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, 2004

OR

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

For the Transition Period from ______ to ______

Commission File Number 0-25032

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

DELAWARE	**25-1724540**
(State or other jurisdiction of incorporation or organization)	**(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 (§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. ☐

Indicate by check mark if whether the registrant is an accelerated filer as defined in Rule 12b-2 of the Act? Yes ☐ No ☒

The aggregate market value of the voting stock held by non-affiliates of the registrant on June 30, 2004, based on the closing price of $11.40 per share on that date, was $36,955,562. 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 February 28, 2005, there were 6,363,312 shares of the Registrant's Common Stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Annual Report to Stockholders and definitive Proxy Statement for the Annual Meeting of Stockholders is scheduled to be held May 18, 2005, are incorporated into Parts II and III of this Form 10-K, respectively.

TABLE OF CONTENTS

PART I		
Item 1.	Business	1
Item 2.	Properties	8
Item 3.	Legal Proceedings	8
Item 4.	Submission of Matters to a Vote of Security Holders	9
PART II		
Item 5.	Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	10
Item 6.	Selected Financial Data	11
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	11
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	11
Item 8.	Financial Statements and Supplementary Data	11
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	11
Item 9A.	Controls and Procedures	11
Item 9B.	Other Information	11
PART III		
Item 10.	Directors and Executive Officers of the Registrant	12
Item 11.	Executive Compensation	12
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	12
Item 13.	Certain Relationships and Related Transactions	12
Item 14.	Principal Accountant Fees and Services	12
PART IV		
Item 15.	Exhibits and Financial Statement Schedules	12

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, hot and cold rolling, machining and cold drawing of semi-finished and finished specialty steels. The Company's products are sold to rerollers, forgers, service centers, original equipment manufacturers and wire redrawers. The Company's customers further process its products for use in a variety of industries, including 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 is comprised of three operating locations and one corporate headquarters. For segment reporting, the Bridgeville and Titusville facilities have been aggregated into one reportable segment, Universal Stainless & Alloy Products. Dunkirk Specialty Steel represents the second reportable segment.

The Company's products are manufactured in a wide variety of grades, widths and gauges in response to customer specifications at three operating locations. At its Bridgeville facility, the Company produces specialty steel products in the form of long products (ingots, blooms, billets and bars) and flat rolled products (slabs and plates). Certain grades requiring vacuum-arc remelting are transported to the Titusville facility to complete that process and transported back to the Bridgeville facility for further processing. The semi-finished long products are primarily used by the Company's Dunkirk facility and certain 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 end users. 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.

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. Annual domestic consumption of specialty steels approximates three million tons according to the Specialty Steel Industry of North America ("SSINA"). Of this amount, approximately two million tons of specialty steels consumed domestically represent stainless steel sheet and strip and electrical alloy products that the Company does not produce.

The Company primarily manufactures its products within the following 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 the 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 increased number of applications for stainless steel has resulted in the development of a greater variety of stainless steel metallurgical grades than carbon steel.

Tool Steel. Tool steels contain elements of manganese, silicon, chrome and molybdenum to produce specific hardness characteristics that enable them to form, cut, shape and shear other materials in the manufacturing process. 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-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.

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.

Table of Contents

Net sales by principal product line were as follows:

For the years ended December 31,	2004	2003	2002
(dollars in thousands)			
Stainless steel	$ 94,530	$52,546	$56,813
Tool steel	17,075	9,673	6,643
High-strength low alloy steel	3,682	2,869	2,213
High-temperature alloy steel	2,468	2,482	3,474
Conversion service	2,386	1,079	1,495
Other	501	340	239
Total net sales	$120,642	$68,989	$70,877

Raw Materials

The Company's Bridgeville facility depends on the delivery of key raw materials for its day-to-day operations. These key raw materials are ferrous and non-ferrous scrap metal and alloys, primarily consisting of nickel, ferrochrome, molybdenum and silicon. Scrap metal is primarily generated by industrial sources and is purchased through a number of scrap brokers and dealers. Alloys are generally purchased from domestic agents and originate from South Africa, Canada, South America, and Russia. Political disruptions in countries such as these could cause supply interruptions and affect the availability and price of the raw materials purchased by the Company.

The Bridgeville facility supplies semi-finished specialty steel products as starting materials to the Company's Titusville and Dunkirk facilities. Semi-finished specialty steel starting materials not capable of being produced by the Company cost competitively, which is primarily for its PRP operation, are purchased from other suppliers. The Company completes the manufacturing process to customer specifications. The Company generally purchases these starting materials from steel strip coil suppliers, extruders, flat rolled producers and service centers. The Company believes that adequate supplies of starting material will continue to be available.

The cost of raw materials approximates one-half of the Company's total cost of products sold in 2004. Raw material prices vary based on numerous factors, including quality, and are subject to frequent market fluctuations. Future raw material 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 implemented a sales price surcharge mechanism on its products 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 are 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. The Company has long-term supply agreements for all of its energy requirements.

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 Company, but also can lead to increased costs for energy.

Customers

The Company's five largest customers in the aggregate accounted for approximately 48% of net sales for the year ended December 31, 2004. Talley Metals Technology, Inc., a subsidiary of Carpenter Technology Corporation ("Talley Metals"), and its affiliates accounted for 23% of the Company's net sales. The accounts receivable balances from this customer comprised approximately 13% of total accounts receivable at December 31, 2004. No other customer accounted for more than 10% of the Company's net sales for the year ended December 31, 2004.

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

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 addition of Dunkirk Specialty Steel provides the opportunity to reduce the Company's dependence on any customer. The Company's customer base increased from 399 at December 31, 2003 to 452 at December 31, 2004, primarily as a result of the continued customer growth at Dunkirk Specialty Steel.

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, 2004, was approximately $72 million as compared to $21 million at the same time in 2003. The increase in the backlog is primarily due to improving economic conditions impacting the product demand of the Company's customer base and the reduction of competitors due to the increased number of bankruptcy filings within the industry. At this time, the Company's lead times to fulfill its current backlog of orders has been extended and will remain extended for certain products requiring production at units operating at full capacity. 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

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.

Annual domestic consumption of specialty steel products of the type manufactured by the Company approximates 1 million tons. The Company further restricts its participation in this market by limiting the volume of commodity stainless steel products it markets because of the highly competitive nature of that business.

The Company believes ten domestic companies that manufacture one or more similar specialty steel products are major competitors. There are many smaller producing companies and converting companies in the United States who are also considered to be competitors of the Company. New production capacity planned within the next several years is expected to be focused on the production of commodity stainless steel products and not a substantial threat to the products emphasized by the Company.

High import penetration of specialty steel products, especially stainless and tool steels, also impact the competitive nature within the United States. Unfair pricing practices by foreign producers have resulted in high import penetration into the U.S. markets that the Company now participates. According to SSINA, import penetration for the years ended December 31, 2003 and 2002 was 37% and 42%, respectively, for stainless bar and 56% and 65%, respectively, for stainless rod. Import penetration dropped during the second half of 2003 due to the improved global specialty steel market and rising raw material costs. This trend continued throughout 2004.

On October 22, 2001, the U.S. International Trade Commission determined that import of certain stainless steel and alloy tool steel products are seriously injuring the domestic specialty steel industry. On March 5, 2002, President Bush imposed tariffs on certain imported stainless steel rod, bar and wire products ranging from 6% to 15% over the next three years under Section 201 of the 1974 Trade Act. During the 2002 second quarter, the Company experienced a significant increase in demand for commodity reroller products. This trend did not continue beyond the 2002 second quarter. President Bush ended the imposed tariffs on December 4, 2003.

The assets purchased by Dunkirk Specialty Steel were previously owned and operated by AL Tech Specialty Steel, Inc. and Empire Specialty Steel, Inc. During their ownership, both organizations participated in several anti-dumping lawsuits with other domestic specialty steel producers. The Company expects to join other domestic producers in the filing of future trade actions against foreign producers.

The Continued Dumping and Subsidy Offset Act of 2000 (“CDSOA”) provides for payment of import duties collected by the U. S. Treasury to domestic companies injured by unfair foreign trade practices. In accordance with CDSOA, the Company filed claims to receive their appropriate share of the import duties collected and received $310,000, net of expenses in 2002. In 2003, the Company received notice that it was awarded $604,000, of which $10,000 was received. The remaining payment was delayed pending the outcome of a hearing before the U.S. Court of Appeals for the Federal Circuit in a lawsuit challenging the distribution method of the import duties. The remaining payment, as well as the 2004 award of $507,000, was received and recognized as income in 2004, net of expenses incurred.

The Company expects to benefit from CDSOA in future years unless the U.S. Congress repeals the Act. The amount of future benefits is dependent on the amount of import duties collected and the relationship of Dunkirk Specialty Steel’s claim in relation to claims filed by other domestic specialty steel producers. On January 28, 2005, the Company received an additional $59,000 from the U.S. Treasury, representing an increase in the total allocation of available funds awarded to the Company for 2004.

The Company also faces competition from producers of certain materials, particularly aluminum, composites and plastics. Any competitive factors that adversely affects the market for finished products manufactured by the Company or its 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 Steelworkers of America (the “USWA”) represented employees and has equity ownership programs for all of its eligible employees, in an effort to forge an alliance between its employees’ interests and those of the Company’s stockholders. At December 31, 2004, the Company had 275 employees at its Bridgeville facility, 45 employees at its Titusville facility and 143 employees at its Dunkirk facility, of whom 222, 39 and 120 were USWA members, respectively.

Collective Bargaining Agreements

In December 2002, the Company and the USWA completed negotiation of a new six-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 its prior agreements.

In February 2000, the Company and the USWA completed negotiation of a new sixty-seven (67) month comprehensive collective bargaining agreement for employees at the Titusville facility (the “Titusville CBA”). The Titusville CBA is similar to the original five-year agreement for the Titusville employees.

In October 2001, the Company and the USWA entered into a six-year comprehensive collective bargaining agreement, that became effective on February 14, 2002, for employees at the Dunkirk facility (the “Dunkirk CBA”). The Dunkirk CBA is similar to the collective bargaining agreements at Bridgeville and Titusville.

Employee Benefit Plans

The Company provides group life and health insurance plans for its hourly and salary employees. Profit-sharing plans that cover certain salaried employees and all hourly employees provide for the sharing of pre-tax profits in excess of specified amounts. The Company also maintains separate 401(k) retirement plans for its hourly and salary employees. Pursuant to each plan, participants may elect to make pre-tax and after-tax contributions to the plan, subject to certain limitations imposed under the Internal Revenue Code of 1986, as amended (the “Code”). In addition, the Company is required to make periodic contributions to the plans based on service, except as described below.

Effective January 6, 2003, the Company began to participate in the Steelworkers Pension Trust (“Trust”), a multi-employer defined benefit pension plan that is open to all hourly and salaried employees associated with the Bridgeville facility. The Company makes periodic contributions to the Trust based on hours worked at a fixed rate for each hourly employee and a fixed monthly contribution on behalf of each salaried employee. The hourly employees may continue their contributions to the 401(k) retirement plan even though the Company contributions ceased. The Company also makes a monthly contribution to the 401(k) retirement plan on behalf of each salaried employee participating in the Trust. The amount of the contribution will be dependent upon each salaried employee’s contribution to the 401(k) retirement plan.

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, 2004, the Company has issued 71,720 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 insurance premiums obtained due to reductions in the state experience modifier issued to the Company.

Environmental

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.

Titusville Facility

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

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 Study noted that as is typical of the Titusville, Pennsylvania area generally, there is regional soil and groundwater hydrocarbon contamination present, 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 the Titusville facility is the agreed to indemnity. The Company believes the amount and terms of the Armco indemnity are sufficient to protect the Company against environmental liabilities arising from environmental conditions at the Titusville facility prior to June 2, 1995. There can be no assurance, however, that the indemnity will fully cover all environmental liabilities incurred at the Titusville facility 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 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. In addition, the order 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.

See “Risk Factors—Environmental Issues.”

Executive Officers

The following table sets forth, as of December 31, 2004, certain information with respect to the executive officers of the Company:

NAME (AGE)	EXECUTIVE OFFICER SINCE	POSITION
Clarence M. McAninch (69)	1994	President and Chief Executive Officer
Paul McGrath (53)	1996	Vice President of Operations, General Counsel and Secretary
Richard M. Ubinger (45)	1994	Vice President of Finance, Chief Financial Officer and Treasurer

Clarence M. McAninch, 69, 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, 53, 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, 45, 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

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.

Available Information

Copies of the Company’s Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports, are available free of charge on the Company’s website at www.univstainless.com as soon as reasonably practicable after such reports are filed with the Securities and Exchange Commission. The contents of our website are not part of this Annual Report on Form 10-K.

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.

Compliance with Section 404 of the Sarbanes-Oxley Act of 2002

The Company may be required to file a report on internal accounting controls, in accordance with Section 404 of the Sarbanes-Oxley Act of 2002, with its Annual Report on Form 10-K for the year ending December 31, 2005. In order to comply, the Company is required to increase the amount of documentation surrounding its internal control system and provide evidence that the system has been properly tested to support management’s conclusions. While the Company believes its internal control system is adequate in all material respects, there is no assurance that the Company will not identify a material weakness requiring disclosure. See “Business—Accounting Matter” and “Control and Procedures.”

Significant Customer and Concentrated Customer Base

For the year ended December 31, 2004, Talley Metals and its affiliates, the Company's largest single customer, accounted for approximately 23% of the Company's net sales. The Company's five largest customers in the aggregate accounted for approximately 48% of net sales. An adverse change in, or termination of, the Company's relationship with one or more of its major customers or one or more of its market segments could have a material adverse effect upon the Company. See "Business—Customers."

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 or its 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."

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 approximates one half of the Company's total cost of products sold. Raw material prices are affected by cyclical, seasonal and other market factors. Alloys consumed by the Company are primarily available 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 "Business—Raw Materials," and "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources."

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."

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."

Environmental Issues

The Company is subject to demanding federal, state and local environmental laws and regulations ("Environmental Laws") governing, among other things, air emissions, wastewater discharge and solid and hazardous waste disposal. The Company leases or owns certain real property previously owned and used by Armco, which merged with and into AK Steel in 1999 ("Armco"). In connection with the acquisition of the Titusville facility, Armco agreed to retain responsibility for certain environmental liabilities and agreed to indemnify the Company for environmental liabilities existing prior to the transaction date. The Company has filed no claims against Armco since the inception of the acquisition agreements. 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 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 indemnity does not cover any liability incurred at the Titusville facility with respect to violations of Environmental Laws enacted after June 2, 1995. 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 “Business—Environmental.”

Accounting Matter

The Company may be required to establish and maintain an effective control environment as of December 31, 2005 in order to comply with Section 404 of the Sarbanes-Oxley Act relating to internal controls over financial reporting. Section 404 of the Sarbanes-Oxley Act requires our independent registered public accounting firm to attest as to the effectiveness of our internal controls over financial reporting beginning in the year the Company is required to comply. Under applicable SEC rules and regulations, management may conclude that a company’s internal control over financial reporting is not effective if there are one or more material weaknesses in the company’s internal control over financial reporting. We are currently implementing our internal control program to prevent such significant deficiencies and materials weaknesses and to establish an effective control environment as of the filing of the December 31, 2005 Annual Report on Form 10-K.

Legal Matter

The Company is currently defending itself in a suit that alleges it manufactured steel product, utilized in the manufacturing of crankshafts, that was defective. After in-depth investigation, it is the Company’s position that the suit is without merit. While the Company believes that insurance coverage is available for the defense and damages, if any, relating to the claim, an unfavorable ruling in the suit could have a material adverse effect on the Company’s financial condition. See “Legal Proceedings.”

ITEM 2. PROPERTIES

The Company owns all of its Bridgeville facility, except for the ESR building, which the Company leases from AK Steel. 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.

The ESR building houses the Company’s four electro-slag remelting furnaces and ancillary equipment. On February 2, 2005, the Company entered into an agreement with AK Steel to purchase the ESR building and certain adjacent property. The Company will continue to operate the equipment in the ESR building under the existing lease which expires on March 8, 2006, until the transaction is complete. In the event the ESR building is not purchased, or the lease is not extended beyond March 8, 2006, the relocation of the ESR equipment would have an adverse material effect on the financial condition of the Company.

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 Dunkirk facility processes semi-finished billet and bar stock through one of more of its four rolling mills. The products are then finished and shipped as finished bar, rod and wire products

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.

ITEM 3. LEGAL PROCEEDINGS

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

In 2002, Teledyne was unsuccessful in its pursuit of a similar claim brought against another specialty steel producer who supplied the same steel product. After in-depth investigation, it is the Company’s position that the suit is without merit and it intends to vigorously

defend that position. Additionally, the Company believes that it has insurance coverage that is available for this claim. At this time, the Company is engaged in discovery and believes that the final disposition of this suit will not have a material adverse effect on the financial condition and the results of operations of the Company.

On April 7, 2003, United States Aviation Underwriters, Inc., ("USAU") a New York corporation, as managers and on behalf of United States Aircraft Insurance Group ("USAIG"), the Company's Aircraft Products Liability insurance carrier, filed suit in the Court of Common Pleas of Allegheny County, Pennsylvania asking the court for a declaratory judgement as to what actual liability and obligations were applicable to USAIG relating to the insurance policy issued to the Company, and the allegations made by Teledyne.

The Company and USAU reached a settlement agreement as of May 1, 2004 regarding the allocation of certain potential costs associated with the Teledyne claim and have agreed to jointly file a motion to have the declaratory suit dismissed. On July 27, 2004, the suit brought by USAU was dismissed

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 2004.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

At December 31, 2004, a total of 6,601,112 shares of the Company's Common Stock, par value $.001 per share, were issued and held by approximately 160 holders of record. A substantial number of the outstanding shares of Common Stock were owned of record on said date by "Cede & Co.," the nominee for Depository Trust Company, which is the clearing agency for most broker-dealers. Management believes that these shares are beneficially owned by customers of these broker-dealers and that the number of beneficial owners of the Company's Common Stock is substantially greater than 160. In addition, 269,900 shares of the issued Common Stock of the Company were held in treasury at December 31, 2004.

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 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:

	2004		2003	
	High	Low	High	Low
First quarter	$12.40	$ 8.70	$ 6.44	$4.92
Second quarter	$11.98	$ 9.86	$ 6.60	$4.40
Third quarter	$14.25	$10.94	$ 8.14	$5.86
Fourth quarter	$15.50	$12.08	$11.73	$7.62

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.

Equity Compensation Plan Information

Securities authorized for issuance under equity compensation plans at December 31, 2004 are as follows:

Plan Category	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans[(a)]
Equity compensation plans approved by security holders	511,675	$ 9.14	208,523
Equity compensation plans not approved by security holders	—	—	—
Total	511,675	$ 9.14	208,523

(a) *Includes 190,243 shares of common stock on stock options not issued under the Stock Incentive Plan and 18,280 available under the 1996 Employee Stock Purchase Plan.*

Preferred Stock

The Company's Certificate of Incorporation provides that the Company may, by vote of its Board of Directors, issue up to 1,980,000 shares of Preferred Stock. 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. The Company's Credit Agreement with PNC Bank currently limits the payment of cash dividends payable on it's Common Stock to 50% of the Company's excess cash flow per fiscal year. Excess cash flow represents the amount of the Company's earnings before interest, taxes, depreciation and amortization that is greater than the sum of the Company's payments for interest, income taxes, the principal portion of long-term debt and capital lease obligations, and capital expenditures. Therefore, the Company would be restricted from granting a dividend for the year ended December 31, 2004.

ITEM 6. SELECTED FINANCIAL DATA

The information called for by this item is set forth on page 35 of the Annual Report to Stockholders for the year ended December 31, 2004, which is incorporated herein.

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 8 through 16 of the Annual Report to Stockholders for the year ended December 31, 2004, which is incorporated herein.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by this item is set forth on page 14 of the Annual Report to Stockholders for the year ended December 31, 2004, which is incorporated herein.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information called for by this item is set forth on pages 18 through 34 of the Annual Report to Stockholders for the year ended December 31, 2004, which is incorporated herein.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

The Company's management, including the Company's President and Chief Executive Officer and the Vice President of Finance, Chief Financial Officer and Treasurer, performed an evaluation of the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the Company's President and Chief Executive Officer and the Vice President of Finance, Chief Financial Officer and Treasurer concluded that, as of the end of the fiscal year covered by this annual report, the Company's disclosure controls and procedures are effective in the timely identification of material information required to be included in the Company's periodic filings with the SEC. During the year ended December 31, 2004, there have been no changes in the Company's internal control over financial reporting identified in connection with the evaluation thereof, which have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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 18, 2005, 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 AND RELATED STOCKHOLDER MATTERS

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.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information concerning principal accountant fees and services is set forth in the Proxy Statement under the heading "Principal Accountant Fees and Services," 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 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

1) Consolidated Financial Statements:

The following report of independent registered public accounting firm and consolidated financial information of the Company included in the accompanying Annual Report, are incorporated in this Form 10-K Annual Report.

Financial Statements	Pages of Annual Report to Stockholders
Report of Schneider Downs & Co., Inc., Independent registered public accounting firm	17
Consolidated Statements of Operations for the three years ended December 31, 2004	18
Consolidated Balance Sheets as of December 31, 2004 and 2003	19
Consolidated Statements of Cash Flows for the three years ended December 31, 2004	20
Notes to the Consolidated Financial Statements	21-34
Five-year Summary	35

The report of the Company's former independent registered public accounting firm follows:

Report of Independent Registered Public Accounting Firm

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

In our opinion, the consolidated statements of operations and of cash flows for the year ended December 31, 2002, included in the accompanying Annual Report and incorporated in this Form 10-K Annual Report, present fairly, in all material respects, the results of operations and cash flows of Universal Stainless & Alloy Products, Inc., and its subsidiaries (the Company) for the year ended December 31, 2002, 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 audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards 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 audit provides a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Pittsburgh, Pennsylvania
February 18, 2003

2) Consolidated Financial Statement Schedules:

The following financial statement schedule is included herewith on page 21 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).
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	Stock Incentive Plan (incorporated herein by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
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).

EXHIBIT NUMBER	DESCRIPTION
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).
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 (incorporated herein by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
10.18	Fourth Amendment to the Second Amended and Restated Credit Agreement, dated as of May 31, 2002, between the Company and PNC Bank, National Association (incorporated herein by reference to Exhibit 10.26 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2002).
10.19	Fifth Amendment to the Second Amended and Restated Credit Agreement, dated as of February 18, 2003, between the Company and PNC Bank, National Association (incorporated herein by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.20	Sixth Amendment to the Second Amended and Restated Credit Agreement, dated as of June 30, 2003, between the Company and PNC Bank, National Association (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2003).
10.21	Seventh Amendment to the Second Amended and Restated Credit Agreement, dated as of October 20, 2003, between the Company and PNC Bank, National Association (incorporated herein by reference to Exhibit 10.29 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2003).
10.22	Eighth Amendment to the Second Amended and Restated Credit Agreement, dated as of September 28, 2004, between the Company and PNC Bank, National Association (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004).
10.23	Third Amended and Restated Revolving Credit Note, dated as of September 28, 2004, by and between the Company and PNC Bank, National Association (incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004).
10.24	Amendment No. 1 to the Second Amended and Restated Security Agreement and Collateral Assignment, dated as of September 28, 2004, by and between the Company and PNC Bank, National Association (incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004).
10.25	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).
10.26	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).
10.27	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).
10.28	Supply Contract Agreement, dated as of July 1, 2001, between the Company and Talley Metals Technology, Inc. a subsidiary of Carpenter Technology Corporation (incorporated herein by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
10.29	Personal Property Asset Purchase Agreement, dated as of February 8, 2002, between the Company and New York Job Development Authority (incorporated herein by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).

EXHIBIT NUMBER	DESCRIPTION
10.30	Real Property Asset Purchase Agreement, dated as of February 8, 2002, between the Company and New York Job Development Authority (incorporated herein by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
10.31	Promissory Note, dated as of February 13, 2002, between the Company and New York Job Development Authority (incorporated herein by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
10.32	Promissory Note, dated as of February 14, 2002, between the Company and New York Job Development Authority (incorporated herein by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
13.1	Selected pages of the Company's 2004 Annual Report to Stockholders (filed herewith).
21.1	Subsidiaries of Registrant (filed herewith).
23.1	Consent of Schneider Downs & Co., Inc. (filed herewith).
23.2	Consent of PricewaterhouseCoopers LLP (filed herewith).
24.1	Powers of Attorney (included on the signature page herein).
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d- 14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification of Chief Executive Officer pursuant to Rule 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.2	Certification of Chief Financial Officer pursuant to Rule 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRMS ON FINANCIAL STATEMENT SCHEDULE

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

Our audit of the consolidated financial statements referred to in our report dated February 22, 2005, appearing in the 2004 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 audits of the financial statement schedules listed in Item 15(a)(2) of this Form 10-K as it relates to the years ended December 31, 2004 and 2003. In our opinion, these financial statement schedules for the years ended December 31, 2004 and 2003 present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ Schneider Downs & Co., Inc.
Schneider Downs & Co., Inc.
Pittsburgh, Pennsylvania
February 22, 2005

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

Our audit of the consolidated financial statements referred to in our report dated February 18, 2003, appearing in this Annual Report on Form 10-K also included an audit of the financial statement schedule listed in Item 15(a)(2) of this Form 10-K as it relates to the year ended December 31, 2002. In our opinion, this financial statement schedule for the year ended December 31, 2002 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
February 18, 2003

Table of Contents

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended December 31, 2002, 2003 and 2004
(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, 2002	$ 480	$ 678	$ (221)	$ 937
Year ended December 31, 2003	937	1,281	(1,193)	1,025
Year ended December 31, 2004	1,025	3,197	(3,389)	833
Allowance for doubtful accounts:				
Year ended December 31, 2002	$ 434	$ 47	$ (183)	$ 298
Year ended December 31, 2003	298	52	(187)	163
Year ended December 31, 2004	163	394	—	557

Table of Contents

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 February 22, 2005.

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)	February 22, 2005
/s/ RICHARD M. UBINGER **Richard M. Ubinger**	Vice President of Finance, Chief Financial Officer and Treasurer (Principal Accounting Officer)	February 22, 2005
/s/ DOUGLAS M. DUNN **Douglas M. Dunn**	Director	February 22, 2005
/s/ GEORGE F. KEANE **George F. Keane**	Director	February 22, 2005
/s/ UDI TOLEDANO **Udi Toledano**	Director	February 22, 2005

Exhibit 13.1

2004 FINANCIAL REVIEW

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

17 Report of Management

17 Report of Independent Registered Public Accounting Firm

18 Consolidated Statements of Operations

19 Consolidated Balance Sheets

20 Consolidated Statements of Cash Flows

21 Notes to the Consolidated Financial Statements

35 Five-Year Summary

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

Results of Operations

On February 8, 2002, the Company, through its wholly-owned subsidiary, Dunkirk Specialty Steel, LLC ("Dunkirk Specialty Steel") entered into a Property Asset Purchase Agreement and a Real Property Purchase Agreement (the "Purchase Agreements") with the New York Job Development Authority (the "JDA") to acquire certain assets and real property formerly owned by Empire Specialty Steel, Inc. at its idled production facility located in Dunkirk, New York. These transactions were completed on February 14, 2002 and the facility became operational on March 14, 2002.

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

	2004		2003		2002	
For the years ended December 31,	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
(dollars in thousands)						
Net Sales						
Stainless steel	**$ 94,530**	**78.4%**	$52,546	76.2%	$56,813	80.1%
Tool steel	**17,075**	**14.2**	9,673	14.0	6,643	9.4
High-strength low alloy steel	**3,682**	**3.0**	2,869	4.1	2,213	3.1
High-temperature alloy steel	**2,468**	**2.0**	2,482	3.6	3,474	4.9
Conversion services	**2,386**	**2.0**	1,079	1.6	1,495	2.1
Other	**501**	**0.4**	340	0.5	239	0.4
Total net sales	**120,642**	**100.0**	68,989	100.0	70,877	100.0
Total cost of products sold	**102,972**	**85.4**	65,534	95.0	61,971	87.4
Selling and administrative expenses	**7,401**	**6.1**	5,837	8.5	5,883	8.3
Operating income (loss)	**$ 10,269**	**8.5%**	$ (2,382)	(3.5)%	$ 3,023	4.3%

Net sales by market segment are as follows:

	2004		2003		2002	
For the years ended December 31,	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
(dollars in thousands)						
Service centers	**$ 52,261**	**43.3%**	$29,150	42.3%	$23,478	33.1%
Rerollers	**30,200**	**25.0**	20,240	29.3	26,791	37.8
Forgers	**22,008**	**18.2**	9,773	14.2	8,370	11.8
Original equipment manufacturers	**8,349**	**6.9**	5,124	7.4	8,578	12.1
Wire redrawers	**5,008**	**4.2**	3,328	4.8	1,926	2.7
Conversion services	**2,386**	**2.0**	1,079	1.6	1,495	2.1
Miscellaneous	**430**	**0.4**	295	0.4	239	0.4
Net sales	**$120,642**	**100.0%**	$68,989	100.0%	$70,877	100.0%
Tons shipped	**48,350**		35,100		38,400	

2004 Results as Compared to 2003 The increase in net sales in 2004 reflects increased shipments within each market segment as well as the adoption of surcharge mechanisms for additional raw material components and base price increases implemented during 2004. Shipments of aerospace, power generation, petrochemical and tool steel products have increased substantially in comparison to the prior year period due to improved economic conditions and greater demand for higher value-added niche products. The Company's business conditions were enhanced by the relatively weak U.S. dollar.

Cost of products sold, as a percent of net sales, decreased in 2004 as compared to 2003. This decrease is primarily due to the impact of raw material surcharge and base price increases implemented in 2004, as well as higher production volumes, more than offsetting higher raw material, labor, energy and other manufacturing costs. In addition, Dunkirk Specialty Steel generated sufficient production volumes and implemented other cost reduction initiatives to operate profitably in 2004.

Selling and administrative expenses increased primarily due to higher employment costs and a $495,000 increase in bad debt expense. A substantial portion of the 2004 bad debt expense is related to one customer who filed for Chapter 11 bankruptcy protection and to a second financially distressed customer's inability to pay its outstanding receivable balance at December 31, 2004.

Interest expense and other financing costs increased from $383,000 in 2003 to $422,000 in 2004. The increase was primarily due to the Company funding the increase in working capital to support higher production volumes with a revolving line of credit. This increase was partially offset by lower interest expense associated with existing term debt as the Company continued to fund its scheduled payments.

Other income, net increased from $128,000 in 2003 to $1.1 million in 2004. The increase was primarily due to the receipt of $1.1 million, net of expenses, under the Continued Dumping and Subsidy Offset Act of 2000 ("CDSOA") in 2004. In 2003, the Company received notice that it was awarded $604,000, of which $10,000 was received. The remaining payment was delayed pending the outcome of a hearing before the U.S. Court of Appeals for the Federal Circuit in a lawsuit challenging the distribution method of the import duties. The remaining payment, as well as the 2004 award of $507,000, was received and recognized as income in 2004, net of expenses incurred.

The 2004 effective income tax rate was 35.0% compared to a 46.3% income tax benefit in 2003. The change in the effective income tax rate is primarily attributable to the impact of recognizing a loss in 2003 against the tax credit benefits generated by the Company from operating Dunkirk Specialty Steel within a New York State Empire Zone. The Company recognized $262,000 of these income tax credits in 2004 in comparison to $185,000 in 2003.

2003 Results as Compared to 2002 The decrease in net sales in 2003 reflected reduced demand for commodity reroller and power generation products, which was partially offset by increased demand for petrochemical, tool steel and aerospace products. During the first half of 2002, demand for commodity reroller products had increased as a result of the Section 201 tariffs imposed by President Bush in March 2002 on imported specialty steel products. This trend did not continue beyond that period. The decline in demand for power generation products continued in 2003 primarily due to production cutbacks of power generation equipment initiated in 2002. Increased demand for aerospace and petrochemical products was primarily due to the increased product capabilities resulting from the acquisition of Dunkirk Specialty Steel in 2002. The increase in tool steel demand was primarily attributable to the Company increasing its market share from a new customer obtained in 2002.

Cost of products sold, as a percentage of net sales, increased in 2003 as compared to 2002. This increase was primarily due to higher raw material, labor and energy costs, as well as shifts in product mix and lower production volumes during the first six months of 2003. In addition, Dunkirk Specialty Steel had not generated sufficient production volumes to operate profitably.

Selling and administrative expenses remained relatively constant between 2002 and 2003. Increased business insurance costs in 2003 were more than offset by a $267,000 one-time charge for production process, security and maintenance modifications enacted while the Bridgeville facility operated under a day-to-day extension of its collective bargaining agreement from August 31, 2002 to December 7, 2002.

Interest expense and other financing costs decreased from $455,000 in 2002 to $383,000 in 2003. The decrease was primarily due to the Company continuing to fund the scheduled payments on existing debt without incurring additional debt.

Other income, net decreased from $457,000 in 2002 to $128,000 in 2003. The decrease was primarily due to the receipt of $310,000, net of expenses, under the CDSOA in 2002. In 2003, the Company received notice that it was awarded $604,000, of which $10,000 was received. The remaining payment was delayed pending the outcome of a hearing before the U.S. Court of Appeals for the Federal Circuit in a lawsuit challenging the distribution method of the import duties. The remaining payment was not recorded as income, net of expenses incurred, until it was received in 2004.

The 2003 effective income tax rate was 46.3% compared to 30.8% in 2002. The increase in the effective income tax rate was primarily attributable to the impact of recognizing a loss in 2003 against the tax credit benefits generated by the Company from operating Dunkirk Specialty Steel within a New York State Empire Zone. The Company recognized $185,000 of these income tax credits in 2003 in comparison to $340,000 in 2002.

Business Segment Results

The Company is comprised of three operating locations and one corporate headquarters. For segment reporting, the Bridgeville and Titusville facilities have been aggregated into one reportable segment, Universal Stainless & Alloy Products, because of the management reporting structure in place. The Universal Stainless & Alloy Products manufacturing process involves melting, remelting, treating and hot and cold rolling of semi-finished and finished specialty steels. A second reportable segment, Dunkirk Specialty Steel, was created in 2002 as a result of the acquisition of certain assets and real property formerly owned by Empire Specialty Steel, Inc. Dunkirk Specialty Steel's manufacturing process involves hot rolling and finishing specialty steel bar, rod and wire products.

Universal Stainless & Alloy Products Segment An analysis of the segment's operations is as follows:

For the years ended December 31,	**2004**		**2003**		**2002**	
(dollars in thousands)	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Net Sales						
Stainless steel	**$ 65,208**	**60.2%**	$35,946	60.3%	$48,193	68.7%
Tool steel	**16,672**	**15.4**	9,097	15.3	6,568	9.4
High-temperature alloy steel	**2,182**	**2.0**	1,965	3.3	3,237	4.6
High-strength low alloy steel	**1,576**	**1.5**	1,672	2.8	1,922	2.8
Conversion services	**1,961**	**1.8**	926	1.6	1,400	2.0
Other	**427**	**0.4**	302	0.5	220	0.3
	88,026	**81.3**	49,908	83.8	61,540	87.8
Intersegment	**20,208**	**18.7**	9,677	16.2	8,580	12.2
Total net sales	**108,234**	**100.0**	59,585	100.0	70,120	100.0
Material cost of sales	**49,967**	**46.2**	22,982	38.6	30,084	42.9
Operation cost of sales	**45,521**	**42.1**	32,934	55.2	30,466	43.4
Selling and administrative expenses	**5,253**	**4.8**	3,918	6.6	4,557	6.5
Operating income (loss)	**$ 7,493**	**6.9%**	$ (249)	(0.4)%	$ 5,013	7.2%

Net sales for the year ended December 31, 2004 increased $48.6 million, or 82%, in comparison to the year ended December 31, 2003 primarily due to a 41% increase in tons shipped in addition to the adoption of surcharge mechanisms for additional raw material components and other price increases implemented during 2004. Operating income for the year ended December 31, 2004 increased $7.7 million primarily due to the impact of surcharge and base price increases implemented in 2004, as well as higher production volumes, more than offsetting higher raw material, labor, energy and other manufacturing costs.

Net sales for the year ended December 31, 2003 decreased $10.5 million, or 15%, in comparison to the year ended December 31, 2002 primarily due to a 47% and 32% decline in revenues associated with commodity reroll and power generation products, respectively. These declines were partially offset by a 39% increase in tool steel product revenues. Operating income (loss) for the year ended December 31, 2003 decreased $5.3 million primarily due to higher raw material, labor and energy costs, partially offset by an improved product mix.

Dunkirk Specialty Steel Segment An analysis of the segment's operations is as follows:

For the years ended December 31,	2004		2003		2002	
(dollars in thousands)	Amount	%	Amount	%	Amount	%
Net Sales						
Stainless steel	**$29,322**	**84.4%**	$16,600	83.5%	$ 8,620	82.2%
Tool steel	**403**	**1.2**	576	2.9	75	0.7
High-temperature alloy steel	**286**	**0.8**	517	2.6	237	2.3
High-strength low alloy steel	**2,106**	**6.1**	1,197	6.0	291	2.8
Conversion services	**425**	**1.2**	153	0.8	95	0.9
Other	**74**	**0.2**	38	0.2	19	0.2
	32,616	**93.9**	19,081	96.0	9,337	89.1
Intersegment	**2,107**	**6.1**	794	4.0	1,146	10.9
Total net sales	**34,723**	**100.0**	19,875	100.0	10,483	100.0
Material cost of sales	**17,834**	**51.4**	11,080	55.7	5,945	56.7
Operation cost of sales	**11,653**	**33.5**	9,009	45.3	5,202	49.6
Selling and administrative expenses	**2,148**	**6.2**	1,919	9.7	1,326	12.7
Operating income (loss)	**$ 3,088**	**8.9%**	$ (2,133)	(10.7)%	$ (1,990)	(19.0)%

Net sales for the year ended December 31, 2004 increased $14.8 million, or 75%, in comparison to the year ended December 31, 2003 primarily due to a 42% increase in tons shipped in addition to the adoption of surcharge mechanisms for additional raw material components and other price increases implemented during 2004. Operating income for the year ended December 31, 2004 increased $5.2 million primarily due to the impact of surcharge and base price increases implemented in 2004, as well as higher production volumes and other cost reduction initiatives, more than offsetting higher raw material, labor and energy costs.

Net sales for the year ended December 31, 2003 increased $9.4 million, or 90%, in comparison to the year ended December 31, 2002 primarily due to more than 100% increases in revenue associated with aerospace and petrochemical products. The operating loss for the year ended December 31, 2003 increased $143,000 primarily due to a $947,000 increase in fixed manufacturing costs and selling and administrative costs partially offset by higher direct margins attributable to cost reduction initiatives implemented in the manufacturing process.

Liquidity and Capital Resources

The Company used cash for operations of $9.7 million in the year ended December 31, 2004 and generated cash from operations of $3.8 million in the year ended December 31, 2003. Cash received from sales of $108.4 million and $68.4 million for the years ended December 31, 2004 and 2003, respectively, represent the primary source of cash from operations. An analysis of the primary uses of cash is as follows:

For the years ended December 31,	2004		2003	
(dollars in thousands)	Amount	%	Amount	%
Raw material purchases	**$ 58,121**	**49.2%**	$22,628	35.0%
Employment costs	**26,310**	**22.3**	19,518	30.2
Utilities	**12,976**	**11.0**	9,689	15.0
Other	**20,722**	**17.5**	12,828	19.8
Total uses of cash	**$118,129**	**100.0%**	$64,663	100.0%

Cash used in raw material purchases increased in 2004 in comparison to 2003 primarily due to higher quantities of product purchased and significantly higher transaction prices. Increased employment costs are primarily due to higher production volumes and increased payouts under the Company's profit-sharing and other incentive compensation plans. Increased utility costs are primarily due to higher consumption and rates charged for electricity and natural gas. In October 2004, the Company's electricity costs at the Bridgeville facility increased by approximately $200,000 per month due to a Public Utility Commission ruling that reduced the number of off-peak power hours available to conduct its melting operations. The increase in other uses of cash is primarily attributable to paying $1.5 million, net of refunds received, for federal and state income taxes in 2004 as compared to receiving $1.5 million of federal and state income tax refunds in 2003, as well as purchases to support higher production volumes.

At December 31, 2004, working capital approximated $47.9 million, as compared to $33.4 million at December 31, 2003. Accounts receivable represents $11.9 million of the increase, which relates to the growth in net sales. Inventory, net of non-debt current liabilities, increased $7.8 million primarily due to increased production volumes and increased raw material costs incurred during the year. The cost of raw materials contained within work-in-process inventory is approximately $7.0 million higher at December 31, 2004, as compared to December 31, 2003, as a result of increased raw material transaction prices. The Company continuously monitors market price fluctuations of its key raw materials. The following table reflects the average market value per pound for selected months during the last twelve-month period.

	December 2002	June 2003	December 2003	June 2004	December 2004
Nickel	$ 3.26	$4.03	$ 6.43	$ 6.14	$ 6.25
Chrome	$ 0.33	$0.45	$ 0.54	$ 0.73	$ 0.70
Molybdenum	$ 3.51	$5.63	$ 7.10	$15.71	$ 32.46
Carbon Scrap	$ 0.06	$0.06	$ 0.09	$ 0.11	$ 0.18

Increased demand from foreign (primarily China) and domestic sources caused raw material market values to rise significantly since June 2003. In response, the Company began to calculate its nickel surcharge using an $0.18 per pound premium over the London Metal Exchange (LME) prices on February 4, 2004, implemented an iron surcharge component on February 16, 2004, expanded the use of surcharges to include tool steel products on May 1, 2004 and implemented a manganese surcharge component on June 1, 2004. The nickel surcharge premium per pound was increased from $0.18 to $0.23 on August 1, 2004. In addition, the Company has experienced higher energy, transportation and manufacturing supply costs during 2004. In response, the Company has announced several sales price increases during 2004 and 2005. There can be no assurance that these sales price increases will completely offset the Company's rising costs.

Capital Expenditures and Investments The Company's capital expenditures were approximately $3.6 million and $1.2 million in 2004 and 2003, respectively. The capital expenditure increase in 2004 is primarily due to the addition of six annealing furnaces, four saws and two reheat furnaces for the Universal Rolling Mill to support increased demand for product at the Company's Bridgeville facility.

In addition, the 2003 capital expenditures were partially offset by the Company entering into a $200,000 Deferred Loan Agreement maturing on December 31, 2006 with the Dunkirk Local Development Corporation. No principal or interest payments will be required under the Deferred Loan Agreement provided that the Company hires and retains 30 new employees through the Deferred Loan Agreement maturation date, with more than 50% of those jobs made available to certain Dunkirk City residents. As of December 31, 2004, the Company believes that it will meet the conditions of the Deferred Loan Agreement. Therefore, the proceeds have been applied to reduce the acquisition cost of new equipment at the Company's Dunkirk facility.

Capital expenditures are expected to approximate $8 million in 2005, based on current market conditions, and will be used for the purchase of new equipment at the Bridgeville, Titusville and Dunkirk facilities. Commitments of additional capital expenditures may occur if market conditions continue to improve.

Capital Resources Including Off-Balance Sheet Arrangements 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 The Company maintains a credit agreement with PNC Bank for a $15.0 million revolving credit facility ("PNC Line") with a term expiring on June 30, 2006. This credit agreement also includes a term loan ("PNC Term Loan") scheduled to mature on June 30, 2006. The credit agreement 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. In addition, the Company pays a commitment fee of 0.5% per annum on the unused portion of the PNC Line. 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.

In 2004, the Company executed the Eighth Amendment to the Second Amended and Restated Credit Agreement with PNC Bank. The amendment increased the line of credit from $6.5 million to $15.0 million and reinstated certain financial covenants that were temporarily replaced with an asset-based funding formula that permitted the Company full access to the PNC Line in 2003 and 2004. As of December 31, 2004, the Company was in compliance with all financial ratios and restrictive covenants in effect. The Company believes it will maintain compliance with the financial covenants in effect throughout 2005.

Government Financing Programs The Company maintains several separate loan agreements with the Commonwealth of Pennsylvania's Department of Commerce aggregating $600,000 with terms ending between the years 2011 and 2016. The loans bear interest at rates ranging from 5% to 6% per annum. In 1996, the Company entered into a ten-year, 6% interest-bearing loan agreement with the Redevelopment Authority of Allegheny County Economic Development Fund in the amount of $1,514,000. As of December 31, 2004, the total principal balance of these government-financed debt instruments is $761,000.

On February 14, 2002, Dunkirk Specialty Steel issued two ten-year, 5% interest-bearing notes payable to the JDA (the "JDA Notes") for the combined amount of $3.0 million. No principal or interest payments were due under the notes during the first year. The notes were recorded net of a $143,000 debt discount, of which $125,000 was amortized in 2002 and included as interest expense. The balance was amortized and included as interest expense in 2003. As of December 31, 2004, the principal balance is $2.5 million.

Stock-Based Financing Activity The Company issued 36,806 and 9,768 shares of its Common Stock for the years ended December 31, 2004 and 2003, respectively, through its two stock-based compensation plans. In 2004, certain employees and a former member of the Company's Board of Directors exercised 27,749 stock options issued under the Stock Incentive Plan for $234,000 plus related tax benefits of $51,000. The remaining shares were issued to employees participating in the Employee Stock Purchase Plan.

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. The Company repurchased no shares of Common Stock during 2004, 2003 and 2002. The Company is authorized to repurchase 45,100 remaining shares of Common Stock under this program as of December 31, 2004.

Short- and Long-Term Liquidity The Company expects to meet substantially all of its short-term liquidity requirements resulting from operations and current capital investment plans with internally generated funds and borrowings under the PNC Credit Agreement. At December 31, 2004, the Company had $241,000 in cash and $6.4 million available under the PNC Line. In addition, the ratio of current assets to current liabilities at December 31, 2004 was 3.5:1 and the debt to total capitalization ratio was 17.5%.

The Company's long-term liquidity depends upon its ability to obtain additional orders from its existing customers, attract new customers and control costs. Additional sources of financing may be required to fund growth initiatives identified by the Company.

Contractual Obligations At December 31, 2004, the Company had the following contractual obligations:

(dollars in thousands)	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Long-term debt	$14,892	$ 2,236	$10,584	$936	$ 1,136
Capital lease obligations	47	33	14	—	—
Operating lease obligations	138	49	66	23	—
Purchase obligations	8,963	8,309	654	—	—
Total contractual obligations	$24,040	$10,627	$11,318	$959	$ 1,136

Long-term debt includes the PNC Term Loan. The Company has fixed the rate of interest at 4.43% through December 12, 2005. The table assumes the Company will maintain that interest rate until maturity. Long-term debt also includes the outstanding balance on its PNC Line, currently due to expire on June 30, 2006. The table assumes the PNC Line will not be extended. Purchase obligations include the value of all open purchase orders with established quantities and purchase prices as well as minimum purchase commitments.

Market Risk The Company does not use derivative financial instruments to reduce its financial risk. The Company's customers and suppliers absorb fluctuations in foreign currency exchange rates. In addition, the Company maintains some long-term, fixed cost supply agreements for its major purchase requirements. Prices for the Company's raw materials and natural gas requirements are subject to frequent market fluctuations, and profit margins may decline in the event market values increase. Selling price increases and surcharges are implemented to offset raw material and natural gas market price increases.

The Company is exposed to market risk from changes in interest rates related to its long-term debt. At December 31, 2004, $3.3 million of the Company's total long-term debt and capital lease obligations has fixed interest rates. The remaining $2.3 million represents the PNC Term Loan outstanding balance that bears a variable interest rate.

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

Import Protections On October 22, 2001, the U.S. International Trade Commission determined that imports of certain stainless steel and alloy tool steel products were seriously injuring the domestic specialty steel industry. On March 5, 2002, President Bush imposed tariffs on certain imported stainless steel rod, bar and wire products ranging from 6% to 15% over the next three years under Section 201 of the 1974 Trade Act. During the 2002 second quarter, the Company experienced a significant increase in demand for commodity reroller products. This trend did not continue beyond the 2002 second quarter. President Bush ended the imposed tariffs on December 4, 2003.

The assets purchased by Dunkirk Specialty Steel were previously owned and operated by AL Tech Specialty Steel, Inc. and Empire Specialty Steel, Inc. During their ownership, both organizations participated in several anti-dumping lawsuits with other domestic specialty steel producers. CDSOA provides for payment of import duties collected by the U.S. Treasury to domestic companies injured by unfair foreign trade practices. In accordance with CDSOA, the Company filed claims to receive their appropriate share of the import duties collected and received $310,000, net of expenses in 2002. In 2003, the Company received notice that it was awarded $604,000, of which $10,000 was received. The remaining payment was delayed pending the outcome of a hearing before the U.S. Court of Appeals for the Federal Circuit in a lawsuit challenging the distribution method of the import duties. The remaining payment, as well as the 2004 award of $507,000, was received and recorded as income in 2004, net of expenses incurred.

The Company expects to benefit from CDSOA in future years unless the Act is repealed by Congress. The amount of future benefits is dependent on the amount of import duties collected and the relationship of Dunkirk Specialty Steel's claim in relation to claims filed by other domestic specialty steel producers. On January 28, 2005, the Company received an additional $59,000 from the U.S. Treasury, representing an increase in the total allocation of available funds awarded to the Company for 2004.

Bridgeville Lease Property, plant and equipment included a capital lease with Armco, which merged with and into AK Steel in 1999 ("Armco"), for the ESR building, which houses the Company's four electro-slag remelting furnaces and ancillary equipment. On February 2, 2005, the Company entered into a written agreement with AK Steel to purchase the ESR building and certain other parcels. The Company will continue to operate the equipment in the ESR building under the existing lease which expires on March 8, 2006, until the transaction is complete. In the event the ESR building is not purchased, or the lease is not extended beyond March 8, 2006, the relocation of the ESR equipment would have an adverse material effect on the financial condition of the Company.

Contingent Items

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. The Company is not aware of any environmental condition that currently exists at any of its facilities that would cause a material adverse effect on the financial condition of the Company.

In connection with the Company's June 2, 1995 agreement with Armco to purchase certain assets and a parcel of real property located 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 also agreed to indemnify the Company for any liabilities arising out of environmental conditions existing off-site as of June 2, 1995, and that indemnification is not subject to the $3.0 million limitation.

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

In connection with the acquisition of the Dunkirk facility, Dunkirk Specialty Steel entered into an order with the New York State Department of Environmental Conservation ("NY DEC") that precludes NY DEC from bringing any action against the Company. In addition, the order 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.

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

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

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

On January 28, 2005, the Company filed suit in the Court of Common Pleas of Allegheny County, Pennsylvania, asking the court for a judgment demanding payment from a financially distressed customer for an outstanding receivable balance, together with pre- and post-judgment interest, an award of the costs and expenses the Company has incurred in pursuing this action and such other relief as the court deems proper. At December 31, 2004, the Company included the value of the outstanding receivable balance in its allowance for doubtful accounts. In 2005, the Company received a partial payment of $110,000 from this customer and will pursue collecting the remaining balance.

Critical Accounting Policies and New Accounting Pronouncements

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 has transferred. Revenue is also 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 collectible. An inventory reserve is provided for material on hand for which management believes cost exceeds fair market value and for material on hand for more than one year not assigned to a specific customer order.

Long-lived assets are reviewed for impairment annually by each operating facility. An impairment write-down will be recognized whenever events or changes in circumstances indicate that the carrying value may not be recoverable through estimated future undiscounted cash flows. The Company has not recognized an impairment write-down on any of its assets held at December 31, 2004.

In addition, management assesses the need to record a valuation allowance to reduce deferred tax assets to the amount that is more likely than not to be realized. The Company believes it will generate sufficient income in addition to taxable income generated from the reversal of its temporary differences to utilize the deferred tax assets recorded at December 31, 2004.

New Accounting Pronouncements In November of 2004, the FASB issued Statement of Financial Accounting Standards No. 151, “Inventory Costs, an amendment of ARB No. 43, Chapter 4” (“SFAS 151”). The purpose of this statement is to clarify the accounting of abnormal amounts of idle facility expense, freight, handling costs and waste material. ARB No. 43 stated that under some circumstances these costs may be so abnormal that they are required to be treated as current period costs. SFAS 151 requires that these costs be treated as current period costs regardless if they meet the criteria of “so abnormal.” In addition, the statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provision of this Statement shall be effective for inventory costs incurred during fiscal years beginning after December 31, 2004. The early adoption of SFAS 151 did not have a material impact on the Company’s results of operations or financial position.

In December 2004, the FASB issued Statement of Financial Accounting Standard No. 123 (revised 2004), “Share-Based Payment” (“SFAS 123-R”). This Statement replaces FASB Statement No. 123 and supercedes APB Opinion No. 25. SFAS 123-R eliminates the ability to account for share-based compensation transactions using the intrinsic method currently used by the Company. SFAS 123-R requires such transactions be accounted for using a fair-value-based method that would result in expense being recognized in the Company’s financial statements. The Company will be required to adopt SFAS 123-R as of July 1, 2005 utilizing similar valuation methodologies that generate the pro-forma disclosures included in this Annual Report.

Reclassifications Certain prior year amounts have been reclassified to conform to the 2004 presentation.

Future Outlook

The Company enters 2005 with a total backlog of approximately $72 million and expects demand for aerospace, power generation, petrochemical and tool steel products to remain strong throughout the year. The Company also expects that its results will improve in 2005 in conjunction with the pace of the domestic economy’s recovery, the market’s increasing acceptance of Dunkirk Specialty Steel as a reliable supplier of quality specialty steel bar, rod and wire products, and the acceptance of sales price increases beyond raw material surcharges.

Forward-Looking Information Safe Harbor

The Management’s Discussion and Analysis and other sections of this Annual Report contain forward-looking statements that reflect the Company’s current views with respect to future events and financial performance. Statements looking forward in time, including statements regarding future growth, cost savings, expanded production capacity, broader product lines, greater capacity to meet customer quality reliability, price and delivery needs, enhanced competitive posture, effect of new accounting pronouncements and no material financial impact from litigation or contingencies are included in this Annual Report pursuant to the “safe harbor” provision of the Private Securities Litigation Reform Act of 1995.

The Company’s actual results will be affected by a wide range of factors including compliance with Section 404 of the Sarbanes-Oxley Act of 2002; the concentrated nature of the Company’s customer base to date and the Company’s dependence on its significant customers; the receipt, pricing and timing of future customer orders; changes in product mix; the limited number of raw material and energy suppliers and significant fluctuations that may occur in raw material and energy prices; the Company’s reliance on certain critical manufacturing equipment; the ability to acquire the ESR Building or the extension of the lease prior to the expiration of the Armco Lease; the Company’s ongoing requirement for continued compliance with environmental laws; and the ultimate outcome of the Company’s current and future litigation matters. Many of these factors are not within the Company’s control and involve known and unknown risks and uncertainties that may cause the Company’s actual results in future periods to be materially different from any future performance suggested herein. Any unfavorable change in the foregoing or other factors could have a material adverse effect on the Company’s business, financial condition and results of operations.

Further, the Company operates in an industry sector where securities values may be volatile and may be influenced by economic and other factors beyond the Company's control. For a discussion of these and other matters, refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2004 and other reports on file with the Securities and Exchange Commission.

REPORT OF MANAGEMENT

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

The financial statements and related information contained in this report were prepared in conformity with accounting principles generally accepted in the United States of America and, as such, include amounts based on management's best judgments and estimates. We maintain a system of policies, procedures and controls designed to provide reasonable assurance that transactions are properly executed, recorded and included within the financial statements and that the Company's assets are safeguarded from improper or unauthorized use. The Audit Committee of the Board of Directors, composed of independent directors, meets regularly with management and our independent accountants to discuss audit results and financial reporting matters. The independent accountants have full access to the Audit Committee without our presence.

/s/ Clarence M. McAninch

Clarence M. McAninch
President and Chief Executive Officer

/s/ Richard M. Ubinger

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

February 22, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Universal Stainless & Alloy Products, Inc. and subsidiaries (the Company) as of December 31, 2004 and 2003, and the related consolidated statements of operations, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The consolidated financial statements of Universal Stainless & Alloy Products, Inc. for the year ended December 31, 2002 were audited by other auditors whose report dated February 18, 2003 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Universal Stainless & Alloy Products, Inc. and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Schneider Downs & Co., Inc.

Schneider Downs & Co., Inc.
Pittsburgh, Pennsylvania

February 22, 2005

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31,	2004	2003	2002
(dollars in thousands, except per share information)			
Net sales	**$ 120,642**	$ 68,989	$ 70,877
Cost of products sold	**102,972**	65,534	61,971
Selling and administrative expenses	**7,401**	5,837	5,883
Operating income (loss)	**10,269**	(2,382)	3,023
Interest expense and other financing costs	**(422)**	(383)	(455)
Other income, net	**1,119**	128	457
Income (loss) before taxes	**10,966**	(2,637)	3,025
Provision (benefit) for income taxes	**3,835**	(1,220)	933
Net income (loss)	**$ 7,131**	$ (1,417)	$ 2,092
Earnings (Loss) Per Common Share			
Basic	**$ 1.13**	$ (0.23)	$ 0.34
Diluted	**$ 1.12**	$ (0.23)	$ 0.34
Weighted-average number of shares of Common Stock outstanding	**6,304,909**	6,287,088	6,203,800

Theaccompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

December 31,	2004	2003
(dollars in thousands)		
Assets		
Current Assets		
Cash and cash equivalents	**$ 241**	$ 4,735
Accounts receivable (less allowance for doubtful accounts of $557 and $163)	**24,562**	12,690
Inventory	**38,318**	22,281
Deferred taxes	**1,436**	1,222
Other current assets	**1,982**	3,063
Total current assets	**66,539**	43,991
Property, plant and equipment, net	**40,716**	40,176
Other assets	**585**	758
Total assets	**$107,840**	$84,925
Liabilities and Stockholders' Equity		
Current Liabilities		
Trade accounts payable	**$ 11,666**	$ 6,792
Outstanding checks in excess of bank balance	**2,638**	813
Current portion of long-term debt	**2,044**	1,944
Accrued employment costs	**1,830**	833
Other current liabilities	**442**	195
Total current liabilities	**18,620**	10,577
Long-term debt	**12,190**	5,599
Deferred taxes	**10,093**	9,313
Total liabilities	**40,903**	25,489
Commitments and Contingencies		
Stockholders' Equity		
Senior Preferred Stock, par value $0.001 per share; 1,980,000 shares authorized; 0 shares outstanding	**—**	—
Common Stock, par value $0.001 per share; 10,000,000 shares authorized; 6,601,112 and 6,564,306 shares issued	**7**	7
Additional paid-in capital	**28,699**	28,329
Retained earnings	**39,862**	32,731
Treasury Stock at cost; 269,900 common shares held	**(1,631)**	(1,631)
Total stockholders' equity	**66,937**	59,436
Total liabilities and stockholders' equity	**$107,840**	$84,925

Theaccompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31,	2004	2003	2002
(dollars in thousands, except per share information)			
Cash Flows from Operating Activities			
Net income (loss)	**$ 7,131**	$(1,417)	$ 2,092
Adjustments to reconcile to net cash and cash equivalents provided by operating activities:			
Depreciation and amortization	**3,061**	3,093	3,271
Deferred taxes	**724**	996	596
Tax benefit from exercise of stock options	**51**	—	417
Changes in assets and liabilities:			
Accounts receivable, net	**(11,872)**	(1,140)	1,150
Inventory	**(16,037)**	436	(859)
Accounts payable	**4,981**	2,536	(407)
Accrued employment costs	**997**	186	(543)
Refundable income taxes paid	**1,443**	(729)	(990)
Other, net	**(196)**	189	(903)
Net cash (used in) provided by operating activities	**(9,717)**	3,778	3,824
Cash Flows from Investing Activities			
Acquisition of assets and real property through purchase agreements	**—**	—	(1,283)
Capital expenditures	**(3,586)**	(1,193)	(4,194)
Net cash used in investing activities	**(3,586)**	(1,193)	(5,477)
Cash Flows from Financing Activities			
Net borrowings under revolving line of credit	**8,635**	—	—
Proceeds from deferred loan agreement	**—**	200	—
Long-term debt repayment	**(1,944)**	(1,948)	(1,831)
Increase (decrease) in outstanding checks in excess of bank balance	**1,825**	538	(582)
Deferred financing costs	**(26)**	—	—
Proceeds from issuance of Common Stock	**319**	52	1,920
Net cash provided by (used in) financing activities	**8,809**	(1,158)	(493)
Net (decrease) increase in cash and cash equivalents	**(4,494)**	1,427	(2,146)
Cash and cash equivalents at beginning of period	**4,735**	3,308	5,454
Cash and cash equivalents at end of period	**$ 241**	$ 4,735	$ 3,308
Supplemental Disclosure of Cash Flow Information			
Interest paid (net of amount capitalized)	**$ 410**	$ 348	$ 318
Income taxes paid (refund)	**$ 1,545**	$(1,453)	$ 1,329

Theaccompanying 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, original equipment manufacturers, which primarily include the power generation and aerospace industries, and wire redrawers. 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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. The estimates and assumptions used in these consolidated financial statements are based on known information available as of the balance sheet date. Actual results could differ from those estimates.

Basis of Consolidation The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The Company has no interests in any unconsolidated entity nor does it have any off-balance sheet financing arrangements other than operating leases.

Cash and Cash Equivalents Cash equivalents are stated at cost plus accrued interest, which approximates market value, and include only securities having a maturity of three months or less at the time of purchase.

Concentration of Credit Risk Financial instruments that potentially subject the Company to concentrations of credit risk are cash and cash equivalents and accounts receivable. The Company limits its credit risk associated with cash and cash equivalents by placing its investments in high-grade short-term instruments. With respect to accounts receivable, the Company limits its credit risks by performing ongoing credit evaluations and, when deemed necessary, requiring letters of credit, guarantees or collateral. 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 collectible. Bad debt expense (income) for fiscal year 2004, 2003 and 2002 was $471,000, $(24,000) and $22,000, respectively.

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 within the guidelines of normal plant capacity. Provisions are made for slow-moving inventory based upon management's expected method of disposition.

The Company purchases scrap metal and alloy additives, principally nickel, chrome and molybdenum, for its melting operation. 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. Maintenance expense for the fiscal year 2004, 2003 and 2002 was $9,203,000, $6,151,000 and $6,390,000, respectively.

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 buildings and land improvements are between 5 and 25 years, and the estimated useful lives of machinery and equipment are between 5 and 20 years. Direct costs incurred in the development and implementation of internal-use software are capitalized and recorded within property, plant and equipment, and amortized on a straight-line basis over its anticipated useful life, which generally does not exceed three years. Depreciation and amortization expense for fiscal year 2004, 2003 and 2002 was $3,046,000, $3,063,000 and $3,130,000, respectively.

The Company's manufacturing processes are dependent upon certain 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 an unexpected equipment failure, there can be no assurance that the Company's operations would not be substantially curtailed.

Long-Lived Asset 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, 2004 and 2003.

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, and collection is reasonably assured. Revenue from conversion services is recognized when the performance of the service is complete. Invoiced shipping and handling costs are also accounted for as revenue. Customer claims are accounted for primarily as a reduction to gross sales after the matter has been researched and an acceptable resolution has been reached.

Income Taxes Deferred income taxes are provided for unused tax credits earned and 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. Valuation allowances are provided for a deferred tax asset when it is more likely than not that such asset will not be realized.

Stock-Based Compensation Plans The Company accounts for stock-based employee and director compensation using the intrinsic value method. No stock-based employee compensation cost is reflected in net income unless the exercise price of the options granted does not equal market value of the underlying common stock on the date of grant. The tax effects of exercising stock options are added to additional paid-in capital at the exercise date.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of issued Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), to stock-based employee compensation:

For the years ended December 31,	**2004**	**2003**	**2002**
(dollars in thousands, except per share information)			
Net income (loss), as reported	**$7,131**	$(1,417)	$2,092
Total stock-based compensation expense determined under fair-value-based method, net of taxes	**(179)**	(118)	(129)
Pro forma net income (loss)	**$6,952**	$(1,535)	$1,963
Earnings (Loss) Per Share			
Basic – as reported	**$ 1.13**	$ (0.23)	$ 0.34
Basic – pro forma	**$ 1.10**	$ (0.24)	$ 0.32
Diluted – as reported	**$ 1.12**	$ (0.23)	$ 0.34
Diluted – pro forma	**$ 1.09**	$ (0.24)	$ 0.31

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 2004, 2003 and 2002, respectively: dividend yield of 0.0% for each year; interest rate of 3.3%, 3.0% and 3.7%; expected volatility of 57.1%, 54.0% and 53.0%; and expected lives for options of five years.

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 is 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 assumed proceeds from the exercise of stock options and warrants are 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.

New Accounting Pronouncements In November of 2004, the FASB issued Statement of Financial Accounting Standards No. 151, “Inventory Costs, an amendment of ARB No. 43, Chapter 4” (“SFAS 151”). The purpose of this statement is to clarify the accounting of abnormal amounts of idle facility expense, freight, handling costs and waste material. ARB No. 43 stated that under some circumstances these costs may be so abnormal that they are required to be treated as current period costs. SFAS 151 requires that these costs be treated as current period costs regardless if they meet the criteria of “so abnormal.” In addition, the statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provision of this Statement shall be effective for inventory costs incurred during fiscal years beginning after December 31, 2004. The early adoption of SFAS 151 did not have a material impact on the Company’s results of operations or financial position.

In December 2004, the FASB issued Statement of Financial Accounting Standard No. 123 (revised 2004), “Share-Based Payment” (“SFAS 123-R”). This Statement replaces FASB Statement No. 123 and supercedes APB Opinion No. 25. SFAS 123-R eliminates the ability to account for share-based compensation transactions using the intrinsic method currently used by the Company. SFAS 123-R requires such transactions be accounted for using a fair-value-based method that would result in expense being recognized in the Company’s financial statements. The Company will be required to adopt SFAS 123-R as of July 1, 2005 utilizing similar valuation methodologies that generate the pro-forma disclosures included in this Annual Report.

Reclassifications Certain prior year amounts have been reclassified to conform to the 2004 presentation.

Note 2: Inventory

The major classes of inventory are as follows:

December 31,	**2004**	**2003**
(dollars in thousands)		
Raw materials and supplies	**$ 5,160**	$ 2,265
Semi-finished and finished steel products	**30,820**	17,743
Operating materials	**2,338**	2,273
Total inventory	**$38,318**	$22,281

Note 3: Property, Plant and Equipment

Property,plant and equipment consists of the following:

December 31,	2004	2003
(dollars in thousands)		
Land and land improvements	**$ 1,014**	$ 953
Buildings	**6,203**	5,987
Machinery and equipment	**52,358**	49,801
Construction in progress	**893**	141
	60,468	56,882
Accumulated depreciation	**(19,752)**	(16,706)
Property, plant and equipment, net	**$ 40,716**	$ 40,176

Property, plant and equipment included a capital lease with Armco, which merged with and into AK Steel in 1999 (“Armco”), for the ESR building, which houses the Company’s four electro-slag remelting furnaces and ancillary equipment. On February 2, 2005, the Company entered into a written agreement with AK Steel to purchase the ESR building and certain other parcels. The Company will continue to operate the equipment in the ESR building under the existing lease which expires on March 8, 2006, until the transaction is complete. In the event the ESR building is not purchased, or the lease is not extended beyond March 8, 2006, the relocation of the ESR equipment would have an adverse material effect on the financial condition of the Company.

In 2003, the Company entered into a $200,000 Deferred Loan Agreement maturing on December 31, 2006 with the Dunkirk Local Development Corporation. No principal or interest payments will be required under the Deferred Loan Agreement provided that the Company hires and retains 30 new employees through the Deferred Loan Agreement maturation date, with more than 50% of those jobs made available to certain Dunkirk City residents. As of December 31, 2004, the Company believes that it will meet the conditions of the Deferred Loan Agreement, although it can make no assurances to that effect. Therefore, the proceeds have been applied to reduce the acquisition cost of new equipment at the Company’s Dunkirk facility.

Note 4: Long-Term Debt and Other Financing

Long-term debt consists of the following:

December 31,	2004	2003
(dollars in thousands)		
PNC Term Loan	**$ 2,300**	$ 3,700
Revolving credit facility	**8,635**	—
Government debt	**3,255**	3,770
Capital lease obligations	**44**	73
	14,234	7,543
Less amounts due within one year	**(2,044)**	(1,944)
Total long-term debt	**$12,190**	$ 5,599

The Company maintains a credit agreement with PNC Bank for a $15.0 million revolving credit facility ("PNC Line") with a term expiring on June 30, 2006. This credit agreement also includes a term loan, which has fixed the rate of interest at 4.43% through December 12, 2005, that is scheduled to mature on June 30, 2006 ("PNC Term Loan"). The credit agreement 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. In addition, the Company pays a commitment fee of 0.5% per annum on the unused portion of the PNC Line. 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 was in compliance with all financial ratios and restrictive covenants at December 31, 2004.

The Company maintains several separate loan agreements with the Commonwealth of Pennsylvania's Department of Commerce aggregating $600,000 with terms ending between the years 2011 and 2016. The loans bear interest at rates ranging from 5% to 6% per annum. In 1996, the Company entered into a ten-year, 6% interest-bearing loan agreement with the Redevelopment Authority of Allegheny County Economic Development Fund in the amount of $1,514,000. As of December 31, 2004, the total principal balance of government-financed debt is $761,000.

On February 14, 2002, Dunkirk Specialty Steel, LLC ("Dunkirk Specialty Steel") issued two ten-year, 5% interest-bearing notes payable to the New York Job Development Authority (the "JDA") for the combined amount of $3.0 million ("JDA Notes"). No principal or interest payments are due under the JDA Notes during the first year. The JDA Notes were recorded net of a $143,000 debt discount, of which $125,000 was amortized in 2002 and included as interest expense. The balance was amortized and included as interest expense in 2003. As of December 31, 2004, the principal balance is $2.5 million.

The Company leases certain equipment and vehicles. The aggregate annual principal payments due under the Company's long-term debt and minimum lease payments under capitalized and operating leases are as follows:

For the years ended December 31,	2005	2006	2007	2008	2009	Thereafter	Deductions	Total
(dollars in thousands)								
Long-term debt	$2,013	$9,976	$364	$383	$403	$ 1,051	—	$14,190
Capital lease minimum payments	31	13	—	—	—	—		44
Operating lease minimum payments	49	36	30	23	—	—	—	138

Note 5: Income Taxes

Components of the provision (benefit) for income taxes are as follows:

For the years ended December 31,	2004	2003	2002
(dollars in thousands)			
Current Provision (Benefit)			
Federal	**$3,373**	$(2,217)	$ 453
State	**(262)**	1	(116)
	3,111	(2,216)	337
Deferred Provision (Benefit)			
Federal	**436**	1,271	602
State	**288**	(275)	(6)
	724	996	596
Provision (benefit) for income taxes	**$3,835**	$(1,220)	$ 933

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

For the years ended December 31,	2004	2003	2002
Federal statutory tax	**34.0%**	(34.0)%	34.0%
State income taxes, net of federal tax impact	**2.6**	(5.5)	4.5
Government grants, net of federal tax impact	**(1.5)**	(4.9)	(7.2)
Other, net	**(0.1)**	(1.9)	(0.5)
Effective income tax rate	**35.0%**	(46.3)%	30.8%

Dunkirk Specialty Steel operates in a New York State Empire Zone and is qualified to benefit from investments made and employees hired at the Dunkirk, New York facility for up to fifteen years. The Company recognized tax credit benefits of $262,000 and $195,000 for fiscal year 2004 and 2003, respectively, of which $137,000 and $10,000 was applied against the respective year's current tax provision. The balance of the credits, which have no expiration date, will be applied against future tax liabilities for income apportioned to New York State. The Company believes it will generate sufficient income in addition to taxable income generated from the reversal of its temporary differences to utilize this tax credit.

Deferred taxes result from the following:

December 31,	2004	2003
(dollars in thousands)		
Deferred Tax Assets		
Receivables	**$ 261**	$ 70
Inventory	**947**	1,010
Accrued liabilities	**228**	142
	1,436	1,222
Federal and state tax carryforwards	**412**	570
	$ 1,848	$1,792
Deferred Tax Liabilities		
Property, plant and equipment	**$10,093**	$9,313

Federal and state tax carryforwards as of December 31, 2004 include federal alternative minimum tax and New York Empire Zone tax credits totaling $303,000 with no expiration date. The remaining balance relates to net operating loss carryforwards allocated to certain states which expire within 5 to 20 years.

Note 6: Stockholders' Equity

(dollars in thousands)	Common Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Shares	Treasury Stock
Balance at December 31, 2001	6,347,172	$ 6	$ 25,941	$32,056	269,900	$(1,631)
Common Stock issuance under Employee Stock Purchase Plan	7,366		44			
Exercise of Stock Options	200,000	1	1,875			
Tax Benefit from Purchase of Stock Options			417			
Net income				2,092		
Balance at December 31, 2002	6,554,538	7	28,277	34,148	269,900	(1,631)
Common Stock issuance under Employee Stock Purchase Plan	9,768		52			
Net loss				(1,417)		
Balance at December 31, 2003	6,564,306	7	28,329	32,731	269,900	(1,631)
Common Stock issuance under Employee Stock Purchase Plan	**9,057**		**85**			
Exercise of Stock Options	**27,749**		**285**			
Net income				**7,131**		
Balance at December 31, 2004	**6,601,112**	**$ 7**	**$ 28,699**	**$39,862**	**269,900**	**$(1,631)**

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. The Company is authorized to repurchase 45,100 remaining shares of Common Stock under this program as of December 31, 2004.

The Company has 1,980,000 authorized shares of Senior Preferred Stock. At December 31, 2004 and 2003, 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, 2004, 2003 and 2002 is performed as follows:

(dollars in thousands, except share and per share amounts)	2004		2003		2002	
	Income	Shares	Income	Shares	Income	Shares
Income (loss) available to common Stockholders	$7,131	6,304,909	$(1,417)	6,287,088	$2,092	6,203,800
Effect of dilutive securities		**74,670**		—		32,048
Income available to common Stockholders plus assumed conversion	**$7,131**	**6,379,579**	$(1,417)	6,287,088	$2,092	6,235,848
Earnings (Loss) Per Common Share						
Basic	**$ 1.13**		$ (0.23)		$ 0.34	
Diluted	**$ 1.12**		$ (0.23)		$ 0.34	

The Company had 10,536 common stock equivalents outstanding for fiscal 2003 that were not included in the common share computations for earnings (loss) per share, as the common stock equivalents are anti-dilutive.

Note 8: Stock-Based Compensation Plans

At December 31, 2004, the Company has three incentive compensation plans that are described below:

Stock Incentive Plan

The Company maintains the Stock Incentive Plan that has been adopted and amended from time to time by the Company's Board of Directors, and approved by its stockholders. The Stock Incentive Plan permits the issuance of 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. The Company may grant options up to a maximum of 950,000 shares of Common Stock, of which 190,243 are available for grant at December 31, 2004. The option price is equal to the fair market value of the Common Stock at the date of grant. 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 Stock Incentive Plan will expire no later than ten years after the grant date.

A summary of the Stock Incentive Plan activity as of and for the years ended December 31, 2004, 2003 and 2002 is presented below:

	2004		2003		2002	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Fixed Options						
Outstanding at beginning of year	**482,999**	**$ 8.99**	427,999	$ 9.38	617,500	$ 9.36
Granted	**92,000**	**11.15**	56,500	5.91	25,000	10.31
Exercised	**(27,749)**	**8.44**	—	—	(200,000)	9.40
Forfeited	**(35,575)**	**8.95**	(1,500)	7.10	(14,501)	9.86
Outstanding at end of year	**511,675**	**$ 9.14**	482,999	$ 8.99	427,999	$ 9.38
Options exercisable at year-end	**362,925**		379,160		331,996	
Weighted-average fair value of options granted during the year		**$ 9.04**		$ 2.93		$ 5.09

The following table summarizes information about stock options outstanding at December 31, 2004:

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
$ 5.12 to $ 7.35	**162,375**	**6.8**	**$ 6.49**	**111,200**	**$ 6.70**
$ 8.45 to $ 10.00	**169,500**	**4.6**	**$ 8.93**	**136,975**	**$ 8.77**
$10.25 to $15.60	**179,800**	**4.6**	**$ 11.73**	**114,750**	**$ 11.64**
Outstanding at end of year	**511,675**	**5.3**	**$ 9.14**	**362,925**	**$ 9.04**

Employee Stock Purchase Plan

Under the 1996 Employee Stock Purchase Plan (the "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 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, 2004, the Company has issued 71,720 shares of Common Stock since the plan's inception.

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, 2004, 2003 and 2002, the Company expensed $1,965,000, $168,000 and $511,000, 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.

Effective January 6, 2003, the Company began to participate in the Steelworkers Pension Trust ("Trust"), a multi-employer defined benefit pension plan that is open to all hourly and salaried employees associated with the Bridgeville facility. The Company makes periodic contributions to the Trust based on hours worked at a fixed rate for each hourly employee and a fixed monthly contribution on behalf of each salaried employee. The hourly employees may continue their contributions to the defined contribution retirement plan even though the Company contributions ceased. The Company also makes a contribution to the defined contribution retirement plan on behalf of each salaried employee participating in the Trust. The amount of the contribution will be dependent upon each salaried employee's contribution to the defined contribution retirement plan.

The total expense for the years ended December 31, 2004, 2003 and 2002 was $654,000, $512,000 and $418,000, 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. The Company is not aware of any environmental condition that currently exists at any of its facilities that would cause a material adverse effect on the financial condition of the Company.

In connection with the Company's June 2, 1995 agreement with Armco to purchase certain assets and a parcel of real property located 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 also agreed to indemnify the Company for any liabilities arising out of environmental conditions existing off-site as of June 2, 1995, and that indemnification is not subject to the $3.0 million limitation.

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

In connection with the acquisition of the Dunkirk facility, Dunkirk Specialty Steel entered into an order with the New York State Department of Environmental Conservation ("NY DEC") that precludes NY DEC from bringing any action against the Company. In addition, the order 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.

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

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

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

On January 28, 2005, the Company filed suit in the Court of Common Pleas of Allegheny County, Pennsylvania, asking the court for a judgment demanding payment from a financially distressed customer for an outstanding receivable balance, together with pre- and post-judgment interest, an award of the costs and expenses the Company has incurred in pursuing this action and such other relief as the court deems proper. At December 31, 2004, the Company included the value of the outstanding receivable balance in its allowance for doubtful accounts. In 2005, the Company received a partial payment of $110,000 from this customer and will pursue collecting the remaining balance.

The Company maintains a supply contract agreement with Talley Metals Technology, Inc., a subsidiary of Carpenter Technology Corporation ("Talley Metals"). While the initial term of the agreement expired December 31, 2002, the agreement continues to

automatically renew with the placement of new orders each month and requires a 90-day written notice to terminate by either party. In addition, Talley Metals is required under the agreement to purchase a minimum of 1,000 tons of stainless reroll billet products each calendar month and average at least 1,250 tons per month during the last twelve-month period. The value of the contract on a monthly basis will depend on product mix and key raw material prices. During 2002 and 2003, the Company waived Talley Metals' requirement to purchase the monthly minimum quantity of stainless reroll billets due to market conditions.

The Company's purchase obligations include the value of all open purchase orders with established quantities and purchase prices as well as minimum purchase commitments, all made in the normal course of business. At December 31, 2004, the Company's total purchase obligations are $8,963,000, of which $8,309,000 and $654,000 will be due in years 2005 and 2006, respectively.

Note 11: Segment and Related Information

The Company is comprised of three operating locations and one corporate headquarters. For segment reporting, the Bridgeville and Titusville facilities have been aggregated into one reportable segment, Universal Stainless & Alloy Products, because of the management reporting structure in place. The Universal Stainless & Alloy Products manufacturing process involves melting, remelting, treating and hot and cold rolling of semi-finished and finished specialty steels. A second reportable segment, Dunkirk Specialty Steel, was created in 2002 with the acquisition of certain assets and real property formerly owned by Empire Specialty Steel, Inc. Dunkirk Specialty Steel's manufacturing process involves hot rolling and finishing specialty steel bar, rod and wire products.

The accounting policies of both reportable segments are the same as those described in the Summary of Significant Accounting Policies. Sales between the segments are generally made at market-related prices. Corporate assets are primarily cash and cash equivalents, prepaid expenses, deferred income taxes and property, plant and equipment.

For the years ended December 31,	2004	2003	2002
(dollars in thousands)			
Net Sales			
Universal Stainless & Alloy Products	**$108,234**	$ 59,585	$70,120
Dunkirk Specialty Steel	**34,723**	19,875	10,483
Intersegment	**(22,315)**	(10,471)	(9,726)
	$120,642	$ 68,989	$70,877
Operating Income (Loss)			
Universal Stainless & Alloy Products	**$ 7,493**	$ (249)	$ 5,013
Dunkirk Specialty Steel	**3,088**	(2,133)	(1,990)
Intersegment	**(312)**	—	—
	$ 10,269	$ (2,382)	$ 3,023
Interest Expense and Other Financing Costs[(a)]			
Universal Stainless & Alloy Products	**$ 268**	$ 238	$ 330
Dunkirk Specialty Steel	**154**	145	125
	$ 422	$ 383	$ 455
Other Income, Net			
Universal Stainless & Alloy Products	**$ 35**	$ 85	$ 119
Dunkirk Specialty Steel	**1,084**	43	338
	$ 1,119	$ 128	$ 457
Depreciation and Amortization			
Universal Stainless & Alloy Products	**$ 2,944**	$ 2,961	$ 3,049
Dunkirk Specialty Steel	**117**	102	81
	$ 3,061	$ 3,063	$ 3,130
Capital Expenditures			
Universal Stainless & Alloy Products	**$ 3,047**	$ 940	$ 2,104
Dunkirk Specialty Steel	**478**	253	1,928
Corporate	**61**	—	162
	$ 3,586	$ 1,193	$ 4,194

(a) Includes amortization of deferred financing costs and debt discount of $15,000, $30,000 and $141,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

December 31,	2004	2003
(dollars in thousands)		
Assets		
Universal Stainless & Alloy Products	**$ 86,375**	$65,025
Dunkirk Specialty Steel	**18,418**	11,128
Corporate	**3,047**	8,772
	$107,840	$84,925

The following table presents net sales by product line:

For the years ended December 31,	2004	2003	2002
(dollars in thousands)			
Stainless steel	**$ 94,530**	$52,546	$56,813
Tool steel	**17,075**	9,673	6,643
High-strength low alloy steel	**3,682**	2,869	2,213
High-temperature alloy steel	**2,468**	2,482	3,474
Conversion services	**2,386**	1,079	1,495
Other	**501**	340	239
Total net sales	**$120,642**	$68,989	$70,877

Net sales to the Company's largest customer and its affiliates, which were generated primarily from the Bridgeville operation, approximated 23%, 25% and 35% of total 2004, 2003 and 2002 sales, respectively. The accounts receivable balances from this customer comprised approximately 13% and 24% of total accounts receivable at December 31, 2004 and 2003, 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: Acquisition

On February 8, 2002, Dunkirk Specialty Steel entered into a Personal Property Asset Purchase Agreement and a Real Property Purchase Agreement (the "Purchase Agreements") with the JDA to acquire certain assets and real property formerly owned by Empire Specialty Steel, Inc., at its idled production facility located in Dunkirk, New York. These transactions were completed on February 14, 2002 and the plant became operational on March 14, 2002. Pursuant to the Purchase Agreements, Dunkirk Specialty Steel paid $1,283,000 in cash and issued the JDA Notes. The purchase price, including related acquisition costs and adjustments for the discounted value of the JDA Notes, was $4,140,000. $3,958,000 was allocated to inventory and $182,000 was allocated to assets held for sale.

Through December 31, 2004, the Company has sold certain assets for $31,000 and has invested $33,000 to prepare certain assets for sale. While the specific identification of individual assets to be sold continues, management intends to sell an office building located on the property. Based on available information, management believes the market value of the office building supports the recorded asset value. Future costs will be expensed as incurred in accordance with SFAS 146.

The assets purchased by Dunkirk Specialty Steel were previously owned and operated by AL Tech Specialty Steel, Inc. and Empire Specialty Steel, Inc. During their ownership, both organizations participated in several anti-dumping lawsuits with other domestic specialty steel producers. The Continued Dumping and Subsidy Offset Act of 2000 ("CDSOA") provides for payment of import duties collected by the U.S. Treasury to domestic companies injured by unfair foreign trade practices. In accordance with CDSOA, the Company filed claims to receive their appropriate share of the import duties collected. In 2002, the Company received $310,000, net of expenses, which is included in other income. In 2003, the Company received notice that it was awarded $604,000, of which $10,000 was received. The remaining payment was delayed pending the outcome of a hearing before the U.S. Court of Appeals for the Federal Circuit in a lawsuit challenging the distribution method of the import duties. The remaining payment, as well as the 2004 award of $507,000, was received and recognized as income in 2004, net of expenses incurred. On January 28, 2005, the Company received an additional $59,000 from the U.S. Treasury, representing an increase in the total allocation of available funds awarded to the Company for 2004.

Note 13: Quarterly Financial Data (unaudited)

(dollars in thousands, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2004 Data				
Net sales	**$21,307**	**$29,026**	**$33,297**	**$37,012**
Gross profit	**1,963**	**4,495**	**5,596**	**5,616**
Operating income	**435**	**2,548**	**3,723**	**3,563**
Net income	**277**	**1,566**	**2,745**	**2,593**
Earnings per common share:				
Basic	**$ 0.04**	**$ 0.25**	**$ 0.44**	**$ 0.41**
Diluted	**$ 0.04**	**$ 0.25**	**$ 0.43**	**$ 0.40**
2003 Data				
Net sales	$14,700	$16,837	$18,625	$18,827
Gross profit	20	896	1,329	1,210
Operating (loss)	(1,373)	(629)	(178)	(202)
Net (loss)	(583)	(440)	(121)	(273)
(Loss) per common share:				
Basic	$ (0.09)	$ (0.07)	$ (0.02)	$ (0.04)
Diluted	$ (0.09)	$ (0.07)	$ (0.02)	$ (0.04)

Earnings per share amounts for each quarter are required to be computed independently. As a result, their sum may not equal the total year earnings per share amounts.

FIVE-YEAR SUMMARY

For the years ended December 31,	2004	2003	2002	2001	2000[a]
(dollars in thousands, except per share amounts)					
Summary of Operations					
Net sales	**$120,642**	$68,989	$70,877	$90,658	$88,347
Operating income (loss)	**10,269**	(2,382)	3,023	12,544	11,488
Income (loss) before cumulative effect of accounting change	**7,131**	(1,417)	2,092	7,639	6,610
Cumulative effect of accounting change, net of tax	**—**	—	—	—	(1,546)
Net income (loss)	**7,131**	(1,417)	2,092	7,639	5,064
Pro Forma Summary of Operations[b]					
Net sales	**$120,642**	$68,989	$70,877	$90,658	$88,347
Operating income (loss)	**10,269**	(2,382)	3,023	12,544	11,488
Net income (loss)	**7,131**	(1,417)	2,092	7,639	6,610
Financial Position at Year-End					
Working capital	**$ 47,918**	$33,414	$33,538	$28,655	$23,558
Total assets	**107,840**	84,925	84,044	79,446	73,747
Total debt	**14,234**	7,543	9,473	8,322	10,007
Stockholders' equity	**66,937**	59,436	60,801	56,372	48,767
Common Share Data					
Basic earnings (loss) per share:					
As reported	**$ 1.13**	$ (0.23)	$ 0.34	$ 1.26	$ 0.83
Pro forma under SAB 101[b]	**1.13**	(0.23)	0.34	1.26	1.09
Diluted earnings (loss) per share:					
As reported	**1.12**	(0.23)	0.34	1.25	0.83
Pro forma under SAB 101[b]	**1.12**	(0.23)	0.34	1.25	1.09
Stockholders' equity	**10.57**	9.44	9.67	9.28	8.03
Other Data					
Cash flow (used in) provided by:					
Operating activities	**$ (9,717)**	$ 3,378	$ 3,824	$11,905	$ 6,285
Investing activities	**(3,586)**	(1,193)	(5,477)	(5,253)	(4,598)
Financing activities	**8,809**	(1,158)	(493)	(2,307)	(1,446)
Capital expenditures	**3,586**	1,193	4,194	5,253	4,598
Depreciation and amortization	**3,061**	3,093	3,271	2,782	2,466
Return on stockholders' equity	**11.3%**	(2.3)%	3.7%	13.6%	10.4%
Debt to total capitalization	**17.5**	11.3	13.5	12.9	17.0
Employees	**463**	383	393	304	280
Customers	**452**	399	372	288	250
Average Shares Outstanding *(in thousands)*					
Basic	**6,305**	6,287	6,204	6,080	6,075
Diluted	**6,379**	6,287	6,236	6,097	6,080

(a) Includes $12,462,000 of net sales and $9,988,000 of cost 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" (SAB 101). 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 SAB 101 as required under generally accepted accounting principles in 2000.

Exhibit 21.1

Subsidiaries of Registrant

Below are the only active wholly-owned subsidiaries of the registrant and its jurisdiction of organization.

Doing Business As	State of Incorporation
Dunkirk Specialty Steel, LLC	Delaware
USAP Holdings, Inc.	Delaware

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Prospectus constituting part of the Registration Statements on Form S-8 (No. 33-90970, No. 333-13509, No. 333-13511, No. 333-13599 and No. 333-100263) of Universal Stainless & Alloy Products, Inc. of our report dated February 22, 2005, 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 February 22, 2005 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ Schneider Downs & Co., Inc.
Schneider Downs & Co., Inc.
Pittsburgh, Pennsylvania
March 3, 2005

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Prospectus constituting part of the Registration Statements on Form S-8 (No. 33-90970, No. 333-13509, No. 333-13511, No. 333-13599 and No. 333-100263) of Universal Stainless & Alloy Products, Inc. of our report dated February 18, 2003, which appears in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated February 18, 2003 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Pittsburgh, Pennsylvania
March 3, 2005

Exhibit 31.1

CERTIFICATION

I, Clarence M. McAninch, President and Chief Executive Officer of Universal Stainless & Alloy Products, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Universal Stainless & Alloy Products, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and

   c) disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of this annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 22, 2005

/s/ C. M. MCANINCH

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

Exhibit 31.2

CERTIFICATION

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

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

Date: February 22, 2005

/s/ RICHARD M. UBINGER

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

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Universal Stainless & Alloy Products, Inc. (the "Company") on Form 10-K for the year ended December 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Clarence M. McAninch, President and Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

Date: February 22, 2005

/s/ C. M. MCANINCH

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

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Universal Stainless & Alloy Products, Inc. (the "Company") on Form 10-K for the year ended December 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard M. Ubinger, Vice President of Finance, Chief Financial Officer and Treasurer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

Date: February 22, 2005

/s/ RICHARD M. UBINGER

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