

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, 2001

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 (ss.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 20, 2002, based on the closing price of \$10.97 per share on that date, was \$43,281,345. 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 20, 2002, there were 6,077,272 shares of the Registrant's Common Stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive Proxy Statement for the Annual Meeting of Stockholders scheduled to be held May 21, 2002, are incorporated into Part 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 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. The Company's customers further process its products for use primarily in the power generation, aerospace, petrochemical and heavy equipment manufacturing industries. The Company also performs 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. At its Bridgeville facility, the Company produces its specialty steel products in the form of long products (ingots, blooms, billets and bars) and flat rolled products (slabs and plates). The semi-finished long products are primarily used by customers to produce finished bar, rod and wire products, and the semi-finished flat rolled products are used by customers to produce fine-gauge plate, sheet and strip products. The finished bar products manufactured by the Company are primarily used by service center customers for distribution to a variety of customers. The Company also produces customized shapes primarily for original equipment manufacturers that are cold rolled from purchased coiled strip, flat bar or extruded bar at its Precision Rolled Products department ("PRP"), located at its Titusville facility.

Recent Developments

On February 14, 2002, the Company, through its wholly owned subsidiary, Dunkirk Specialty Steel, LLC ("Dunkirk Specialty Steel"), acquired from the New York Job Development Authority certain assets formerly owned by Empire Specialty Steel, Inc. at its idled production facility located in Dunkirk, New York (the "Dunkirk facility"). The Company believes that the Dunkirk facility will be fully operational in the second quarter of its 2002 fiscal year, and it intends to produce finished bar, rod and wire specialty steel products offerings to existing customers within its markets and enter into new market niches.

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 its products within the following specialty steel product lines:

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 high-strength, good wear characteristics, natural attractiveness, ease of maintenance and resistance to rust, corrosion and heat. Stainless steel is used, among other applications, in the automotive, aerospace and power generation industries, as well as in the manufacture of food handling, health and medical, chemical processing and pollution control equipment. The large number of

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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. Heating and cooling at precise rates in the heat treating process bring out these hardness characteristics. Tool steels are utilized in the manufacturing of metals, plastics, paper and aluminum extrusions, pharmaceuticals, electronics and optics.

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 nickel, chrome and molybdenum in such steels typically exceed the alloy element of carbon steels but not that of high-temperature alloy steel. High-strength low alloy steels are manufactured for use generally in the aerospace industry.

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.

Net sales by principal product line were as follows:

For the years ended December 31,	2001	2000	1999
	----	----	----
Dollars in thousands			
Stainless steel	\$76,908	\$62,346	\$55,255
Tool steel	4,503	6,960	6,055
High-strength low alloy steel	3,379	2,161	1,327
High-temperature alloy steel	2,471	1,754	2,124
Conversion service	3,054	2,309	1,807
Other	343	355	95

Net sales on shipments	90,658	75,885	66,663
Effect of accounting change	--	12,462	

Total net sales	\$90,658	\$88,347	\$66,663
=====			

During 2000, the Company adopted the provisions of the Securities and Exchange Commission's ("the SEC") Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements." The application of the SEC's guidance to the language contained in the Company's Standard Terms and Conditions of Sale existing at the time of adoption required the Company to defer revenue until cash was collected, even though risk of loss passed to the buyer at the time of shipment. This had the effect of deferring certain sale transactions previously recognized in 1999 into 2000. During the fourth quarter of 2000, the Company modified its Standard Terms and Conditions of Sale to more closely reflect the substance of its sale transactions, which resulted in revenue being recorded at the time of shipment rather than when cash was received. As a result, revenue and cost information in 2000 include amounts related to shipments made during the year as well as amounts deferred from 1999.

Raw Materials

Scrap Metal

The Company's major raw material is ferrous and non-ferrous scrap metal, which is generated principally from industrial sources and is purchased in the open market through a number of scrap brokers and dealers. The long-term demand for domestically-generated scrap metal by the domestic and foreign specialty steel industry is expected to remain strong. Higher demand may put increased pressure on the domestic supply of scrap and lead to inflated prices. The high quality of the Company's products requires close inspection and selection of scrap types and sources. 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 during the melting process. Many alloys are bought from domestic agents and originate from South Africa, Canada, South America, and Russia. Political disruptions in countries such as these can interfere with the deliveries, potentially lead to higher prices, and could adversely affect the Company's financial results.

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 specifications 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 more than one-third 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 30 days. These arrangements 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. The Company has implemented sales price surcharges to help offset the impact of raw material price fluctuations.

Energy Agreements

The production of specialty steel requires the ready availability of substantial amounts of electricity, natural gas and certain industrial and refining gases. Electricity and natural gas is consumed within each of the Company's operations and the industrial and refining gases, including oxygen, nitrogen and argon, are primarily consumed within the melting operations.

At the Bridgeville Facility, the Company purchases electricity from Duquesne Light Company ("DLC") pursuant to a five-year supply agreement entered into in August 1999. Under that agreement, the Company has been granted significant reductions in DLC's posted base demand rates, particularly if, as the Company plans, it conducts its principal melting operations in off-peak hours, which for purposes of the DLC agreement are between 6 p.m. and 12 p.m. (18 hours) daily and up to 24 hours a day on weekends.

Air Products and Chemicals, Inc. supplies all the Company's liquid gas for industrial requirements for its Melt operations pursuant to a four-year agreement entered into in August 1999, which contains one-year renewal options.

The Company purchases its local natural gas delivery service from Columbia Gas on a three-year agreement entered into in April 2000. The natural gas requirements are purchased from various marketers, but primarily from Ashland Energy.

At the Titusville Facility, the Company purchases electricity from GPU Energy pursuant to a two-year supply agreement entered into in May 2000, with one-year renewal options. Belden & Blake Corporation supplies all the Company's natural gas requirements at that location pursuant to a supply agreement entered into in May 2001, for the period July, 2001 through June 30, 2002, which is eligible for renewal thereafter.

At the Dunkirk facility, the Company purchases electricity from the New York State Power Authority pursuant to an Expansion Power supply agreement which is contingent on certain employment levels. Under the agreement, the Company has been granted significant reductions in the New York State Power Authority's posted base demand rates.

While the Company believes that its energy agreements allow it to compete effectively within the specialty steel industry, the potential of curtailments exists as a result of decreased supplies during periods of increased demand for electricity and natural gas. These interruptions not only can adversely affect the operating performance of the

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Company, but also can lead to increased costs for energy. The Company imposed a natural gas surcharge mechanism that it has utilized during periods of inflated rates for natural gas due to supply shortages.

Customers

The Company's principal customers are rerollers, forgers, service centers and original equipment manufacturers, which primarily include the power generation and aerospace industries. The Company maintains a supply contract agreement with Talley Metals Technology, Inc., a subsidiary of Carpenter Technology Corporation, which is currently effective through December 2002. Under terms of the agreement, the Company will supply Talley Metals with an average of 1,250 tons of stainless reroll billet products per month. For the year ended December 31, 2001, Talley Metals and its affiliates accounted for 32% of the Company's net sales on shipments. General Electric Company and its affiliates accounted for 12% of the Company's net sales on shipments. No other customer accounted for more than 10% of the Company's net sales on shipments for the year ended December 31, 2001.

The Company's five largest customers in the aggregate accounted for approximately 56% of net sales on shipments. 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 250 at December 31, 2000 to 288 at December 31, 2001.

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, four full-time sales persons and two independent sales representatives. In view of the relatively small number of prospective customers, the strong business relationships maintained with its existing customers and the thorough product knowledge possessed by those management and marketing persons, the Company believes its sales force is adequate for its current and immediately foreseeable needs.

Backlog

The Company primarily manufactures products to meet specific customer orders, generally fulfilling orders in eight weeks or less for its semi-finished products and in 16 weeks or less for its finished products. The Company's backlog of orders on hand as of December 31, 2001, was approximately \$19.1 million as compared to \$21.4 million at the same time in 2000. The mix of orders booked for delivery in the 2002 first quarter by market segment in comparison to the year-ago period reflects reduced demand for reroller and forging products, partially offset by increased demand for service center products. 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 it is one of approximately 18 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 domestic competitors of the Company in the specialty steel market include fully integrated specialty steel producers such as Allegheny Technologies, Inc.; Carpenter Technology Corporation; Fort Wayne Specialty Alloys, a division of Slater Steel, Inc.; and The Timken Company. Additionally, there are several smaller electric arc furnace melt shops that also produce specialty steel. While these facilities generally produce only stainless steel ingots, they can also compete with the Company by utilizing outside conversion services. 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. Slocumb Company.

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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 is currently, 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 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. 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 factors 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. See "Risk Factors - Competition".

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 employee's

interests and those of the Company's stockholders. At December 31, 2001, the Company had 250 employees at its Bridgeville facility and 54 employees at its Titusville facility, of whom 198 and 47 were USWA members, 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 February 2000, the Company and the USWA completed negotiation of a new sixty-seven (67) month comprehensive collective bargaining agreement (the "Titusville CBA"). The Titusville CBA is similar to the original five-year agreement.

In October 2001, the Company and the USWA entered into a 6 year comprehensive collective bargaining agreement that is similar to the collective bargaining agreement (the "Dunkirk CBA") at Bridgeville and Titusville. The Company anticipates that it will have approximately 100 employees at the Dunkirk facility upon the commencement of all operations, approximately three-fourths of whom are USWA members.

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 periodic 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, which merged with and into AK Steel in 1999 ("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 retain responsibility for

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liabilities asserted against it under environmental laws with respect to environmental conditions existing at the Bridgeville facility prior to commencement of the Bridgeville Lease on August 15, 1994, and to indemnify the Company up to \$6.0 million in the aggregate over 10 years. Such indemnification expires on August 15, 2004.

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.

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. At December 31, 2001, the Company has issued 45,539 shares of Common Stock since the plan's inception.

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 50% of the savings, if any, of reduced workers' compensation premiums obtained due to reductions in the state experience modifier issued to the Company.

Executive Officers

The following table sets forth, as of December 31, 2001, certain information

with respect to the executive officers of the Company:

NAME (AGE)	EXECUTIVE OFFICER SINCE	POSITION
Clarence M. McAninch (66)	1994	President and Chief Executive Officer
Paul McGrath (50)	1996	Vice President of Operations, General Counsel and Secretary
Richard M. Ubinger (42)	1994	Vice President of Finance, Chief Financial Officer and Treasurer

Clarence M. McAninch, 66, 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 from 1992 to 1994.

Paul A. McGrath, 50, has been Vice President of Operations of the Company since March 2001, 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, 42, has been Vice President of Finance of the Company since March 2001, 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 from 1990 to 1994. Mr. Ubinger is a Certified Public Accountant.

Patents and Trademarks

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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.

Start-up of Dunkirk Specialty Steel, LLC Facility

On February 14, 2002, the Company acquired certain assets of the idled Dunkirk, New York production facility of Empire Specialty Steel, Inc. Delays in the commencement of the operations due to unexpected equipment start-up issues or the inability to receive a sufficient volume of customer orders could have a material adverse effect upon the Company. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Subsequent Event."

Significant Customer and Concentrated Customer Base

For the year ended December 31, 2001, Talley Metals Technology, Inc., a subsidiary of Carpenter Technology Corporation, and its affiliates accounted for approximately 32% of the Company's net sales on shipments, while the General Electric Company and its affiliates accounted for 12% of the Company's net sales on shipments. The Company's five largest customers in the aggregate accounted for approximately 56% of net sales on shipments. 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."

Reliance on Critical Manufacturing Equipment

The Company's manufacturing processes are dependent upon certain critical pieces of specialty steel making 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 factors 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 environmental liabilities and agreed to indemnify the Company for environmental liabilities existing prior to August 15, 1994. Because the indemnification is the Company's primary 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

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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.

The Armco indemnities do not cover any liability incurred with respect to violations of Environmental Laws enacted after August 15, 1994, with respect to the Bridgeville facility, or after June 2, 1995, with respect to the Titusville facility. There is no assurance that the Company will not incur any such liability.

The Company entered into an order with the New York State Department of Environmental Conservation ("NY DEC") that precludes NY DEC from bringing any action against the Company, and releases the Company from any and all claims and liabilities arising from or related to the existing environmental conditions at the Dunkirk facility. There can be no assurance that any other party will not assert any claims with respect to environmental conditions at the Dunkirk facility, or that the Company will have the financial resources to discharge any liabilities if legally compelled to do so.

Environmental laws and regulations have changed rapidly in recent years, and the Company may be subject to increasingly stringent environmental standards in the future. 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 more than one-third 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 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."

Reliance on Energy Agreements

The manufacturing of specialty steels is an energy intensive industry. While the Company believes that its energy agreements allow it to compete effectively within the specialty steel industry, the Company is subjected to curtailments as a result of decreased supplies and increased demand for electricity and natural gas. These interruptions not only can adversely affect the operating performance of the Company, but also can lead to increased costs for energy. See "Business - Energy Agreements."

ITEM 2. PROPERTIES

The Company leases its Bridgeville facility from Armco (the "Bridgeville Lease"). The Bridgeville Lease is for 10 years commencing on 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. The Bridgeville Lease also provides for three five-year options to renew on the same terms at the sole discretion of the Company. In addition, the Bridgeville Lease provides the Company with an option to purchase substantially all of the leased premises for \$1 any time during the term of the Bridgeville 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 closer proximity to the melt shop complex in an existing building prior to the expiration of that initial ten-year term.

The Bridgeville 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").

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. In early 1999, the Company successfully completed the round-bar finishing facility at the Bridgeville location. The facility includes heat-treating and processing equipment that enables the Company to produce completely finished 1.75-inch to 6-inch round bar products.

The Company owns its Titusville facility, which 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.

The Company owns its Dunkirk facility, which consists of approximately 800,000 square feet of floor space on approximately 79 acres. The Company expects to incur approximately \$6.0 million during its 2002 fiscal year with respect to the investment in and upgrading of technologies and other capital improvements relating to the start-up of operations at the Dunkirk facility.

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, and the generation, handling and disposal of hazardous and non-hazardous substances. The Company may be liable for the remediation of contamination associated with generation, handling and disposal activities. The Company is subject periodically to environmental compliance reviews by various regulatory offices. 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. Environmental costs could be incurred 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 significant 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 from any of those matters with respect to the Bridgeville facility to the extent of \$6.0 million in the aggregate until 2004. Armco has further agreed (subject to the indemnity limits) to pay up to up to \$1.0 million for certain non-recoverable operating costs should the Company's business be interrupted as a result of Environmental Law violations 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.

Titusville Facility

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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 that 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. 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 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. To date, no environmental governmental authority has contacted the Company concerning this matter. The Company believes it unlikely that it or Armco will be required to provide cleanup at the Titusville facility for the local hydrocarbon contamination. 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 for the safety of its employees, the Company shall bear such accelerated or increased cost. Any accelerated or increased cost of an environmental obligation retained by Armco resulting from the Company seeking financing or from the sale of less than a controlling interest in the voting stock of the Company shall be borne equally by Armco and the Company.

The Company's primary 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. 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. There can be no assurance, however, that those indemnities will fully cover all environmental liabilities incurred by the Company and there can be no assurance that the Company will have the financial resources to discharge those liabilities if legally compelled to do so.

Dunkirk Facility

In connection with the acquisition of the Dunkirk facility, Dunkirk Specialty Steel and New York Job Development Authority entered into an order with the New York State Department of Environmental Conservation ("NY DEC") with regard to existing environmental conditions at the Dunkirk facility. Pursuant to the terms of the order, Dunkirk Specialty Steel agreed, among other things, to pay an aggregate sum of \$200,000 in consideration from NY DEC's forbearance from bringing any action or proceeding against Dunkirk Specialty Steel and its affiliates relating to existing contamination at the site.

See "Risk Factors--Environmental Issues."

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ITEM 3. LEGAL PROCEEDINGS

There are no material legal proceedings pending or, to the Company's best

knowledge, threatened against the Company.

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 2001.

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PART II

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

At December 31, 2001, a total of 6,347,172 shares of the Company's Common Stock, par value \$.001 per share, were issued and held by approximately xxx holders of record. 269,900 shares of the issued Common Stock of the Company were held in treasury at December 31, 2001.

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 31 of the Annual Report to Stockholders for the year ended December 31, 2001, which is incorporated herein.

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. The Preferred Stock may have 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 prohibit the payment of cash dividends on Common Stock.

ITEM 6. SELECTED FINANCIAL DATA

The information called for by this item is set forth on page 32 of the Annual Report to Stockholders for the year ended December 31, 2001, which is incorporated herein.

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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 13 through 17 of the Annual Report to Stockholders for the year ended December 31, 2001, which are incorporated herein.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Prices for the Company's raw materials and natural gas requirements are subject to frequent market fluctuations. The Company does not maintain long-term supply, fixed cost agreements for its major raw material and natural gas requirements. Price increases are normally offset 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, 2001, the Company's total long-term debt, including the current portion was \$8,322,000. Of that amount, \$1,822,000 has fixed rates and \$6,500,000 bears a variable rate.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information called for by this item is set forth on pages 18 through 30 of the Annual Report to Stockholders for the year ended December 31, 2001, which are incorporated herein.

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 21, 2002, under the heading "Proposal No. 1--Election of Directors," 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 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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PART IV

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 18 through 30 of the accompanying Annual Report, are incorporated in this Form 10-K Annual Report.
- 2) Consolidated Financial Statement Schedules:
The following financial statement schedule is included herewith on page 20 and made a part hereof; Schedule II (Valuation and Qualifying Accounts).
- 3) Exhibits:

EXHIBIT

NUMBER

DESCRIPTION

- | | |
|------|--|
| 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). |
| 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 (incorporated herein by reference to Exhibit 4.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998). |
| 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 10.1 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 10.2 to Registration No. 33-85310). |

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EXHIBIT

NUMBER

DESCRIPTION

- | | |
|------|--|
| 10.3 | Lease Agreement, dated August 15, 1994, by and between Armco Inc. and the Company (incorporated herein by reference to Exhibit 10.3 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 10.4 to Registration No. 33-85310). |
| 10.5 | 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). |
| 10.6 | Employment Agreement, dated November 20, 1998 by and between the Company and Clarence M. McAninch (incorporated herein by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998). |
| 10.7 | Employment Agreement dated January 1, 1998 between the Company and Paul McGrath (incorporated herein by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997). |
| 10.8 | Employment Agreement dated January 1, 1998 between the Company and |

Richard M. Ubinger (incorporated herein by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).

- 10.9 1994 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.10 to Registration No. 33-85310).
- 10.10 Second Amended and Restated 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).
- 10.11 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).
- 10.12 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).
- 10.13 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).
- 10.14 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).
- 10.15 First Amendment to Second Amended and Restated Credit Agreement, dated as of December 31, 1998, between the Company and PNC Bank, National Association (incorporated herein by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998).

EXHIBIT

NUMBER

DESCRIPTION

- 10.16 Second Amendment to Second Amended and Restated Credit Agreement, dated as of May 25, 2000, between the Company and PNC Bank, National Association (incorporated herein by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000).
- 10.17 Third Amendment to the Second Amended and Restated Credit Agreement, dated as of June 29, 2001, between the Company and PNC Bank, National Association (filed herewith).
- 10.18 Loan Agreement, dated October 3, 1995, by and between the Company and Commonwealth of Pennsylvania (incorporated herein by reference to Exhibit 10.20 to Registration No. 33-97896).
- 10.19 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 10.21 to Registration No. 33-97896).
- 10.20 Security Agreement, dated October 3, 1995, by and between the Company and the Commonwealth of Pennsylvania (incorporated herein by reference to Exhibit 10.22 to Registration No. 33-97896).
- 10.21 Supply Contract Agreement, dated as of July 1, 2001, between the Company and Talley Metals Technology, Inc. a subsidiary of Carpenter Technology Corporation (filed herewith).
- 10.22 Personal Property Asset Purchase Agreement, dated as of February 8, 2002, between the Company and New York Job Development Authority (filed herewith).
- 10.23 Real Property Asset Purchase Agreement, dated as of February 8, 2002, between the Company and New York Job Development Authority (filed herewith).

- 10.24 Promissory Note, dated as of February 13, 2002, between the Company and New York Job Development Authority (filed herewith).
- 10.25 Promissory Note, dated as of February 14, 2002, between the Company and New York Job Development Authority (filed herewith).
- 13.01 Selected pages of the Company's 2001 Annual Report to Stockholders (filed herewith).
- 23.01 Consent of PricewaterhouseCoopers LLP (filed herewith).
- 24.01 Powers of Attorney (included on the signature page herein).

(b) The following reports on Form 8-K were filed during the fourth quarter of 2001:

None.

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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 22, 2002.

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 (Principal Executive Officer)	March 22, 2002
/s/ Richard M. Ubinger ----- Richard M. Ubinger	Vice President of Finance, Chief Financial Officer (Principal Financial and Accounting Officer)	March 22, 2002
/s/ Douglas M. Dunn ----- Douglas M. Dunn	Director	March 22, 2002
/s/ George F. Keane ----- George F. Keane	Director	March 22, 2002
/s/ Udi Toledano -----	Director	March 22, 2002

Udi Toledano

/s/ D. Leonard Wise Director

March 22, 2002

D. Leonard Wise

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REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors and Stockholders of
Universal Stainless & Alloy Products, Inc.

Our audits of the consolidated financial statements referred to in our report dated January 18, 2002, except for Note 12, which is as of February 8, 2002 appearing in the 2001 Annual Report to Stockholders of Universal Stainless & Alloy Products, Inc. (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 14(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Pittsburgh, Pennsylvania
January 18, 2002

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UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended December 31, 1999, 2000 and 2001
(Dollars in thousands)

	Balance at Beginning of Year	Charged to costs and Expenses	Deductions	Balance at End of Year
	-----	-----	-----	-----
Inventory reserve:				
Year ended December 31, 1999	\$235	\$789	(\$863)	\$161
Year ended December 31, 2000	161	514	(206)	469
Year ended December 31, 2001	469	332	(321)	480
Allowance for doubtful accounts:				
Year ended December 31, 1999	\$358	\$ 60	\$--	\$418
Year ended December 31, 2000	418	151	(377)	192
Year ended December 31, 2001	192	336	(94)	434

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THIRD AMENDMENT TO SECOND AMENDED
AND RESTATED CREDIT AGREEMENT

This THIRD AMENDMENT TO SECOND AMENDED AND RESTATED CREDIT AGREEMENT (this "Third Amendment") is made as of June 1, 2001 and entered into by and between UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC., a corporation organized and existing under the laws of Delaware (the "Borrower") and PNC BANK, NATIONAL ASSOCIATION (the "Bank") and amends that certain Second Amended and Restated Credit Agreement dated as of January 30, 1998 by and between the Borrower and the Bank (the Second Amended and Restated Credit Agreement, as amended prior to the date hereof, is hereinafter referred to as the "Original Credit Agreement").

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:

Bridgeville Adjacent Property: Those certain parcels of ground

located in the Borough of Bridgeville, Upper St. Clair Township, Collier Township and Scott Township, Allegheny County, Pennsylvania and highlighted on Schedule 1.1b attached hereto together with improvements thereto and all appurtenances thereto.

Bridgeville Property: Those certain parcels of ground located in the

Borough of Bridgeville, Upper St. Clair Township, Collier Township and Scott Township, Allegheny County, Pennsylvania and more fully described on Schedule 1.1 attached hereto together with improvements thereto and all appurtenances thereto.

Bridgeville Property Acquisition: The acquisition by the Borrower of

a fee interest in the Bridgeville Property from AK Steel Corporation on or after the date hereof.

Third Amendment: The Third Amendment to Second Amended and Restated

Credit Agreement entered into by and between the Borrower and the Bank and dated as of June 1, 2001.

Third Amendment Effective Date: June 29, 2001, or such later date as

all of the conditions set forth in the Third Amendment have either been satisfied by the Borrower or waived in writing by the Bank.

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

Permitted Encumbrance: Any of the following:

- (i) The Encumbrances in the Collateral granted to the Bank;
- (ii) Encumbrances for taxes, assessments, governmental charges or levies on any of the Borrower's properties if such taxes, assessments, governmental charges or levies (A) are not at the time due and payable or if they can thereafter be paid without penalty or are being contested in good faith by appropriate proceedings diligently conducted and with respect to which the Borrower has created adequate reserves, and (B) are not pursuant to any Environmental Law;
- (iii) Pledges or deposits to secure payment of workers' compensation obligations, unemployment insurance, deposits or indemnities to secure public or statutory obligations or for similar purposes; provided, however, after the -----
Bridgeville Property Acquisition no such Encumbrance may attach to the Bridgeville Property;
- (iv) Encumbrances arising out of judgments or awards against the Borrower with respect to which enforcement has been stayed and such Person at the time shall currently be prosecuting an appeal or proceeding for review in good faith by appropriate proceedings diligently conducted and with respect to which the Borrower has created adequate reserves or has adequate insurance protection; provided, however, that at no time may the aggregate Dollar amount -----
of such liens exceed \$100,000, and after the Bridgeville Property Acquisition no such Encumbrance may attach to the Bridgeville Property;
- (v) Mechanics', carriers', workmen's, repairmen's and other similar statutory liens incurred in the ordinary course of the Borrower's business, so long as the obligation secured is not overdue or, if overdue, is being contested in good faith by appropriate actions or proceedings diligently conducted; provided, however, after the Bridgeville Property Acquisition no -----
such Encumbrance may attach to the Bridgeville Property;
- (vi) Security interests in favor of lessors of personal property, which property is the subject of a true lease between such lessor and the Borrower;

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(vii) Encumbrances existing on the Closing Date and listed on Schedule 6.3; provided, however, that the Dollar amount of the obligation -----
secured by an such Encumbrance shall not exceed the amount shown opposite such Encumbrance on Schedule 6.3; and

(viii) Security interests in favor of lenders whose loans to the Borrower are permitted pursuant to Section 6.1; provided, however, -----
after the Bridgeville Property Acquisition no such Encumbrance may attach to the Bridgeville Property;

Revolving Credit Termination Date: April 30, 2003, as such date may -----
be extended upon the terms and conditions set forth in Section 2.1f, or if any such day is not a Business Day, the Business Day next preceding such date.

Section 1.02 Amendment to Section 3.4 of the Original Credit Agreement.

- (a) Section 3.4 of the Original Credit Agreement is hereby amended such that the reference in Section 3.4 to Schedule 4.14 is deleted and there is hereby substituted therefor "Schedule 4.13". This amendment is deemed effective as of the Closing Date nunc pro tunc.

- (b) Section 3.4 of the Original Credit Agreement is hereby amended to add the following proviso to the end of Section 3.4 before the period which ends such Section and such proviso shall read as follows:

"; provided, however, upon completion of the Bridgeville Property Acquisition, the Borrower shall not be required to grant the Bank a mortgage lien on the fee interest of the Borrower in the Bridgeville Property until the Bank shall request in writing to the Borrower that the Borrower grant the Bank such mortgage lien."

Section 1.03 Amendment to Section 4.20 of the Original Credit Agreement.

Subsection 4.20(B) of the Original Credit Agreement is hereby amended and restated to read as follows:

Subsection 4.20(B). There has been no material Contamination or material release of Hazardous Substances, at, upon, under or within any property owned or leased by the Borrower since August 15, 1994, and, to the best of the Borrower's knowledge based exclusively on the Phase I and Phase II environmental site assessments (the Phase II environmental site assets relates only to the Borrower's Titusville property and the Bridgeville Adjacent Property) by Chester Engineers, Inc., Ground Water Technology, Inc., and Crouse & Company, copies of which have been delivered to the Bank, there has been no Contamination or release of Hazardous Substances on any other property that has migrated or threatens to migrate to any property owned or leased by the Borrower except as may be set forth in the Phase II environmental site assessment;

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Section 1.04 Amendment to Section 5.9 of the Original Credit Agreement.

Section 5.9 of the Original Credit Agreement is hereby amended and restated to read as follows:

5.9 Maintenance of Leases. The Borrower shall maintain in full

force and effect all leases for its real properties, and all other leases for personal property if the failure to maintain such personal property lease would constitute a Material Adverse Change; provided, however, that

the provisions of this Section 5.9 shall not prohibit the Borrower (i) from acquiring a fee interest in the Bridgeville Property and (ii) in connection with such acquisition from terminating the Armco Lease.

Section 1.05 Amendment to Section 6.1 of the Original Credit Agreement.

Section 6.1 of the Original Credit Agreement is hereby amended and restated to read as follows:

6.1 Indebtedness. The Borrower shall not nor shall the Borrower

permit Holdings to create, incur, assume, cause, permit or suffer to exist or remain outstanding, any Indebtedness, except for:

(i) Indebtedness owed by the Borrower to the Bank;

(ii) Indebtedness in existence as of the date hereof as set forth on Schedule 6.1, including all extensions and renewals thereof; provided,

however that no such extension or renewal may involve an increase in the

principal amount of such Indebtedness or any other significant change in the terms thereof;

(iii) Indebtedness due under Governmental Loans; provided, however

that (A) the outstanding principal amount of all such Indebtedness shall not exceed, in the aggregate at any one time outstanding, \$6,500,000, (B) all such Indebtedness (I) must be subject to an Intercreditor Agreement or (II) be subordinated to the repayment of the Obligations, as to security and repayment, in a manner in form and substance satisfactory to the Bank, and (C) after the Bridgeville Property Acquisition no such Indebtedness may be secured by an Encumbrance on the Bridgeville Property;

(iv) Indebtedness incurred by the Borrower, other than Indebtedness enumerated in items (i) through (iii) above, incurred after the date hereof;

provided, however, that the outstanding principal amount of such

Indebtedness shall not exceed, in the aggregate at any one time, \$1,500,000, and, provided further however, after the Bridgeville Property Acquisition no such Indebtedness may be secured by an Encumbrance on the Bridgeville Property;

(v) Subordinated Indebtedness incurred by the Borrower and due to Holdings pursuant to the Holdings Credit Agreement; and

(vi) Indebtedness incurred to finance a Funded Acquisition which indebtedness, if not a Government Loan, must be subordinated to the Bank as to security and payment in a manner in form and substance reasonably satisfactory to the Bank; provided, however, after the Bridgeville Property Acquisition no

such Indebtedness may be secured by an Encumbrance on the Bridgeville Property.

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Section 1.06 Amendment to Section 6.3 of the Original Credit Agreement.

Section 6.3 of the Original Credit Agreement is hereby amended and restated to read as follows:

6.3 Encumbrances. The Borrower shall not nor shall the Borrower

permit Holdings to create, assume, incur, permit or suffer to exist any Encumbrance upon any of their respective assets and properties, whether tangible or intangible and whether now owned or in existence or hereafter acquired or created and wherever located, nor acquire nor agree to acquire any assets or properties subject to an Encumbrance, except for:

(i) The security interests granted to the Bank as security for the Obligations, pursuant to Article 3 hereof and the Security Documents;

(ii) The Encumbrances in existence as of the date hereof, as listed on Schedule 6.3;

(iii) Permitted Encumbrances; and

(iv) Encumbrances on real or personal property in favor of sellers, lessors or lenders, in order to secure indebtedness permitted pursuant to items (ii) through (v) of Section 6.1; provided, however, after the Bridgeville Property Acquisition no such Encumbrances may attach to the Bridgeville Property.

Section 1.07 Amendment to Section 6.8 of the Original Credit Agreement.

Section 6.8 of the Credit Agreement is hereby amended and restated to read as follows:

6.8 Dispositions of Assets. The Borrower shall not sell,

convey, assign, lease, abandon or otherwise transfer or dispose of, voluntarily or involuntarily, any of its properties or assets, whether tangible or intangible (including but not limited to sales, assignments, discounts or other dispositions of Accounts, contract rights, Chattel Paper, Equipment or General Intangibles, with or without recourse, and sale/leaseback transactions), except for:

(i) any sale of Inventory in the ordinary course of business;

(ii) any sale, transfer or lease in the ordinary course of business of assets which are no longer necessary or required in the conduct of the Borrower's business; and

(iii) any sale, transfer or lease of assets in the ordinary course of business which assets are replaced by substitute assets acquired or leased by the Borrower; provided, however, that such substitute assets are subject to a

first and prior lien and security interest in favor of the Bank to the extent they are not subject to an Encumbrance in favor of the seller or lessor of

such assets.

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The foregoing notwithstanding, (A) Net Cash Proceeds aggregating during the term hereof in excess of \$2,500,000 derived from a disposition of assets permitted by items (ii) and (iii) hereof shall be applied to reduce the outstanding principal balance of the Term Loan in accordance with the provisions of Section 2.2c hereof, and (B) nothing set forth in clauses (i), (ii) or (iii) of this Section 6.8 shall permit any sale, conveyance, lease, assignment, abandonment, transfer or other disposition of the Bridgeville Property after the Bridgeville Property Acquisition without the prior written consent of the Bank.

Section 1.08 Amendment to Section 6.16 of the Original Credit Agreement.

Section 6.16 of the Original Credit Agreement is hereby amended and restated to read as follows:

6.16 Amendments to Certain Documents. The Borrower shall not amend in

any material respect its certificate of incorporation, by-laws, or other organizational documents, or the Asset Purchase Agreement, the Armco Lease, the several USWA Agreements, the six and one-third (6 1/3) year power supply contract entered in between the Borrower and Duquesne Light Company on April 30, 1998, without providing at least 10 days' prior written notice to the Bank and, in the event that such amendment would be adverse to the Bank, as determined in the Bank's sole discretion, obtaining the prior written consent of the Bank; provided, however, that the provisions of this

Section 6.16 shall not prohibit the Borrower (i) from acquiring a fee interest in the Bridgeville Property and (ii) in connection with such acquisition from terminating the Armco Lease.

Section 1.09 Amendment of Schedules to Original Credit Agreement. The

Schedule 4.20 to the Original Credit Agreement is hereby deleted and there is hereby substituted therefor the Revised Schedule 4.20 attached hereto. The Original Credit Agreement is hereby amended to include the Schedule 1.1 attached to this Third Amendment.

Section 1.10 No Other Amendments. The amendments to the Original Credit

Agreement set forth herein do not either implicitly or explicitly alter, waive or amend, except as expressly provided in this Third Amendment, the provisions of the Original Credit Agreement. The amendments set forth herein do not waive, now or in the future, compliance with any other covenant, term or condition to be performed or complied with nor do they impair any rights or remedies of the Bank under the Original Credit Agreement with respect to any such violation. Nothing in this Third Amendment shall be deemed or construed to be a waiver or release of, or a limitation upon, the Bank's exercise of any of its rights and remedies under the Original Credit Agreement or any other document or instrument delivered in connection therewith, whether arising as a consequence of any Events of Default which may now exist or otherwise, and all such rights and remedies are hereby expressly reserved.

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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 Third 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 Third Amendment.

ARTICLE III
CONDITIONS PRECEDENT

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

precedent to the effectiveness of this Third Amendment:

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

- (i) A duly executed counterpart original of this Third Amendment;
- (ii) A certificate from the Secretary of the Borrower certifying that the Articles of Incorporation and Bylaws of the Borrower previously delivered to the Bank are true, complete, and correct;
- (iii) A certificate from the Secretary of the Borrower certifying the corporate resolutions of the Borrower authorizing the execution and delivery of this Third Amendment and the officers of the Borrower authorized to execute and deliver this Third Amendment on behalf of the Borrower; 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 Third Amendment Effective Date and the Bank shall have received a certificate signed by an Authorized Officer of the Borrower, dated the Third Amendment Effective Date, stating that:

- (i) the representations and warranties made pursuant to this Third Amendment and in the other Loan Documents, as amended hereby, are true and correct on and as of the Third 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;

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- (iii) no Event of Default or event which with the giving of notice, the passage of time or both would become an Event of Default has occurred and is continuing, or would result from the execution of or performance under this Third Amendment;
- (iv) no material adverse change in the properties, business, operations, financial condition or prospects of the Borrower has occurred which has not been disclosed in writing to the Bank; and
- (v) the Borrower has in all material respects performed all agreements, covenants and conditions required to be performed on or prior to the date hereof under the Original Credit Agreement and the other Loan Documents.

ARTICLE IV
GENERAL PROVISIONS

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

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

Documents.

Section 4.02 References. All notices, communications, agreements,

certificates, documents or other instruments executed and delivered after the execution and delivery of this Third 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 Third Amendment, but nevertheless all such references shall include this Third Amendment unless the context requires otherwise. From and after the Third Amendment Effective Date, all references in the Original Credit Agreement and each of the other Loan Documents to the Original Credit Agreement shall be deemed to be references to the Original Credit Agreement, as amended hereby.

Section 4.03 Incorporation Into Original Credit Agreement. This Third

Amendment is deemed incorporated into the Original Credit Agreement. To the extent that any term or provision of this Third 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 Third 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-Third Amendment.

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

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

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

and fees payable or determined to be payable in connection with the execution, delivery, filing and recording of this Third 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 Third Amendment and the other documents, instruments and certificates delivered in connection herewith.

Section 4.08 GOVERNING LAW. THIS THIRD 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 Third Amendment

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

Section 4.10 Release of Leasehold Mortgage. The Bank hereby agrees to release

the Mortgage on, and as it relates to, the Bridgeville Property in connection with the closing for the Bridgeville Property Acquisition.

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IN WITNESS WHEREOF, the parties hereto, with the intent to be legally bound hereby, have caused this Third Amendment to Second Amended and Restated Credit Agreement to be duly executed by their respective proper and duly authorized

officers as a document under seal, as of the day and year first above written.

ATTEST: UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

/s/ Paul A. McGrath By: /s/ Richard M. Ubinger (SEAL)

Name: Paul A. McGrath Name: Richard M. Ubinger
Title: Secretary Title: Chief Financial Officer

PNC BANK, NATIONAL ASSOCIATION

By: /s/ David B. Gookin (SEAL)

Name: David B. Gookin
Title: Vice President

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SCHEDULE 1.1

DESCRIPTION OF BRIDGEVILLE PROPERTY

All that certain parcel of ground situate in Collier and Scott Township, Allegheny County, Pennsylvania, being more particularly bounded and described as follows:

Beginning at a point on the southeasterly right of way line of Vanadium Road (County Road No. 6318), 55 feet wide, at its intersection with the easterly right of way line of Conrail; thence from said point of beginning by the southeasterly right of way line of Vanadium Road in a northeasterly direction by a curve bearing to the left having a radius of 523.22 feet through an arc distance of 32.18 feet; thence by same N 29(degrees) 56' 20" E a distance of 178.31 feet to a point in Chartiers Creek on the line of lands now or formerly of Pittsburgh and West Virginia Railway Company; thence through Chartiers Creek by the line dividing lands of said Pittsburgh and West Virginia Railway Co. and lands now or formerly of Armco, Inc.

S 20(degrees) 02' 08" E a distance of 252.22 feet to a point; thence through and by same S 31(degrees) 32' 04" E a distance of 659.53 feet to a point in Chartiers Creek at the corner common to lands of said Pittsburgh and West Virginia Railway Co., lands now or formerly of Duquesne Light Co. and lands of said Armco, Inc.; thence through said Chartiers Creek by the line dividing lands of said Duquesne Light Company and lands of said Armco, Inc. the following three (3) bearing and distances:

- S 05(degrees) 49' 20" E a distance of 149.84 feet;
- S 04(degrees) 29' 18" E a distance of 574.80 feet;
- S 00(degrees) 56' 14' E a distance of 297.78 feet to a point in Chartiers Creek;

thence through said Chartiers Creek and the westerly line of said Armco, Inc. the following three (3) bearings and distances:

- S 05(degrees) 22' 56" W a distance of 366.01 feet;
- S 15(degrees) 42' 56" W a distance of 391.90 feet;
- S 53(degrees) 54' 56" W a distance of 229.55 feet to a point common to lands now or formerly of Lucy Chicci and said Armco, Inc.;

thence by the southerly side of Chartiers Creek by the line dividing lands of said Armco, Inc., lands now or formerly of Peter O. Calabro and lands now or formerly of Lucy Chicci S 64(degrees) 16' 16" W a distance of 134.28 feet to a point in said creek; thence through Chartiers Creek and the southerly line of said Armco, Inc. the following five (5) bearings and distances:

- N 83(degrees) 29' 03" W a distance of 156.87 feet;
- N 89(degrees) 05' 50" W a distance of 379.53 feet;
- S 89(degrees) 15' 10" W a distance of 70.83 feet;
- S 06(degrees) 59' 10" E a distance of 3.95 feet;
- S 89(degrees) 24' 50" W a distance of 367.59 feet to a point;

thence leaving said creek by the southerly line of said Armco, Inc. N 6(degrees) 59' 10" W a distance of 43.24 feet to a point; thence N 87(degrees) 28' 50" W a distance 682.03 feet to a point; thence S 80(degrees) 10' 10" W a distance of 265.30 feet to a point; thence S 77(degrees) 01' 10" W a distance of 299.99 feet to point on the southerly right of way line

of Conrail; thence by the southerly right of way line of Conrail the following nine (9) bearings and distances:

N 61(degrees) 22' 10" E a distance of 1722.83 feet;
S 06(degrees) 59' 10" E a distance of 21.52 feet;
N 61(degrees) 22' 10" E a distance of 83.08 feet to a point of curve;
in a northeasterly direction by a curve bearing to the left having a
radius of
1005.37 feet through an arc distance of 543.45 feet;
N 11(degrees) 23' 44" W a distance of 30.40 feet;
in a northeasterly direction by a curve to the left having a
radius of 985.37 feet through an arc distance of 259.76 feet;
S 10(degrees) 58' 04" E a distance of 174.60 feet;
N 2(degrees) 52' 16" E a distance of 627.52 feet;
N 5(degrees) 59' 44" W a distance of 656.63 feet to the southeasterly
right of way line of Vanadium Road at the point of beginning.

Containing an area of 52.484 acres or 2,286,199.11 square feet.

and

All that certain parcel of ground situate in Collier Township, County of Allegheny, Commonwealth of Pennsylvania being more particularly bounded and described as follows:

Beginning at a point common to lands now or formerly of Armco, Inc. northwesterly right of way line of Vanadium Road, 55 feet wide, and the easterly right of way line of lands now or formerly Conrail; thence from said point of beginning by the easterly right of way line of Conrail common to lands now or formerly of Armco, Inc. N 05(degrees) 59' 44" E a distance of 39.31 feet to a point; thence by same N 12(degrees) 48' 16" E a distance of 239.62 feet to a point at the line dividing lands now or formerly of Pittsburgh and West Virginia Railway company and said lands now or formerly of Armco, Inc.; thence by the line dividing lands now or formerly of Armco, Inc. and lands of said Pittsburgh and West Virginia Railway Company S 20(degrees) 02' 08" E a distance of 122.32 feet to a point on the northwesterly right of way line of Vanadium Road; thence by said right of way line of Vanadium Road S 29(degrees) 56' 20" W a distance of 182.15 feet to the easterly right of way line of Conrail at the point of beginning.

Containing an area of 10,049.13 square feet or 0.231 acre.

and

All that certain parcel or land situate in the Borough of Bridgeville and Upper St. Clair Township, Allegheny County, Pennsylvania, being more particularly bounded and described as follows:

Beginning at a point on the northerly right of way line of Union Street, 36 feet wide, at the line dividing Lot Nos. 49 and 50 in the Bridgeville Terrace Plan No. 2 as recorded in the Recorder of Deeds Office of Allegheny County, Pennsylvania in Plan Book Volume 28 Pages 48 and 49; thence from said point of beginning by said dividing line N 5(degrees) 03' 44" W a distance of

162.65 feet to a point; thence by the northerly line of Lot Nos. 50 to 62 inclusive in the said Bridgeville Terrace Plan Nos. 2 and through Chartiers Creek and by the northerly line of lands now or formerly of Armco, Inc. S 88(degrees) 00' 44" E a distance of 423.29 feet to a point in said creek; thence through and by said creek and by the northerly line of lands now or formerly of Armco, Inc. the following five (5) bearings and distances:

N 87(degrees) 59' 16" E a distance of 270.00 feet;
S 88(degrees) 25' 44" E a distance of 750.00 feet;
S 7(degrees) 55' 00" W a distance of 16.89 feet;
S 76(degrees) 39' 03" E a distance of 117.41 feet;
N 59(degrees) 20' 57" E a distance of 19.45 feet to a point at the
line dividing lands now or formerly of Armco, Inc. and lands
now or formerly of Blanche C. Alston;

thence by said last mentioned dividing line the following four (4) bearings and distances:

S 12(degrees) 58' 03" E a distance of 96.88 feet;
S 4(degrees) 05' 57" W a distance of 54.33 feet;
S 21(degrees) 02' 03" E a distance of 100.53 feet;
N 68(degrees) 57' 57" E a distance of 76.29 feet to a point at the line

dividing lands now or formerly of Peter O. Calabro and lands of said Armco, Inc.; thence by said last mentioned dividing line in a southerly direction by a curve bearing to the left having a radius of 804.49 feet through an arc distance of 102.03 feet to a point at the line dividing lands of said Armco, Inc. and lands now or formerly of George Rupinsky; thence by said last mentioned dividing line the following four (4) bearings and distances :

S 68(degrees) 57' 57" W a distance of 96.20 feet;
S 21(degrees) 02' 03" E a distance of 68.20 feet;
S 32(degrees) 48' 03" E a distance of 44.30 feet;
N 59(degrees) 32' 57" E a distance of 119.30 feet to a point on the line dividing lands of said Armco, Inc. and lands of Peter O. Calabro; thence by the line dividing lands now or formerly of Peter O. Calabro, lands now or formerly of Patricia Bianchini and lands of said Armco, Inc. in a southerly direction by a curve bearing to the left having a radius of 804.49 feet through an arc distance of 383.33 feet to a point on the line dividing lands of said Armco, Inc. and lands now or formerly of James R. Dubina; thence by said last mentioned dividing line and through Bower Hill Road, 60 feet wide and extending by the line dividing said Armco, Inc. and lands now or formerly of William J. Bartram S 60(degrees) 21' 57" W a distance of 166.85 feet to a point on the line dividing lands of said Armco, Inc. and lands now or formerly of Robert S. Bedner; thence by said last mentioned dividing line and through said Bower Hill Road N 65(degrees) 53' 03" W a distance of 266.14 feet to a point; thence by same N 30(degrees) 53' 03" W a distance of 135.30 feet to a point; thence still by same S 25(degrees) 05' 57" W a distance of 140.00 feet to a point at the line dividing lands of said Armco Inc. and lands now or formerly of Alice J. Pesavento; thence by said last mentioned dividing line and through said Bower Hill Road N 48(degrees) 55' 03" W a distance of 214.06 feet to a point in said Bower Hill Road; thence through Bower Hill Road and extending by the line dividing lands of said Armco, Inc. and Lot No. 176 in the said Bridgaville Terrace Plan No. 2, N 22(degrees) 39' 03" W a distance of 141.10 feet to a point; thence by the line dividing said Lot No. 176, lands now or formerly of Thomas C. McElwee and lands of said Armco, Inc. N 07(degrees) 55' 00" E a distance of 294.84 feet to a point; thence by the line dividing lands of Armco, Inc. and lands now or formerly of Thomas C. McElwee S 85(degrees) 04' 16" W a distance of 201.51 feet to a point;

thence by same S 75(degrees) 31' 16" W a distance of 162.20 feet to a point; thence by the line dividing lands now or formerly of Thomas C. McElwee, lands now or formerly at John P. Nagy, lands now or formerly of Victoria Berton Yurchey and lands of said Armco, Inc. S 79(degrees) 14' 15" W a distance of 237.50 feet to a point; thence by the line dividing lands of said Victoria Berton Yurchey and lands of said Armco, Inc. N 89(degrees) 04' 44" W a distance of 213.18 feet to a point; thence by same N 84(degrees) 02' 44" W a distance of 229.55 feet to a point on the easterly terminus of Union Street; thence by the easterly terminus of Union Street N 05(degrees) 03' 44" W a distance of 15.00 feet to a point at the southeast corner of Lot No. 62 in said Bridgeville Terrace Plan No. 2; thence by the northerly right of way line of Union Street S 84(degrees) 56' 16" W a distance of 390.00 feet to the line dividing Lot Nos. 49 and 50 in said Bridgeville Terrace Plan No. 2 at the point of beginning.

Containing an area of 349,526.84 square feet or 8.024 acres.

and

All that certain parcel of ground situate in Collier Township, County of Allegheny, Commonwealth of Pennsylvania being more particularly bounded and described as follows:

Beginning at a point on the northerly right of way line of Mayer street, formerly Roger Street) 50 feet wide, at the line dividing lands now or formerly of Tremonti-Hamlin's, Inc. and lands now or formerly of Armco, Inc.; thence from said point of beginning by said dividing line N 22(degrees) 09' 00" W a distance of 235.90 feet to a point on the southeasterly right of way line of the Pittsburgh and West Virginia Railway Company; thence by said Railway right of way line the following four (4) bearings and distances:

N 58(degrees) 16' 00" E a distance of 115.16 feet;
S 34(degrees) 45' 00" E a distance of 2.49 feet;
S 12(degrees) 15' 00" E a distance of 35.28 feet,
N 58(degrees) 16' 00" E a distance of 124.74 feet to a point at the line dividing lands of said Armco, Inc. and lands now or formerly of U.C.B. Federal Credit Union No. 14018;
thence by said last mentioned dividing line S 32(degrees) 55' 00" E a

distance of 154.00 feet to a point; thence by same N 76(degrees) 05' 00" E a distance of 108.40 feet to a point thence by same S 32(degrees) 55' 00"E a distance of 23.16 feet to a point on the northerly right of way line of Mayer street, 40 feet wide; thence by the northerly right of way line of Mayer Street S 57' 05, 00" W a distance of 284.62 feet to a point; thence continuing by S 67(degrees) 51' 00" W a distance of 91.81 feet to the point of beginning.

Containing an area of 62,239.0128 square feet, or 1.4288 acres and

Beginning at a point on a southerly right of way line of Mayer Street (formerly Rogers Street and Beram Avenue Extension) at the dividing line of Parcel 1 and Parcel 2 in Bridgeville Stainless & Alloy Plant subdivision as recorded in the Recorder's Office of Allegheny County, Pennsylvania in Plan Book Volume 169, pages 148 and 149, thence from said point of beginning along the southerly right away of Mayer Street N 57(degrees) 05' 00" E a distance of 533.18 feet to a point, thence continuing by N 67' 5 1'00" E a distance of 133.39 feet to a point, thence in a

southerly direction along a curve bearing to the east having a radius of 135.16 feet through an arc distance of 153.94 feet to a point of tangency on the southerly private easement of ingress, egress and regress, thence by N 63(degrees) 03' 38" E a distance of 355.62 feet to a point, thence S 34 43' 51 " E a distance of 302.76 feet to a point on the northerly right of way line of the now or formerly Conrail Rail Road line, thence in an easterly direction at S 61(degrees) 22' 10" a distance of 397.31 feet to a point, thence along a tangential radius of 925.37 feet in a northerly direction for an arc length of approximately 380 feet to a point, thence along a line S 31(degrees) 34' 38" a distance of approximately 700 feet to a point, thence in a southerly direction along the dividing line of now or formerly of Pittsburgh and West Virginia Railway S 51(degrees) 30' 00" W a distance of approximately 220 feet to a point, thence in a southerly direction along a line S 31(degrees) 34' 38" E for a distance of approximately 503.86 feet to a point thence by same S 33(degrees) 37' 44" a distance of 17.02 to a point, thence by same S 31(degrees) 47' 53" a distance of 31.95 feet thence by same S 58(degrees) 16' 39" a distance of 95 feet to a point thence in a northerly direction by a line N 31(degrees) 43' 21" a distance of 77.02 to a point thence southerly by line S 58(degrees) 16' 39" a distance of 12.26 feet to a point, thence in a northerly direction by line N 32(degrees) 56' 45" W a distance of 71.43 feet to a point, thence in a southerly direction by line S 58(degrees) 25' 25" W a distance of 67.28 feet to a point, thence by same S 45 00' 13" W a distance of 62.76 feet to a point, thence by same 66(degrees) 34' 01" W a distance of 95.80 to a point, thence in a northerly direction by a line N 36(degrees) 31' 08" W a distance of 108.24 feet to the point of the beginning.

Containing an area approximately 16.331 acres and

Beginning at a point on the southerly right of way line of Union Street, 36 feet wide, at the line dividing lot numbers 75 and 74 in the Bridgeville Terrace Plan No 2 as recorded in the Recorder of Deeds Office of Allegheny County, Pennsylvania in Plan Book Volume 28 pages 48 and 49; thence from said point of beginning by said dividing line S 05(degrees) 03' 44" E a distance of 105.00 feet to a point, thence in an easterly direction crossing lots 74 through 68 a line S 84(degrees) 56' 16" W a distance of 210 feet to a point, thence in a northerly direction dividing lot 68 from 67 a line S 05(degrees) 03' 44" E a distance of 105.00 feet to the southerly right of way of Union Street a point, thence in a westerly direction a line N 84(degrees) 56' 16" E a distance of 210.00 feet to the point of the beginning.

Containing an area of 22,050 sq. ft or 0.506 acres.

and

Such other parcels of ground situate in the Borough of Bridgeville, Upper St. Clair Township, Collier Township and Scott Township, Allegheny County, Pennsylvania shown on Schedule 1.1a or Schedule 1.1b attached to this Third Amendment within the highlighted areas set forth on such Schedules 1.1a and 1.1b but not more particularly described above in this Schedule 1.1.

Universal Stainless & Alloy Products Sales Agreement

This AGREEMENT is made and entered into as of the 1st day of July ,

2001, 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 two million (2,000,000) pounds and no more than six million (6,000,000) pounds per month. On an annual basis Talley Metals purchases from Universal will average two million five hundred thousand pounds (2,500,000) 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,

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 two million pounds (2,000,000) 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 (18) 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

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.

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: /s/ C. M. McAninch

By: /s/ Bruce P. Bogardus

Its: President & C.E.O.

Its: Vice President - Materials

Carpenter Technology Corporation

By: /s/ Raymond L. Teders

Its: V.P. & General Manager

PERSONAL PROPERTY
ASSET PURCHASE AGREEMENT

THIS PERSONAL PROPERTY ASSET PURCHASE AGREEMENT, made and entered into as of February 8, 2002, by and among NEW YORK JOB DEVELOPMENT AUTHORITY d/b/a EMPIRE STATE DEVELOPMENT CORPORATION, (the "Seller"), and DUNKIRK ACQUISITION, LLC (the "Buyer") provides:

RECITALS

WHEREAS, Seller is the secured creditor of and has liens on certain assets owned by EMPIRE SPECIALTY STEEL, INC. ("ESSI") located in Chautauqua County, New York ("Facility"); and

WHEREAS, Seller desires to sell to Buyer substantially all of ESSI's personal property constituting all of the Assets (as defined below) relating to ESSI's business, and Buyer desires to purchase such Assets all on the terms and conditions set forth below (the "Transaction"); and

NOW THEREFORE, in consideration of the promises and of the mutual agreements and covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto, each intending to be legally bound, do hereby agree as follows:

ARTICLE 1

DEFINITIONS

INTENTIONALLY OMITTED

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ARTICLE 2

PURCHASE AND SALE

ARTICLE 2.1 AGREEMENT TO PURCHASE AND SELL. Subject to and in accordance with the terms and conditions of this Agreement, at Closing, Buyer agrees to purchase from Seller in a secured creditor's private sale pursuant to Article 9 of the New York Uniform Commercial Code, and Seller agrees to sell, in a secured creditor's private sale pursuant to Article 9 of the New York Uniform Commercial Code, on February 13, 2002, transfer, convey and assign all of its rights, title and interests in and good and marketable title, free and clear of all claims, liabilities, obligations, security interests, liens (including tax liens), mortgages, leases or leasehold interests, encumbrances and rights of others of any kind whatsoever (except as permitted in Article 2.5 below) to the following assets (collectively, the "Assets"):

- a) EQUIPMENT: machinery and equipment including all machine tools, cranes, spare parts, operating supplies, mobile equipment, office furniture, office equipment, computer equipment (collectively or "PP&E") with respect to the Facility, as listed on Appendix A attached hereto and incorporated herein;
- b) INVENTORY: Raw materials including scrap, work-in-process, and finished goods inventory (collectively, the "INVENTORY") located at the Facility or held by others, including any inventory on consignment by ESSI as listed on Appendix B attached hereto and incorporated herein;
- c) INTANGIBLES: All of the general intangibles as the phrase was defined under New York Uniform Commercial Code prior to the recent statutory revisions that became effective on July 1, 2001, excluding therefrom any and all accounts, chattel paper, payment intangibles, or promissory notes;
- d) CONTRACT RIGHTS: All of Seller's rights to all contracts and contract rights, which Buyer so chooses and which were

entered into by ESSI in the ordinary course of its business prior to the Closing Date (as defined below) relating to the Assets to be acquired as listed on Appendix C attached hereto and incorporated herein [the parties hereby acknowledge that their intent is to sell all of the contracts identified in Appendix C and

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that the parties will cooperatively work to achieve such sale but that Seller is not warranting that all such contracts are freely assignable];

ARTICLE 2.2 PURCHASE PRICE.

a) Buyer agrees to pay an aggregate amount to Seller of Two Million, Nine Hundred Thousand and 00/100 Dollars (\$2,900,000.00) pursuant to the payment schedule outlined in this Agreement (the "Purchase Price"). All funds payable under this Article shall be paid by means of a wire transfer to an account designated by Seller, unless otherwise mutually agreed to by Buyer and Seller.

b) MANNER OF PAYMENT.

(i) Buyer has paid to Escrow Agent concurrent with Buyer's execution and delivery of this Agreement, an initial deposit (the "Deposit") of One Million and no/100 Dollars (\$1,000,000.00) and Escrow Agent acknowledges receipt of the initial deposit, which shall be credited towards the Purchase Price. Buyer acknowledges and agrees that if it is in default of this Agreement or the Real Property Asset Purchase Agreement and fails to consummate Buyer's purchase of the Assets pursuant to the terms and conditions herein contained, Seller shall be entitled to retain the Deposit as its non-exclusive liquidated damages. Seller acknowledges and agrees that if Seller fails to deliver the Assets pursuant to this Agreement and the Assets as described in and pursuant to the Real Property Asset Purchase Agreement that the Buyer shall be entitled to the return of the Deposit on February 15, 2002.

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(ii) The sum of One Million, Nine Hundred Thousand and no/100 Dollars (\$1,900,000.00) consisting of the balance of the Purchase Price shall be paid to Seller at the Closing of the Buyer purchasing the Real Property in the form of a promissory note (the "Note") in the form of the Attached Appendix D, in the principal amount of \$1,900,000.00, which note shall bear interest at a rate of five percent per annum. No payments or interest shall accrue until the first anniversary of the Closing Date. Thereafter, principal and interest shall be paid in one hundred and eight equal monthly installments beginning on the first day of the month following the first anniversary of the Closing Date.

ARTICLE 2.3. EXCLUDED ASSETS AND LIABILITIES. The list of Assets described in this Agreement as being purchased is pursuant to the descriptions herein and the attached Appendices and the Parties agree that all remaining assets of ESSI and/or Seller are not to be purchased pursuant to this Agreement and shall be Excluded Assets. It is further agreed that in acquiring the Assets, Buyer is not assuming or undertaking to assume and shall have no responsibility for any liabilities whether fixed or contingent, past, present or future, or direct or indirect, arising out of or in connection with the Assets, or any other acts or omissions of Seller or ESSI in connection therewith prior to the Closing (collectively referred to as the "Excluded Liabilities"), including without limitation, (i) any claim arising out of or in connection with the failure by Seller or ESSI to comply with any applicable government regulation; (ii) federal, state or local tax liabilities (including any depreciation, investment tax credit recapture and rollback taxes); (iii) any claim arising out of or in connection with any Employee Plans of Seller or ESSI or with the employment by Seller or ESSI of any of its employees or any past employees or with the termination of any current employees; (iv) any claim resulting from defective products or workmanship (including any recalls or returns with respect thereto) related to goods or services

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invoiced prior to Closing; (v) any claim arising from environmental liabilities, and (vi) any claim under any provision of the New York Uniform Commercial Code or bulk sales law.

LIMITATIONS ON WARRANTIES. EXCEPT FOR THOSE WARRANTIES EXPRESSLY SET FORTH IN THIS AGREEMENT, SELLER EXPRESSLY DISCLAIMS AND NEGATES AND BUYER HEREBY WAIVES, ALL OTHER REPRESENTATIONS AND WARRANTIES, EXPRESS, IMPLIED, STATUTORY OR OTHERWISE. AS EXAMPLES AND FOR THE AVOIDANCE OF DOUBT, BUT WITHOUT LIMITATION OF THE FOREGOING, THE ASSETS SHALL BE CONVEYED PURSUANT HERETO WITHOUT ANY WARRANTY OR REPRESENTATION WHETHER EXPRESS, IMPLIED, STATUTORY OR OTHERWISE, WITH RESPECT TO THE QUANTITY, PROFITABILITY, COLLECTIBILITY, QUALITY, CONDITION, SIZE, WEIGHT, SERVICEABILITY, CONFORMITY TO SAMPLES OR ANY OTHER ASPECT OF THE FIXTURES, EQUIPMENT OR OTHER PERSONAL PROPERTY INCLUDED AMONG THE ASSETS, ALL OF WHICH SHALL BE CONVEYED TO THE BUYER AS IS, WHERE IS, AND WITH ALL FAULTS AND DEFECTS AND IN THEIR PRESENT CONDITION AND STATE OF REPAIR AND WITHOUT ANY WARRANTIES WHATSOEVER OF MERCHANTABILITY OR OF FITNESS FOR A PARTICULAR PURPOSE. THE BUYER ACKNOWLEDGES THAT THIS WAIVER IS CONSPICUOUS.

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ARTICLE 2.4. ESCROW.

a) DEPOSIT OF DEPOSIT. The Deposit shall be held in escrow by Escrow Agent in an interest bearing account until the Closing of the Transaction as contemplated herein and the transaction contemplated in the Real Property Asset Purchase Agreement, at which time the Deposit shall be paid to Seller, or shall be paid over to the party who is entitled to same as otherwise provided under the terms of this Agreement.

b) NOTICE. Notwithstanding the foregoing or any provisions herein regarding the disbursement of the escrowed funds, Escrow Agent shall not disburse the escrowed funds (except pursuant to this Agreement or pursuant to a writing signed by all Parties and containing instructions to Escrow Agent concerning the payment of the Deposit) unless it shall first give notice, to the Seller and Buyer, in accordance with the notice provisions of this Agreement of its intent to disburse the escrowed funds, together with a statement describing the amount of the proposed disbursement and the party to whom such disbursement is to be made. If Escrow Agent shall receive written notice of objection to the disbursement from either Buyer or Seller on or before the fifth (5th) business day after the giving of such notice of intent to disburse, it shall not disburse said funds. Escrow Agent may give such notice one or more times, as it deems warranted under the circumstances. Buyer and/or Seller can compel Escrow Agent to disperse the Deposit in accordance with this Agreement.

c) CONFLICTS. The duties of the Escrow Agent are purely ministerial in nature. Buyer and Seller acknowledge that McNamee, Lochner, Titus & Williams, P.C. is the Escrow Agent as well as counsel to the Seller. Buyer and Seller agree that the dual role of Escrow Agent, by itself alone, is not a conflict of interest, and that such role will serve to expedite the transactions contemplated by this Agreement. If a conflict arises as to the disbursement of the deposit, the Escrow Agent shall disburse the funds solely in accordance with the terms of this

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Agreement, but shall otherwise be free and unencumbered to aggressively represent the interests of its client.

d) CONFLICT RESOLUTION. If Buyer and Seller disagree as to the disposition of the Deposit or if the Deposit disposition conditions shall be unsatisfied within a period of time which Escrow Agent, in its sole discretion shall deem unreasonable, or should Escrow Agent otherwise deem it appropriate in its sole discretion, the Escrow Agent may, in its sole discretion, file an action in the Supreme Court located in Chautauqua County New York to resolve the disagreement or seek a resolution as to the distribution of the Deposit and the Escrow Agent shall have the right to deposit the Deposit with the Supreme Court located in Chautauqua County New York to permit the Buyer and the Seller to assert a claim to such monies in an interpleader action. Upon such deposit with such court, the Escrow Agent shall be relieved and discharged of all obligations and responsibilities hereunder.

e) RESIGNATION OF ESCROW AGENT. The Escrow Agent may at any time resign upon ten (10) days written notice to Seller and Buyer. If a successor

Escrow Agent is not appointed by agreement of the Buyer and the Seller within this ten (10) day period, the Escrow Agent may, but is under no obligation to, petition a court of competent jurisdiction to place the escrow monies into court and to permit the Buyer and the Seller to assert a claim to such monies in an interpleader action

f) TERMINATION. Escrow Agent's obligations hereunder, and any and all liability of Escrow Agent hereunder, shall immediately cease upon the transfer of the escrowed funds in accordance with the terms of this Agreement, or upon the resignation of Escrow Agent as set forth above.

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ARTICLE 2.5 SECURITY INTEREST. At the Closing, Buyer shall grant to Seller a Security Interest in the Assets to secure the Note. Buyer agrees to execute all documents necessary to grant to Seller such a Security Interest, including but not limited to the documents ordinarily used by Seller. Copies of such documents that are applicable to this transaction are attached hereto as Appendix E.

ARTICLE 3

CLOSING

ARTICLE 3.1. CLOSING. The Closing of the sale of the Assets contemplated by this Agreement ("Closing") shall take place as soon as possible according to the foreclosure process on personal property and when all contingency items have been released, but not later than February 13, 2002 (the "Closing Date"), at a mutually agreeable location in Chautauqua County, New York or such other earlier time and place as the Parties may mutually agree. All funds transfers to be made and documents to be delivered on the Closing Date shall be consummated at that time and place. Delivery in place and peaceful possession of the Assets shall be contemporaneous therewith. TIME IS OF THE ESSENCE.

ARTICLE 3.2. SELLER'S CLOSING DOCUMENTS. At the Closing, Seller shall deliver or cause to be delivered to Buyer in form satisfactory to Buyer's counsel a Bill of Sale and Assignment necessary to convey title and possession to the Assets into the name of the Buyer, free and clear of all liens and encumbrances and UCC-3 termination statements, terminating all liens and security interests on the Assets held by Seller by assignment or otherwise. A copy of the Bill of Sale and Assignment is attached hereto as Appendix F.

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A certificate signed by Seller's authorized officer that the representations and warranties herein are true as of the Closing Date.

ARTICLE 3.3. BUYER'S CLOSING DOCUMENTS. At the Closing, Buyer shall deliver or cause to be delivered to Seller in form satisfactory to Seller's Escrow Agent payment of the Purchase Price.

A certificate signed by Buyer's authorized officer that the representations and warranties herein are true as of the Closing Date.

ARTICLE 4

COVENANTS

ARTICLE 4.1. COVENANTS OF SELLER.

a) The Seller, to the best of its ability and to the extent such books, records and properties are available from ESSi, will afford Buyer, its advisors and representatives, and its potential debt and equity financing sources and their advisors and representatives, immediate and continuing access to such of the books, records and properties of ESSi as may be necessary in the opinion of Buyer, its counsel, accountants, environmental consultants and other representatives to conduct a satisfactory due diligence investigation of all aspects of ESSi, including, without limitation, the following areas: environmental, employee obligations, intellectual property, financial, labor agreements, commercial, operations, utilities, real estate orders and contracts.

In connection with Buyer's due diligence investigation, the Seller will permit Buyer and its counsel, financial and other advisors, accountants,

environmental consultants, potential debt

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and equity financing sources, and their representatives to conduct such investigation of ESSI's businesses, assets, liabilities, books and records as Buyer may desire, and will cooperate fully with Buyer in such investigation. Buyer will be afforded an opportunity to discuss the environmental status and condition of the PP&E with applicable government authorities. Further, the Seller will use its reasonable best efforts to cooperate with Buyer and its auditors in connection with the review of all available financial statements and tax returns of ESSI and the determination that ESSI's fixed assets and inventory balances are reasonably stated in accordance with generally accepted accounting principles.

b) Seller shall use its reasonable efforts to cause the transactions contemplated by this Agreement to be consummated, and shall use its reasonable efforts to obtain all consents and authorizations of third parties and to make all filings with and give all notices to third parties which may be necessary or reasonably required in order to effect the transactions contemplated hereby.

c) From the date of this Agreement Seller will not sell, exchange or compromise its existing claims against ESSI or its property.

ARTICLE 4.2. COVENANTS OF BUYER.

a) Buyer shall use its reasonable efforts to cause the transactions contemplated by this Agreement to be consummated, and shall use its reasonable efforts to obtain all consents and authorizations of third parties and to make all filings with and give all notices to third parties which may be necessary or reasonably required in order to effect the transactions contemplated hereby.

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b) After Closing, Buyer will preserve for a reasonable length of time all books and records included in the Assets and will give Seller the right, during normal business hours, to inspect the same and make copies thereof for all reasonable purposes.

ARTICLE 5

MATERIAL TERMS AND CONDITIONS TO TRANSACTION

In addition to the satisfactory completion of due diligence, the Closing is subject to satisfaction of various conditions, including the following unless such condition is waived by Buyer in writing if Seller, through no fault of Buyer, is unable to satisfy:

a) DEFINITIVE AGREEMENT AND RELATED DOCUMENTATION

- . The negotiation, execution and delivery of a definitive Real Property Asset Purchase Agreement in form and substance satisfactory to Buyer and its counsel and to Seller and its counsel.
- . The assignment by Seller to Buyer of all executory contracts and unexpired leases, to be identified by Buyer and listed in Appendix C to this Agreement (collectively, the "ASSUMED Contracts"). Except as otherwise expressly stated, there shall be no claims by the other parties to the Assumed Contracts against Buyer for any pre-assignment claims or defaults under said contracts.
- . Obtaining any necessary consents from the parties to such Assumed Contracts.
- . The execution and delivery of all necessary permits, and all supply and utility agreements necessary to the respective operations of the Facility on terms satisfactory to Buyer by February 12, 2002.

b) PROTECTION OF PURCHASED ASSETS

- . Seller will immediately take all necessary steps to protect the Assets from exposure to adverse weather conditions.

c) FINANCING

- . The obtaining of all necessary consents from Buyer's lenders. o There shall have been no material adverse change, in the condition of the Assets since June 29, 2001, except as set forth in Appendix G.

d) REGULATORY CONSENTS

- . Obtaining appropriate antitrust and other regulatory permits, consents and approvals and the absence of any injunction or proceeding which seeks to block the consummation of the Transaction or any related transaction.

e) ENVIRONMENTAL MATTERS

- . With respect to any existing environmental condition, on or at the Facility or in connection with the Assets, that may be reasonably expected to impose requirements for remediation in order to comply with existing environmental laws, obtaining the agreement or approval from applicable federal and state regulatory agencies (in the form of a prospective purchaser agreement, voluntary remediation agreement, or similar arrangement under applicable federal or state environmental laws and programs) as to remediation requirements with respect to such existing environmental conditions, on terms that are reasonably acceptable to Buyer. In this regard, Buyer shall have entered into an agreement with

the New York DEC regarding environmental matters, the terms of which shall be satisfactory to Buyer.

f) CORPORATE APPROVALS

- . The receipt of all required approvals of the Board of Managers of Buyer with respect to the consummation of the Transaction and related transactions.
- . The receipt of all required approvals of the Board of Directors of the Seller with respect to the consummation of the Transaction and related transactions.

g) Title and Possession of Assets

- . Seller, on to the Closing Date, shall transfer good and marketable title to and possession of the Assets, free and clear of all liens, claims and encumbrances.

ARTICLE 6

REPRESENTATIONS AND WARRANTIES

Seller hereby represents and warrants to Buyer as follows:

- . Organization and Qualification. Seller is a public benefit corporation duly organized, validly existing and in good standing under the laws of the State of New York, and has all requisite corporate power and authority to own, and lease the properties and assets it now owns, or is foreclosing on and to carry on its business as presently conducted

to execute and deliver this Agreement and the other documents and instruments to be executed and delivered by Seller

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hereunder, and to consummate the transactions contemplated hereby and thereby. Seller is duly licensed or qualified to do business and is in good standing in each jurisdiction in which the ownership, operation or lease of the Assets by it, except where the failure to be so licensed or qualified or in good standing would not have a material adverse effect on the business or financial condition of Seller taken as a whole. Seller has delivered to Buyer true and correct copies of its Amended Articles of Incorporation and Regulations, in each case as presently in effect.

. Authority Concerning this Agreement. The execution and delivery of this Agreement and the other documents and instruments to be executed and delivered by Seller hereunder, the performance by Seller of its obligations hereunder and thereunder, and the consummation by Seller of the transactions contemplated hereby and thereby have been duly authorized by the Board of Directors, of Seller. Seller will deliver to Buyer at or prior to the Closing a complete and correct copy, certified by its corporate secretary or assistant secretary, of all resolutions theretofore duly and validly adopted by its Board of Directors evidencing such authorization (which resolution will not have been modified or rescinded prior to and will be in full force and effect on the Closing Date). No other corporate act or proceeding on the part of Seller is necessary to approve the execution and delivery of this Agreement by Seller, the execution and delivery of the other documents and instruments to be executed and delivered by Seller hereunder, the performance by Seller of its obligations hereunder and thereunder and the consummation of the transactions contemplated hereby and thereby.

. Execution and Binding Effect. This Agreement has been duly and validly executed and delivered by Seller and constitutes, and the other documents and

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instruments to be executed and delivered by Seller hereunder upon their execution and delivery by Seller on or prior to the Closing Date will constitute (assuming in each case the due and valid authorization, execution and delivery thereof by the other parties thereto), valid and binding agreements of Seller, enforceable against Seller in accordance with their respective terms, except that enforceability may be limited by (a) bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights, and (b) the remedies of specific performance or injunctive and other forms of equitable relief may be subject to certain equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

. Absence of Certain Changes or Events. Except as contemplated by this Agreement or as set forth on Appendix G attached hereto, since June 29, 2001, there has not been:

- a) Any mortgage or pledge or material lien or other encumbrance which has not been extinguished by Seller's UCC sale to Buyer, upon any of the Assets, other than Permitted Liens (as set forth in Appendix E hereof);
- b) Any sale, transfer or other disposition of any assets of ESSI that would be included in this Agreement but for such sale, transfer or other disposition by Seller, and Seller has not entered into any contract or commitment material to the business or operations of ESSI, except in the course of business with Buyer.
- c) Any destruction or casualty loss, whether or not covered by insurance, adversely affecting the Assets.

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d) Seller knows of no material adverse change, in the condition of the Assets since June 29, 2001, except as set forth in Appendix G.

. Seller has the right to sell and deliver peaceful possession of the Assets to Buyer and such sale is free and clear of all liens, claims and encumbrances.

. Seller has legally enforceable debt and lien claims against ESSI as follows:

1. Note dated January 31, 2001, in the face amount of \$3,360,000.00 amount owed: \$2,523,971.39 plus interest and other charges from December 14, 2001 secured by: mortgage dated January 31, 2001, executed by Empire Specialty Steel Inc. to New York Job Development Authority, and recorded in the Chautauqua County Clerk's Office on January 31, 2001, in Book 02434 at Page 0372; security agreement in machinery, equipment furniture and fixtures dated January 31, 2001 between Empire Specialty Steel Inc. and New York Job Development Authority d\b\a Empire State Development Corp.; security agreement dated October __, 1999 between Dunkirk Specialty Steel Inc. and Atlas Steels Inc. and thereafter assigned to New York Job Development Authority d\b\a Empire State Development Corp. pursuant to a subordination agreement dated January 31, 2001.
2. Note dated October __, 1999, in the face amount of \$2,499,000.00 amount owed: \$1,990,666.60 plus interest and other charges from October 31, 2001 secured by: mortgage in the face amount of \$10,000,000.00 given by Al Tech Specialty Steel Corporation to New York State, Department of Commerce-Trust Fund 226-01, and recorded in the Chautauqua County Clerk's office on August 2, 1976, in Book 1376 of Mortgages at page 175, as corrected by correction mortgage recorded in the Chautauqua County Clerk's office on January 25, 1979, in Book 1501 of Mortgages at page 186, which was subsequently subordinated to the aforementioned mortgage dated January 31, 2001; security agreement in equipment dated October __, 1999 between Dunkirk Specialty Steel Inc. and New York Job Development Corp. d\b\a Empire State Development Corp.

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3. Note dated January 31, 2001, in the face amount of \$1,000,000.00 amount owed: \$973,395.15 plus interest and other charges from October 31, 2001 secured by: security agreement in machinery, equipment, furniture and fixtures dated January 31, 2001, between Empire Specialty Steel Inc. and New York Job Development Authority d\b\a Empire State Development Corp.

Buyer hereby represents and warrants to Seller as follows:

Organization and Qualification. Buyer is a Limited Liability Company duly organized, validly existing and in good standing under the laws of the State of Delaware, and has all requisite corporate power and authority to own, and lease the properties and assets it now owns, or is foreclosing on and to carry on its business as presently conducted to execute and deliver this Agreement and the other documents and instruments to be executed and delivered by Buyer hereunder, and to consummate the transactions contemplated hereby and thereby. Buyer is duly licensed or qualified to do business and is in good standing in each jurisdiction in which the ownership, operation or lease of the Assets by it or the conduct of the business of Dunkirk requires such licensing or qualification, except where the failure to be so licensed or qualified or in good standing would not have a material adverse effect on the business or financial condition of Buyer taken as a whole. Buyer has delivered to Buyer true and correct copies of its Articles of Organization and Operating Agreement, in each case as presently in effect.

Authority Concerning this Agreement. The execution and delivery of this Agreement and the other documents and instruments to be executed and

delivered by Buyer hereunder, the performance by Buyer of its obligations hereunder and thereunder, and the consummation by Buyer of the transactions contemplated hereby and thereby

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have been duly authorized by the Board of Managers, of Buyer. Buyer will deliver to Seller at or prior to the Closing a complete and correct copy, certified by its corporate secretary or assistant secretary, of all resolutions theretofore duly and validly adopted by its Board of Managers evidencing such authorization (which resolution will not have been modified or rescinded prior to and will be in full force and effect on the Closing Date). No other corporate act or proceeding on the part of Buyer is necessary to approve the execution and delivery of this Agreement by Buyer, the execution and delivery of the other documents and instruments to be executed and delivered by Buyer hereunder, the performance by Buyer of its obligations hereunder and thereunder and the consummation of the transactions contemplated hereby and thereby.

Execution and Binding Effect. This Agreement has been duly and validly executed and delivered by Buyer and constitutes, and the other documents and instruments to be executed and delivered by Buyer hereunder upon their execution and delivery by Buyer on or prior to the Closing Date will constitute (assuming in each case the due and valid authorization, execution and delivery thereof by the other parties thereto), valid and binding agreements of Buyer, enforceable against Buyer in accordance with their respective terms, except that enforceability may be limited by (a) bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights, and (b) the remedies of specific performance or injunctive and other forms of equitable relief may be subject to certain equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

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ARTICLE 7

CONDITIONS PRECEDENT

ARTICLE 7.1. CONDITIONS PRECEDENT TO OBLIGATIONS OF SELLER. Subject to Article 9.1 of this Agreement, Seller's obligations hereunder are contingent upon the fulfillment of the following conditions:

- a) Buyer shall not be in default of any of its other agreements with Seller and shall have performed in all material respects its obligations hereunder to be performed on or before the Closing Date.
- b) The Seller shall have signed an Agreement (acceptable to Seller) with the New York State Department of Environmental Conservation regarding the environmental condition of the Facility and release from liabilities relating thereto.
- c) Satisfactory completion of Article 5 of the Agreement applicable to Seller.
- d) Seller to receive Representations and Warranties from Buyer as to the authority to buy the Property.

ARTICLE 7.2. CONDITIONS PRECEDENT TO OBLIGATIONS OF BUYER. Subject to Article 9.1 of this Agreement, Buyer's obligations hereunder (unless waived by Buyer in writing) are contingent upon the fulfillment of the following conditions:

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- a) Seller shall not be in default of any of its other agreements with Buyer and shall have performed in all material respects its obligations hereunder to be performed on or before the Closing Date.
- b) Buyer shall have performed its due diligence, as discussed in Article 4.1, no later than 1 day prior to the Closing

date and Buyer has not terminated this Agreement as a result thereof.

- c) The Closing shall have occurred not later than February 13, 2002.
- d) The Buyer shall have signed an Agreement (acceptable to Buyer) with the New York State Department of Environmental Conservation regarding the environmental condition of the Facility and release from liabilities relating thereto.
- e) The Buyer shall have received from the New York State Department of Environmental Conservation and others all applicable permits to operate the Facility.
- f) Seller and Buyer shall have entered into a Real Property Asset Purchase Agreement for the real property with Buyer and such agreements shall be in full force and affect.
- g) The conditions contained in Article 5 and 8 applicable to Buyer.

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ARTICLE 8

RISK OF LOSS; INSURANCE

ARTICLE 8.1 The risk of loss to any of the Assets shall remain with Seller until Seller verifies receipt of the portion of the Purchase Price to be paid at Closing, and shall then pass to Buyer and from that time on Buyer shall be entitled to the proceeds of any insurance obtained by the Buyer and covering the Assets upon loss due to an insured event or occurrence. In the event of any material destruction of, or loss or damage to all or any material portion of the Assets by any casualty prior to the Closing, Buyer may, at its option, either (i) terminate this Agreement or (ii) waive the foregoing right of termination and notify Seller of its election to hold the Closing as provided herein. If Buyer shall so notify Seller, any proceeds of insurance shall be paid to Seller and Seller, to the extent of insurance proceeds received by Seller, plus any coinsurance penalty stipulated in the insurance policy promptly, but in any event not later than thirty (30) days after the casualty, shall replace or repair that portion of the Assets so damaged such that the Assets are in as good condition and equivalent value and fit for Buyer's purposes as were the Assets immediately prior to the casualty, to Buyer's reasonable satisfaction, and the Purchase Price payable hereunder as to the affected Assets shall not be adjusted. In the event of any non-material destruction of, or damage or other casualty to, any of the Assets, or any part thereof, any proceeds of insurance shall be paid to the Seller, and the Purchase Price payable hereunder as to the affected Assets shall be appropriately adjusted on the Closing Date.

ARTICLE 9

TERMINATION

ARTICLE 9.1 TERMINATION EVENTS. This Agreement may be terminated by:

a) Buyer, upon written notice to Seller prior to the Closing Date, if any of the conditions in Article 7.2 have not been satisfied as of the Closing Date or if satisfaction of such a condition is or becomes impossible (other than through the failure of Buyer to comply with its obligations under this Agreement) and Buyer has not waived such condition on or before the Closing Date; or

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b) Seller, upon written notice to Buyer prior to the Closing Date, if any of the conditions in Article 7.1 have not been satisfied as of the Closing Date or if satisfaction of such a condition is or becomes impossible (other than through the failure of Seller to comply with its obligations under this Agreement) and Seller has not waived such condition on or before the Closing Date; or

c) By Buyer if no later than 1 day prior to the Closing date the results of

the Due Diligence conducted by the Buyer are not satisfactory.

d) Mutual consent of Buyer and Seller.

ARTICLE 10

MISCELLANEOUS

ARTICLE 10.1 CONFIDENTIALITY. This Agreement and any and all discussions and negotiations related hereto shall be treated as confidential and proprietary information by each Party, and shall not be disclosed to any third party, except those parties with a need to know such information to assist such Party in completing its obligations hereunder, and each Party shall use at least the same degree of care in protecting such confidential information as it uses in protecting its own proprietary and confidential information. This obligation of confidentiality shall terminate with respect to the existence of this Agreement on the date upon which the Parties jointly and publicly announce the signing of this Agreement. Any such public announcement shall be mutually agreed to by Buyer and Seller prior to dissemination.

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ARTICLE 10.2 EXPENSES AND COMMISSIONS. Seller and Buyer agree to bear their own legal, accounting and other expenses in connection with the preparation and consummation of this Agreement and the transactions contemplated hereby. In the event of a breach of this Agreement, the prevailing party in a lawsuit or other dispute resolution procedure shall be entitled to recover its reasonable attorney's fee, costs and expenses from the other party.

ARTICLE 10.3 BENEFIT OF AGREEMENT; ASSIGNMENT. The terms of this Agreement shall be binding upon and inure to the benefit of the heirs, successors and assigns of the Parties hereto. No Party shall assign its interest under this Agreement, by operation of law or otherwise, without the prior written consent of the other Parties.

ARTICLE 10.4 NOTICES. All notices, demands or other communications given under this Agreement shall be in writing, and shall be sent by certified or registered mail, postage prepaid, return receipt requested or by personal delivery or by overnight courier and addressed as follows: if to Buyer at: Dunkirk Acquisition LLC, C/O Universal Stainless & Alloy Products, Inc., General Counsel, 600 Mayer Street, Bridgeville, Pennsylvania 15017, with a copy to Buyer's counsel at William J. Brown, Esq., 3400 HSBC Center, Buffalo, New York 14203; if to Seller at Empire State Development Corporation, Garry Ryan, 633 Third Avenue, New York, New York 10017 with a copy to Seller's counsel at McNamee, Lochner, Titus & Williams, P.C., Attn: Kevin Laurilliard, Esq., 75 State Street, P.O. Box 459, Albany, New York 12201-0459; or to such other address as may be designated in writing, which notice of change of address shall be given in the same manner. A notice shall be deemed delivered (a) three (3) business days after sending, if sent by certified or registered mail, (b) upon delivery, if personally delivered, or (c) one (1) business day after sending if sent by overnight courier.

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Notices relating to Article 9, Termination may be made by facsimile, e-mail or in person and are effective immediately upon sending such notice.

ARTICLE 10.5 SEVERABILITY. All agreements and covenants herein are severable. In the event that any provision of this Agreement should be held to be unenforceable, the validity and enforceability of the remaining provisions hereof shall not be affected thereby.

ARTICLE 10.6 GOVERNING LAW; JURISDICTION. This Agreement shall be enforced, construed and performed in accordance with the laws of the State of New York as applied to contracts made and fully performed in such state, without any effect to the choice of law principles thereof. Seller and Buyer hereby agree that any suit, action or proceeding arising out of or based upon any claim under this Agreement shall be instituted in the Supreme Court located in Chautauqua County, New York, and the Seller and Buyer waive any objection which it may have to the laying of venue of such suit, action or proceeding therein.

ARTICLE 10.7 COUNTERPARTS. This Agreement may be executed in any number of counterparts and by the different parties hereto on separate counterparts (by

facsimile or otherwise), each of which, when so executed and delivered, shall be an original, but all the counterparts shall together constitute one and the same instrument.

ARTICLE 10.8 ENTIRE AGREEMENT. This Agreement, together with agreements executed contemporaneously herewith, constitutes the entire agreement among the Parties in respect of the transactions contemplated hereby and supersedes all prior agreements, arrangements and undertakings relating to the subject matter hereof. No covenants or conditions not expressed in this Agreement or in the agreements executed contemporaneously herewith shall affect or be

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effected to interpret, change or restrict this Agreement. This Agreement may be amended only by a writing specifically amending the Agreement and signed by all of the Parties hereto.

ARTICLE 10.9 MODIFICATION; WAIVER. This Agreement may not be modified, terminated, rescinded, discharged or canceled, nor may any provision be waived without the prior written consent of the Party or Parties against whom such modification, termination, rescission, discharge, cancellation or waiver is or may be asserted. No delay or omission by any Party to exercise any right or power shall impair any such right or power or be construed to be a waiver thereof. A waiver of any provision of this Agreement on any occasion shall not constitute a waiver of such provision on any succeeding occasion.

ARTICLE 10.10 CUMULATIVE REMEDIES. Unless stated otherwise, all remedies available under this Agreement shall be cumulative and in addition to and not in lieu of any other remedies available at law, in equity or otherwise. The use of any one right or remedy by any Party shall not preclude or waive its right to use any or all other remedies.

ARTICLE 10.11 HEADINGS. The section headings and subheadings contained in this Agreement, Exhibits, and Schedules are for convenient reference only, and shall not in any way affect the meaning or interpretation of this Agreement.

ARTICLE 10.12. STRICT CONSTRUCTION. The parties agree that this Agreement was a result of their joint representation and negotiations. IN THE EVENT THAT ANY PARTY TO THIS AGREEMENT IS NOT REPRESENTED BY AN ATTORNEY, THEY ARE HEREBY ADVISED THAT THEY SHOULD CONSULT WITH AN ATTORNEY AND THAT THEY HAVE THE RIGHT TO NEGOTIATE THE TERMS OF THIS AGREEMENT. THIS CONSTITUTES A VALID AND BINDING AGREEMENT. The parties hereby agree that no

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provision shall be construed against a particular party to this Agreement on the basis that this Agreement or any particular provision in this Agreement was proposed, negotiated or written by such party. This rule of construction is important so that none of the parties are discouraged from drafting this Agreement.

ARTICLE 10.13 GUARANTEE. All of Buyer's obligations under this Agreement are hereby unconditionally and irrevocably guaranteed by Universal Stainless & Alloy Products, Inc. upon the conveyance to Buyer of the Premises pursuant to and as defined in the Real Property Asset Purchase Agreement of even date herewith.

ARTICLE 10.14 INDEMNIFICATION. Seller shall indemnify and hold each of Universal Stainless & Alloy Products, Inc. and Dunkirk Acquisition, LLC and their respective directors, managers, officers, employees and related parties harmless from, and against, any and all liabilities, obligations, losses, damages, penalties, claims, actions, judgments, suits, costs, expenses, and disbursements of any kind or nature whatsoever (including without limitation, counsel and special counsel fees and disbursements in connection with any litigation, investigation, hearing or other proceeding) (collectively, "Liabilities") in connection with, or with respect or in any way related to, or arising directly or indirectly from this Agreement or Transaction related to Seller's failure to dispose of the Assets according to law and in a commercially reasonable manner or to sell, transfer, convey and assign title and interests in and good and marketable title, free and clear of liabilities, obligations, security interests, liens (including tax liens), mortgages, leases or leasehold interests, encumbrances and rights of others of any kind whatsoever (except as permitted in Article 2.5 herein). This indemnification shall survive the Closing

and the termination of this Agreement.

* * *

[Note: In accordance with Item 601(b) (2) of Regulation S-K, the registrant has omitted the appendices to this Agreement referenced herein. The registrant hereby agrees to furnish supplementally a copy of any omitted appendix to the Commission upon request.]

IN WITNESS WHEREOF, the Parties have executed, or caused to be executed, this Agreement in a manner sufficient to bind them as of the day and year first above written.

STATE OF NEW YORK
COUNTY OF _____

NEW YORK JOB
DEVELOPMENT AUTHORITY
d/b/a EMPIRE STATE
DEVELOPMENT CORPORATION

On this the _____ day of _____, 20____,

By: /s/ Garry P. Ryan

Before me _____, the undersigned officer, personally appeared, known to me (or satisfactorily proven) to be the person whose name is subscribed to the within instrument, and acknowledge that he/she executed the same for the purposes therein contained.

Its: Controller

In witness whereof, I hereunto set my hand and Official seals.

Notary Public

DUNKIRK ACQUISITION, LLC

COMMONWEALTH OF PENNSYLVANIA
COUNTY OF _____

By: /s/ Paul A. McGrath

On this the _____ day of _____, 20____,

Its: Executive Officer

Before me _____, the undersigned officer, personally appeared, known to me (or satisfactorily proven) to be the person whose name is subscribed to the within instrument, and acknowledge that he/she executed the same for the purposes therein contained.

In witness whereof, I hereunto set my hand and Official seals.

Notary Public

COMMONWEALTH OF PENNSYLVANIA
COUNTY OF _____

UNIVERSAL STAINLESS & ALLOY
PRODUCTS, INC.
Guarantor pursuant to Article 10.13

On this the _____ day of _____, 20____,

By: /s/ C.M. McAninch

Before me _____, the undersigned officer, personally appeared, known to me (or satisfactorily proven) to be the person whose name is subscribed to the within instrument, and acknowledge that he/she executed the same for the purposes therein contained.

Its: President and Chief Executive Officer

In witness whereof, I hereunto set my hand and Official seals.

Notary Public

STATE OF NEW YORK
COUNTY OF _____

MCNAMEE, LOCHNER, TITUS & WILLIAMS, P.C.
ESCROW AGENT

On this the _____ day of _____, 20____,

By: /s/ Kevin Laurilliard

Before me _____, the undersigned officer, personally appeared, known to me (or satisfactorily proven) to be the person whose name is subscribed to the within instrument, and acknowledge that he/she executed the same for the purposes therein contained.

Its: Principal

In witness whereof, I hereunto set my hand and Official seals.

Notary Public

REAL PROPERTY
ASSET PURCHASE AGREEMENT

THIS REAL PROPERTY ASSET PURCHASE AGREEMENT, made and entered into as of February 8, 2002, by and among NEW YORK JOB DEVELOPMENT AUTHORITY, d/b/a EMPIRE STATE DEVELOPMENT CORPORATION (the "Seller"), and DUNKIRK ACQUISITION, LLC (the "Buyer") provides:

RECITALS

WHEREAS, Seller is the secured creditor of and has liens on certain assets owned by EMPIRE SPECIALTY STEEL, INC. ("ESSI") located in Chautauqua County, New York; and

WHEREAS, Seller desires to sell to Buyer substantially all of ESSI's real property which serves as collateral for Seller, and Buyer desires to purchase such real property all on the terms and conditions set forth below ("Transaction"); and

NOW THEREFORE, in consideration of the promises and of the mutual agreements and covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto, each intending to be legally bound, do hereby agree as follows:

ARTICLE 1

DEFINITIONS

INTENTIONALLY OMITTED

ARTICLE 2

PURCHASE AND SALE

ARTICLE 2.1 AGREEMENT TO PURCHASE AND SELL. Subject to and in accordance with the terms and conditions of this Agreement, at Closing, Buyer agrees to purchase, and Seller agrees to sell, transfer, convey and assign all of its rights, title and interests in and good and marketable title, free and clear of liabilities, obligations, security interests, liens (including tax liens), mortgages, leases or leasehold interests, encumbrances and rights of others of any kind whatsoever (except as permitted in Article 2.4 below) to the following assets (collectively, the "Assets"):

REAL PROPERTY, all of the mortgaged premises, as described more specifically in the attached Property Description (EXHIBIT A) and shown on the attached Survey (EXHIBIT B) that are being foreclosed upon by the Lessor in a mortgage foreclosure action pending in Chautauqua County under index number 2001-1407, including but not limited to buildings, structures, improvements, fixtures, leasehold interests located thereon that have been mortgaged as collateral to Seller (collectively called the "Premises" or the "Property"). A copy of the complaint in the foreclosure action attached hereto as EXHIBIT C ("Foreclosure Action").

ARTICLE 2.2 PURCHASE PRICE.

- a) Buyer agrees to pay an aggregate amount to Seller of One Million, One Hundred Thousand and 00/100 Dollars (\$1,100,000.00) pursuant to the payment schedule outlined in this Agreement (the "Purchase Price"). All funds payable under this Article shall be paid by means of a wire transfer to an account designated by the recipient, unless otherwise mutually agreed to by Buyer and Seller.

b) MANNER OF PAYMENT.

(i) The sum of One Million, One Hundred Thousand and no/100 Dollars (\$1,100,000.00) consisting of the entire Purchase Price shall be paid to Seller at Closing, as set forth herein. A promissory note (the "Note") in the form of the Attached EXHIBIT D, in the principal amount of One Million, One Hundred Thousand and no/100 Dollars (\$1,100,000.00), which Note shall bear interest at a rate of five percent per annum. No payments or interest shall accrue until the first anniversary of the Closing Date (as defined below). Thereafter, principal and interest shall be paid in one hundred and eight consecutive equal monthly installments beginning on the first day of the month following the first anniversary of the Closing Date.

ARTICLE 2.3 CLOSING ADJUSTMENTS. Buyer shall pay the Purchase Price at Closing, as adjusted as follows:

a) PRORATIONS.

(i) At Closing, all customary adjustments with respect to the Assets, and applicable to the period of time before and after Closing, shall be allocated between Seller and Buyer as of the Closing Date. To the extent applicable, such amounts shall be shown on the Closing Balance Sheet (as hereinafter defined), and shall include, without limitation, current and prepaid real estate taxes, water and sewage charges and other assessments against the Assets; such amounts owed by Buyer and Seller shall be netted and such net amount shall be the Purchase Price adjustment at Closing.

(ii) Each party shall pay its own attorney's fees. Seller shall be responsible for the payment of real property taxes, assessments and other charges against the Assets which have accrued and relate to the period prior to the Closing Date or resulting from the transaction; such amounts owed by Seller shall be netted and such net amount shall be a Purchase Price adjustment at Closing.

b) CLOSING BALANCE SHEET. Buyer and Seller shall prepare a closing balance sheet (the "Closing Balance Sheet") showing the adjustments to the Purchase Price. Any dispute as to the Closing Balance Sheet shall be resolved by a Court.

ARTICLE 2.3. EXCLUDED ASSETS AND LIABILITIES. The list of Assets described in this Agreement as being purchased is exclusive and the Parties agree that all remaining assets of ESSI and/or Seller are not to be purchased pursuant to this Agreement and shall be Excluded Assets. It is further agreed that in acquiring the Assets, Buyer is not assuming or undertaking to assume and shall have no responsibility for any liabilities whether fixed or contingent, past, present or future, or direct or indirect, arising out of or in connection with the Assets, or any other acts or omissions of ESSI and/or Seller in connection therewith prior to the Closing (collectively referred to as the "Excluded Liabilities"), including without limitation, (i) any claim arising out of or in connection with the failure by ESSI or Seller to comply with any applicable government regulation; (ii) federal, state or local tax liabilities (including any depreciation, investment tax credit recapture and rollback taxes); (iii) any claim arising out of or in connection with any Employee Plans of ESSI or Seller or with the employment by ESSI or Seller of any of its employees or any past employees or with the termination of any current employees; (iv) any claim

resulting from defective products or workmanship (including any recalls or returns with respect thereto) related to goods or services invoiced prior to Closing; (v) any claim arising from environmental liabilities, and (vi) any claim under any provision of the New York Uniform Commercial Code or bulk sales law.

LIMITATIONS ON WARRANTIES. EXCEPT FOR THOSE WARRANTIES EXPRESSLY SET FORTH IN THIS AGREEMENT, SELLER EXPRESSLY DISCLAIMS AND NEGATES AND BUYER HEREBY WAIVES, ALL OTHER REPRESENTATIONS AND WARRANTIES, EXPRESS, IMPLIED, STATUTORY OR OTHERWISE. AS EXAMPLES AND FOR THE AVOIDANCE OF DOUBT, BUT WITHOUT LIMITATION OF THE FOREGOING, THE ASSETS SHALL BE CONVEYED PURSUANT HERETO WITHOUT ANY WARRANTY OR REPRESENTATION WHETHER EXPRESS, IMPLIED, STATUTORY OR OTHERWISE, WITH RESPECT TO THE QUANTITY, PROFITABILITY, COLLECTIBILITY, QUALITY, CONDITION, SIZE, WEIGHT, SERVICEABILITY, CONFORMITY TO SAMPLES OR ANY OTHER ASPECT OF THE FIXTURES, EQUIPMENT OR OTHER PERSONAL PROPERTY INCLUDED AMONG THE ASSETS, ALL OF WHICH SHALL BE CONVEYED TO THE BUYER AS IS, WHERE IS, AND WITH ALL FAULTS AND DEFECTS AND IN THEIR PRESENT CONDITION AND STATE OF REPAIR AND WITHOUT ANY WARRANTIES WHATSOEVER OF MERCHANTABILITY OR OF FITNESS FOR A PARTICULAR PURPOSE. THE BUYER ACKNOWLEDGES THAT THIS WAIVER IS CONSPICUOUS.

ARTICLE 2.4 SECURITY INTEREST. At the Closing, Buyer shall grant to Seller a lien on the Assets to the extent of any unpaid balance on the Note. Buyer agrees to execute all documents

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necessary to grant to Seller such a lien, including but not limited to the documents ordinarily used by Seller. Copies of such documents that are applicable to this transaction are attached hereto as EXHIBIT E.

ARTICLE 3

CLOSING

ARTICLE 3.1. CLOSING. The Closing of the sale of the Assets contemplated by this Agreement ("Closing") shall take place as soon as possible according to the foreclosure process on real property and once contingency items are resolved, but not later than February 14, 2002 (the "Closing Date") or such other earlier time and place as the Parties may mutually agree. All funds transfers to be made and documents to be delivered on the Closing Date shall be consummated at that time and place. TIME IS OF THE ESSENCE.

ARTICLE 3.2. SELLER'S CLOSING DOCUMENTS. At the Closing, Seller shall deliver or cause to be delivered to Buyer in form satisfactory to Buyer's counsel documents necessary to convey good and marketable title to the Assets into the name of the Buyer, free and clear of all liens and encumbrances, including a Bargain and Sale deed with covenant against Grantor's acts. Notwithstanding the foregoing, Buyer acknowledges that there are open mortgage liens in favor of Korea First Bank and the parties agree that the existence of these liens do not constitute a defect in marketable title. Buyer agrees that Seller and Buyer shall cooperate, after the Closing Date, to discharge such liens of record. This provision shall apply, where applicable, throughout this Agreement and shall survive the Closing and the termination of this Agreement. A certificate signed by Seller's authorized officer that the representations and warranties herein are true as of the Closing Date.

ARTICLE 3.3. BUYER'S CLOSING DOCUMENTS. At the Closing, Buyer shall deliver or cause to be delivered to Seller in form satisfactory to Seller's counsel its Note for payment of Purchase Price, including all prorations and adjustments thereto, a Mortgage, a Security Agreement, a properly executed financing statement and a guarantee of payment. Copies of such documents are attached hereto

A certificate signed by Buyer's authorized officer that the representations and warranties herein are true as of the Closing Date.

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ARTICLE 4

COVENANTS

ARTICLE 4.1. COVENANTS OF SELLER.

a) The Seller, to the best of its ability and to the extent such books,

records and properties are available from ESSi, will afford Buyer, its advisors and representatives, and its potential debt and equity financing sources and their advisors and representatives, immediate and continuing access to such of the books, records and properties of ESSi as may be necessary in the opinion of Buyer, its counsel, accountants, environmental consultants and other representatives to conduct a satisfactory due diligence investigation of all aspects of ESSi, including, without limitation, the following areas: environmental, employee obligations, intellectual property, financial, labor agreements, commercial, operations, utilities, real estate orders and contracts.

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In connection with Buyer's due diligence investigation, the Seller will permit Buyer and its counsel, financial and other advisors, accountants, environmental consultants, potential debt and equity financing sources, and their representatives to conduct such investigation of ESSi's businesses, assets, liabilities, books and records as Buyer may desire, and will cooperate fully with Buyer in such investigation. Buyer will be afforded an opportunity to discuss the environmental status and condition of the Premises with applicable government authorities.

b) Seller shall cause the Transaction contemplated by this Agreement to be consummated, including without limitation, the bidding of up to the Seller's upset price in the foreclosure action if necessary to acquire the title to the Assets at any foreclosure sale, and shall use its reasonable efforts to obtain all consents and authorizations of third parties and to make all filings with and give all notices to third parties which may be necessary or reasonably required in order to effect the transactions contemplated hereby.

c) From the date of this Agreement Seller will not sell, exchange, or compromise its existing claims against ESSi or its property.

ARTICLE 4.2. COVENANTS OF BUYER.

a) Buyer shall use its reasonable efforts to cause the transactions contemplated by this Agreement to be consummated, and shall use its reasonable efforts to obtain all consents and authorizations of third parties and to make all filings with and give all notices to third parties which may be necessary or reasonably required in order to effect the transactions contemplated hereby.

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b) After Closing, Buyer will preserve for a reasonable length of time all books and records included in the Assets and will give Seller the right, during normal business hours, to inspect the same and make copies thereof for all reasonable purposes.

ARTICLE 5

MATERIAL TERMS AND CONDITIONS TO TRANSACTION

In addition to the satisfactory completion of due diligence, the Closing is subject to satisfaction of various conditions, including the following unless such condition is waived by Buyer in writing if Seller, through no fault of Buyer, is unable to satisfy:

a) DEFINITIVE AGREEMENT AND RELATED DOCUMENTATION

- . Transfer of clean and unencumbered title to all personal property of ESSi, as described in the Personal Property Asset Purchase Agreement between the parties, to Buyer.
- . The negotiation, execution and delivery of all necessary permits, and all supply and utility agreements necessary to the respective operations of Empire on terms satisfactory to Buyer no later than February 12, 2002.

b) PROTECTION OF ASSETS

- . Seller will immediately take all necessary steps to protect the Assets from exposure to adverse weather conditions.

- . There shall have been no material adverse change, in the condition of the Assets since June 29, 2001, except as set forth in Exhibit F.

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c) REGULATORY CONSENTS

- . Obtaining appropriate antitrust and other regulatory permits, consents and approvals and the absence of any injunction or proceeding which seeks to block the consummation of the Transaction or any related transaction.

d) ENVIRONMENTAL MATTERS

- . With respect to any existing environmental condition on or at the Premises that may be reasonably expected to impose requirements for remediation in order to comply with existing environmental laws, obtaining the agreement or approval from applicable federal and state regulatory agencies (in the form of a prospective purchaser agreement, voluntary remediation agreement, or similar arrangement under applicable federal or state environmental laws and programs) as to remediation requirements with respect to such existing environmental conditions, on terms that are reasonably acceptable to Buyer and to Seller. In this regard, Buyer shall have entered into an agreement with the New York DEC regarding environmental matters, the terms of which shall be satisfactory to Buyer. In this regard, Seller shall have entered into an agreement with the New York DEC regarding environmental matters, the terms of which shall be satisfactory to Seller.

e) CORPORATE APPROVALS

- . The receipt of all required approvals of the Board of Managers of Buyer with respect to the consummation of the Transaction and related transactions.

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- . The receipt of all required approvals of the Board of Directors of the Seller with respect to the consummation of the Transaction and related transactions.

f) TITLE AND POSSESSION OF PREMISES

- . Seller, prior to or on the Closing Date, shall have obtained good and marketable title to and possession of the Assets free and clear of all liens, claims and encumbrances.

ARTICLE 6

REPRESENTATIONS AND WARRANTIES

ARTICLE 6.1 REPRESENTATIONS AND WARRANTIES OF SELLER. Seller hereby represents and warrants to Buyer as follows:

- . Organization and Qualification. Seller is a public benefit corporation duly organized, validly existing and in good standing under the laws of the State of New York, and has all requisite corporate power and authority to own, and lease the properties and assets it now owns, or is foreclosing on and to carry on its business as presently conducted to execute and deliver this Agreement and the other documents and instruments to be executed and delivered by Seller hereunder, and to consummate the transactions contemplated hereby and thereby. Seller is duly licensed or qualified to do business and is in good standing in each jurisdiction in which the ownership, operation or lease of the Assets by it, except where the failure

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to be so licensed or qualified or in good standing would not have

a material adverse effect on the business or financial condition of Seller taken as a whole. Seller has delivered to Buyer true and correct copies of its Amended Articles of Incorporation and Regulations, in each case as presently in effect.

- . Authority Concerning this Agreement. The execution and delivery of this Agreement and the other documents and instruments to be executed and delivered by Seller hereunder, the performance by Seller of its obligations hereunder and thereunder, and the consummation by Seller of the transactions contemplated hereby and thereby have been duly authorized by the Board of Directors, of Seller. Seller will deliver to Buyer at or prior to the Closing a complete and correct copy, certified by its corporate secretary or assistant secretary, of all resolutions theretofore duly and validly adopted by its Board of Directors evidencing such authorization (which resolution will not have been modified or rescinded prior to and will be in full force and effect on the Closing Date). No other corporate act or proceeding on the part of Seller is necessary to approve the execution and delivery of this Agreement by Seller, the execution and delivery of the other documents and instruments to be executed and delivered by Seller hereunder, the performance by Seller of its obligations hereunder and thereunder and the consummation of the transactions contemplated hereby and thereby.
- . Execution and Binding Effect. This Agreement has been duly and validly executed and delivered by Seller and constitutes, and the other documents

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and instruments to be executed and delivered by Seller hereunder upon their execution and delivery by Seller on or prior to the Closing Date will constitute (assuming in each case the due and valid authorization, execution and delivery thereof by the other parties thereto), valid and binding agreements of Seller, enforceable against Seller in accordance with their respective terms, except that enforceability may be limited by (a) bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights, and (b) the remedies of specific performance or injunctive and other forms of equitable relief may be subject to certain equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

- . Absence of Certain Changes or Events. Except as contemplated by this Agreement or as set forth on EXHIBIT F attached hereto, since June 29, 2001, there has not been:
 - a. Any mortgage or pledge or material lien or other encumbrance which has not been foreclosed on in Seller's mortgage foreclosure action, upon any of the Assets, other than Permitted Liens (as defined in EXHIBIT G hereof);
 - b. Any sale, transfer or other disposition of any assets of ESSI that would be included in this Agreement but for such sale, transfer or other disposition by Seller, and Seller has not entered into any contract or commitment material to the business or operations of ESSI, except in the ordinary course of business with Buyer.

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- . Any destruction or casualty loss, whether or not covered by insurance, adversely affecting the Assets.
- . Seller, prior to the Closing Date, has obtained good and marketable title to the Assets free and clear of all liens, claims and encumbrances.
- . Seller has legally enforceable debt and lien claims against ESSI as follows:

1. Note dated January 31, 2001, in the face amount of \$3,360,000.00 amount owed: \$2,523,971.39 plus interest and other charges from December 14, 2001 secured by: mortgage dated January 31, 2001, executed by Empire Specialty Steel Inc. to New York Job Development Authority, and recorded in the Chautauqua County Clerk's Office on January 31, 2001, in Book 02434 at Page 0372; security agreement in machinery, equipment furniture and fixtures dated January 31, 2001 between Empire Specialty Steel Inc. and New York Job Development Authority d\b\ a Empire State Development Corp.; security agreement dated October __, 1999 between Dunkirk Specialty Steel Inc. and Atlas Steels Inc. and thereafter assigned to New York Job Development Authority d\b\ a Empire State Development Corp. pursuant to a subordination agreement dated January 31, 2001
2. Note dated October __, 1999, in the face amount of \$2,499,000.00 amount owed: \$1,990,666.60 plus interest and other charges from October 31, 2001 secured by: mortgage in the face amount of \$10,000,000.00 given by Al Tech Specialty Steel Corporation to New York State, Department of Commerce-Trust Fund 226-01, and recorded in the Chautauqua County Clerk's office on August 2, 1976, in Book 1376 of Mortgages at page 175, as corrected by correction mortgage recorded in the Chautauqua County Clerk's office on January 25, 1979, in Book 1501 of Mortgages at page 186, which was subsequently subordinated to the aforementioned mortgage dated January 31, 2001; security agreement in equipment dated October __, 1999 between Dunkirk Specialty Steel Inc. and New York Job Development Corp. d\b\ a Empire State Development Corp.

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3. Note dated January 31, 2001, in the face amount of \$1,000,000.00 amount owed: \$973,395.15 plus interest and other charges from October 31, 2001 secured by: security agreement in machinery, equipment, furniture and fixtures dated January 31, 2001, between Empire Specialty Steel Inc. and New York Job Development Authority d\b\ a Empire State Development Corp

ARTICLE 6.2 REPRESENTATIONS AND WARRANTIES OF BUYER. Buyer hereby represents and warrants to Seller as follows:

- . Organization and Qualification. Buyer is a Limited Liability Company duly organized, validly existing and in good standing under the laws of the State of Delaware, and has all requisite corporate power and authority to own, and lease the properties and assets it now owns, or is foreclosing on and to carry on its business as presently conducted to execute and deliver this Agreement and the other documents and instruments to be executed and delivered by Buyer hereunder, and to consummate the transactions contemplated hereby and thereby. Buyer is duly licensed or qualified to do business and is in good standing in each jurisdiction in which the ownership, operation or lease of the Assets by it or the conduct of the business of Dunkirk requires such licensing or qualification, except where the failure to be so licensed or qualified or in good standing would not have a material adverse effect on the business or financial condition of Buyer taken as a whole. Buyer has delivered to Buyer true and correct copies of its Articles of Organization and Operating Agreement, in each case as presently in effect.

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- . Authority Concerning this Agreement. The execution and delivery of this Agreement and the other documents and instruments to be executed and delivered by Buyer hereunder, the performance by Buyer of its obligations hereunder and thereunder, and the consummation by Buyer of the transactions contemplated hereby and thereby have been duly authorized by the Board of Managers, of Buyer. Buyer will deliver to Seller at or prior to the Closing a

complete and correct copy, certified by its corporate secretary or assistant secretary, of all resolutions theretofore duly and validly adopted by its Board of Managers evidencing such authorization (which resolution will not have been modified or rescinded prior to and will be in full force and effect on the Closing Date). No other corporate act or proceeding on the part of Buyer is necessary to approve the execution and delivery of this Agreement by Buyer, the execution and delivery of the other documents and instruments to be executed and delivered by Buyer hereunder, the performance by Buyer of its obligations hereunder and thereunder and the consummation of the transactions contemplated hereby and thereby.

. Execution and Binding Effect. This Agreement has been duly and validly executed and delivered by Buyer and constitutes, and the other documents and instruments to be executed and delivered by Buyer hereunder upon their execution and delivery by Buyer on or prior to the Closing Date will constitute (assuming in each case the due and valid authorization, execution and delivery thereof by the other parties thereto), valid and binding agreements of Buyer, enforceable against Buyer in accordance

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with their respective terms, except that enforceability may be limited by (a) bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights, and (b) the remedies of specific performance or injunctive and other forms of equitable relief may be subject to certain equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

ARTICLE 7

CONDITIONS PRECEDENT

ARTICLE 7.1. CONDITIONS PRECEDENT TO OBLIGATIONS OF SELLER. Seller's obligations hereunder are contingent upon the fulfillment of the following conditions :

. Buyer shall not be in default of any of its other Agreements with Seller and shall have performed in all material respects its obligations hereunder to be performed on or before the Closing Date.

a. The Seller shall have signed an Agreement (acceptable to Seller) with the New York State Department of Environmental Conservation regarding the environmental condition of the property and release from liabilities.

b. Satisfactory completion of Article 5 of the Agreement applicable to Seller.

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c. Seller to receive Representations and Warranties from Buyer as to the authority to buy the Property.

ARTICLE 7.2. CONDITIONS PRECEDENT TO OBLIGATIONS OF BUYER. Buyer's obligations hereunder unless waived by Buyer in writing are contingent upon the fulfillment of the following conditions:

a) Seller shall not be in default of any of its other Agreements with Buyer and shall have performed in all material respects its obligations hereunder to be performed on or before the Closing Date.

b) The Buyer shall have signed an Agreement (acceptable to Buyer) with the New York State Department of Environmental Conservation regarding the environmental condition of the property and release from liabilities.

c) The Buyer shall have received from the New York State Department

of Environmental Conservation and others all applicable permits to operate the facilities.

- d) Satisfactory completion of Article 5 of the Agreement applicable to Buyer.
- e) Buyer to receive Representations and Warranties from Seller as to the Authority to sell the Property.
- f) On or before the Closing Date, Seller shall have acquired title to the Premises, free and clear of any and all liens, claims and encumbrances.

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ARTICLE 8

RISK OF LOSS; INSURANCE

ARTICLE 8.1 The risk of loss to any of the Assets shall remain with Seller until Closing, and shall then pass to Buyer and from that time on Buyer shall be entitled to the proceeds of any insurance obtained by the Buyer and covering the Assets upon loss due to an insured event or occurrence. In the event of any material destruction of, or loss or damage to all or any material portion of the Assets by any casualty prior to the Closing, Buyer may, at its option, either (i) terminate this Agreement or (ii) waive the foregoing right of termination and notify Seller of its election to hold the Closing as provided herein. If Buyer shall so notify Seller, any proceeds of insurance shall be paid to Seller and Seller, to the extent of insurance proceeds received by Seller, plus any coinsurance penalty stipulated in the insurance policy promptly, but in any event not later than thirty (30) days after the casualty, shall replace or repair that portion of the Assets so damaged such that the Assets are in as good condition and equivalent value and fit for Buyer's purposes as were the Assets immediately prior to the casualty, to Buyer's reasonable satisfaction, and the Purchase Price payable hereunder as to the affected Assets shall not be adjusted. In the event of any non-material destruction of, or damage or other casualty to, any of the Assets, or any part thereof, any proceeds of insurance shall be paid to the Seller, and the Purchase Price payable hereunder as to the affected Assets shall be appropriately adjusted on the Adjustment Date in accordance with Article 2.4.

ARTICLE 9

TERMINATION

ARTICLE 9.1 TERMINATION EVENTS. This Agreement may be terminated by:

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a) Buyer, upon written notice to Seller prior to the Closing Date, if any of the conditions in this Agreement have not been satisfied as of the Closing Date or if satisfaction of such a condition is or becomes impossible (other than through the failure of Buyer to comply with its obligations under this Agreement) and Buyer has not waived such condition on or before the Closing Date; or

b) Seller, upon written notice to Buyer prior to the Closing Date, if any of the conditions in this Agreement have not been satisfied as of the Closing Date or if satisfaction of such a condition is or becomes impossible (other than through the failure of Seller to comply with its obligations under this Agreement) and Seller has not waived such condition on or before the Closing Date; or

c) mutual consent of Buyer and Seller.

ARTICLE 10

MISCELLANEOUS

ARTICLE 10.1 Deleted.

ARTICLE 10.2 CONFIDENTIALITY. This Agreement and any and all discussions

and negotiations related hereto shall be treated as confidential and proprietary information by each Party, and shall not be disclosed to any third party, except those parties with a need to know such information to assist such Party in completing its obligations hereunder, and each Party shall use at least the same degree of care in protecting such confidential information as it uses in protecting its own proprietary and confidential information. This obligation of confidentiality shall terminate with respect to the existence of this Agreement on the date upon which the Parties

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jointly and publicly announce the signing of this Agreement. Any such public announcement shall be mutually agreed to by Buyer and Seller prior to dissemination.

ARTICLE 10.3 EXPENSES AND COMMISSIONS. Seller and Buyer agree to bear their own legal, accounting and other expenses in connection with the preparation and consummation of this Agreement and the transactions contemplated hereby. In the event of a breach of this Agreement, the prevailing party in a lawsuit or other dispute resolution procedure shall be entitled to recover its reasonable attorney's fee, costs and expenses from the other party.

ARTICLE 10.4 BENEFIT OF AGREEMENT; ASSIGNMENT. The terms of this Agreement shall be binding upon and inure to the benefit of the heirs, successors and assigns of the Parties hereto. No Party shall assign its interest under this Agreement, by operation of law or otherwise, without the prior written consent of the other Parties.

ARTICLE 10.5 NOTICES. All notices, demands or other communications given under this Agreement shall be in writing, and shall be sent by certified or registered mail, postage prepaid, return receipt requested or by personal delivery or by overnight courier and addressed as follows: if to Buyer at: Dunkirk Acquisition, LLC, C/O Universal Stainless & Alloy Products, Inc., General Counsel, 600 Mayer Street, Bridgeville, Pennsylvania 15017, with a copy to Buyer's counsel at William J. Brown, Esq., 3400 HSBC Center, Buffalo, New York 14203; if to Seller at Empire State Development Corporation, Garry Ryan, 633 Third Street, New York, New York 10017 with a copy to Seller's counsel at McNamee, Lochner, Titus & Williams, P.C., Attn: Kevin Laurilliard, Esq., 75 State Street, P.O. Box 459, Albany, New York 12201-0459; or to such other address as may be designated in writing, which notice of change of address shall be given in the same manner. A notice shall be deemed delivered (a) three (3) business days after

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sending, if sent by certified or registered mail, (b) upon delivery, if personally delivered, or (c) one (1) business day after sending if sent by overnight courier.

Notices relating to Article 9, Termination may be made by facsimile, e-mail or in person and are effective immediately upon sending such notice.

ARTICLE 10.6 SEVERABILITY. All agreements and covenants herein are severable. In the event that any provision of this Agreement should be held to be unenforceable, the validity and enforceability of the remaining provisions hereof shall not be affected thereby.

ARTICLE 10.7 GOVERNING LAW; JURISDICTION. This Agreement shall be enforced, construed and performed in accordance with the laws of the State of New York as applied to contracts made and fully performed in such state, without any effect to the choice of law principles thereof. Seller and Buyer hereby agree that any suit, action or proceeding arising out of or based upon any claim under this Agreement shall be instituted in the Supreme Court located in Chautauqua County, New York, and the Seller and Buyer waive any objection which it may have to the laying of venue of such suit, action or proceeding therein.

ARTICLE 10.8 COUNTERPARTS. This Agreement may be executed in any number of counterparts and by the different parties hereto on separate counterparts (by facsimile or otherwise), each of which, when so executed and delivered, shall be an original, but all the counterparts shall together constitute one and the same instrument.

ARTICLE 10.9 ENTIRE AGREEMENT. This Agreement, together with agreements

executed contemporaneously herewith, constitutes the entire agreement among the Parties in respect of the transactions contemplated hereby and supersedes all prior agreements, arrangements and

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undertakings relating to the subject matter hereof. No covenants or conditions not expressed in this Agreement or in the agreements executed contemporaneously herewith shall affect or be effected to interpret, change or restrict this Agreement. This Agreement may be amended only by a writing specifically amending the Agreement and signed by all of the Parties hereto.

ARTICLE 10.10 MODIFICATION; WAIVER. This Agreement may not be modified, terminated, rescinded, discharged or canceled, nor may any provision be waived without the prior written consent of the Party or Parties against whom such modification, termination, rescission, discharge, cancellation or waiver is or may be asserted. No delay or omission by any Party to exercise any right or power shall impair any such right or power or be construed to be a waiver thereof. A waiver of any provision of this Agreement on any occasion shall not constitute a waiver of such provision on any succeeding occasion.

ARTICLE 10.11 CUMULATIVE REMEDIES. Unless stated otherwise, all remedies available under this Agreement shall be cumulative and in addition to and not in lieu of any other remedies available at law, in equity or otherwise. The use of any one right or remedy by any Party shall not preclude or waive its right to use any or all other remedies.

ARTICLE 10.12 HEADINGS. The section headings and subheadings contained in this Agreement, Exhibits, and Schedules are for convenient reference only, and shall not in any way affect the meaning or interpretation of this Agreement.

ARTICLE 10.13. STRICT CONSTRUCTION. The parties agree that this Agreement was a result of their joint representation and negotiations. IN THE EVENT THAT ANY PARTY TO THIS AGREEMENT IS NOT REPRESENTED BY AN ATTORNEY, THEY ARE HEREBY ADVISED THAT THEY SHOULD CONSULT WITH AN ATTORNEY AND THAT THEY

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HAVE THE RIGHT TO NEGOTIATE THE TERMS OF THIS AGREEMENT. THIS CONSTITUTES A VALID AND BINDING AGREEMENT. The parties hereby agree that no provision shall be construed against a particular party to this Agreement on the basis that this Agreement or any particular provision in this Agreement was proposed, negotiated or written by such party. This rule of construction is important so that none of the parties are discourages from drafting this Agreement.

ARTICLE 10.14 GUARANTEE. All of Buyer's obligations under this Agreement are hereby unconditionally and irrevocably guaranteed by Universal Stainless & Alloy Products, Inc. upon Closing.

ARTICLE 10.15 INDEMNITY. Seller shall indemnify and hold each of Universal Stainless & Alloy Products, Inc. and Dunkirk Acquisition LLC and their respective officers, employees and related parties harmless from, and against, any and all liabilities, obligations, losses, damages, penalties, claims, actions, judgments, suits, costs, expenses, and disbursements of any kind or nature whatsoever (including without limitation, counsel and special counsel fees and disbursements in connection with any litigation, investigation, hearing or other proceeding) (collectively, "Liabilities") in connection with, or with respect or in any way related to, or arising directly or indirectly from this Agreement or the Transaction related to Seller's failure to sell, transfer, convey and assign title and interests in and good and marketable title, free and clear of liabilities, obligations, security interests, liens (including tax liens), mortgages, leases or leasehold interests, encumbrances and rights of others of any kind whatsoever (except as permitted in Article 2.4 herein). This indemnification shall survive the Closing and the termination of this Agreement.

* * *

[Note: In accordance with Item 601(b)(2) of Regulation S-K, the registrant has omitted the exhibits to this Agreement referenced herein. The registrant hereby agrees to furnish supplementally a copy of any omitted exhibit to the Commission upon request.]

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IN WITNESS WHEREOF, the Parties have executed, or caused to be executed, this Agreement in a manner sufficient to bind them as of the day and year first above written.

STATE OF NEW YORK
COUNTY OF _____

NEW YORK JOB
DEVELOPMENT AUTHORITY
d/b/a EMPIRE STATE
DEVELOPMENT CORPORATION

On this the _____ day of _____, 20____,

Before me _____, the

By: /s/ Garry P. Ryan

undersigned officer, personally appeared, known to me (or satisfactorily proven) to be the person whose name is subscribed to the within instrument, and acknowledge that he/she executed the same for the purposes therein contained.

Its: Controller

In witness whereof, I hereunto set my hand and Official seals.

Notary Public

COMMONWEALTH OF PENNSYLVANIA
COUNTY OF _____

DUNKIRK ACQUISITION, LLC

On this the _____ day of _____, 20____,

Before me _____, the

By: /s/ Paul A. McGrath

undersigned officer, personally appeared, known to me (or satisfactorily proven) to be the person whose name is subscribed to the within instrument, and acknowledge that he/she executed the same for the purposes therein contained.

Its: Executive Officer

In witness whereof, I hereunto set my hand and Official seals.

Notary Public

COMMONWEALTH OF PENNSYLVANIA
COUNTY OF _____

UNIVERSAL STAINLESS & ALLOY
PRODUCTS, INC.
Guarantor pursuant to Article 10.14

On this the _____ day of _____, 20____,

Before me _____, the

By: /s/ C. M. McAninch

undersigned officer, personally appeared, known to me (or satisfactorily proven) to be the person whose name is subscribed to the within instrument,

Its: President and Chief Executive Officer

and acknowledge that he/she executed the same for the purposes therein contained.

In witness whereof, I hereunto set my hand and Official seals.

Notary Public

PROMISSORY NOTE

\$1,900,000.00

February 13, 2002

FOR VALUE RECEIVED, the Undersigned, Dunkirk Acquisition, LLC ("Maker") promises to pay to the order of New York Job Development Authority, d/b/a Empire State Development Corporation, a public benefit corporation created under Article 8, Title 8 of the New York Public Authorities Law ("JDA") the sum of One Million Nine Hundred Thousand and 00/100 DOLLARS (\$1,900,000.00) together with interest as follows:

The rate of interest to be charged commencing on the date that is one year from the date hereof is five percent (5%) per annum. Such interest shall be computed on the basis of a year of twelve, thirty-day months.

The undersigned promises to pay principal and interest commencing on the first day of the month after the first year anniversary date of this Note, and continuing on the first day of each and every month thereafter during the term of this Note, for a total of 108 equal monthly payments of interest and principal. Each payment of principal and interest shall be in the amount of \$21,888.82. All payments shall be payable at the office of:

NEW YORK JOB DEVELOPMENT AUTHORITY
633 Third Avenue, 37th Floor
New York, New York 10017

The balance of principal plus accrued interest together with all such additional charges which may be due and owing under the terms of this Note, and a certain Security Agreement executed of even date herewith, shall be due and payable in full on the first day of the month that is the tenth year anniversary date of this Note.

This Note is issued pursuant to said Security Agreement between JDA and Maker under which JDA has been granted a security interest in certain collateral as described therein.

Maker expressly agrees to the following additional terms in consideration of the loan:

1. All payments shall be applied first to accrued interest to the date of payment. The balance shall be applied toward the reduction of principal.
2. In the event that any monthly payment of principal and/or interest is not received within ten (10) days after said payment is due, Maker shall pay to the holder of this Note on demand, as an administrative charge for late payment, an amount equal to the lesser of four percent (4%) of the overdue payment, or the maximum amount permitted by law.
3. Upon the occurrence of an Event of Default pursuant to the terms, covenants, conditions, provisions, warranties and agreements of the aforesaid Security Agreement, or any default pursuant to the terms of this Note, including but not limited to the failure to make timely payment of any portion of principal or interest hereon, the unpaid balance of this Note shall become due and payable at once at the option of the holder hereof. Upon the occurrence of an Event of Default pursuant to the terms of any other debt instrument or security interest given by the Maker to JDA. Failure to exercise this option shall not constitute a waiver of any other rights or remedies of holder, including the right to exercise the same in the event of any subsequent default.
4. If a suit is brought hereon or any attorney is employed or expenses are incurred to compel payment of this Note, or any portion of the indebtedness evidenced hereby, the holder of this Note shall be entitled to its costs, attorneys' fees, disbursements, and expenses which Maker hereby agrees to pay.
5. Maker agrees to indemnify JDA for any and all claims against JDA, or costs, expenses, liabilities or damages incurred by JDA in connection with this loan and the project financed except to the extent that JDA has indemnified the Borrower in the parties' written Personal Property Asset Purchase Agreement

dated February 8, 2002 and written Real Property Asset Purchase Agreement dated February 8, 2002.

This Note shall be construed in accordance with and governed by the laws of the State of New York. This Note may not be changed or terminated orally. Maker hereby waives presentment, demand for payment, protest and notice of nonpayment or dishonor.

Dunkirk Acquisition, LLC

By: _____
Name: _____
Title: _____

STATE OF NEW YORK)
) ss.:
COUNTY OF _____)

On the ____ day of February, in the year 2002, before me, the undersigned, personally appeared _____, personally known to me or proved to me on the basis of satisfactory evidence to be the individual whose name is subscribed to the within instrument and acknowledged to me that he\she executed the same in his\her capacity, and that by his\her signature on the instrument, the individual, or the person upon behalf of which the individual acted, executed the instrument.

Notary Public

PROMISSORY NOTE

\$1,100,000.00

February 14, 2002

FOR VALUE RECEIVED, the Undersigned, Dunkirk Acquisition, LLC ("Maker") promises to pay to the order of New York Job Development Authority, d/b/a Empire State Development Corporation, a public benefit corporation created under Article 8, Title 8 of the New York Public Authorities Law ("JDA") the sum of One Million One Hundred Thousand and 00/100 DOLLARS (\$1,100,000.00) together with interest as follows:

The rate of interest to be charged commencing on the date that is one year from the date hereof is five percent (5%) per annum. Such interest shall be computed on the basis of a year of twelve, thirty-day months.

The undersigned promises to pay principal and interest commencing on the first day of the month next succeeding the first year anniversary date of this Note, and continuing on the first day of each and every month thereafter during the term of this Note, for a total of 108 equal monthly payments of interest and principal. Each payment of principal and interest shall be in the amount of \$12,669.00. All payments shall be payable at the office of:

NEW YORK JOB DEVELOPMENT AUTHORITY
633 Third Avenue, 37th Floor
New York, New York 10017

The balance of principal plus accrued interest together with all such additional charges which may be due and owing under the terms of this Note, and a certain Mortgage executed of even date herewith, shall be due and payable in full on the first day of the month that is the tenth year anniversary date of this Note.

This Note is issued pursuant to said Mortgage between JDA and Maker under which JDA has been granted a security interest in certain collateral as described therein.

Maker expressly agrees to the following additional terms in consideration of the loan:

1. All payments shall be applied first to accrued interest to the date of payment. The balance shall be applied toward the reduction of principal.
2. In the event that any monthly payment of principal and/or interest is not received within ten (10) days after said payment is due, Maker shall pay to the holder of this Note on demand, as an administrative charge for late payment, an amount equal to the lesser of four percent (4%) of the overdue payment, or the maximum amount permitted by law.
3. Upon the occurrence of an Event of Default pursuant to the terms, covenants, conditions, provisions, warranties and agreements of the aforesaid Mortgage, or any default pursuant to the terms of this Note, including but not limited to the failure to make timely payment of any portion of principal or interest hereon, the unpaid balance of this Note shall become due and payable at once at the option of the holder hereof. Upon the occurrence of an Event of Default pursuant to the terms of any other debt instrument or security interest given by the Maker to JDA. Failure to exercise this option shall not constitute a waiver of any other rights or remedies of holder, including the right to exercise the same in the event of any subsequent default.
4. If a suit is brought hereon or any attorney is employed or expenses are incurred to compel payment of this Note, or any portion of the indebtedness evidenced hereby, the holder of this Note shall be entitled to its costs, attorneys fees, disbursements, and expenses which Maker hereby agrees to pay.
5. Maker agrees to indemnify JDA for any and all claims against JDA, or costs, expenses, liabilities or damages incurred by JDA in connection with this loan and the project financed except to the extent that JDA has indemnified the Borrower in the parties' written Personal Property Asset Purchase Agreement dated February 8, 2002 and written Real Property Asset Purchase Agreement dated

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

During 2000, the Company adopted the provisions of the Securities and Exchange Commission's ("SEC") Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements." The application of the SEC's guidance to the language contained in the Company's Standard Terms and Conditions of Sale existing at the time of adoption required the Company to defer revenue until cash was collected, even though risk of loss passed to the buyer at the time of shipment. This had the effect of deferring certain sale transactions previously recognized in 1999 into 2000. During the fourth quarter of 2000, the Company modified its Standard Terms and Conditions of Sale to more closely reflect the substance of its sale transactions, which resulted in revenue being recorded at the time of shipment rather than when cash was received. As a result, revenue and cost information in 2000 include amounts related to shipments made during the year as well as amounts deferred from 1999. In order to facilitate analysis of the Company's results of operations, amounts in the tables below summarize revenue and cost information based on shipments made by the Company in the respective years. Such amounts are then reconciled to reported amounts as necessary.

An analysis of the Company's operations is as follows:

	2001		2000		1999	
	Amount	%	Amount	%	Amount	%
(dollars in thousands)						
Net sales						
Stainless steel	\$76,908	84.8%	\$62,346	70.6%	\$55,255	82.9%
Tool steel	4,503	5.0	6,960	7.9	6,055	9.1
High-strength low alloy steel	3,379	3.7	2,161	2.4	1,327	2.0
High-temperature alloy steel	2,471	2.7	1,754	2.0	2,124	3.2
Conversion services	3,054	3.4	2,309	2.6	1,807	2.7
Other	343	0.4	355	0.4	95	0.1
Net sales on shipments	90,658	100.0	75,885	85.9	66,663	100.0
Effect of accounting change	--	--	12,462	14.1	--	--
Total net sales	90,658	100.0	88,347	100.0	66,663	100.0
Cost of products sold						
Raw materials	25,791	28.5	26,290	29.7	24,732	37.1
Other	46,124	50.9	35,583	40.3	33,901	50.9
Total cost of products shipped	71,915	79.4	61,873	70.0	58,633	88.0
Effect of accounting change	--	--	9,988	11.3	--	--
Total cost of products sold	71,915	79.4	71,861	81.3	58,633	88.0
Selling and administrative expenses	6,199	6.8	4,998	5.7	4,299	6.4
Operating income from shipments	12,544	13.8	9,014	10.2	3,731	5.6
Effect of accounting change	--	--	2,474	2.8	--	--
Operating income	\$12,544	13.8%	\$11,488	13.0%	\$ 3,731	5.6%

Net sales on shipments by market segment are as follows:

	2001		2000		1999	
	Amount	%	Amount	%	Amount	%
(dollars in thousands)						
Rerollers	\$31,936	35.2%	\$33,549	44.2%	\$36,522	54.8%
Service centers	19,178	21.2	16,137	21.3	11,130	16.7
Forgers	18,484	20.4	14,288	18.8	9,185	13.8
Original equipment manufacturers	17,714	19.5	9,321	12.3	7,761	11.6
Conversion services	3,054	3.4	2,309	3.0	1,807	2.7
Miscellaneous	292	0.3	281	0.4	258	0.4
Total	\$90,658	100.0%	\$75,885	100.0%	\$66,663	100.0%

2001 Results as Compared to 2000 The increase in net sales on shipments in 2001 reflects increased shipments within each market segment, except Reroller, partially offset by price decreases related to lower raw material costs. The Company shipped approximately 46,800 tons in 2001, compared to shipments of

41,800 tons in 2000. The increased sales were primarily due to increased shipments of power generation, aerospace and petrochemical products to the Company's reroller, forging, service center and OEM markets. These increases were partially offset by lower sales of commodity products to the reroller market and of tool steel products to the service center market, primarily due to imports and the recessionary economy experienced during 2001.

Cost of products sold, as a percent of net sales, decreased in 2001 as compared to 2000. This decrease was primarily due to the impact of the change in the mix of products shipped and the improved operating results at the bar mill. Natural gas costs increased by approximately \$1.3 million in 2001 in comparison to 2000 because of higher rates.

Selling and administrative expenses increased by \$1.2 million in 2001 as compared to 2000. This increase primarily reflects higher insurance and other costs associated with the revenue growth experienced during 2001. In addition, the Company recorded a \$200,000 charge to demolish certain vacant buildings within the Bridgeville facility, a \$190,000 obligation to its former Vice President of Operations and a \$115,000 charge for the services of an investment banking firm previously engaged to evaluate various strategic alternatives to increase shareholder value.

Interest expense and other financing costs decreased from \$905,000 in 2000 to \$576,000 in 2001 primarily due to the continued reduction of long-term debt outstanding and a reduction in interest rates on the PNC Term Loan.

The 2001 effective income tax rate was 36.5% compared to 37.5% in 2000. The decrease in the effective income tax rate is primarily attributable to the application of the Extraterritorial Income Exclusion provisions for federal tax purposes and state tax credits made available to the Company during 2001.

2000 Results as Compared to 1999 The increase in net sales on shipments in 2000 reflects an improved sales mix of products and price increases to cover higher material and energy costs partially offset by lower shipment volumes. The Company shipped approximately 41,800 tons in 2000, compared to shipments of 44,800 tons in 1999. The improved sales mix was primarily due to increased shipments of power generation, aerospace and petrochemical products to the Company's reroller, forging and OEM market customers, and tool steel and bar mill products to the Company's service center customers. These increases were partially offset by the impact of lower sales of commodity products due to increased imports.

Cost of products sold, as a percent of net sales, decreased in 2000 as compared to 1999. This decrease was primarily due to the impact of the change in the mix of products shipped, improved operating results at the bar mill and higher sales prices.

Selling and administrative expenses increased by \$699,000 in 2000 as compared to 1999. This increase reflects higher employment and insurance costs.

Interest expense and other financing costs increased from \$736,000 in 1999 to \$905,000 in 2000 primarily due to a reduction in capitalized interest and higher interest rates on the PNC Term Loan.

The 2000 effective income tax rate was 37.5% compared to 30.5% in 1999. The increase in the effective income tax rate is primarily attributable to the reduced impact of the Company's permanent state tax deductions resulting from higher income levels in 2000.

Liquidity and Capital Resources

The Company generated cash flow from operations in 2001 and 2000 of \$11.9 million and \$6.3 million, respectively. This increase is primarily due to the increase in net income and the impact of changes in deferred taxes, partially offset by an increase in working capital.

At December 31, 2001, working capital approximated \$28.7 million, as compared to \$23.6 million at December 31, 2000. The ratio of current assets to current liabilities at December 31, 2001 and 2000, was 4.0:1 and 3.2:1, respectively. The debt to capitalization ratio was 13% at December 31, 2001, and 17% at December 31, 2000. The increase in working capital is primarily attributable to the increase in cash and cash equivalents generated from operations.

Capital Expenditures and Investments The Company's capital expenditures were

approximately \$5.3 million and \$4.6 million in 2001 and 2000, respectively, which primarily reflect the installation of a new electro-slag remelt furnace and building improvements at the Bridgeville facility. Capital expenditures not associated with the acquisition described below are expected to approximate \$4.0 million in 2002 and will be used primarily to complete projects previously initiated and to upgrade or replace various pieces of equipment at the Bridgeville and Titusville facilities. These expenditures are expected to be funded substantially from internally generated funds and additional borrowings.

The Company does not maintain off-balance sheet arrangements nor does it participate in non-exchange traded contracts requiring fair value accounting treatment or material related party transaction arrangements.

PNC Credit Agreement On June 29, 2001 the Company entered into a third amendment to the second amended and restated credit agreement with PNC Bank which extended the term of the \$6.5 million revolving credit facility ("PNC Line") to April 30, 2003. This credit agreement also includes a term loan ("PNC Term Loan") scheduled to mature in June 2006 and is collateralized by substantially all of the Company's assets.

Interest on 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, 2001, the Company was in compliance with all financial ratios and restrictive covenants.

Stock Repurchase Program On October 19, 1998, the Company initiated a stock repurchase program to repurchase up to 315,000 shares of its outstanding Common Stock in open market transactions at market prices. There were 12,000 shares of Common Stock repurchased by the Company during 2001. The Company is authorized to repurchase an additional 45,100 shares of Common Stock as of December 31, 2001.

Supply Contract The Company maintains a supply contract agreement with Talley Metals Technology, Inc., a subsidiary of Carpenter Technology Corporation, which is currently effective through December 2002. Under terms of the agreement, the Company will supply Talley Metals with an average of 1,250 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 1994 acquisition of the Bridgeville facility assets from Armco, which merged with and into AK Steel in 1999 ("Armco"), Armco agreed to retain responsibility for liabilities asserted against it 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.

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 AK Steel, as successor to 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.

Critical Accounting Policies Revenue recognition is the most critical accounting policy of the Company. The Company manufactures specialty steel product in accordance with customer purchase orders that contain specific product requirements. Each purchase order provides detailed information regarding the requirements for product acceptance. Executed material certification forms are

completed

indicating the Company's compliance with the customer purchase order before the specialty steel products are packaged and shipped to the customer. Revenue is generally recognized at point of shipment because risk of loss and title have transferred. During 2001, revenue was recognized in certain situations in which products available for shipment are held at the Company's facility beyond the stated shipment date at the customer's specific request.

In addition, management constantly monitors the ability to collect its unpaid sales invoices and the valuation of its inventory. The allowance for doubtful accounts includes the value of outstanding invoices issued to customers currently operating under the protection of the federal bankruptcy law and other amounts that are deemed potentially not collectable. An inventory reserve is provided for material on hand for which management believes cost exceeds fair market value and for certain material on hand not assigned to a specific customer order.

New Accounting Pronouncements Financial Accounting Standards Board ("FASB") Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" was issued in June 1998, and amended in June 1999 and in June 2000, pursuant to FASB Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities: Deferral of the Effective Date of FASB Statement No. 133" and FASB Statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities: an amendment of FASB No. 133", respectively. These statements require that an entity recognize certain derivative instruments as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The adoption of these statements on January 1, 2001, did not impact the Company's results of operations or financial condition.

In July 2001, the FASB issued Statement No. 141, "Business Combinations" and Statement No. 142, "Goodwill and Other Intangible Assets." In August 2001, the FASB issued Statement No. 143, "Accounting for Asset Retirement Obligations." In October 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." These statements will be adopted in 2002 and are not expected to impact the Company's results of operations or financial condition.

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, 2001, the Company had \$5.5 million in cash and \$6.5 million available under the PNC Line.

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. At this time, management intends to closely monitor its discretionary spending until general economic conditions improve.

Section 201 On October 22, 2001, the U.S. International Trade Commission ("ITC") determined that imports of certain stainless steel and alloy tool steel products are seriously injuring the domestic specialty steel industry. This determination allows the President of the United States, under Section 201 of the 1974 Trade Act, to restrict imports or impose tariffs on some or all of the products at issue. On March 5, 2002, the President imposed tariffs on certain imported stainless steel rod, bar and wire products ranging from 6% to 15% over the next three years. At this time, the Company is unable to determine the potential impact of the imposed remedy on the Company's future results of operations and liquidity requirements.

Subsequent Event On February 14, 2002, the Company, through its wholly owned subsidiary, Dunkirk Specialty Steel, LLC ("Dunkirk Specialty Steel"), acquired from the New York Job Development Authority ("JDA") certain assets formerly owned by Empire Specialty Steel, Inc. ("Empire") at its idled production facility located in Dunkirk, New York (the "Dunkirk facility"). The assets acquired include the inventory; property plant and equipment; and selected intangible assets. The purchase price of \$4.0 million will be funded with \$1.0 million in cash, paid at closing, and ten-year, 5% interest bearing notes payable to the JDA in the amount of \$3.0 million. No principal or interest payments are payable during the first year. The Company will not assume any liabilities of Empire. Capital expenditures are expected to approximate \$6.0 million at the Dunkirk facility in 2002.

General Actual results will be affected by a wide range of factors including the start-up of Dunkirk, New York production facility; the receipt, pricing and

timing of future 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; the limited number of raw material and energy suppliers and significant fluctuations that may occur in raw material and energy prices; and the Company's ongoing requirement for continued compliance with environmental laws. 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-10K for the year ended December 31, 2001 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 sheets 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 (the Company) at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. 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 auditing standards generally accepted in the United States of America, 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 our opinion.

As discussed in Note 1 to the financial statements, the Company adopted the provisions of the Securities and Exchange Commission's Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements," in 2000.

/s/ PricewaterhouseCoopers LLP

Pittsburgh, Pennsylvania
January 18, 2002, except for Note 12,
which is as of February 14, 2002

Consolidated Statement of Operations

For the years ended December 31,	2001	2000	1999
(dollars in thousands, except per share information)			
Net sales	\$ 90,658	\$ 88,347	\$ 66,663
Cost of products sold	71,915	71,861	58,633
Selling and administrative expenses	6,199	4,998	4,299
Operating income	12,544	11,488	3,731
Interest expense and other financing costs	(576)	(905)	(736)
Other income (expense), net	57	(3)	30
Income before taxes and cumulative effect of accounting change	12,025	10,580	3,025
Provision for income taxes	4,386	3,970	922
Income before cumulative effect of accounting change	7,639	6,610	2,103
Cumulative effect of accounting change, net of tax	--	(1,546)	--
Net income	\$ 7,639	\$ 5,064	\$ 2,103

EARNINGS PER COMMON SHARE

Basic			
Income before cumulative effect of accounting change	\$1.26	\$1.09	\$0.34
Cumulative effect of accounting change, net of tax	--	(0.26)	--

Net income	\$1.26	\$0.83	\$0.34

Diluted			
Income before cumulative effect of accounting change	\$1.25	\$1.09	\$0.34
Cumulative effect of accounting change, net of tax	--	(0.26)	--

Net income	\$1.25	\$0.83	\$0.34

Weighted average number of shares of Common Stock outstanding	6,080,045	6,074,701	6,110,911

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

Consolidated Balance Sheets

December 31,	2001	2000

(dollars in thousands)		
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 5,454	\$ 1,109
Accounts receivable (less allowance for doubtful accounts of \$434 and \$192)	13,257	12,819
Inventory	17,900	18,788
Deferred taxes	1,022	958
Other current assets	460	389

Total current assets	38,093	34,063
Property, plant and equipment, net	41,202	39,090
Other assets	151	594

Total assets	\$79,446	\$73,747

LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Trade accounts payable	\$ 4,597	\$ 5,624
Outstanding checks in excess of bank balance	857	1,445
Current portion of long-term debt	1,832	1,808
Accrued employment costs	1,562	1,297
Other current liabilities	590	331

Total current liabilities	9,438	10,505
Long-term debt	6,490	8,199
Deferred taxes	7,146	6,276

Total liabilities	23,074	24,980

Commitments and Contingencies		
Stockholders' Equity		
Senior Preferred Stock, par value \$.001 per share; liquidation value \$100 per share; 2,000,000 shares authorized; 0 shares issued and outstanding	--	--
Common Stock, par value \$.001 per share; 10,000,000 shares authorized; 6,347,172 and 6,339,128 shares issued	6	6
Additional paid-in capital	25,941	25,888
Retained earnings	32,056	24,417
Treasury Stock at cost; 269,900 and 257,900 common shares held	(1,631)	(1,544)

Total stockholders' equity	56,372	48,767

Total liabilities and stockholders' equity	\$79,446	\$73,747

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

Consolidated Statement of Cash Flows

(dollars in thousands)			
Cash flows from operating activities			
Net income	\$ 7,639	\$ 5,064	\$ 2,103
Adjustments to reconcile to net cash and cash equivalents provided by operating activities:			
Depreciation and amortization	2,782	2,466	2,101
Deferred taxes	1,087	1,509	354
Changes in assets and liabilities:			
Accounts receivable, net	(438)	(706)	(3,270)
Inventory	888	(3,058)	452
Accounts payable	(1,027)	147	2,311
Accrued employment costs	265	570	(230)
Other, net	709	293	1,146
Net cash provided by operating activities	11,905	6,285	4,967
Cash flows from investing activities			
Capital expenditures	(5,253)	(4,598)	(3,366)
Net cash used in investing activities	(5,253)	(4,598)	(3,366)
Cash flows from financing activities			
Proceeds from long-term debt	136	--	--
Long-term debt repayment	(1,821)	(1,834)	(1,117)
Borrowings under revolving line of credit	8,893	14,107	22,310
Repayments under revolving line of credit	(8,893)	(14,107)	(22,310)
Increase (decrease) in outstanding checks in excess of bank balance	(588)	338	(38)
Proceeds from issuance of Common Stock	53	50	51
Purchase of Treasury Stock	(87)	--	(1,066)
Net cash used in financing activities	(2,307)	(1,446)	(2,170)
Net increase (decrease) in cash	4,345	241	(569)
Cash and cash equivalents at beginning of period	1,109	868	1,437
Cash and cash equivalents at end of period	\$ 5,454	\$ 1,109	\$ 868
Supplemental disclosure of cash flow information			
Interest paid (net of amount capitalized)	\$ 605	\$ 827	\$ 774
Income taxes paid	\$ 3,144	\$ 1,593	\$ 388

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 performs 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 their credit risks 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 principally determined by the first-in, first-out (FIFO) method. The average cost method is also utilized. Such costs include the acquisition cost for raw materials and supplies, direct labor and applied manufacturing overhead. Provisions are made for slow moving inventory based upon management's expected method of disposition.

Scrap metal together with alloy additives, principally nickel, chrome and molybdenum, currently account for more than 35% 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 maintains sales price surcharges to help offset the impact of raw material price fluctuations.

Included in inventory are operating materials consisting of production molds and rolls that will normally be consumed within one year.

Property, Plant and Equipment Property, plant and equipment are recorded at cost. 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. Maintenance and repairs are charged to expense as incurred, and costs of improvements and renewals are capitalized. Major maintenance costs are expensed in the same annual period as incurred; however, the estimated costs are expensed throughout the year on a pro rata basis.

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. Depreciation expense for fiscal year 2001, 2000 and 1999 is \$2,764,000 \$2,448,000 and \$2,083,000 respectively.

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.

SFAS 121 Impairment Long-lived assets, including property, plant and equipment are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in relation to the operating performance and future undiscounted cash flows of the underlying assets. Adjustments are made if the sum of expected future cash flows is less than book value. Based on management's assessment of the carrying values of such long-lived assets, no impairment reserve has been deemed necessary as of December 31, 2001 and 2000.

Capitalization of Software Costs Direct costs incurred in the development and implementation of internal-use software is capitalized and amortized on a straight-line basis over its anticipated useful life, which generally does not exceed three years.

Revenue Recognition Revenue from the sale of products is recognized when both risk of loss and title has transferred to the customer, which in most cases coincides with shipment of the related products. Revenue from conversion services is recognized when the performance of the service is complete.

Income Taxes Deferred income taxes are provided for the tax effect of temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. The Company uses the liability method to account for income taxes, which requires deferred taxes to be recorded at the statutory rate expected to be in effect when the taxes are paid. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that the asset will not be realized.

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 common 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.

Accounting Change In 2000, the Company changed its method of accounting for revenue recognition in accordance with the provisions of the Securities and Exchange Commission's ("SEC") Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements." SAB 101, required to be adopted retroactive to January 1, 2000, outlined certain criteria that must be met to recognize revenue. As a result of the adoption of SAB 101, the Company determined that the application of the SEC's guidance to the language that existed in the Company's Standard Terms and Conditions of Sale required the Company to defer revenue recognition until cash was collected, even though risk of loss transferred to the buyer at time of shipment. This had the effect of deferring certain 1999 sale transactions aggregating \$12,462,000 into 2000. The cumulative effect of this change in accounting principle was a charge of \$1,546,000, net of tax benefits of \$928,000. Pro forma earnings per share amounts for the year ended December 31, 1999, assuming SAB 101 had been applied retroactively, is as follows:

	As Reported	Pro Forma
Net income	\$2,103	\$1,854
Basic earnings per share	\$0.34	\$0.30
Diluted earnings per share	\$0.34	\$0.30

New Accounting Pronouncements Financial Accounting Standards Board ("FASB") Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" was issued in June 1998, and amended in June 1999 and in June 2000, pursuant to FASB Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities: Deferral of the Effective Date of FASB Statement No. 133" and FASB Statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities: an amendment of FASB No. 133", respectively. These statements require that an entity recognize certain derivative instruments as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The adoption of these statements on January 1, 2001, did not impact the Company's results of operations or financial condition.

In July 2001, the FASB issued Statement No. 141, "Business Combinations" and Statement No. 142, "Goodwill and Other Intangible Assets." In August 2001, the FASB issued Statement No. 143, "Accounting for Asset Retirement Obligations." In October 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." These statements will be adopted in 2002 and are not expected to impact the Company's results of operations or financial condition.

Note 2: Inventory

The major classes of inventories are as follows:

December 31,	2001	2000
(dollars in thousands)		
Raw materials and supplies	\$ 1,880	\$ 1,695
Semi-finished and finished steel products	13,593	13,916
Operating materials	2,427	3,177
Total inventory	\$17,900	\$18,788

Note 3: Property, Plant and Equipment Property, plant and equipment consists of the following:

December 31,	2001	2000
(dollars in thousands)		
Land and land improvements	\$ 822	\$ 822
Buildings	4,701	3,889
Machinery and equipment	43,572	39,838
Construction in progress	2,641	2,311
	51,736	46,860
Accumulated depreciation	(10,534)	(7,770)
Property, plant and equipment, net	\$ 41,202	\$ 39,090

Property, plant and equipment includes a capital lease with Armco, which merged with and into AK Steel in 1999 ("Armco"), for the land and certain buildings and structures located in Bridgeville (the "Bridgeville Lease"). The Bridgeville Lease is for a ten-year term which commenced 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 Bridgeville Lease prior to August 15, 2015.

Note 4: Long-Term Debt and Other Financing Long-term debt consists of the following:

December 31,	2001	2000
(dollars in thousands)		
PNC Term Loan	\$ 6,500	\$ 7,900
Government debt	1,598	1,922
Capital lease obligations	224	185
	8,322	10,007
Less amounts due within one year	(1,832)	(1,808)
Total long-term debt	\$ 6,490	\$ 8,199

On June 29, 2001, the Company entered into a third amendment to the second amended and restated credit agreement with PNC Bank which extended the term of the \$6.5 million revolving credit facility ("PNC Line") to April 30, 2003. This credit agreement, which also includes a term loan ("PNC Term Loan") scheduled to mature in June 2006, is collateralized by substantially all of the Company's assets.

Interest on 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 an interest rate spread not to exceed 175 basis points. 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.

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 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.

Scheduled maturities of long-term obligations for the next five years are as follows:

(dollars in thousands)	
2002	1,832
2003	1,723
2004	1,662
2005	1,747
2006	1,042
Thereafter	316

Note 5: Income Taxes

Components of the provision for income taxes are as follows:

For the years ended December 31,	2001	2000	1999
(dollars in thousands)			
Current provision:			
Federal	\$3,160	\$2,461	\$ 512
State	139	--	56
	3,299	2,461	568
Deferred provision (benefit):			
Federal	903	1,238	457
State	184	271	(103)
	1,087	1,509	354
Provision for income taxes	\$4,386	\$3,970	\$ 922

The income tax benefit resulting from recording the cumulative effect on prior years due to the change in revenue recognition policy was \$928,000.

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

For the years ended December 31,	2001	2000	1999
Federal statutory tax	34.0%	34.0%	34.0%
State income taxes, net of federal benefit	2.3	3.3	(2.2)
Other, net	0.2	0.2	(1.3)
Effective tax rate	36.5%	37.5%	30.5%

Deferred taxes result from the following:

December 31,	2001	2000
(dollars in thousands)		
Deferred tax assets:		
Receivables	\$ 187	\$ 77
Inventory	600	736
Net operating loss carry forwards	--	281
Accrued liabilities	235	145
	\$ 1,022	\$ 1,239
Deferred tax liabilities:		
Property, plant and equipment	\$ 7,146	\$ 6,276

Note 6: Stockholders' Equity

	Common Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Shares	Treasury Stock
(dollars in thousands)						
Balance at December 31, 1998	6,320,036	\$ 6	\$25,787	\$17,250	75,000	\$ (478)
Common Stock issuance under Employee Stock Purchase Plan	10,380		51			
Purchase of Treasury stock					182,900	(1,066)
Net income				2,103		
Balance at December 31, 1999	6,330,416	6	25,838	19,353	257,900	(1,544)
Common Stock Issuance under Employee Stock Purchase Plan	8,712		50			
Net income				5,064		

Balance at December 31, 2000	6,339,128	6	25,888	24,417	257,900	(1,544)
Common Stock issuance under						
Employee Stock Purchase Plan	8,044		53			
Purchase of Treasury stock					12,000	(87)
Net income				7,639		
Balance at December 31, 2001	6,347,172	\$ 6	\$25,941	\$32,056	269,900	\$(1,631)

On October 19, 1998, the Company's Board of Directors authorized 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. At December 31, 2001, the Company is authorized to repurchase 45,100 additional shares of the Company's Common Stock.

The Company has 2,000,000 authorized shares of Senior Preferred Stock. At December 31, 2001 and 2000, there were no shares issued or outstanding.

Note 7: Basic and Diluted Earnings Per Share

The computation of basic and diluted earnings per share for the years ended December 31, 2001, 2000 and 1999 is performed as follows:

	2001		2000		1999	
	Income	Shares	Income	Shares	Income	Shares
(dollars in thousands, except share amounts and per share amounts)						
Income available to common Stockholders	\$ 7,639	6,080,045	\$ 5,064	6,074,701	\$ 2,103	6,110,911
Effect of dilutive securities		17,379		5,057		--
Income available to common Stockholders plus assumed conversion	\$ 7,639	6,097,424	\$ 5,064	6,079,758	\$ 2,103	6,110,911
Basic earnings per common share:						
Income before cumulative effect of accounting change	\$ 1.26		\$ 1.09		\$ 0.34	
Net income	\$ 1.26		\$ 0.83		\$ 0.34	
Diluted earnings per common share:						
Income before cumulative effect of accounting change	\$ 1.25		\$ 1.09		\$ 0.34	
Net income	\$ 1.25		\$ 0.83		\$ 0.34	

Note 8: Stock Compensation Plans

At December 31, 2001, 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, 2001, 2000 and 1999 is presented below:

	2001		2000		1999	
	Shares	Weighted-Avg. Exercise Price	Shares	Weighted-Avg. Exercise Price	Shares	Weighted-Avg. Exercise Price
Fixed options						
Outstanding at beginning of year	522,500	\$9.58	482,500	\$9.79	488,500	\$10.10
Granted	100,000	8.22	40,000	7.13	40,000	6.06
Exercised	--	--	--	--	--	--
Forfeited	(5,000)	9.88	--	--	(46,000)	9.90
Outstanding at end of year	617,500	\$9.36	522,500	\$9.58	482,500	\$9.79
Options exercisable at year-end	472,746		414,287		364,165	
Weighted-average fair value of options granted during the year		\$4.07		\$3.63		\$2.89

The following table summarizes information about stock options outstanding at December 31, 2001.

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
\$6.06 to \$12.25	617,500	6.0	\$9.36	472,746	\$9.82

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. At December 31, 2001, the Company has issued 45,539 shares of Common Stock since the plan's inception.

The Company applies Accounting Principles Board Opinion 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 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

For the years ended December 31,	2001	2000	1999
(dollars in thousands, except per share amounts)			
Net income			
As reported	\$7,639	\$5,064	\$2,103
Pro forma	\$7,508	\$4,714	\$1,704
Basic earnings per share			
As reported	\$ 1.26	\$ 0.83	\$ 0.34
Pro forma	\$ 1.23	\$ 0.78	\$ 0.28

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 2001, 2000 and 1999 respectively; dividend yield of 0.0% for each year; interest rate of 5.0%, 6.0% and 6.0%; expected volatility of 50.0%, 50.0%, and 45.0%; 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, 2001, 2000 and 1999, the Company expensed \$1,949,000, \$1,328,000, and \$445,000, respectively, under these plans.

Note 9: Retirement Plans

The Company has defined contribution retirement plans that cover substantially all employees. The Company accrues its contributions to the hourly employee plan based on time worked while contributions to the salaried plan are accrued as a fixed amount per month. Company contributions to both plans are funded periodically. The total expense for the years ended December 31, 2001, 2000 and 1999 was \$413,000, \$320,000 and \$284,000, respectively.

No other post-retirement benefit plans exist.

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 1994 acquisition of the Bridgeville facility assets from Armco, Armco agreed to retain responsibility for liabilities asserted against it under environmental laws with respect to environmental conditions existing at the Bridgeville facility prior to commencement of the Bridgeville Lease 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.

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 AK Steel, as successor to 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.

The Company maintains insurance for both property damage and business interruption applicable to its production facilities, including the universal rolling mill.

The Company maintains a supply contract agreement with Talley Metals Technology, Inc., a subsidiary of Carpenter Technology Corporation, which is currently effective through December 2002. Under terms of the agreement, the Company will supply Talley Metals with an average of 1,250 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.

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:

	2001	2000	1999
(dollars in thousands)			
Stainless steel	\$76,908	\$62,346	\$55,255
Tool Steel	4,503	6,960	6,055
High-strength low alloy steel	3,379	2,161	1,327
High-temperature alloy steel	2,471	1,754	2,124
Conversion services	3,054	2,309	1,807
Other	343	355	95
Net sales on shipments	90,658	75,885	66,663
Effect of accounting change	--	12,462	--
Total net sales	\$90,658	\$88,347	\$66,663

Net sales on shipments from the Company's largest customer and its affiliates, which were generated primarily from the Bridgeville operations, approximated 32%, 39% and 48% of total 2001, 2000 and 1999 sales, respectively. Net sales on shipments from the Company's second largest customer and its affiliates, which were generated from the Bridgeville and Titusville operations, approximated 12%, 6% and 6% of 2001, 2000 and 1999 net sales, respectively. The accounts receivable balances from these two customers comprised approximately 29% and 36% of total accounts receivable at December 31, 2001 and 2000, 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.

Note 12: Subsequent Event

Subsequent Event On February 14, 2002, the Company, through its wholly owned subsidiary, Dunkirk Speciality Steel, LLC ("Dunkirk Speciality Steel"), acquired from the New York Job Development Authority ("JDA") certain assets formerly owned by Empire Specialty Steel, Inc. ("Empire") at its idled production facility located in Dunkirk, New York (the "Dunkirk facility"). The assets acquired include the inventory; property plant and equipment; and selected intangible assets. The purchase price of \$4.0 million will be funded with \$1.0 million in cash, paid at closing, and ten-year, 5% interest bearing notes payable to the JDA in the amount of \$3.0 million. No principal or interest payments are payable during the first year. The Company will not assume any liabilities of Empire. Capital expenditures are expected to approximate \$6.0 million at the Dunkirk facility in 2002.

Note 13: Quarterly Financial Data (unaudited)

In 2000, the Company adopted the provisions of SAB 101 retroactive to January 1, 2000.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
(dollars in thousands, except per share amounts)				
2001 Data				
Net sales	\$21,259	\$24,233	\$23,344	\$21,822
Gross profit	4,138	5,026	5,152	4,427
Operating income	2,580	3,210	3,851	2,903
Net income	1,512	1,908	2,330	1,889
Earnings per common share:				
Basic	\$0.25	\$0.31	\$0.38	\$0.31
Diluted	\$0.25	\$0.31	\$0.38	\$0.31
2000 Data				
Net sales	\$17,770	\$18,522	\$18,587	\$33,468 (a)
Gross profit	3,044	2,640	3,676	7,126
Operating income	1,941	1,207	2,406	5,934
Income before cumulative effect of accounting change	1,128	622	1,273	3,587
Cumulative effect of accounting change, net of tax	(1,546)	--	--	--
Net income (loss)	(\$418)	\$622	\$1,273	\$3,587
Earnings per common share:				
Basic				
Income before cumulative effect of accounting change	\$0.19	\$0.10	\$0.21	\$0.59
Cumulative effect of accounting change, net of tax	(0.26)	--	--	--
Net income (loss)	(\$0.07)	\$0.10	\$0.21	\$0.59
Diluted				
Income before cumulative effect of accounting change	\$0.19	\$0.10	\$0.21	\$0.59
Cumulative effect of accounting change, net of tax	(0.26)	--	--	--
Net income (loss)	(\$0.07)	\$0.10	\$0.21	\$0.59

(a) During the fourth quarter of 2000, the Company modified its Standard Terms and Conditions of Sale to more closely reflect the substance of its sale transactions, which resulted in revenue being recorded at the time of shipment rather than when cash was received.

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 2001		
First quarter	\$ 8.06	\$7.00
Second quarter	\$10.40	\$7.19
Third quarter	\$10.73	\$6.84
Fourth quarter	\$ 8.49	\$6.85

Year 2000

First quarter	\$7.56	\$5.69
Second quarter	\$7.75	\$5.63
Third quarter	\$7.19	\$6.38
Fourth quarter	\$8.25	\$6.69

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.

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 reliability, price and delivery needs, enhanced competitive posture and effect of new accounting pronouncements 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 and the Company's filings with the Securities and Exchange Commission during the past 12 months.

Five-Year Summary

For the Years Ended December 31,	2001	2000 (a)	1999	1998	1997
(dollars in thousands, except per share amounts)					
Summary of Operations					
Net sales	\$90,658	\$ 88,347	\$66,663	\$72,595	\$81,301
Operating income	12,544	11,488	3,731	7,566	11,574
Income before cumulative effect of accounting change	--	6,610	--	--	--
Cumulative effect of accounting change, net of tax	--	(1,546)	--	--	--
Net income	\$ 7,639	5,064	2,103	5,004	7,206
Pro Forma Summary of Operations (b)					
Net sales	\$90,658	\$ 88,347	\$63,330	\$78,170	\$76,229
Operating income	12,544	11,488	3,373	8,437	11,049
Net income	\$ 7,639	6,610	1,854	5,558	6,875
Financial Position at Year-End					
Working capital	\$28,655	\$ 23,558	\$20,800	\$21,829	\$20,086
Total assets	79,446	73,747	68,179	64,450	56,151
Total debt	8,322	10,007	11,841	12,958	5,779
Stockholders' equity	56,372	48,767	43,653	42,565	37,768
Common Share Data					
Basic earning per share:					
As reported	\$ 1.26	\$ 0.83	\$ 0.34	\$ 0.79	\$ 1.15
Pro Forma under SAB 101 (b)	1.26	1.09	0.30	0.88	1.09
Diluted earning per share:					
As reported	1.25	0.83	0.34	0.79	1.12
Pro Forma under SAB 101 (b)	1.25	1.09	0.30	0.87	1.07
Stockholders' equity	9.28	8.03	7.19	6.82	6.00
Other Data					
EBITDA (c)	\$15,365	\$ 11,459	\$ 5,844	\$ 8,960	\$12,741
Capital expenditures	5,253	4,598	3,366	12,146	8,145
Depreciation and amortization	2,782	2,466	2,101	1,516	1,109
Return on stockholders' equity	13.6%	10.4%	4.8%	11.8%	19.1%
Debt to total capitalization	12.9	17.0	21.3	23.3	13.3
Employees	304	280	277	280	270
Customers	288	250	235	200	167
Average Shares Outstanding (in thousands)					
Basic	6,080	6,075	6,111	6,305	6,286
Diluted	6,097	6,080	6,111	6,355	6,417

(a) Includes \$12,462,000 of net sales and \$9,988,000 of costs of sales associated with revenues recognized in 1999 but deferred until 2000 as a result of implementing Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements." The 2000 results of operations also include the impact of changing the Company's Standard Terms and Conditions to more closely reflect the substance of its sales

transactions.

- (b) Includes the effect of implementing Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" as required under generally accepted accounting principles in 2000.
- (c) Represents earnings before special charges, interest expense, income taxes and depreciation and amortization.

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 reliability, price and delivery needs, enhanced competitive posture and effect of new accounting pronouncements 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 and the Company's filings with the Securities and Exchange Commission during the past 12 months.

Directors, Officers and Management

Directors

Douglas M. Dunn
Dean of Graduate School of Industrial Administration
Carnegie Mellon University

George F. Keane
President Emeritus
Common Fund Group

Clarence M. McAninch
President and Chief Executive Officer
Universal Stainless & Alloy Products, Inc.

Udi Toledano
President
Millennium 3 Capital, Inc.

D. Leonard Wise
Former President and Chief Executive Officer
Carolina Steel Corporation

Officers

Clarence M. McAninch
President and Chief Executive Officer

Richard M. Ubinger
Vice President of Finance, Chief Financial Officer and Treasurer

Paul A. McGrath
Vice President of Operation, General Counsel and Secretary

Management

Michael J. Obiecunas
Director, Employee Relations

Bruce A. Kramer
Director, Purchasing and Production Planning

Keith A. Engleka
Director, Technology

David M. Blanchard
Manager, PRP Division

Corporate Information

Executive Offices
Universal Stainless & Alloy Products, Inc.
600 Mayer Street
Bridgeville, PA 15017
412-257-7600

Annual Meeting
The Annual Meeting of Stockholders
will be held at 10 a.m. on Tuesday,
May 21, 2002, at the Southpointe Golf Club,
Canonsburg, PA.

Stockholder Information
Universal Stainless & Alloy Products, Inc.'s Annual Report, Form 10-K and other
reports filed with the Securities and Exchange Commission can be obtained,
without charge, by writing to the Vice President of Finance at the Executive
Offices.

Transfer Agent and Registrar
Continental Stock Transfer &
Trust Company
2 Broadway
New York, NY 10004

Stock Listing
NASDAQ Symbol: USAP

Web Site Address
www.univstainless.com

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 Form S-8 (No. 333-13599, No. 333-13509 and No. 333-13511) of Universal Stainless & Alloy Products, Inc. of our report dated January 18, 2002, except for Note 12, which is as of February 8, 2002, relating to the financial statements, which appears in the Annual Report to Stockholders, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated January 18, 2002 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Pittsburgh, Pennsylvania
March 22, 2002