "Good Reason."

Notwithstanding the foregoing, except as stated in (vii) of this section, no event of "Good Reason" shall be deemed to have occurred unless Employee provides to the General Counsel written notice of the facts and circumstances which Employee believes constitutes "Good Reason"

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under this Section 4.1(c) and such facts and circumstances are not corrected or otherwise cured by the Company within thirty (30) days of receipt thereof.

For purposes of this Agreement, a Change of Control shall be deemed to have occurred the earlier of (i) if, in any transaction or a 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; (ii) 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 and (iii) the sale of substantially 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 shall include a certified statement of the General Counsel 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 of the Employee's employment termination for any reason or the Employee's effective date of resignation, which ever is earlier.

Article 5. - Compensation Upon Termination

5.1. Death. If the Employee dies during the Term, this Employment

Agreement shall terminate and any benefits accruing and owing to Employee by Employer at the time of his death shall inure to the benefit of his successors, assigns and/or personal representatives.

5.2. Disability. If during the Term of this Agreement, the Employee

becomes physically or mentally disabled, whether totally or partially, so that the Employee is unable substantially to perform his duties hereunder for (i) a

period of three (3) consecutive months or (ii) for shorter periods aggregating four (4) months during any 12-month period such that Employee's performance is materially impaired, the Employer may at any time after the last day of the three (3) consecutive months of disability or the day on which the shorter periods of disability equal an aggregate of four (4) months, terminate this Employment Agreement by written notice addressed to the Employee, upon which notice this Employment shall terminate during such disability. The Company shall pay to the Employee for a period of four (4) weeks, payments on the regular pay dates in an amount equal to 100% of his then regular bi-weekly pay (1/26 of annual base pay), and for a period of twenty-two (22) weeks, payments on the regular pay dates, 60% of his then regular bi-weekly pay (1/26 of annual base pay), in addition thereto, the Employee shall be entitled to receive such amounts as are then provided pursuant to applicable plans, programs or arrangements. The Company may carry insurance to cover this liability and in such case would not require a separate salary continuation.

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5.3. By the Company with Cause or if the Employee Resigns or Quits

without Good Reason. If the Employee's employment hereunder is terminated by

the Company for Cause, or if the Employee resigns or quits without good reason, the Company shall pay to the Employee 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 Employee under this Agreement.

If a discharge for Cause occurs based upon alleged facts upon which Employee and Employer are in dispute, until such time as an arbitration proceeding in accordance with paragraph A. below shall have resolved the dispute, Employee shall be entitled to continue to receive his salary until the earlier to occur of (i) 90 days from the date of the contested Discharge for Cause or (ii) the date of the final decision in the arbitration proceeding set forth in paragraph A below:

A. Any controversy, dispute or claim under this Section 5.3 shall be submitted to arbitration in Pittsburgh, Pennsylvania, under the following provisions:

Employee shall submit in writing to the Company a statement ("Claim statement") describing such matter or dispute and the resolution or relief sought and naming one qualified reputable individual willing and able to act as an arbitrator. A counterstatement ("Counterstatement") from the company shall be delivered to Employee within ten (10) business days after receipt of the Claim Statement, or the right to file the Counterstatement shall be irrevocably waived and the dispute will be heard by the sole arbitrator designated. Any Counterstatement shall name one qualified reputable individual willing and able to act as an arbitrator. If two (2) arbitrators have been so appointed the two (2) arbitrators so appointed shall jointly select a third arbitrator within ten (10) business days after the date of the Counterstatement. Any qualified reputable individual selected shall be an existing member of the American Arbitration Association or other nationally recognized group of arbitrators of similar stature. If three (3) arbitrators will decide the dispute, they (the "Arbitrators") shall confer within ten (10) business days after the selection or other determination of the third arbitrator. The Arbitrators may, if they so desire and agree (or if no Counterstatement is filed, the sole arbitrator may) invite submission of further statements or evidence, hold hearings in Pittsburgh, Pennsylvania, and/or consult outside experts for assistance in deciding such matter or dispute, but it is the parties' intent that the Arbitrators (or sole arbitrator) reach a decision promptly and no later than twenty (20) business days after the selection of the third arbitrator or the failure to timely file a Counterstatement. Should any hearings be held by the Arbitrators (or the sole arbitrator) the parties to the dispute may be present with the full right on their part to cross-examine. The majority decision of the Arbitrators (or the decision of the sole arbitrator) as to each and all mater(s) or dispute(s) so submitted for decision shall be final and binding upon all parties hereto. In resolving any matter or dispute, the Arbitrators (or sole arbitrator) may fashion any remedy or hereby release any and all errors which may occur in such proceedings and the Arbitrators (or sole arbitrator) from any and all liability for actions taken or omissions made in good faith in such capacity. The parties to the dispute shall bear equally the fees of, and expenses incurred by, the Arbitrators (or sole arbitrator) in

resolving any and all such matters and disputes. A business day shall mean any day other than Saturday, Sunday and days on which banks in Pennsylvania are prohibited from doing business. Without limiting the foregoing the Arbitrators (or sole arbitrator) shall have all of the powers and the parties shall hold all the rights

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accorded to arbitrators in commercial arbitrations under the rules of the American Arbitration Association.

5.4. By the Company Without Cause or by the Employee by Resignation

for Good Reason. If the Employee's employment hereunder is terminated by the

Company without Cause or is terminated by the Employee pursuant to his Resignation for Good Reason, then the Employee shall be entitled to the benefits provided below, which shall constitute complete satisfaction of the obligations of the Company to the Employee under this Agreement:

(a) The Company shall pay the Employee his full 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 Employee, a lump sum payment equal to the Employee's full base salary at the rate then in effect for a period of eighteen (18) months, or pay to the Employee the full base salary rate in the regular pay periods for eighteen (18) months from termination.

(c) The Company will provide health care benefits to the employee as provided prior to termination for the employee and eligible dependents for eighteen (18) months at no cost to the employee. This period will not reduce the eligible COBRA period.

(d) The Employee 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 Employee as the result of employment by another employer, or otherwise.

(e) Notwithstanding any provisions herein to the contrary, the Employee shall be entitled to receive all benefits to which the Employee is entitled 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 which is established (with approval of the Board of Directors) as a supplement to any of the aforementioned plans, except as otherwise provided in such plans as a result of the Employee's termination of employment.

5.5. Termination at the Cessation of the Term. The Employee's

employment hereunder will terminate at the end of the Term on 60 day's notice. All salary and benefits of the Employee hereunder will continue to be paid to the Employee only for the remainder of the Term of this Employment Agreement.

Article 6. - Duties of Employee After

Termination of Employment

Following any termination of Employee's employment and for a period of ninety (90) days thereafter, the Employee shall fully cooperate with the Company in all matters relating to the winding up and orderly transfer of the Employee's work on behalf of the Company. Not later than the effective date of any termination of the employment, the Employee will immediately deliver to the Company any and all of the Company's property of any kind or nature

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whatsoever in the Employee's possession, custody or control, including, without limitation any and all Confidential Information as that term is defined in

Section 7 of this Agreement.

Article 7. - Confidential Information; Invention Assignment

7.1. Confidential Relationship. Employee 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, Employee 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. The Employee 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 Employee 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 Employee. The Employee recognizes that all such works shall be considered works-for-hire and hereby transfers and assigns any right, title, copyright and interest that Employee 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. No Breach of Other Obligations. The Employee 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 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 unless specifically permitted herein. 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.

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Article 9. - Covenants Against Competition; No Solicitation

9.1. Restrictive Covenant - Non-Compete. During the term of this

Employment Agreement, and for a period of one (1) year following the termination of the Employees' employment hereunder, in the case of (i) a "Discharge for Cause", (ii) a voluntary resignation by the Employee, or (iii) termination without cause, and in consideration of the Employer's agreement to pay the Employee the salary, bonus and benefits described herein, the Employee agrees that he shall not, directly or indirectly, engage or be interested in any business of producing, manufacturing, marketing or distributing semi-finished stainless steel products as produced by Employer or any other product which the Company may engage in selling (the "Steel Business") and competing with Employer, anywhere in the United States, without the prior written consent of

Employer, which consent will not be withheld unreasonably. The Employee shall be deemed to be, directly or indirectly, engaged in such a business if he is engaged in that type of business as a stockholder, director, officer, employee, salesman, sales representative, agent broker, partner, individual proprietor, lender, consultant or in any similar capacity, except that beneficial ownership by the Employee (together with any one or more members of his immediate family and together with any entity under his direct or indirect control) of 12% or less of the outstanding shares of capital stock of any corporation which may be engaged in the Steel Business which stock is listed on a national securities exchange or publicly traded in the over-the-counter market shall not constitute a breach of the covenants in this paragraph.

9.2. Restrictive Covenant - Non-Solicitation. The Employee shall

not directly or indirectly for a period of one (1) year following the termination of the Employee's employment hereunder for any reason actively solicit business from or engage in business with persons or entities which were the customers of the Employer at anytime during the Employee's employment hereunder, which solicitation or engagement is made for the purpose of selling semi-finished steel products or any other product which the Company may engage in selling in competition with Employer. This paragraph, however, shall not prevent the Employee from soliciting or engaging in business with such persons or entities if such solicitation or business does not involve sales of semi-finished stainless steel products or any other product which employer may engage in selling.

9.3. Restrictive Covenant - Restricted Hiring. The Employee shall

not directly or indirectly for a period of one (1) year following the termination of the Employee's employment hereunder for any reason actively solicit for employment any person who is employed by the Employer during the term of the Employees' employment, for the purpose of engaging in the sale of semi-finished stainless steel products or any other product which Employer may engage in selling.

9.4. Rights and Remedies upon Breach. If the Employee breaches any of

the provisions of Paragraphs 9.1, 9.2, or 9.3 hereof (the "Restrictive Covenants"), the Employer shall have the following rights and remedies, each of which rights and remedies shall be independent of the others and severally enforceable, and each of which is in addition to, and not in lieu of, any other rights and remedies available to the Employer under law or in equity:

1. Specific Performance. The right and remedy to have the Restrictive

Covenants specifically enforced by any court of competent

jurisdiction, it being agreed that any breach or threatened breach of the Restrictive Covenants would cause irreparable injury to the Employer and that money damages would not provide an adequate remedy to the Employer.

2. Accounting. The right and remedy to require the Employee to

account for and pay over to the Employer all compensation, profits, monies, accruals, increments or other benefits derived or received by him as the result of any transactions constituting a breach of the Restrictive Covenants.

9.5 Severability of Covenants. The Employee acknowledges and

agrees that the Restrictive Covenants are reasonable and valid in geographical and temporal scope and in all other respects. If any court determines that any of the Restrictive Covenants, or any part thereof, is invalid or unenforceable, the remainder of the Restrictive Covenants shall not thereby be affected and shall be given full effect, without regard to the invalid portions.

9.6 Blue-Pencilling. If any court determines that any of the

Restrictive Covenants, or any part thereof, is unenforceable because of the duration or geographic scope of such provision, such court shall have the power to reduce the duration or scope of such provision, as the case may be, and, in its reduced form, such provision shall then be enforceable.

9.7 Enforceability in Jurisdictions. The Employer and the Employee

intend to and hereby confer jurisdiction to enforce the Restrictive Covenants upon the courts of any jurisdiction within the geographical scope of such Covenants. If the courts of any one or more of such jurisdictions hold the Restrictive Covenants unenforceable by reason of the breadth of such scope or otherwise, it is the intention of the Employer and the Employee that such determination not bar or in any way affect the Employer's right to the relief provided in this Section in the courts of any other jurisdiction within the geographical scope of such Covenants, as to breaches of such Covenants in such other respective jurisdictions, such Covenants as they relate to each jurisdiction being, for this purpose, severable into diverse and independent covenants.

Article 10. - Miscellaneous

10.1 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.

10.2 Notices. All notices or communications hereunder shall be in

writing, addressed as follows:

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To the Company:

General Counsel
Universal Stainless & Alloy Products, Inc.
600 Mayer Street
Bridgeville, PA 15017

To the Employee:

Clarence M. McAninch
113 Huron
Carnegie, PA 15106

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 therefor, shall determine the time at which notice was given.

10.3 Assignment; Agreement. This Agreement shall be binding upon

and inure to the benefit of the heirs and personal representatives of the Employee, but neither this Agreement nor any rights hereunder shall be assignable or otherwise subject to hypothecation by the Employee.

The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise to all or substantially all of the business and/or assets of the Company) to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such assumption and agreement prior to the effectiveness of any such succession shall be a breach of his Agreement and shall entitle the Employee to compensation from the Employer in the same amount and on the same terms as the Employee would be entitled hereunder if the Employee terminated his employment pursuant to his Resignation for Good Reason, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be the Date of Termination. As used in this Agreement, "Company" shall mean as hereinbefore defined and any successor to the business and/or assets as aforesaid of either of them which assumes and agrees to perform

this Agreement by operation of law or otherwise.

10.4 Entire Agreement; Amendment. This Agreement represents the

entire agreement of the parties with respect to the subject matter hereof and will supersede all prior agreements and understandings between the Employee and the Company regarding the subject matter herein. This Agreement may be amended or any provision hereof waived at any time only by written agreement of the parties hereto.

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10.5 Governing Law. This Agreement and its validity, interpretation,

performance and enforcement shall be governed by the laws of the Commonwealth of Pennsylvania, other than the conflict of laws provisions of such laws.

10.6 Severability. If, for any reason, any provision of this

Agreement is held invalid, such invalidity shall not affect any other provision of this Agreement not held so invalid, and each such other provision shall to the full extent consistent with law continue in full force and effect. If any provision of this Agreement shall be held invalid in part, such invalidity shall in no way affect the remainder of such provision that is not held so invalid, and the remainder of such provision, together with all other provisions of this Agreement, shall to the full extent consistent with law continue in full force and effect.

10.7 Headings. The Article and Section headings in this Agreement

are for convenience of reference only; they form no part of this Agreement and shall not affect its interpretation.

10.8 Counterparts. This Agreement may be executed in one or more

counterparts, each of which shall be deemed an original, and all of which together shall constitute one and the same instrument.

10.9 Jurisdiction. All disputes arising from or concerning this

Agreement and employment relationship shall only be brought in any court of competent jurisdiction located in Allegheny County, Pennsylvania.

IN WITNESS WHEREOF, the Company and the Employee have duly executed this Agreement as of the day and year first written above.

UNIVERSAL STAINLESS & ALLOY
PRODUCTS, INC.

By: _____

Title: _____

EMPLOYEE

Clarence M. McAninch

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EMPLOYMENT AGREEMENT

THIS AGREEMENT made as of the 15th day of August, 1998 by and between UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC., a Delaware corporation (the "Company"), and Daniel J. DeCola (the "Employee").

WITNESSETH:

In consideration of the covenants and agreements herein contained, and intending to be legally bound hereby, the Company and Employee agree that this Agreement supercedes any previous and/or existing Employment Agreement between the parties. Any notices or other requirements required for termination of previous agreements are hereby considered given. The Company and Employee further agree as follows:

Article 1. - Employment

1.1. Employment. The Company agrees to employ Employee, and Employee 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 Employee, and Employee agrees to serve as Manager, Rolling & Finishing Operations of the Company and to accept such other responsibilities as may be assigned to Employee by the Company from time to time during the Term of Employment.

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

Article 2. - Term

The Term of Employment shall commence as of August 15, 1998 (the "Effective Date"), and shall continue until the 1st anniversary of the Effective Date (the "Expiration Date"), unless sooner terminated by one of the parties as permitted in this Agreement or the term of the Agreement will automatically extend for one-year periods, expiring on August 15 of each subsequent year, barring a notice by the Company not to extend, delivered at least sixty (60) days prior to any expiration date.

Article 3. - Compensation

3.1. Salary. As compensation to the Employee for the performance of services hereunder, the Company shall pay to the Employee a base salary (the "Salary") of One hundred and thirty-four thousand dollars (\$134,000.00) per year. Installments of the Salary shall be paid to the Employee in accordance with the standard procedure of the Company, which at the present time is once every two (2) weeks. During the period of this Agreement, Employee's salary shall be reviewed at least annually and may be adjusted if the Board of Directors of the Company (the "Board"), the Compensation Committee (the "Compensation Committee"), or the

President of the Company (President) determines that an adjustment is

appropriate on the basis of the types of factors it generally takes into account in adjusting the salaries of employees of the Company.

3.2. Reimbursement of Expenses. The Company will reimburse the

Employee 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 Employee of appropriate documentation to substantiate such expenses pursuant to the policies and procedures of the Company governing reimbursement of business expenses to its Employees.

3.3. Participation in Plans. The Employee shall be entitled to

participate in any incentive compensation or bonus plan, 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 two (2) weeks per year), holiday pay, retirement or employee benefit plan or program generally offered by the Company to its salaried employees.

Article 4. - Termination of Employment

4.1. Definitions. For the purposes hereof:

(a) "Disability" shall be deemed to have occurred at the same time as the Employee has been determined to be entitled to benefits under the Company's Short Term or Long Term Disability Plan then in effect.

(b) "Cause" shall mean any of the following: (i) Employee's personal dishonesty, incompetence or willful misconduct; (ii) Employee's willful violation of any law or material rule or regulation, provided that such violation is demonstrably and materially injurious to the assets, operations or business prospects of the Company; (iii) the conversion or embezzlement for the personal benefit of the Employee of corporate funds or property or a material business opportunity of the Company; (iv) the misuse by the Employee 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) Employee'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 Employee's express written consent to such action, mean the occurrence of any one of the following: (i) following a Change of Control, the removal of the Employee as Manager, Rolling & Finishing Operations of the Company (by reason other than death, disability or cause); (ii) any material breach by the Company of its respective or joint obligations contained in this Agreement not cured within 30 days after written notice; (iii) the assignment to the Employee of any duties inconsistent with his status as Manager, Rolling & Finishing Operations of the Company or a substantial alteration in the nature or status of the Employee's duties and responsibilities which renders the Employee's position to be of less dignity, responsibility or scope; (iv) a reduction by the Company in the Employee's annual base salary as in effect on the date hereof or as the same may be increased from time to time, except for proportional across-the-board salary reductions due to economic conditions of the Company similarly affecting all Employees of the Company, for at least six (6) months,

provided, however, that in no event shall the Employee's base salary be reduced by more than fifteen percent (15%) below the per year amount set forth in Section 3.1 hereof without the Employee's consent; (v) the relocation of the principal executive offices of the Company to a location outside the Greater Pittsburgh Metropolitan area or the Company's requiring the Employee to be based anywhere other than Company's principal executive offices except for required travel on Company's business; or (vi) any material reduction by the Company of the benefits enjoyed by the Employee under any of the savings, life insurance, medical, health-and-accident, disability or other employee welfare benefit plans or programs, including vacation days, corporate time, provided that this paragraph (vi) shall not apply to any proportional across-the-board reduction or action similarly affecting all executives of the Company; (vii) within sixty (60) days of receipt of notice not to extend this Agreement, the employee may elect to resign for "Good Reason" in which case the notice not to extend shall

constitute notice to the Company by the employee of the "Good Reason."

Notwithstanding the foregoing, except as stated in (vii) of this section, no event of "Good Reason" shall be deemed to have occurred unless Employee provides to the President of the Company written notice of the facts and circumstances which Employee believes constitutes "Good Reason" under this Section 4.1(c) and such facts and circumstances are not corrected or otherwise cured by the Company within thirty (30) days of receipt thereof.

For purposes of this Agreement, a Change of Control shall be deemed to have occurred the earlier of (i) if, in any transaction or a 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; (ii) 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 and (iii) the sale of substantially 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 shall include a certified statement of the Company President 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 Employee's employment is terminated for any reason or the Employee's effective date of resignation, which ever is earlier.

Article 5. - Compensation Upon Termination

5.1. Death. If the Employee'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.

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5.2. Disability. If the Employee's employment hereunder terminates

by reason of his Disability, the Company shall pay to the Employee for a period of one (1) month, payments on the regular pay dates in an amount equal to 100% of his then monthly salary, and for a period of five (5) months, payments on the regular pay dates, 60% of his then monthly salary, in addition thereto, the Employee shall be entitled to receive such amounts as are then provided pursuant to plans, programs or arrangements. The Company may carry insurance to cover this liability and in such case would not require a separate salary continuation.

5.3. By the Company with Cause or if the Employee Resigns or Quits

without Good Reason. If the Employee's employment hereunder is terminated by

the Company for Cause, or if the Employee resigns or quits without good reason, the Company shall pay to the Employee 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 Employee under this Agreement.

5.4. By the Company Without Cause or by the Employee by Resignation

for Good Reason. If the Employee's employment hereunder is terminated by the

Company without Cause or is terminated by the Employee pursuant to his Resignation for Good Reason, then the Employee shall be entitled to the benefits provided below, which shall constitute complete satisfaction of the obligations of the Company to the Employee under this Agreement:

(a) The Company shall pay the Employee his full 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 Employee, a lump sum payment equal to the Employee's full base salary at the rate then in effect for a period of twelve (12) months, or pay to the Employee the full base salary rate in the regular pay periods for twelve months from termination.

(c) The Company will provide health care benefits as provided prior to termination for the employee and eligible dependents for twelve (12) months at no cost to the employee. This period will not reduce the eligible COBRA period.

(d) The Employee 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 Employee as the result of employment by another employer, or otherwise.

(e) Notwithstanding any provisions herein to the contrary, the Employee shall be entitled to receive all benefits to which the Employee is entitled 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 which is established (with approval of the Board of Directors) as a supplement to any of the aforementioned plans, except as otherwise provided in such plans as a result of the Employee's termination of employment.

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Article 6. - Duties of Employee After

Termination of Employment

Following any termination of Employee's employment and for a period of ninety (90) days thereafter, the Employee shall fully cooperate with the Company in all matters relating to the winding up and orderly transfer of the Employee's work on behalf of the Company. Not later than the effective date of any termination of the employment, the Employee will immediately deliver to the Company any and all of the Company's property of any kind or nature whatsoever in the Employee's possession, custody or control, including, without limitation any and all Confidential Information as that term is defined in Section 7 of this Agreement.

Article 7. - Confidential Information; Invention Assignment

7.1. Confidential Relationship. Employee 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, Employee 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. The Employee 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 Employee 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 Employee. The Employee recognizes that all such works shall be considered works-for-hire and hereby transfers and assigns any right, title, copyright and interest that Employee 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. No Breach of Other Obligations. The Employee 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.

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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 unless specifically permitted herein. 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:

President
Universal Stainless & Alloy Products, Inc.
600 Mayer Street
Bridgeville, PA 15017

To the Employee:

Daniel J. DeCola
2257 Chicora Road
Chicora, PA 16025

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 therefor, 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 Employee, but neither this Agreement nor any rights hereunder shall be assignable or otherwise subject to hypothecation by the Employee.

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The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise to all or substantially all of the business and/or assets of the Company) to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such assumption and agreement prior to the effectiveness of any such succession shall be a breach of his Agreement and shall entitle the Employee to compensation from the Employer in the same amount and on the same terms as the Employee would be entitled hereunder if the Employee terminated his employment pursuant to his Resignation for Good Reason, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be the Date of Termination. As used in this Agreement, "Company" shall mean as hereinbefore defined and any successor to the business and/or assets as aforesaid of either of them which assumes and agrees to perform this Agreement by operation of law or otherwise.

9.4. Entire Agreement; Amendment. This Agreement represents the

entire agreement of the parties with respect to the subject matter hereof and will supersede all prior agreements and understandings between the Employee and the Company regarding the subject matter herein. This Agreement may be amended or any provision hereof waived at any time only by written agreement of the parties hereto.

9.5. Governing Law. This Agreement and its validity, interpretation,

performance and enforcement shall be governed by the laws of the Commonwealth of Pennsylvania, other than the conflict of laws provisions of such laws.

9.6. Severability. If, for any reason, any provision of this

Agreement is held invalid, such invalidity shall not affect any other provision of this Agreement not held so invalid, and each such other provision shall to the full extent consistent with law continue in full force and effect. If any provision of this Agreement shall be held invalid in part, such invalidity shall in no way affect the remainder of such provision that is not held so invalid, and the remainder of such provision, together with all other provisions of this Agreement, shall to the full extent consistent with law continue in full force and effect.

9.7. Headings. The Article and Section headings in this Agreement

are for convenience of reference only; they form no part of this Agreement and shall not affect its interpretation.

9.8. Counterparts. This Agreement may be executed in one or more

counterparts, each of which shall be deemed an original, and all of which together shall constitute one and the same instrument.

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IN WITNESS WHEREOF, the Company and the Employee have duly executed this Agreement as of the day and year first written above.

UNIVERSAL STAINLESS & ALLOY
PRODUCTS, INC.

By: _____
C.M. McAninch
Title: President & CEO

EMPLOYEE

Daniel J. DeCola

EMPLOYMENT AGREEMENT

THIS AGREEMENT made as of the 1st day of August, 1998 by and between UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC., a Delaware corporation (the "Company"), and Bruce Kennedy (the "Employee").

WITNESSETH:

In consideration of the covenants and agreements herein contained, and intending to be legally bound hereby, the Company and Employee agree that this Agreement including the Employment Offer letter dated June 24, 1998 ("Offer Letter") which is hereby incorporated by reference, supercedes any previous and/or existing Employment Agreement between the parties. The Company and Employee further agree as follows:

Article 1. - Employment

1.1. Employment. The Company agrees to employ Employee, and Employee 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 Employee, and Employee agrees to serve as Vice President of Operations of the Company and to accept such other responsibilities as may be assigned to Employee by the Company from time to time during the Term of Employment.

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

Article 2. - Term

The Term of Employment shall commence as of August 1, 1998 (the "Effective Date"), and shall continue until the 1st anniversary of the Effective Date (the "Expiration Date"), unless sooner terminated by one of the parties as permitted in this Agreement or the term of the Agreement will automatically extend for one-year periods, expiring on August 1 of each subsequent year, barring a notice by the Company not to extend, delivered at least sixty (60) days prior to any expiration date.

Article 3. - Compensation

3.1. Salary. As compensation to the Employee for the performance of services hereunder, the Company shall pay to the Employee a base salary (the "Salary") of One hundred and fifty thousand dollars (\$150,000.00) per year.

Installments of the Salary shall be paid to the Employee in accordance with the standard procedure of the Company, which at the present time is once every two (2) weeks. During the period of this Agreement, Employee's salary shall be reviewed at least annually and may be adjusted if the Board of Directors of the Company (the "Board"), the Compensation Committee (the "Compensation Committee"), or the President of

the Company (President) determines that an adjustment is appropriate on the basis of the types of factors it generally takes into account in adjusting the salaries of employees of the Company.

3.2. Reimbursement of Expenses. The Company will reimburse the

Employee for those customary and necessary business expenses incurred by him in the performance of his duties and activities on behalf of the Company as Vice President of Operations. Except as provided in this Agreement, such expenses will be reimbursed only on presentation by the Employee of appropriate documentation to substantiate such expenses pursuant to the policies and procedures of the Company governing reimbursement of business expenses to its Employees.

3.3. Participation in Plans. The Employee shall be entitled to

participate in any incentive compensation or bonus plan, 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 two (2) weeks per year), holiday pay, retirement or employee benefit plan or program generally offered by the Company to its officers.

3.4. Right to Indemnification. The Company shall indemnify and hold

harmless, to the fullest extent permitted by applicable law as it presently exists or may hereafter be amended, the Employee who was or is made or is threatened to be made a party or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "proceeding") by reason of the fact that the Employee, is or was an officer of the Company, including service with respect to employee benefit plans, against all liability and loss suffered and expenses (including attorneys' fees) reasonably incurred by the Employee. The Company shall be required to indemnify the Employee in connection with a proceeding (or part thereof) initiated by such person only if the proceeding (or part thereof) was authorized by the Board of Directors of the Company.

The Company shall pay the expenses (including attorney's fees) incurred in defending any proceeding in advance of its final disposition, provided, however, that the payment of expenses incurred by a director or

officer in advance of the final disposition of the proceeding shall be made only upon receipt of an undertaking by the director or officer to repay all amounts advanced if it should be ultimately determined that the director or officer is not entitled to be indemnified under this Article or otherwise.

If a claim for indemnification or payment of expenses under this Article is not paid in full within sixty days after a written claim therefore has been received by the Corporation, the claimant may file suit to recover the unpaid amount of such claim and, if successful in whole or in part, shall be entitled to be paid the expense of prosecuting such claim. In any such action the Company shall have the burden of proving that the claimant was not entitled to the requested indemnification or payment of expenses under applicable law.

The rights conferred on the Employee by this Section 3.4 shall not be exclusive of any other rights which such person may have or hereafter acquire under any statute, provision of the Restated Certificate of Incorporation, the Company By-Laws, agreement, vote of stockholders or disinterested directors or otherwise.

The Company's obligation, if any, to indemnify the Employee who was or is serving at its request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, enterprise or nonprofit entity shall be reduced by any amount such person may collect as indemnification from such other corporation, partnership, joint venture, trust, enterprise or nonprofit enterprise.

Article 4. - Termination of Employment

4.1. Definitions. For the purposes hereof:

(a) "Disability" shall be deemed to have occurred at the same

time as the Employee has been determined to be entitled to benefits under the Company's Short Term or Long Term Disability Plan then in effect.

(b) "Cause" shall mean any of the following: (i) Employee's personal dishonesty, incompetence or willful misconduct; (ii) Employee's willful violation of any law or material rule or regulation, provided that such violation is demonstrably and materially injurious to the assets, operations or business prospects of the Company; (iii) the conversion or embezzlement for the personal benefit of the Employee of corporate funds or property or a material business opportunity of the Company; (iv) the misuse by the Employee 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) Employee'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 Employee's express written consent to such action, mean the occurrence of any one of the following: (i) following a Change of Control, the removal of the Employee as Vice President of Operations of the Company (by reason other than death, disability or cause); (ii) any material breach by the Company of its respective or joint obligations contained in this Agreement not cured within 30 days after written notice; (iii) the assignment to the Employee of any duties inconsistent with his status as Vice President of Operations of the Company or a substantial alteration in the nature or status of the Employee's duties and responsibilities which renders the Employee's position to be of less dignity, responsibility or scope; (iv) a reduction by the Company in the Employee's annual base salary as in effect on the date hereof or as the same may be increased from time to time, except for proportional across-the-board salary reductions due to economic conditions of the Company similarly affecting all Employees of the Company, for at least six (6) months, provided, however, that in no event shall the Employee's base salary be reduced by more than fifteen percent (15%) below the per year amount set forth in Section 3.1 hereof without the Employee's consent; (v) the relocation of the principal executive offices of the Company to a location outside the Greater Pittsburgh Metropolitan area or the Company's requiring the Employee to be based anywhere other than Company's principal executive offices except for required travel on Company's business; or (vi) any material reduction by the Company of the benefits enjoyed by the Employee under any of the savings, life insurance, medical, health-and-accident, disability or other employee welfare benefit plans or programs, including vacation days, corporate time, provided that this paragraph (vi) shall not apply to any proportional across-the-board reduction or action similarly affecting all executives of the Company; (vii) within sixty (60) days of receipt of notice not to extend this Agreement, the

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employee may elect to resign for "Good Reason" in which case the notice not to extend shall constitute notice to the Company by the employee of the "Good Reason."

Notwithstanding the foregoing, except as stated in (vii) of this section, no event of "Good Reason" shall be deemed to have occurred unless Employee provides to the President of the Company written notice of the facts and circumstances which Employee believes constitutes "Good Reason" under this Section 4.1(c) and such facts and circumstances are not corrected or otherwise cured by the Company within thirty (30) days of receipt thereof.

For purposes of this Agreement, a Change of Control shall be deemed to have occurred the earlier of (i) if, in any transaction or a 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; (ii) 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 and (iii) the sale of substantially 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 shall include a certified statement of the Company President 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 Employee's employment is terminated for any reason or the Employee's effective date of resignation, which ever is earlier.

Article 5. - Compensation Upon Termination

5.1. Death. If the Employee'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 Employee's employment hereunder terminates

by reason of his Disability, the Company shall pay to the Employee for a period of one (1) month, payments on the regular pay dates in an amount equal to 100% of his then monthly salary, and for a period of five (5) months, payments on the regular pay dates, 60% of his then monthly salary, in addition thereto, the Employee shall be entitled to receive such amounts as are then provided pursuant to plans, programs or arrangements. The Company may carry insurance to cover this liability and in such case would not require a separate salary continuation.

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5.3. By the Company with Cause or if the Employee Resigns or Quits

without Good Reason. If the Employee's employment hereunder is terminated by

the Company for Cause, or if the Employee resigns or quits without good reason, the Company shall pay to the Employee 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 Employee under this Agreement.

5.4. By the Company Without Cause or by the Employee by Resignation

for Good Reason. If the Employee's employment hereunder is terminated by the

Company without Cause or is terminated by the Employee pursuant to his Resignation for Good Reason, then the Employee shall be entitled to the benefits provided below, which shall constitute complete satisfaction of the obligations of the Company to the Employee under this Agreement:

(a) The Company shall pay the Employee his full 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 Employee, a lump sum payment equal to the Employee's full base salary at the rate then in effect for a period of twelve (12) months, or pay to the Employee the full base salary rate in the regular pay periods for twelve months from termination.

(c) The Company will provide health care benefits as provided prior to termination for the employee and eligible dependents for twelve (12) months at no cost to the employee. This period will not reduce the eligible COBRA period.

(d) The Employee 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 Employee as the result of employment by another employer, or otherwise.

(e) Notwithstanding any provisions herein to the contrary, the Employee shall be entitled to receive all benefits to which the Employee is entitled 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 which is established (with approval of the Board of Directors) as a supplement to any of the aforementioned plans, except as otherwise

provided in such plans as a result of the Employee's termination of employment.

Article 6. - Duties of Employee After

Termination of Employment

Following any termination of Employee's employment and for a period of ninety (90) days thereafter, the Employee shall fully cooperate with the Company in all matters relating to the winding up and orderly transfer of the Employee's work on behalf of the Company. Not later than the effective date of any termination of the employment, the Employee will immediately deliver to the Company any and all of the Company's property of any kind or nature

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whatsoever in the Employee's possession, custody or control, including, without limitation any and all Confidential Information as that term is defined in Section 7 of this Agreement.

Article 7. - Confidential Information; Invention Assignment

7.1. Confidential Relationship. Employee 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, Employee 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. The Employee 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 Employee 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 Employee. The Employee recognizes that all such works shall be considered works-for-hire and hereby transfers and assigns any right, title, copyright and interest that Employee 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. No Breach of Other Obligations. The Employee 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 8. - Source of Payments

All payments provided for under this Agreement shall be paid in cash from the general funds of the Company unless the Company in its sole discretion, elects to have insurance coverage to provide for payments, and no special or

separate fund shall be established and no other segregation of assets shall be made to assure payment unless specifically permitted herein. No trust or fiduciary relationship with respect to payments shall be deemed created hereby and,

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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:
President
Universal Stainless & Alloy Products, Inc.
600 Mayer Street
Bridgeville, PA 15017

To the Employee:
Bruce Kennedy
751 Lincoln Road
Grosse Pointe, MI 48230

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 therefor, 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 Employee, but neither this Agreement nor any rights hereunder shall be assignable or otherwise subject to hypothecation by the Employee.

The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise to all or substantially all of the business and/or assets of the Company) to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such assumption and agreement prior to the effectiveness of any such succession shall be a breach of his Agreement and shall entitle the Employee to compensation from the Employer in the same amount and on the same terms as the Employee would be entitled hereunder if the Employee terminated his employment pursuant to his Resignation for Good Reason, except that for purposes of implementing the foregoing, the

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date on which any such succession becomes effective shall be the Date of Termination. As used in this Agreement, "Company" shall mean as hereinbefore defined and any successor to the business and/or assets as aforesaid of either of them which assumes and agrees to perform this Agreement by operation of law or otherwise.

9.4. Entire Agreement; Amendment. This Agreement, including the

Employment Offer, represents the entire agreement of the parties with respect to the subject matter hereof and will supersede all prior agreements and understandings between the Employee and the Company regarding the subject matter herein. This Agreement may be amended or any provision hereof waived at any time only by written agreement of the parties hereto.

9.5. Governing Law. This Agreement and its validity, interpretation,

performance and enforcement shall be governed by the laws of the Commonwealth of Pennsylvania, other than the conflict of laws provisions of such laws.

9.6. Severability. If, for any reason, any provision of this

Agreement is held invalid, such invalidity shall not affect any other provision of this Agreement not held so invalid, and each such other provision shall to the full extent consistent with law continue in full force and effect. If any provision of this Agreement shall be held invalid in part, such invalidity shall in no way affect the remainder of such provision that is not held so invalid, and the remainder of such provision, together with all other provisions of this Agreement, shall to the full extent consistent with law continue in full force and effect.

9.7. Headings. The Article and Section headings in this Agreement

are for convenience of reference only; they form no part of this Agreement and shall not affect its interpretation.

9.8. Counterparts. This Agreement may be executed in one or more

counterparts, each of which shall be deemed an original, and all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Company and the Employee have duly executed this Agreement as of the day and year first written above.

UNIVERSAL STAINLESS & ALLOY
PRODUCTS, INC.

By:

C.M. McAninch

Title: President & CEO

EMPLOYEE

Bruce Kennedy

First Amendment To Second Amended
And Restated Credit Agreement

This FIRST AMENDMENT TO SECOND AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT (this "First Amendment") is made as of December 31, 1998 and entered into by and between UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC., a corporation organized and existing under the laws of Delaware (the "Borrower") and PNC BANK, NATIONAL ASSOCIATION (the "Bank") and amends that certain Second Amended and Restated Credit Agreement dated as of January 30, 1998 by and between the Borrower and the Bank (the Second Amended and Restated Credit Agreement, as amended through the date hereof, is hereinafter referred to as the "Original Credit Agreement").

W I T N E S S E T H :

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

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

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

ARTICLE I
AMENDMENTS TO ORIGINAL CREDIT AGREEMENT

Section 1.01 Amendments to Section 1.1 of the Original Credit Agreement. (a)

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

First Amendment: The First Amendment to Second Amended and

Restated Credit Agreement entered into by and between the Borrower and the Bank and dated as of the First Amendment Effective Date

First Amendment Effective Date: December 31, 1998

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

Term Loan Maturity Date: June 30, 2006

Term Note: The Term Note substantially in the form of Exhibit

"C-1" to the First Amendment duly executed by the Borrower and delivered to the Bank together with all extensions, renewals, amendments, substitutions and replacements thereto and thereof.

Section 1.02. Amendment of Section 2.2a of the Original Credit Agreement.

Section 2.2a of the Original Credit Agreement is hereby amended and restated in its entirety as follows:

2.2a Term Loan Commitment. The Bank agrees, subject to the

terms hereof and relying on the representations and warranties herein set forth, that the Borrower shall have the right to borrow in one or more

disbursements from the Closing Date to and including June 30, 1999 an aggregate principal amount not to exceed \$15,000,000.

Section 1.03. Amendment to Section 2.2d(i). Section 2.2d(i) of the Original Agreement is hereby amended and restated in its entirety as follows:

(i) Scheduled Principal Payments. Principal of the Term Loan shall be repaid in twenty-eight (28) consecutive quarterly installments beginning September 30, 1999 and continuing thereafter on the last day of each December, March, June and September to and including the Term Loan Maturity Date. Each of the first twenty four quarterly installments will be in an amount equal to three and one half percent (3.5%) of the principal balance of the Term Loan at the opening of business on July 1, 1999. Each of the twenty-fifth through twenty-eighth quarterly installments will be in an amount equal to four percent (4%) of the principal balance of the Term Loan at the opening of business on July 1, 1999.

Section 1.04. Amendment to Section 2.2d(iii)(B). Section 2.2d(iii)(B) is hereby amended and restated in its entirety as follows:

(B) Excess Cash Flow. On March 31, 2000 and on March 31 of each year thereafter during the term hereof when the outstanding principal balance of the Term Loan is equal to or greater than \$7,500,000, the Borrower shall make a payment on the outstanding principal balance of the Term Loan, in an amount equal to (i) twenty-five percent (25%) of the Consolidated Excess Cash Flow for Fiscal Year 1999 for the payment due March 31, 2000 and (ii) fifty percent (50%) of Consolidated Excess Cash Flow for the immediately preceding Fiscal Year for payments due on and after March 31, 2001. To the extent that the Borrower, in such immediately preceding Fiscal Year, has made voluntary prepayments of principal of the Term Loan, the amount of the mandatory prepayment then due hereunder shall be reduced by the aggregate amount of such voluntary prepayments made in such immediately preceding Fiscal Year.

Section 1.05. Amendment to Section 2.8c. Section 2.8c is hereby amended and restated in its entirety as follows:

2.8c Term Loan Commitment Fee. The Borrower shall pay to the Bank on the last day of March, June, September and December to and including June 30, 1999 a Term Loan Commitment Fee calculated on the basis of the actual number of days elapsed, using a year of 360 days at a rate of 1/2 of 1% per annum on the average daily (computed at the opening of business) unused amount of the Term Loan Commitment (i.e., the Term Loan Commitment less the outstanding principal amount of the Term Loan) for the period or Fiscal Quarter then ended.

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ARTICLE II
BORROWER'S SUPPLEMENTAL REPRESENTATIONS

Section 2.01. Incorporation by Reference. As an inducement to the Bank to enter into this First Amendment, the Borrower hereby repeats herein for the benefit of the Bank each of the representations and warranties made by the Borrower in the Original Credit Agreement, as amended hereby, except that for purposes hereof such representations and warranties shall be deemed to extend to and cover this First Amendment.

ARTICLE III
CONDITIONS PRECEDENT

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

precedent to the effectiveness of this First Amendment:

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

- (i) A duly executed counterpart original of this First Amendment;
- (ii) A duly executed Term Note in the form of Exhibit "C-1";
- (iii) A certificate from the Secretary of the Borrower certifying that the Articles of Incorporation and Bylaws of the Borrower previously delivered to the Bank are true, complete, and correct; and
- (iv) Such other instruments, documents and opinions of counsel as the Bank shall reasonably require, all of which shall be satisfactory in form and content to the Bank

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

- (i) the representations and warranties made pursuant to this First Amendment and in the other Loan Documents, as amended hereby, are true and correct on and as of the First Amendment Effective Date as though made on and as of such date;
- (ii) no petition by or against the Borrower has at any time been filed under the United States Bankruptcy Code or under any similar act;
- (iii) taking into account the amendments set forth in this First Amendment, no Event of Default or event which with the giving of notice, the passage of time or both would become an Event of Default has occurred and is continuing, or would result from the execution of or performance under this First Amendment;

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- (iv) taking into account the amendments set forth in this First Amendment, no material adverse change in the properties, business, operations, financial condition or prospects of the Borrower has occurred which has not been disclosed to the Bank; and
- (v) taking into account the amendments set forth in this First Amendment, the Borrower has in all material respects performed all agreements, covenants and conditions required to be performed on or prior to the date hereof under the Original Credit Agreement and the other Loan Documents.

ARTICLE IV
GENERAL PROVISIONS

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

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

Section 4.02 References. All notices, communications, agreements,

certificates, documents or other instruments executed and delivered after the

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

Section 4.03 Incorporation Into Original Credit Agreement. This First

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

Section 4.04 Counterparts. This First Amendment may be executed in different

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

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

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

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

and fees payable or determined to be payable in connection with the execution, delivery, filing and

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

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

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

Section 4.08 GOVERNING LAW. THIS FIRST AMENDMENT AND THE RIGHTS AND

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

Section 4.09 Headings. The headings of the sections in this First Amendment

are for purposes of reference only and shall not be deemed to be a part hereof.

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

Attest:

Universal Stainless & Alloy Products, Inc.

Name:
Title:

By: _____ (Seal)

Name:
Title:

PNC Bank, National Association

By: _____ (Seal)

Name:
Title:

Universal Stainless & Alloy Products Sales Agreement

This AGREEMENT is made and entered into as of the _____ day of _____, 1999, by and between UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC., a Delaware corporation (hereinafter "Universal") and TALLEY METALS TECHNOLOGY, a Carpenter Company (hereinafter "Talley Metals").

WITNESSETH:

WHEREAS, Talley Metals desires to insure a supply of billets for use in its rolling and finishing operations; and

WHEREAS, Universal desires to sell billets and allocate a portion of its monthly capacity to manufacture billets on a continuing basis;

NOW, THEREFORE, Universal and Talley Metals the ("Parties" or separately "Party"), intending to be legally bound, in consideration of the premises and the mutual covenants and agreements contained herein, agree as follows:

1. BILLET QUANTITIES During the term of this Agreement, Universal shall

sell to Talley Metals and Talley Metals shall purchase from Universal, stainless steel billets (hereinafter the "Billets") in an aggregate quantity, of no less than three million (3,000,000) pounds and no more than six million (6,000,000) pounds per month. On an annual basis Talley Metals purchases from Universal will average three million five hundred thousand pounds (3,500,000) pounds per month.
2. RESERVED CAPACITY Universal will set aside such capacity as necessary

to produce the billet quantities as ordered during the first week in any month for a shipment in the subsequent month, according to the terms of this Agreement. Talley Metals will give as much advanced notice as possible if the order quantity will vary significantly from month to month. Reserved capacity is based on heat-lot quantities. If product is rejected by Universal during processing, the order will be considered complete based on the shipped weight.
3. BILLET SIZES AND SPECIFICATIONS The Billets shall be provided by

Universal in the sizes and grades requested by Talley Metals' purchase orders and "Stainless grades" regularly produced by Universal and requested in accordance with the specifications set forth by Talley Metals and previously approved by Universal. The Billets shall be square, with rounded corners, in thickness of four and one-half (4.5") to eight (8") inches by ten (10") inches, and shall be delivered in such lengths as Talley Metals shall specify in its monthly purchase orders, but in no event shorter than twenty-two feet (22') or longer than forty feet (40').

Universal represents and warrants to Talley Metals that the Billets delivered by Universal pursuant to this Agreement have been produced in accordance with good mill practice with respect to dimensions, weight, straightness,

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section, composition and mechanical properties and has been inspected to assure Billets will meet all applicable standard industry specifications and all of the specifications set forth in this Agreement and Talley Metals purchase orders.

4. BILLET PRICES Pricing will be based on Universal's offering to Talley

metals dated 5/28/98 and 6/1/98. Exhibit "A" of this Agreement.

Monthly adjustments to that offering will be made to address market changes in key raw material prices per existing formulas.

Any price changes, outside established formulas to adjust for raw material price fluctuation, must be negotiated in good faith and agreed to in writing by both parties prior to implementation and be consistent with market conditions and price changes then common in the industry.

5. BILLET ORDER; DELIVERY

- (a) Talley Metals will place orders in heat lot quantities specifying grade, billet size, and requested delivery on their standard purchase order form. Orders will be acknowledged by Universal on their standard acknowledgement form.
- (b) The parties acknowledge that this Agreement has been entered into with the intention that Universal shall retain the capacity needed to supply Talley Metals with its desired quantity of Billets. Universal must report all material changes in their plans, forecast, etc. for manufacturing Billets to Talley Metals as soon as such plans are known. Talley Metals will advise Universal of any change to monthly purchases or changes in usage by grade as soon as such information is available.
- (c) The prices and delivery for Billets ordered outside of the first week of any calendar month shall be as agreed upon by the parties at the time of order placement.
- (d) The Billet prices in all cases shall be exclusive of freight and insurance, the payment of which shall be solely Talley Metals' responsibility.

Billets are purchased F.O.B. Bridgeville, PA and Talley Metals accepts all risk of loss at that time. It is recognized that Billets are not accepted by Talley Metals until they have arrived at Talley metals and have been inspected to determine acceptability under quality standards specified in this Agreement.

- (e) Talley Metals guarantees the minimum order quantity of three million pounds (3,000,000) of Billet each month during the term of this Agreement.
- (f) Talley Metals purchase orders are placed upon the condition that Universal shall not assign it or any interest therein, including any payment due or to become due with respect thereto, and any assignment or any attempt to assign shall be void without Talley Metals prior written consent and that Talley Metals shall be entitled at all times, to setoff any

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undisputed amounts owing from Universal to Talley against any amount due or owing Universal with respect to this order.

6. PAYMENT. Talley Metals will pay to Universal the full invoiced amount

within forty-five (45) days of delivery of material.

7. TERM. The term of this Agreement shall commence on the date hereof and

continue for a period of eighteen (18) months. This Agreement will automatically renew each month with the placement of each separate order placed by Talley Metals unless and until notice not to renew is given in writing by either party.

Notwithstanding the foregoing Agreement is cancelable at any time after the expiration of the initial eighteen-month period upon the provision of 90 days prior written notice by either party. Either party may terminate the Agreement at any time in the event that the other party materially breaches its obligations as stated in this Agreement.

Either Party may terminate immediately upon the other Party declaring insolvency or bankruptcy.

8. FORCE MAJEURE. Both parties will make a good faith effort to perform

hereunder. Neither party, however, shall be liable for delay in performance or for failure to render any performance under this Agreement (and without in any way limiting the generality of the foregoing, any such delay or failure shall be excused) when such delay or failure is caused by governmental regulations (whether or not valid, fire, strike, war, flood, accident, epidemic, embargo, appropriation of plant or product, in whole or in part by Federal or State authority and any other cause or causes, whether of like or different nature, beyond the reasonable control of such party; provided, however that notwithstanding any provisions herein to the contrary, Talley Metals shall be entitled, in any such event, to purchase its required amounts in whole or in part from other vendors and, if necessary, to reduce its obligations hereunder in order to contract for such other supply requirements at such times that Universal cannot meet the supply requirements. Once events change allowing Universal to again supply Talley Metals, Talley Metals must do so in accordance with the terms and conditions set forth in this Agreement. Each party shall promptly notify the other of the occurrence (and the likelihoods of the occurrence) of any such event or condition and shall keep the other party fully informed of all relevant information. In the event Talley Metals purchases billets from another source under circumstances where Universal cannot or does supply the same, such purchases shall be counted for purposes of the purchase requirements and restriction set forth in this Agreement.
9. SUCCESSOR AND ASSIGNS. This Agreement shall be binding on and inure to

the benefit of the parties hereto and their respective successors and assigns.
10. GOVERNING LAW. This Agreement and the rights and obligations of the

parties hereunder shall be governed by and construed in accordance with the laws of Pennsylvania
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11. CONFIDENTIALITY; DISCLOSURE. The parties hereby agree that they will

direct, and will use their best efforts to cause their directors, officers, employees, advisors and representatives of their advisors (collectively, the "Permitted Persons") to use the information in this Agreement solely for the purpose of evaluating and/or affecting the purchase and sale of Billets and that such information will be kept confidential by the parties and their Permitted Persons (it being understood and agreed that the efforts used to keep such request for information confidential shall not be less than the efforts currently used to keep non-public information about themselves confidential); provided, however, that any disclosure of such information may be made to which both parties consent in writing prior to the disclosure of such request. Notwithstanding the foregoing, either party hereto will be permitted to make disclosures required by law.
- The parties also hereby agree that all designs, drawings, patterns or customer chemistries provided by or on behalf of Talley Metals to Universal or information or material regarding or relating to Talley Metals' customers shall be deemed "Confidential Information" of Talley Metals whether or not such information is marked confidential.
12. ENTIRE AGREEMENT; NO ORAL MODIFICATION. This Agreement represents the

entire agreement of the parties with respect to the subject matter hereof, and all prior agreements, whether oral or written, are revoked and superseded by this Agreement. No representation, warranty, inducement or oral agreements have been made or relied upon by either party except as expressly stated herein. This Agreement may not be changed, modified, altered or amended in any way except in

writing signed by both parties. Any attempt at oral modification shall be void and of no force or effect.

13. HEADINGS; CONSTRUCTION. The Articles and Section headings contained

in this Agreement are for reference purposes only and will not affect in any way the meaning or interpretation of this Agreement. Unless the context clearly otherwise requires, the words "hereby", "hereof", "herein", "hereto", "hereunder", and "hereinafter" and any similar term used in this Agreement refers to this Agreement as a whole and not merely the subsection or section in which such terms are used.
14. COUNTERPARTS. This Agreement may be executed in counterparts, each of

which shall be deemed an original, but both of which shall be deemed one and the same Agreement.
15. SEVERABILITY. The parties agree that should any part or portion of

this Agreement be found to be unenforceable, that the remainder of this Agreement be enforced, to the extent that it is legal and practicable to do so.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

Universal Stainless & Alloy Products
Inc., a Delaware Corporation

Talley Metals Technology,
A Carpenter Company

By: _____

By: _____

Its: _____

Its: _____

Carpenter Technology Corporation

By: _____

Its: _____

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1998 Financial Review

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FORWARD-LOOKING INFORMATION SAFE HARBOR

This Annual Report contains historical information and forward-looking statements. Statements looking forward in time, including statements regarding future growth, cost savings, expanded production capacity, broader product lines, greater capacity to meet customer quality, price and delivery needs, enhanced competitive posture, and Year 2000 compliance, are included in this Annual Report pursuant to the "safe harbor" provision of the Private Securities Litigation Reform Act of 1995. They involve known and unknown risks and uncertainties that may cause the Company's actual results in future periods to be materially different from any future performance suggested herein. Further, the Company operates in an industry sector where securities values may be volatile and may be influenced by economic and other factors beyond the Company's control. In the context of the forward-looking information provided in this Annual Report, please refer to the discussions of risk factors detailed in, as well as the other information contained in, this Annual Report, the Company's Annual Report on Form 10-K for the year ended December 31, 1998 and other reports on file with the Securities and Exchange Commission.

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Management's Discussion and Analysis of
Financial Condition and Results of Operations

RESULTS OF OPERATIONS

An analysis of the Company's operations is as follows (dollars in thousands):

1998		1997		1996	
Amount	%	Amount	%	Amount	%

Net sales						
Stainless steel	\$53,661	73.9%	\$60,700	74.7%	\$46,903	77.8%
Tool steel	7,548	10.4	10,467	12.9	8,019	13.3
High-temperature alloy steel	4,387	6.0	2,636	3.2	728	1.2
Conversion services	3,690	5.1	4,834	5.9	3,804	6.3
Other	3,309	4.6	2,664	3.3	804	1.4

Total net sales	72,595	100.0	81,301	100.0	60,258	100.0

Cost of products sold						
Raw materials	26,839	37.0	32,601	40.1	24,208	40.2
Other	33,256	45.8	32,427	39.9	23,986	39.8

Total cost of products sold	60,095	82.8	65,028	80.0	48,194	80.0

Selling and administrative expenses	4,934	6.8	4,699	5.8	4,533	7.5

Operating income	\$ 7,566	10.4%	\$11,574	14.2%	\$ 7,531	12.5%

Net sales by market segment are as follows (dollars in thousands):

	1998		1997		1996	
	Amount	%	Amount	%	Amount	%

Rerollers	\$32,990	45.4%	\$41,196	50.7%	\$29,896	49.6%
Forgers	17,144	23.6	13,846	17.0	7,797	12.9
Service centers	12,809	17.6	11,864	14.6	10,503	17.4
Original equipment manufacturers	5,840	8.1	9,200	11.3	8,168	13.6
Conversion services	3,690	5.1	4,834	6.0	3,804	6.3
Miscellaneous	122	0.2	361	0.4	90	0.2

	\$72,595	100.0%	\$81,301	100.0%	\$60,258	100.0%

1998 Results as Compared to 1997 The decrease in 1998 net sales reflects reduced shipments to all of the Company's market segments primarily due to increased imports. The Company shipped approximately 45,500 tons in 1998, compared to 55,300 tons in 1997. The decrease in net sales of stainless steels also resulted from lower selling prices due to price competition created by increased import levels and the lower cost of nickel during 1998. Increased shipments of low-alloy and high-temperature alloy steels, introduced in 1997, and of bar mill products partially offset the decline in net sales.

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC. 1998 ANNUAL REPORT 15

Management's Discussion and Analysis (continued)

Cost of products sold, as a percent of net sales, increased in 1998 as compared to 1997 despite lower acquisition costs for the Company's primary raw materials. Changes in product mix resulting from bar mill shipments as well as increases in utility, depreciation and maintenance costs more than offset the benefits received from lower raw material costs.

Selling and administrative expenses increased from \$4.7 million in 1997 to \$4.9 million in 1998. The increase primarily related to higher selling expenses and charges relating to certain quality issues which were partially offset by lower insurance costs.

The 1998 results benefited from the settlement of an insurance claim related to the 1995 electrical component breakdown in a drive motor at the Company's Bridgeville facility universal rolling mill. The settlement, net of costs

incurred in connection with the Company's claim, was approximately \$750,000.

Interest expense and other financing costs increased by \$113,000 as a result of borrowings under a term loan from PNC Bank to finance capital expenditures.

Other income (expense) was impacted negatively by the costs associated with pursuing the acquisition of AL Tech Specialty Steels, Inc. and the removal of buildings at the Bridgeville facility. These costs were partially offset by a government grant received by the Company in connection with the expansion of operations at the Bridgeville facility.

The 1998 effective income tax rate was 36.3% compared to 37.0% in 1997. The decrease in the effective tax rate is directly attributable to a lower effective rate for state income taxes.

1997 Results as Compared to 1996 The increase in net sales in 1997 reflects increased shipments to all of the Company's market segments. The Company shipped approximately 55,300 tons in 1997, compared to shipments of 40,300 tons in 1996. The increase in net sales of stainless steels was achieved through increased shipments of long products to the reroller market, partially offset by lower pricing due to import competition and lower nickel costs during 1997. Increased shipments to forgers and original equipment manufacturers are a result of higher demand for the Company's products from the aerospace and power generation markets. The increase in net sales of tool steel was generated from the Company's growing service center customer base, which generated increased shipments of plate products. The remaining increase in the Company's net sales for 1997 is primarily attributed to the introduction of several new products within the low-alloy and high-temperature alloy steel families.

Cost of products sold, as a percent of net sales, remained constant between 1996 and 1997. Decreases in the acquisition costs for the Company's primary raw materials and cost savings generated from completed capital expenditure projects were offset by the impact of lower selling prices in the stainless steel area and higher than expected manufacturing costs related to several new product introductions, as noted above.

Selling and administrative expenses remained relatively constant between 1996 and 1997. This primarily reflected the addition of personnel as a result of continued growth of the Company's business, offset by lower insurance costs.

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Management's Discussion and Analysis (continued)

Interest expense and other financing costs increased from \$131,000 in 1996 to \$248,000 in 1997 primarily due to increased borrowings. Other income (expense), net decreased from \$211,000 in 1996 to \$112,000 in 1997 primarily due to decreased interest income earned on cash available for investment. The Company used available cash and borrowings to fund capital expenditures incurred during 1996 and 1997.

The effective income tax rate utilized in 1997 and 1996 was 37%.

LIQUIDITY AND CAPITAL RESOURCES

The Company generated cash flow from operations in 1998 and 1997 of \$6.9 million and \$1.1 million, respectively. This increase is primarily due to the collection of accounts receivable partially offset by the payment of accounts payable.

At December 31, 1998, working capital approximated \$21.8 million, as compared to \$20.1 million at December 31, 1997. The ratio of current assets to current liabilities at December 31, 1998 and 1997, was 4.3:1 and 2.8:1, respectively. The debt to capitalization ratio was 23% at December 31, 1998, and 13% at December 31, 1997. The increase in working capital was primarily attributable to increases in cash, inventory and prepaid income taxes as well as a decrease in accounts payable which were partially offset by a decrease in accounts receivable.

Capital Expenditures and Investments The Company's capital expenditures were approximately \$12.1 million and \$8.1 million in 1998 and 1997, respectively. Capital expenditures in 1999 are expected to approximate \$5.0 million and will be used primarily to complete projects previously initiated and for infrastructure improvements. These expenditures are expected to be funded substantially from internally generated funds.

PNC Credit Agreement On January 30, 1998, the Company entered into the Second Amended and Restated Credit Agreement, as subsequently amended, with PNC Bank for a \$6.5 million revolving credit facility through April 2001 (the "PNC Line") and a \$15.0 million seven-year term loan (the "PNC Term Loan"), secured by substantially all of the Company's assets. Borrowings under the PNC Term Loan aggregated \$10.0 million in 1998 and additional borrowings may occur from time to time until June 30, 1999 with scheduled quarterly principal payments commencing on September 30, 1999. Interest incurred from borrowings under the PNC Line and the PNC Term Loan is based on short-term market rates, which may be further adjusted based upon the Company maintaining certain financial ratios. As a condition of the PNC Line and the PNC Term Loan, the Company is required to maintain certain levels of net worth, working capital and other financial ratios; to limit the amount of capital expenditures it may incur without PNC Bank's approval; and to restrict the payment of dividends. As of December 31, 1998, the Company was in compliance with all financial ratios and restrictive covenants.

Government Financing Programs The Company has entered into several separate loan agreements with the Commonwealth of Pennsylvania's Department of Commerce aggregating \$1.6 million with terms ranging from seven to twenty years. The Company also entered into a ten-year loan agreement with the Redevelopment Authority of Allegheny County Economic Development Fund in the amount of \$1.5 million. The loans bear interest at rates ranging from 5% to 6% per annum.

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Management's Discussion and Analysis (continued)

Stock Repurchase Program On October 19, 1998, the Company initiated a stock repurchase program to repurchase from time to time up to a total of 315,000 shares of its outstanding Common Stock in open market transactions at market prices. During 1998, the Company repurchased a block of 75,000 shares at a cost of \$478,000. Cash from operations financed the repurchase of Common Stock.

Supply Contract In November 1998, the Company entered into a supply contract agreement with Talley Metals Technology, Inc., a subsidiary of Carpenter Technologies, Inc., covering a period of at least 18 months. Under terms of the agreement, the Company will supply Talley Metals with an average of 1,750 tons of stainless reroll billet products per month. The value of the contract on a monthly basis will depend on product mix and key raw material prices.

Environmental Matters The Company, as well as other steel companies, is subject to demanding environmental standards imposed by federal, state and local environmental laws and regulations. In connection with the acquisition of the Bridgeville facility assets from Armco in 1994, Armco agreed to retain responsibility for liabilities asserted against Armco under environmental laws with respect to environmental conditions existing at the Bridgeville facility prior to commencement of the long-term net lease of that facility on August 15, 1994, and to indemnify the Company up to \$6.0 million in the aggregate over ten years. Such indemnification expires on August 15, 2004. Certain environmental conditions that were identified as having existed as of August 15, 1994, have been remediated by Armco at its expense.

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

Management is not aware of any financial difficulties being experienced by Armco that would prevent its performance under the acquisition agreements. In addition, management is not aware of any environmental conditions or the incurrence of other liabilities at the Bridgeville or Titusville facilities, for which Armco has agreed to indemnify the Company, nor of any material environmental condition requiring remediation and affecting the Company other than those identified in the preceding discussion.

Year 2000 The following statements are provided pursuant to the provisions of the Year 2000 Information and Readiness Disclosure Act of 1998.

Since inception in August 1994, the Company has been engaged in a program to modernize and replace its computerized production control and management information systems. Although not the primary purpose of the program, the new systems were designed to avoid any Year 2000 problems that might otherwise arise. In addition, the Company has identified and tested all other critical pieces of equipment and has not identified any non-compliance issues internally. Therefore, the Company believes that its internal systems will be Year 2000 compliant in all material respects without incurring significant expenditures. Any expenditures will be financed with cash from operations.

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Management's Discussion and Analysis (continued)

The Company currently believes the most significant impact of the Year 2000 issue could be an interrupted supply of goods and services from the Company's vendors and interrupted supply of orders from the Company's customers. In order to assess the state of readiness, surveys have been sent to all major vendors and customers to determine the current status of their Year 2000 evaluation. Responses have been received from approximately 70 percent of these vendors and customers in which each respondent has confirmed that efforts to become Year 2000 compliant are, at a minimum, in process. Due to the uncertainties associated with the ability of critical vendors and customers to resolve any known or unknown Year 2000 compliance issues, the Company may experience a material adverse effect on future results of operations if such issues are not resolved. While no contingency plans have been established at the present time, contingency plans will be developed to mitigate any risk identified.

Short- and Long-Term Liquidity The Company expects to meet substantially all of its short-term liquidity requirements with internally generated funds and borrowings under the PNC Credit Agreement. At December 31, 1998, the Company had \$6.5 million and \$5.0 million available under the PNC Line and the PNC Term Loan, respectively.

The Company's long-term liquidity depends upon its ability to obtain additional orders from its customers, attract new customers and control costs during periods of low demand or pricing in the event of a downturn in general economic conditions.

General Actual results will be affected by a wide range of factors including timing, cancellation or delay of customer orders; changes in product mix; the concentrated nature of the Company's customer base to date and the Company's dependence on its significant customers; the Company's reliance on certain critical manufacturing equipment; competition; the Company's ongoing requirement for continued compliance with environmental laws; the supply and cost of the Company's raw materials and the significant fluctuations that may occur in raw material prices; and Year 2000 compliance by the Company and its major vendors and customers. Any unfavorable change in the foregoing or other factors could have a material adverse effect on the Company's business, financial condition and results of operations. Many of these factors are not within the Company's control, and there can be no assurances regarding the Company's future sales or earnings. For a discussion of these and other matters, refer to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 and other reports on file with the Securities and Exchange Commission.

Report of Independent Accountants

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS
OF UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations and of cash flows present fairly, in all material respects, the financial position of Universal Stainless & Alloy Products, Inc., and its subsidiary at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Pittsburgh, Pennsylvania

January 20, 1999

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Consolidated Statement of Operations

For the Years Ended December 31,	1998	1997	1996
(Dollars in thousands, except per share amounts)			
Net sales	\$72,595	\$81,301	\$60,258
Cost of products sold	60,095	65,028	48,194
Selling and administrative expenses	4,934	4,699	4,533
Operating income	7,566	11,574	7,531
Insurance settlement	750	--	--
Interest expense and other financing costs	(361)	(248)	(131)
Other income (expense), net	(93)	112	211
Income before taxes	7,862	11,438	7,611
Provision for income taxes	2,858	4,232	2,818
Net income	\$ 5,004	\$ 7,206	\$ 4,793
Earnings per common share:			
Basic	\$ 0.79	\$ 1.15	\$ 0.76
Diluted	\$ 0.79	\$ 1.12	\$ 0.76
Weighted-average number of shares of Common Stock outstanding	6,304,524	6,285,531	6,270,952

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC. 1998 ANNUAL REPORT 21

Consolidated Balance Sheet

December 31, 1998 1997

(Dollars in thousands)

Assets

Current assets

Cash and cash equivalents	\$ 1,437	\$ 177
Accounts receivable (less allowance for doubtful accounts of \$358 and \$298)	8,843	14,503
Inventory	16,182	15,471
Other current assets	1,980	894

Total current assets 28,442 31,045

Property, plant and equipment, net 35,710 24,887

Other assets 298 219

Total assets \$64,450 \$56,151

Liabilities and Stockholders' Equity

Current liabilities

Trade accounts payable	\$ 3,166	\$ 4,705
Bank overdrafts	1,145	3,296
Current portion of long-term debt	1,117	338
Accrued employment costs	957	1,704
Other current liabilities	228	916

Total current liabilities 6,613 10,959

Long-term debt 11,841 5,441

Deferred taxes 3,431 1,983

Total liabilities \$21,885 \$18,383

Commitments and contingencies

Stockholders' equity

Senior Preferred Stock, par value \$.001 per share;

liquidation value \$100 per share; 2,000,000

shares authorized; and 0 shares issued

and outstanding -- --

Common Stock, par value \$.001 per share;

10,000,000 shares authorized; 6,320,036 and

6,290,823 shares issued and outstanding 6 6

Additional paid-in capital 25,787 25,516

Retained earnings 17,250 12,246

Treasury Stock at cost; 75,000 and 0 common

shares held (478) --

Total stockholders' equity 42,565 37,768

Total liabilities and stockholders' equity \$64,450 \$56,151

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

Consolidated Statement of Cash Flows

For the Years Ended December 31,	1998	1997	1996
(Dollars in thousands)			
Cash flows from operating activities			
Net income	\$ 5,004	\$ 7,206	\$ 4,793
Adjustments to reconcile to net cash and cash equivalents provided by operating activities:			
Depreciation and amortization	1,516	1,109	541
Deferred taxes	1,566	750	728
Changes in assets and liabilities:			
Accounts receivable, net	5,660	(5,094)	(1,577)
Inventory	(711)	(5,687)	(2,679)
Accounts payable and bank overdrafts	(3,690)	2,144	780
Accrued employment costs	(747)	301	716
Other, net	(1,742)	336	339
Net cash provided by operating activities	6,856	1,065	3,641
Cash flows from investing activities			
Capital expenditures	(12,146)	(8,145)	(11,409)
Net cash used in investing activities	(12,146)	(8,145)	(11,409)
Cash flows from financing activities			
Proceeds from issuance of long-term debt	10,000	500	2,114
Long-term debt repayment	(382)	(300)	(125)
Proceeds from issuance of Common Stock	244	65	18
Borrowings under revolving line of credit	24,855	24,922	--
Repayments under revolving line of credit	(27,640)	(22,137)	--
Deferred financing costs	(49)	(12)	(58)
Purchase of Treasury Stock	(478)	--	--
Net cash provided by financing activities	6,550	3,038	1,949
Net increase (decrease) in cash	1,260	(4,042)	(5,819)
Cash and cash equivalents at beginning of period	177	4,219	10,038
Cash and cash equivalents at end of period	\$ 1,437	\$ 177	\$ 4,219
Supplemental disclosure of cash flow information			
Interest paid (net of amount capitalized)	\$ 298	\$ 226	\$ 72
Income taxes paid	\$ 2,698	\$ 3,428	\$ 1,888

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

Notes to the Consolidated Financial Statements

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

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

Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Consolidation The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. All intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents Cash equivalents are stated at cost plus accrued interest, which approximates market value. Cash equivalents include only

securities having a maturity of three months or less at the time of purchase.

Concentration of Credit Risk Financial instruments that potentially subject the Company to concentrations of credit risk are cash and cash equivalents and accounts receivable. The Company limits its credit risk associated with cash and cash equivalents by placing its investments in high-grade short-term instruments. With respect to accounts receivable, the Company limits its credit risk by performing ongoing credit evaluations and, when deemed necessary, requiring letters of credit, guarantees or collateral.

Inventories Inventories are stated at the lower of cost or market with cost determined by the first-in, first-out (FIFO) method. Such costs include the acquisition cost for raw materials and supplies, direct labor and applied manufacturing overhead.

Scrap metal together with alloy additives, principally nickel, chrome and molybdenum, currently account for more than 40% of the Company's total cost of products sold. A substantial portion of the alloy additives is available only from foreign sources, some of which are located in countries that may be subject to unstable political and economic conditions. Those conditions might disrupt supplies or affect the prices of the raw materials used by the Company. The Company has implemented sales price surcharges to help offset the impact of raw material price fluctuations.

Operating materials consist of production molds and rolls that will normally be consumed within one year and are accounted for as inventory.

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Notes to the Consolidated Financial Statements (continued)

Property, Plant and Equipment Property, plant and equipment is recorded at cost. Maintenance and repairs are charged to expense as incurred, and costs of improvements and renewals are capitalized. Costs incurred in connection with the construction or major rebuild of facilities, including interest directly related to the project, are capitalized as construction in progress. No depreciation is recognized on these assets until placed in service.

Depreciation and amortization are computed using the straight-line method based on the estimated useful lives of the related assets. The estimated useful lives of plant and equipment range from three to twenty years.

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

Revenue Recognition Revenue from the sale of products is recognized upon passage of title to the customer, which in most cases coincides with shipment of the related products or the performance of conversion services.

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

Segment Information In 1998, the Company adopted Statement of Financial Accounting Standards No. 131, "Disclosure about Segments of an Enterprise and

Related Information" utilizing the "management approach." The management approach is based on the way the chief operating decision maker organizes segments within the Company for making operating decisions and assessing performance.

Reclassifications Certain prior year amounts have been reclassified to conform with the 1998 presentation.

NOTE 2: INVENTORY

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

December 31,	1998	1997
Raw materials and supplies	\$ 2,358	\$ 2,869
Semi-finished steel products	11,152	10,569
Operating materials	2,672	2,033
Total inventory	\$16,182	\$15,471

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC. 1998 ANNUAL REPORT 25

Notes to the Consolidated Financial Statements (continued)

NOTE 3: PROPERTY, PLANT AND EQUIPMENT

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

December 31,	1998	1997
Land and land improvements	\$ 822	\$ 832
Buildings	2,591	1,699
Machinery and equipment	31,903	21,418
Construction in progress	3,655	2,726
Accumulated depreciation	(3,261)	(1,788)
Property, plant and equipment, net	\$35,710	\$24,887

Property, plant and equipment includes a capital lease with Armco for the land and certain buildings and structures located in Bridgeville (the "Armco Lease"). The lease is for a ten-year term commencing on August 15, 1994, with three five-year options to renew on the same terms at the Company's discretion at a rental of \$1 per year plus payment of real and personal property taxes and other charges associated with the property. The Company also has an option under the lease to buy substantially all of the leased premises for \$1 at any time during the term of the Armco Lease prior to August 15, 2015.

In 1998, the Company entered into two new capital leases with unrelated third parties for machinery and equipment at the Bridgeville facility. Under the terms of both of the leases, the Company has the option to purchase the leased machinery and equipment for \$1 at the end of the five-year term. The total value of the leased machinery and equipment is \$346,000.

The Company capitalized \$421,000 and \$53,000 of its interest costs associated with the PNC Line and the PNC Term Loan in 1998 and 1997, respectively.

NOTE 4: LONG-TERM DEBT AND OTHER FINANCING

Long-term debt consists of the following (dollars in thousands):

December 31,	1998	1997

PNC Term Loan	\$10,000	--
PNC Line	--	\$2,785
Government debt	2,516	2,788
Capital lease obligations	442	206

	12,958	5,779
Less amounts due within one year	(1,117)	(338)

Total long-term debt	\$11,841	\$5,441

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Notes to the Consolidated Financial Statements (continued)

On January 30, 1998, the Company entered into the Second Amended and Restated Credit Agreement, as subsequently amended, with PNC Bank (the "PNC Credit Agreement") for a \$6,500,000 revolving credit facility through April 2001 (the "PNC Line") and a \$15,000,000 seven-year term loan (the "PNC Term Loan"), secured by substantially all of the Company's assets. Additional borrowings under the PNC Term Loan may occur from time to time until June 30, 1999 with scheduled quarterly principal payments commencing on September 30, 1999. Interest incurred from borrowings under the PNC Line and the PNC Term Loan is based on short-term market rates, which may be further adjusted based upon the Company maintaining certain financial ratios. The PNC Term Loan currently bears interest at a rate equal to the Euro-dollar rate plus 125 basis points. As a condition of the PNC Credit Agreement, the Company is required to maintain certain levels of net worth, working capital and other financial ratios; to limit the amount of capital expenditures it may incur without PNC Bank's approval; and to restrict the payment of dividends.

The Company has entered into several separate loan agreements with the Commonwealth of Pennsylvania's Department of Commerce aggregating \$1,600,000 with terms ranging from seven to twenty years. In 1996 the Company also entered into a ten-year loan agreement with the Redevelopment Authority of Allegheny County Economic Development Fund in the amount of \$1,514,000. The loans bear interest at rates ranging from 5% to 6% per annum. The annual required principal and interest payments under these loan agreements for each of the next five years approximate \$420,000.

Scheduled maturities of long-term obligations due in 1999 and thereafter are: 1999, \$1,117,000; 2000, \$1,836,000; 2001, \$1,808,000; 2002, \$1,807,000; 2003, \$1,696,000; and after 2003, \$4,694,000.

NOTE 5: RETIREMENT PLANS

The Company has defined contribution retirement plans that cover substantially all employees. The Company's contributions to the hourly employee plan are based on time worked while contributions to the salaried plan are established as a fixed amount per month. Company contributions to both plans are funded at six-month intervals. The total expense for the years ended December 31, 1998, 1997 and 1996, was \$286,000, \$251,000 and \$192,000, respectively.

No other post-retirement benefit plans exist.

NOTE 6: INCOME TAXES

Components of the provision for income taxes are as follows (dollars in

thousands):

For the Years Ended December 31,	1998	1997	1996

Current provision:			
Federal	\$1,245	\$3,113	\$1,869
State	47	369	221

	1,292	3,482	2,090

Deferred provision:			
Federal	1,416	682	654
State	150	68	74

	1,566	750	728

Provision for income taxes	\$2,858	\$4,232	\$2,818

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC. 1998 ANNUAL REPORT 27

Notes to the Consolidated Financial Statements (continued)

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

For the Years Ended December 31,	1998	1997	1996

Federal statutory tax	34.0%	34.0%	34.0%
State income taxes, net of federal benefit	2.3	2.7	2.9
Other, net	0.0	0.3	0.1

Effective tax rate	36.3%	37.0%	37.0%

Deferred taxes result from the following (dollars in thousands):

December 31,	1998	1997

Deferred tax assets:		
Receivables	\$ 173	\$ 112
Inventory	238	229
Organizational expenses	36	90
Accrued liabilities	145	279

	\$ 592	\$ 710

Deferred tax liabilities:		
Property, plant and equipment	\$3,431	\$ 1,983

NOTE 7: STOCKHOLDERS' EQUITY

(Dollars in thousands)	Common Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Shares	Treasury Stock
Balance at December 31, 1995	6,270,000	\$6	\$25,338	\$ 247	--	\$ --
Common Stock Issuance under Employee Stock Plan	11,300		95			
Common Stock Issuance under Employee Stock Purchase Plan	2,434		18			
Net income				4,793		
Balance at December 31, 1996	6,283,734	6	25,451	5,040	--	--
Common Stock Issuance under Employee Stock Purchase Plan	7,089		65			
Net income				7,206		
Balance at December 31, 1997	6,290,823	6	25,516	12,246	--	--
Common Stock Issuance under Employee Stock Purchase Plan	8,880		63			
Exercise of Stock Options	20,333		208			
Purchase of Treasury Stock					75,000	(478)
Net income				5,004		
Balance at December 31, 1998	6,320,036	\$6	\$25,787	\$17,250	75,000	\$(478)

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Notes to the Consolidated Financial Statements (continued)

The Company has 2,000,000 authorized shares of Senior Preferred Stock. At December 31, 1998, there were no shares issued or outstanding.

In connection with the 1994 initial public offering, the underwriters received warrants, which expire on December 14, 1999, to purchase 162,500 shares of the Company's Common Stock at an exercise price of \$10.80 per share.

On May 22, 1996, the Company's Board of Directors adopted an employee stock plan for the purpose of issuing 100 shares of Common Stock of the Company at no cost to each eligible employee. Non-executive employees not eligible for stock options under the 1994 Stock Incentive Plan, described in Note 9, who did not receive 100 shares of Common Stock of the Company at no cost in prior periods were eligible employees under the plan. The Company issued 11,300 shares of the Company's Common Stock in 1996. The costs of this issuance was recorded as compensation expense. The plan was terminated in 1996.

On October 19, 1998, the Company's Board of Directors implemented a stock repurchase program. Under the program, the Company may repurchase up to 315,000 shares, or approximately 5%, of the Company's Common Stock in open market transactions at market prices. On December 10, 1998, the Company purchased 75,000 shares of the Company's Common Stock at a sale price of \$6.375 per share.

NOTE 8: BASIC AND DILUTED EARNINGS PER COMMON SHARE

The computation of basic and diluted earnings per share for the years ended December 31, 1998, 1997 and 1996 is performed as follows (dollars in thousands, except share amounts and per share amounts):

	1998		1997		1996	
	Income	Shares	Income	Shares	Income	Shares
Income available to common stockholders	\$5,004	6,304,524	\$7,206	6,285,531	\$4,793	6,270,952
Effect of dilutive securities		50,707		131,544		22,514
Income available to common stockholders						

plus assumed conversion	\$5,004	6,355,231	\$7,206	6,417,075	\$4,793	6,293,466

Earnings per common share:						
Basic	\$ 0.79		\$ 1.15		\$0.76	
Diluted	\$ 0.79		\$ 1.12		\$0.76	

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Notes to the Consolidated Financial Statements (continued)

NOTE 9: STOCK COMPENSATION PLANS

At December 31, 1998, the Company has two stock-based compensation plans that are described below:

Incentive compensation plan On September 23, 1994, the Company's Board of Directors adopted the Company's 1994 Stock Incentive Plan as amended (the "1994 Plan") for the purpose of issuing stock options to non-employee directors, other than those directors owning more than 5% of the Company's outstanding Common Stock, officers and other key employees of the Company who are expected to contribute to the Company's future growth and success. Under the 1994 Plan, the Company may grant options up to a maximum of 650,000 shares of Common Stock. Options granted to non-employee directors vest over a three-year period, and options granted to employees vest over a four-year period. All options under the 1994 Plan will expire no later than ten years after the grant date.

A summary of the 1994 Plan activity as of and for the years ended December 31, 1998, 1997 and 1996 is presented below:

	1998		1997		1996	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price

Fixed options						
Outstanding at beginning of year	498,667	\$ 9.97	335,500	\$ 9.20	208,000	\$ 9.63
Granted	70,000	9.94	215,500	11.03	130,000	8.54
Exercised	(20,333)	8.85	--	--	--	--
Forfeited	(59,834)	9.21	(52,333)	9.36	(2,500)	10.25

Outstanding at end of year	488,500	\$10.10	498,667	\$ 9.97	335,500	\$ 9.20

Options exercisable at year-end	281,232		177,751		108,875	

Weighted-average fair value of options granted during the year		\$ 6.52		\$ 6.62		\$ 4.88

The following table summarizes information about stock options outstanding at December 31, 1998:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price

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Notes to the Consolidated Financial Statements (continued)

Employee Stock Purchase Plan Under the 1996 Employee Stock Purchase Plan, the Company is authorized to issue up to 90,000 shares of Common Stock to its full-time employees, nearly all of whom are eligible to participate. Under the terms of the plan, employees can choose as of January 1 and July 1 of each year to have up to 10% of their total earnings withheld to purchase shares of the Company's Common Stock. The purchase price of the stock is 85% of the lower of its beginning-of-the-period or end-of-the-period market prices. As of December 31, 1998, the Company has issued 18,403 shares of Common Stock since the plan's inception.

The Company applies Accounting Principles Board Opinion No. 25 and related Interpretations in accounting for its stock-based compensation plans. Accordingly, no compensation cost has been recognized for its fixed stock option plan and its stock purchase plan. Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value of the awards at the grant dates in accordance with Financial Accounting Standards Board Statement No. 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below (dollars in thousands, except per share amounts):

For the Years Ended December 31,	1998	1997	1996
<hr/>			
Net income			
As reported	\$5,004	\$7,206	\$4,793
Pro forma	\$4,673	\$6,874	\$4,608
<hr/>			
Basic earnings per common share			
As reported	\$ 0.79	\$ 1.15	\$ 0.76
Pro forma	\$ 0.74	\$ 1.09	\$ 0.73
<hr/>			

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants issued in 1998, 1997 and 1996; dividend yield of 0.0% for each year; interest rate of 6.0% for each year; expected volatility of 75.0%, 65.0% and 60.0%, respectively; and expected lives for options of five years.

Cash-Incentive Plans The Company has a management cash-incentive plan covering certain key executives and employees and profit-sharing plans that cover the remaining employees. The profit-sharing plans provide for the sharing of pre-tax profits in excess of specified amounts. For the years ended December 31, 1998, 1997 and 1996, the Company expensed \$1,246,000, \$1,679,000 and \$1,038,000, respectively, under these plans.

Notes to the Consolidated Financial Statements (continued)

NOTE 10: COMMITMENTS AND CONTINGENCIES

The Company, as well as other steel companies, is subject to demanding

environmental standards imposed by federal, state and local environmental laws and regulations. In connection with the acquisition of the Bridgeville facility assets from Armco in 1994, Armco agreed to retain responsibility for liabilities asserted against Armco under environmental laws with respect to environmental conditions existing at the Bridgeville facility prior to commencement of the long-term net lease of that facility with Armco on August 15, 1994, and to indemnify the Company up to \$6.0 million in the aggregate over ten years. Such indemnification expires on August 15, 2004. Certain environmental conditions that were identified as having existed as of August 15, 1994, have been remediated by Armco at its expense.

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

Management is not aware of any financial difficulties being experienced by Armco that would prevent its performance under the acquisition agreements. In addition, management is not aware of any environmental conditions or the incurrence of other liabilities at the Bridgeville or Titusville facilities, for which Armco has agreed to indemnify the Company, nor of any material environmental condition requiring remediation and affecting the Company other than those identified in the preceding discussion.

The Company maintains insurance for both property damage and business interruption applicable to its production facilities, including the universal rolling mill. In 1998, the Company settled its claim under its Boiler and Machinery policy related to the drive motor at the Bridgeville facility's universal rolling mill, which caused an approximately six-week production halt in 1995. After deducting all costs associated with the settlement, the Company received approximately \$750,000.

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Notes to the Consolidated Financial Statements (continued)

NOTE 11: SEGMENT AND RELATED INFORMATION

The Company is comprised of two operating locations, the Bridgeville facility and the Titusville facility, and one corporate headquarters. The nature of the products and services, production processes, customer type and distribution methods are generally similar for both operating locations. In addition, the assessment of performance and allocation of resources is performed by the chief operating decision maker at the corporate level rather than by operating location. As such, the Company operates as a single segment.

The following table presents net sales by product line (dollars in thousands):

	1998	1997	1996
Net sales			
Stainless steel	\$53,661	\$60,700	\$46,903
Tool steel	7,548	10,467	8,019
High-temperature alloy steel	4,387	2,636	728
Conversion services	3,690	4,834	3,804
Other	3,309	2,664	804
Total net sales	\$72,595	\$81,301	\$60,258

Net sales from the Company's largest customer and its affiliates were approximately 35%, 44% and 46% of total 1998, 1997 and 1996 net sales, respectively. The accounts receivable balances from the same customer comprised approximately 9% and 32% of total accounts receivable at December 31, 1998 and 1997, respectively.

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

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Notes to the Consolidated Financial Statements (continued)

NOTE 12: QUARTERLY FINANCIAL DATA (UNAUDITED)

(Dollars in thousands, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter

1998 Data				
Net sales	\$22,349	\$21,163	\$15,977	\$13,106
Gross profit	3,882	3,831	2,836	1,951
Operating income	2,742	2,495	1,687	642
Net income	1,811	1,535	982	676
Earnings per common share				
Basic (a)	\$ 0.29	\$ 0.24	\$ 0.16	\$ 0.11
Diluted	\$ 0.28	\$ 0.24	\$ 0.16	\$ 0.11

1997 Data				
Net sales	\$18,771	\$20,809	\$22,081	\$19,640
Gross profit	3,712	4,395	4,542	3,624
Operating income	2,571	3,094	3,319	2,590
Net income	1,611	1,947	2,053	1,595
Earnings per common share				
Basic	\$ 0.26	\$ 0.31	\$ 0.33	\$ 0.25
Diluted (a)	\$ 0.26	\$ 0.31	\$ 0.32	\$ 0.24

(a) Earnings per share for the year is less than the sum of the quarterly earnings per share due to the change in shares each quarter.

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Price Range of Common Stock

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

	High	Low

Year 1998		
First quarter	\$14-3/8	\$11-7/16
Second quarter	\$ 14	\$ 9
Third quarter	\$10-1/2	\$ 5-3/16
Fourth quarter	\$ 7-1/2	\$ 4-1/4

Year 1997
 First quarter \$11-3/4 \$ 8-7/8
 Second quarter \$13-3/4 \$ 9-3/8
 Third quarter \$17-1/4 \$ 12-3/4
 Fourth quarter \$17-3/4 \$ 12-3/8

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

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Five-Year Summary

For the Years Ended December 31,	1998	1997	1996	1995	1994 (a)

(Dollars in thousands, except per share amounts)					
Summary of Operations					
Net sales	\$72,595	\$81,301	\$60,258	\$46,992	\$ 5,743
Operating income (loss)	7,566	11,574	7,531	3,202	(1,655)
Income (loss) before extraordinary items	5,004	7,206	4,793	2,723	(1,842)
Extraordinary items (b)	--	--	--	--	(634)
Net income (loss)	5,004	7,206	4,793	2,723	(2,476)

Diluted Earnings Per Common Share					
Income (loss) before extraordinary items	\$ 0.79	\$ 1.12	\$ 0.76	\$ 0.57	\$ (0.62)
Extraordinary items	--	--	--	--	(0.22)
Net income (loss)	\$ 0.79	\$ 1.12	\$ 0.76	\$ 0.57	\$ (0.84)

Financial Position at Year-End					
Working capital	\$21,829	\$20,086	\$15,981	\$19,283	\$ 6,857
Total assets	64,450	56,151	42,098	32,437	14,757
Total debt	12,958	5,779	2,794	535	772
Stockholders' equity	42,565	37,768	30,497	25,591	8,875

Other Data					
Capital expenditures	\$12,146	\$ 8,145	\$11,409	\$ 3,039	\$ 132
Depreciation and amortization	1,516	1,109	541	304	133
Return on stockholders' equity	11.8%	19.1%	15.7%	10.6%	--
Debt to total capitalization	23.3	13.3	8.4	2.1	8.0
Employees	280	270	208	172	104
Customers	200	167	136	77	25

(a) The Company began operating the Bridgeville facility on August 15, 1994, and initial shipments of semi-finished steel were made on September 19, 1994.

(b) During 1994, the Company recorded an extraordinary loss for the early extinguishment of debt and the early termination of a bank agreement.

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Prospectus constituting part of the Registration Statement on Form S-3 (No. 33-98534) and the Registration Statements on Forms S-8 (No. 333-13599, No. 333-13509 and No. 333-13511) of Universal Stainless & Alloy Products, Inc. of our report dated January 20, 1999, appearing on page 20 of the Annual Report to Stockholders which is incorporated by reference into this Annual Report on Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Pittsburgh, Pennsylvania
March 30, 1999

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