UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2012

OR

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

For the Transition Period from to

Commission File Number 000-25032

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

DELAWARE	**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)

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

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

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐

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

As of October 31, 2012, there were 6,900,929 shares of the Registrant's Common Stock outstanding.

Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Quarterly Report on Form 10-Q contain forward-looking statements that reflect the current views of Universal Stainless & Alloy Products, Inc. (the "Company") 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 Quarterly Report on Form 10-Q pursuant to the "safe harbor" provision of the Private Securities Litigation Reform Act of 1995.

The Company's actual results may be affected by a wide range of factors including future 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; risks related to property, plant and equipment, including the Company's reliance on the continuing operation of critical manufacturing equipment; risks associated with labor matters; the Company's ongoing requirement for continued compliance with laws and regulations, including applicable safety and environmental regulations; the ultimate outcome of the Company's current and future litigation matters; risks related to acquisitions that the Company may make; and the impact of various economic, credit and market risk uncertainties. 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.

Part I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

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

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Net sales	$ 61,360	$ 67,299	$ 203,840	$ 190,428
Cost of products sold	52,023	54,725	168,658	154,884
Selling and administrative expenses	4,685	5,343	13,531	12,870
Operating income	4,652	7,231	21,651	22,674
Interest expense	(602)	(609)	(1,924)	(852)
Other income	28	45	89	188
Income before income tax expense	4,078	6,667	19,816	22,010
Provision for income taxes	1,333	2,774	6,280	8,144
Net income	$ 2,745	$ 3,893	$ 13,536	$ 13,866
Net income per common share – Basic	$ 0.40	$ 0.57	$ 1.97	$ 2.03
Net income per common share – Diluted	$ 0.38	$ 0.55	$ 1.86	$ 1.97
Weighted average shares of Common Stock outstanding				
Basic	6,877,915	6,831,048	6,863,564	6,821,944
Diluted	7,433,922	7,202,386	7,446,836	7,050,781

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in Thousands)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Net income	$ 2,745	$ 3,893	$ 13,536	$ 13,866
Other comprehensive income, net of tax:				
Unrealized gain on interest rate swap, net of tax	—	155	—	182
Comprehensive income	$ 2,745	$ 4,048	$ 13,536	$ 14,048

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

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

	September 30, 2012 (Unaudited)	December 31, 2011 (Derived from audited statements)
ASSETS		
Current assets:		
Cash	$ 250	$ 274
Accounts receivable (less allowance for doubtful accounts of $1,998 and $1,952, respectively)	33,716	34,554
Inventory, net	101,580	85,088
Deferred income taxes	19,622	28,438
Refundable income taxes	1,597	4,844
Other current assets	2,368	2,198
Total current assets	159,133	155,396
Property, plant and equipment, net	205,005	183,148
Goodwill	20,268	20,479
Other long-term assets	2,563	2,649
Total assets	$ 386,969	$ 361,672
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 18,473	$ 29,912
Accrued employment costs	5,946	7,547
Current portion of long-term debt	750	3,000
Other current liabilities	1,223	966
Total current liabilities	26,392	41,425
Long-term debt	112,691	91,650
Deferred income taxes	51,711	48,291
Other long-term liabilities	172	—
Total liabilities	190,966	181,366
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Senior Preferred Stock, par value $0.001 per share; 1,980,000 shares authorized; 0 shares issued and outstanding	—	—
Common Stock, par value $0.001 per share; 10,000,000 shares authorized; 7,179,610 and 7,130,365 shares issued, respectively	7	7
Additional paid-in capital	46,115	43,720
Retained earnings	152,034	138,498
Treasury Stock at cost; 288,681 and 282,850 common shares held, respectively	(2,153)	(1,919)
Total stockholders' equity	196,003	180,306
Total liabilities and stockholders' equity	$ 386,969	$ 361,672

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

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

	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Operating Activities:		
Net income	$ 13,536	$ 13,866
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	9,312	4,801
Gain on retirement of property, plant and equipment	—	(20)
Deferred income taxes	12,236	13,536
Share-based compensation expense, net	979	1,154
Changes in assets and liabilities:		
Accounts receivable, net	838	(10,262)
Inventory, net	(16,492)	(9,563)
Accounts payable	(14,661)	(6,657)
Accrued employment costs	(1,601)	1,806
Income taxes	3,378	(10,244)
Other, net	571	(286)
Net cash provided by (used in) operating activities	8,096	(1,869)
Investing Activity:		
Capital expenditures, net of amount included in accounts payable	(27,517)	(4,855)
Business acquisition, net of convertible notes assumed	—	(91,298)
Proceeds from sale of property, plant and equipment	—	20
Net cash used in investing activity	(27,517)	(96,133)
Financing Activities:		
Borrowings under revolving credit facility	100,752	44,200
Payments on revolving credit facility	(61,961)	(8,600)
Payment on term loan facility	(20,000)	—
Borrowings under term loan facility	—	40,000
Debt repayments	—	(10,823)
Proceeds from the issuance of Common Stock	960	415
Payment of deferred financing costs	(348)	(1,370)
Purchase of Treasury Stock	(234)	—
Tax benefit from share-based payment arrangements	228	75
Net cash provided by financing activities	19,397	63,897
Net decrease in cash	(24)	(34,105)
Cash at beginning of period	274	34,400
Cash at end of period	$ 250	$ 295
Supplemental Non-Cash Investing and Financing Activities:		
Capital expenditures included in accounts payable	$ 3,222	$ 2,998
Convertible notes issued as acquisition consideration	$ —	$ 20,000

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Basis of Presentation

The accompanying unaudited condensed consolidated statements of operations and statements of comprehensive income for the three and nine months ended September 30, 2012 and 2011, balance sheets as of September 30, 2012 and December 31, 2011, and statements of cash flows for the nine months ended September 30, 2012 and 2011, have been prepared by Universal Stainless & Alloy Products, Inc. (the "Company") in accordance with generally accepted accounting principles ("GAAP") for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP has been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. Accordingly, these statements should be read in conjunction with the audited financial statements, and notes thereto, as of and for the year ended December 31, 2011 included in the Company's Annual Report on Form 10-K. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, all of which were of a normal, recurring nature, necessary to present fairly, in all material respects, the consolidated financial position at September 30, 2012 and December 31, 2011 and the consolidated results of operations and of cash flows for the periods ended September 30, 2012 and 2011, and are not necessarily indicative of the results to be expected for the full year.

Recently Adopted Accounting Pronouncement

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-04, "Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards ("IFRS"). This amendment provides a consistent definition of fair value and ensures that the fair value measurement and disclosure requirements are similar between GAAP and IFRS. The amendment clarifies the application of existing fair value measurements and disclosures, and changes certain principles or requirements for fair value measurements and disclosures. The Company adopted these provisions during the nine months ended September 30, 2012. This amendment did not have a material impact on the Company's condensed consolidated balance sheets, results of operations or cash flows.

Certain prior period amounts have been reclassified to conform to the 2012 presentation.

Note 2 – Acquisition

On August 18, 2011, the Company acquired substantially all the assets of Patriot Special Metals, Inc. and RSM Real Estate Holding, Inc., consisting of a specialty steel manufacturing facility located in North Jackson, Ohio (the "North Jackson Facility"). The North Jackson Facility began forging and finishing operations in September 2011. In December 2011, the North Jackson Facility performed the first melts on its new vacuum induction melting (VIM) furnace and two vacuum arc remelting (VAR) furnaces. The aggregate purchase price for the North Jackson Facility was $111.3 million, which was comprised of a $40.0 million term loan, $40.0 million in borrowings under a revolving credit facility, $20.0 million in aggregate principal amount of convertible promissory notes issued to the sellers of the North Jackson Facility and the remainder from cash on-hand prior to the acquisition. The term loan and revolving credit facility were subsequently amended during the three months ended March 31, 2012, which is discussed further in Note 5. At closing, the Company entered into an escrow agreement with the sellers, pursuant to which $2.5 million of the purchase price was placed in escrow. The escrow agreement expires on February 18, 2013.

For the three and nine months ended September 30, 2011, the Company incurred $1.1 million and $2.1 million, respectively, of acquisition related costs which are included as a component of selling and administrative expenses on the condensed consolidated statements of operations. The Company did not incur any acquisition related costs in 2012.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the acquisition-date fair value of the assets acquired and the liabilities assumed in connection with the North Jackson Facility acquisition (dollars in thousands):

	August 18, 2011
Property, plant and equipment	$ 94,102
Non-compete agreement	1,330
Goodwill	20,268
Accounts payable	(4,475)
Accrued expenses and other current liabilities	(138)
Net assets acquired	$111,087

Assets acquired and liabilities assumed in connection with the acquisition have been recorded at their estimated fair values as of the acquisition date. Fair values were determined by management based, in part, on independent valuations performed by third party valuation specialists. The fair value assigned to the non-compete agreement is subject to amortization over the five year life of the agreement.

Goodwill is calculated as the excess of the purchase price over the fair value of net assets acquired and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. Among the factors that contributed to a purchase price in excess of the fair value of the net tangible and intangible assets acquired were the acquisition of an assembled workforce and the expected synergies and other benefits as a result from combining the operations of the North Jackson Facility with the Company's other operations. Goodwill related to the North Jackson Facility acquisition was recorded in the Company's Universal Stainless & Alloy Products reportable segment. There was no goodwill recognized for income tax purposes as a result of the North Jackson Facility acquisition.

The following is a summary of the changes in the carrying value of goodwill, from December 31, 2011 through September 30, 2012 (dollars in thousands):

Balance, December 31, 2011	$20,479
Change in goodwill	(211)
Balance, September 30, 2012	$20,268

As previously mentioned, the Company incurred debt in the form of a term loan, borrowings under a revolving credit facility and convertible notes issued to acquire the North Jackson Facility. In accordance with GAAP, the Company recorded this debt at fair value as of the acquisition date. The fair value of the term loan and borrowings under the revolving credit facility were determined to be the par value of the debt. The terms of the convertible notes were designed to and resulted in the fair value of the option to convert and the debt component aggregating to the par amount of the convertible notes.

The operating results of the North Jackson Facility have been included in the Company's condensed consolidated financial statements since the acquisition date.

The following unaudited pro forma information presents the combined results as if the acquisition had occurred on January 1, 2011. The unaudited pro forma financial information was prepared to give effect to events that are (1) directly attributable to the acquisition; (2) factually supportable; and (3) expected to have a continuing impact on the combined company's results. Pro forma adjustments have been made to reflect the incremental impact on earnings of amortization expense related to the acquired intangible asset and income tax expense. The Company has calculated the 2011 pro forma results using a 36.4% effective tax rate from January 1, 2011. As a result of no assets being placed in service prior to the acquisition date, the Company has not included any incremental interest expense resulting from the debt incurred to finance the acquisition. All incurred interest would have been capitalized prior to placing the assets in service. The Company has not included the dilutive effect of the convertible notes on the unaudited pro forma information. Due to the level of completion of the North Jackson Facility on January 1, 2011, it is highly unlikely that the acquisition would have been partially financed through the issuance of convertible notes. Prior to the acquisition, the North Jackson Facility's only sales were derived from scrap sales. Pro forma adjustments were made to eliminate one-time acquisition related costs. The unaudited pro forma financial information does not reflect any cost savings, operating synergies or revenue enhancements that the

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

combined company may achieve as a result of the acquisition or the costs to integrate the operations or the costs necessary to achieve cost savings, operating synergies or revenue enhancements. The pro forma results are not indicative of how the results will appear in the future.

(dollars in thousands, except per share amounts)	Three months ended September 30, 2011	Nine months ended September 30, 2011
Net sales	$ 67,469	$ 190,728
Net income	$ 4,450	$ 13,638
Net income per common share - Basic	$ 0.65	$ 2.00
Net income per common share - Diluted	$ 0.64	$ 1.95
Weighted-average shares of Common Stock outstanding:		
Basic	6,831,048	6,821,944
Diluted	6,998,818	6,982,179

Note 3 – Net Income per Common Share

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

(dollars in thousands, except per share amounts)	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Numerator:				
Net income	$ 2,745	$ 3,893	$ 13,536	$ 13,866
Adjustment for interest expense on convertible notes	96	33	304	33
Net income, as adjusted	$ 2,841	$ 3,926	$ 13,840	$ 13,899
Denominator:				
Weighted average number of shares of Common Stock outstanding	6,877,915	6,831,048	6,863,564	6,821,944
Weighted average effect of dilutive stock options	128,611	167,770	155,360	160,235
Weighted average effect of assumed conversion of convertible notes	427,396	203,568	427,912	68,602
Weighted average number of shares of Common Stock outstanding, as adjusted	7,433,922	7,202,386	7,446,836	7,050,781
Net income per common share:				
Net income per common share – Basic	$ 0.40	$ 0.57	$ 1.97	$ 2.03
Net income per common share – Diluted	$ 0.38	$ 0.55	$ 1.86	$ 1.97

Options not included in the computation of diluted net income per common share for the three months ended September 30, 2012 and 2011 to purchase 105,150 and 19,150 shares of Common Stock at an average price of $40.57 and $41.27, respectively, per common share were outstanding at September 30, 2012 and 2011. For the nine months ended September 30, 2012 and 2011, options to purchase 20,000 and 48,300 shares of Common Stock at an average price of $41.75 and $38.86, respectively, were excluded from the calculation of diluted net income per common share. These outstanding options were not included in the computation of diluted net income per common share because their respective exercise prices were greater than the average market price of the Common Stock.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 4 – Inventory

The major classes of inventory were as follows:

(in thousands)	September 30, 2012	December 31, 2011
Raw materials and supplies	$ 7,758	$ 5,934
Semi-finished and finished steel products	86,133	73,046
Operating materials	7,689	6,108
Total inventory, net	$ 101,580	$ 85,088

Note 5 – Long-Term Debt

Long-term debt consisted of the following:

(in thousands)	September 30, 2012	December 31, 2011
Revolving credit facility	$ 70,350	$ 29,350
Term loan	20,000	40,000
Convertible notes	20,000	20,000
Swing loan credit facility	3,091	5,300
	113,441	94,650
Less current portion of long-term debt	750	3,000
Long-term debt	$ 112,691	$ 91,650

Amended Credit Facility

On August 18, 2011, the Company entered into a Credit Agreement (the “Credit Agreement”) which provides for a senior secured revolving credit facility (the “Revolver”) and a senior secured term loan facility (the “Term Loan” and together with the Revolver, the “Facilities”). On March 19, 2012, the Company entered into the First Amendment to the Credit Agreement (together with the Credit Agreement, the “Amended Credit Agreement”). The Amended Credit Agreement provides for a $105.0 million Revolver and a $20.0 million Term Loan. PNC Bank, National Association serves as Administrative Agent with respect to the Facilities. The Amended Credit Agreement extended the expiration date from August 2016 to March 2017, provided additional availability under the Facilities and reduced fees and interest rates. The Facilities are collateralized by substantially all of the assets of the Company and its subsidiaries, except that no real property other than the North Jackson Facility is collateral under the Facilities. Universal Stainless & Alloy Products, Inc., Dunkirk Specialty Steel, LLC and North Jackson Specialty Steel, LLC are co-borrowers under the Facilities. The co-borrowers’ obligations under the Facilities have been guaranteed by USAP Holdings, Inc. In conjunction with the amendment to the Credit Agreement, the Company recorded additional deferred financing costs of $348,000 during 2012. Deferred financing costs are included on the condensed consolidated balance sheets as a component of other long-term assets.

At any time prior to August 18, 2015, the Company may make up to two requests to increase the maximum aggregate principal amount of borrowings under the Revolver by at least $10.0 million, with the maximum aggregate principal amount of borrowings under the Revolver not to exceed $130.0 million in any event. The Company is required to pay a commitment fee of 0.25% based on the daily unused portion of the Revolver. The Revolver also provides for up to $7.0 million of swing loans so long as the sum of the outstanding swing loans and the outstanding borrowings under the Revolver does not exceed $105.0 million at any given time. The Term Loan is payable in quarterly installments in the principal amount of $750,000 beginning on July 1, 2013, with the balance of the Term Loan payable in full on March 19, 2017.

Amounts outstanding under the Facilities, at the Company’s option, will bear interest at either a base rate or a LIBOR-based rate (the “LIBOR Option”), in either case calculated in accordance with the terms of the Amended Credit Agreement. The Company elected to use the LIBOR Option during the three and nine months ended September 30, 2012, which was 1.97% for the Term Loan and revolving credit facility and 1.96% for the swing loan at September 30, 2012. Interest on the Facilities is payable monthly.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Amended Credit Agreement requires the Company to maintain a leverage ratio not exceeding a ratio decreasing from 3.25 to 1.00 to 2.75 to 1.00 during the term of the Facilities and a fixed charge coverage ratio not less than 1.20 to 1.00. At September 30, 2012, the Company was obligated to maintain a leverage ratio not exceeding 3.00 to 1.00. The Company was in compliance with all covenants contained in the Amended Credit Agreement at September 30, 2012 and December 31, 2011.

Convertible Notes

In connection with the acquisition of the North Jackson Facility, on August 18, 2011, the Company issued $20.0 million in convertible notes (the "Notes") to the sellers of the North Jackson Facility as partial consideration of the acquisition. The Notes are subordinated obligations of the Company and rank junior to the Facilities. The Notes bear interest at a fixed rate of 4.0% per annum, payable in cash semi-annually in arrears on each June 18 and December 18, beginning on December 18, 2011. Unless earlier converted, the Notes mature and the unpaid principal balance is due on August 17, 2017. The Notes and any accrued and unpaid interest are convertible into shares of the Company's Common Stock at the option of the holder at an initial conversion price of $47.1675 per share of Common Stock. The conversion price associated with the Notes may be adjusted in certain circumstances. The Company may prepay any outstanding Notes, in whole or in part on any date after August 17, 2014 during a fiscal quarter if the Company's share price is greater than 140% of the current conversion price for at least twenty of the trading days in the thirty consecutive trading day period ending on the last trading day of the immediately preceding quarter. The Company evaluated the conversion feature of the Notes upon issuance and determined that no beneficial conversion feature existed.

Aggregate maturities of long-term debt are as follows:

Year ended December 31,	*(in thousands)*
2012	$ —
2013	1,500
2014	3,000
2015	3,000
2016	3,000
Thereafter	102,941
	$ 113,441

Note 6 – Fair Value Measurements

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

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

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

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

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

Financial instruments include cash, accounts receivable, other current assets, accounts payable, short-term debt and other current liabilities. The carrying amounts of these financial instruments approximated fair value at September 30, 2012 and December 31, 2011 due to their short-term maturities. The fair value of the Term Loan, revolving credit facility and swing loans at September 30, 2012 and December 31, 2011 approximated the carrying amount as the interest rate is based upon floating short-term interest rates. At September 30, 2012 and December 31, 2011, the fair value of the Notes approximated the carrying amount. The fair value of the Term Loan, revolving credit facility, swing loans and Notes were determined on a Level 2 measurement.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 7 – Commitments and Contingencies

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

Note 8 – Income Taxes

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

For the nine months ended September 30, 2012 and 2011, the estimated annual effective tax rate applied to ordinary income was 36.3% and 36.9%, respectively. The effective tax rate for the nine months ended September 30, 2012, which reflects federal and state taxable income, includes a net discrete tax benefit of $0.9 million for state income taxes and research and development tax credits, partially offset by a net operating loss carryback. Including the effect of the discrete tax items, the Company’s effective tax rate for the nine months ended September 30, 2012 was 31.7%. The effective tax rate for the nine months ended September 30, 2011 was 37.0%. For the three months ended September 30, 2012 and 2011, the Company’s effective tax rate was 32.7% and 41.6%, respectively. The effective tax rate for the three months ended September 30, 2012 includes a discrete tax benefit of $0.3 million for a change in state income tax apportionment rates.

Note 9 – Business Segments

The Company is comprised of two reportable business segments. The Bridgeville, North Jackson and Titusville facilities have been aggregated into one reportable segment, Universal Stainless & Alloy Products (“USAP”). Dunkirk Specialty Steel represents the second reportable segment.

From the North Jackson acquisition date through September 30, 2012, the Company has included the results of North Jackson in the USAP segment. North Jackson was included in the USAP reporting segment as a result of North Jackson having consistent characteristics as identified in ASC Topic 280, “Segment Reporting”, with the USAP segment. As a result of the North Jackson acquisition, the Company’s operating facilities have become more integrated, resulting in the Company’s chief operating decision maker (“CODM”) increasingly viewing the Company as one unit. As North Jackson becomes fully integrated within the Company, it is expected that the Company will move to one reportable segment to more accurately reflect the information and measures used by the Company’s CODM to make key decisions.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The segment data are as follows:

(in thousands)	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Net sales:				
Universal Stainless & Alloy Products (A)	$ 53,273	$ 60,560	$175,348	$176,161
Dunkirk Specialty Steel	24,778	25,327	80,609	72,905
Intersegment eliminations	(16,691)	(18,588)	(52,117)	(58,638)
Consolidated net sales	$ 61,360	$ 67,299	$203,840	$190,428
Operating income:				
Universal Stainless & Alloy Products (A)	$ 1,195	$ 4,780	$ 11,443	$ 16,140
Dunkirk Specialty Steel	2,321	2,513	8,401	7,813
Intersegment eliminations (B)	1,136	(62)	1,807	(1,279)
Consolidated operating income	$ 4,652	$ 7,231	$ 21,651	$ 22,674
Interest expense:				
Universal Stainless & Alloy Products (A)	$ 602	$ 606	$ 1,924	$ 836
Dunkirk Specialty Steel	—	3	—	16
Consolidated interest expense	$ 602	$ 609	$ 1,924	$ 852

(A) The results include those of the Company's North Jackson operation, which was acquired on August 18, 2011.
(B) The Company recognized profits during the three and nine months ended September 30, 2012 on intercompany sales which were sold to third party customers during the periods. This profit had been deferred prior to the sale to third party customers.

The following table presents total assets by segment:

(in thousands)	September 30, 2012	December 31, 2011
Total assets:		
Universal Stainless & Alloy Products	$ 304,669	$ 271,107
Dunkirk Specialty Steel	58,118	55,820
Corporate	136,732	149,101
Intersegment eliminations	(112,550)	(114,356)
Total assets	$ 386,969	$ 361,672

Note 10 – Subsequent Events

The collective bargaining agreement ("CBA") at the Company's Dunkirk facility was to expire on October 31, 2012. The Company and the United Steelworkers ("USW"), representing the hourly employees at the Dunkirk facility, agreed to extend the CBA through November 11, 2012. The Company and the USW intend to continue to negotiate a new mutually acceptable CBA for the hourly employees at the Dunkirk facility.

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

Overview

The following Management Discussion and Analysis ("MD&A") is intended to help the reader understand the results of operations and financial condition of Universal Stainless & Alloy Products, Inc. (the "Company"). This MD&A is provided as a supplement to, and should be read in conjunction with, our condensed consolidated financial statements and the accompanying notes to the condensed consolidated financial statements.

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

We recognized net income for the quarter ended September 30, 2012 of $2.7 million, or $0.38 per diluted share, compared with net income of $3.9 million, or $0.55 per diluted share for the three months ended September 30, 2011.

Our net sales decreased from $67.3 million for the three months ended September 30, 2011 to $61.4 million for the current quarter. This $5.9 million, or 9%, decrease is largely due to decreased volume recognized in the current quarter as compared to the third quarter of 2011. Tons shipped decreased by 9% in the current quarter when compared to the prior year third quarter.

Our backlog was $68.3 million at September 30, 2012 as compared to $102.6 million at December 31, 2011. We believe that the decrease in our backlog during 2012 is largely a result of inventory adjustments being made by our customers. Uncertainty surrounding the global economy and falling commodity prices have reduced order activity during the year, which has negatively impacted our backlog. We expect to see depressed order activity through the remainder of 2012.

During the current quarter, we continued to increase production at our North Jackson facility, a start-up facility which was acquired in the third quarter of 2011. In addition to conversion services provided to external customers, the North Jackson operation has provided increasing forging and remelting capacity for our other facilities, as well as providing our legacy operations with operating synergies. Melting in the facility's vacuum induction melting (VIM) furnace continued throughout the third quarter of 2012. Material produced in the VIM is now being qualified for future customer orders and we expect to begin selling this material in the fourth quarter of 2012. In October 2012, we commissioned two additional vacuum arc remelting (VAR) furnaces at our North Jackson facility, which brings the total number of VAR furnaces company-wide to eleven, including four at North Jackson. The additional VAR furnaces will be used to service our aerospace and oil and gas customers.

Our cost of products sold decreased from $54.7 million for the third quarter of 2011 to $52.0 million in the current quarter. This $2.7 million, or 5%, decrease is primarily due to the aforementioned 9% decrease in net sales. Our operations costs, which include certain infrastructure costs such as overhead and depreciation, increased on a percentage of sales basis from 39% for the quarter ended September 30, 2011 to 52% for the current quarter. We have placed a substantial amount of fixed assets in service over the past four quarters, primarily at our North Jackson facility, which has increased our depreciation expense. The higher depreciation expense, coupled with developing production at our North Jackson facility, had a negative impact on our operations costs as a percentage of sales in the current period. As we continue to increase production at our North Jackson facility, we believe that our operations costs as a percentage of sales will decrease from current levels.

Selling and administrative ("S&A") expenses decreased from $5.3 million in the third quarter of 2011 to $4.7 million in the current quarter. Included in our S&A expenses were $1.1 million related to the North Jackson facility acquisition for the quarter ended September 30, 2011 and $0.6 million and $0.1 million related to our North Jackson operations for the quarters ended September 30, 2012 and 2011, respectively. Excluding the North Jackson S&A related expenses, our S&A expenses as a percentage of sales increased slightly, from 6% to 7%.

Interest expense was $0.6 million for both the three months ended September 30, 2012 and 2011. Our current quarter interest expense reflects an increased debt load in the current quarter when compared to the prior year third quarter as a result of the North Jackson acquisition. During the quarter ended September 30, 2011, we incurred approximately $0.3 million of interest expense related to the settlement of an interest rate swap and the write-off of unamortized deferred financing costs on a repaid loan. During the first quarter of 2012 we amended our credit facility which, among other benefits, reduced our interest rate.

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Our effective tax rate for the quarters ended September 30, 2012 and 2011 was 33% and 42%, respectively. Our effective tax rate for the quarter ended September 30, 2012 reflects a net discrete tax benefit for a change in state income tax apportionment rates. Our estimated annual effective tax rate on ordinary income for 2012 is 36.3%.

The collective bargaining agreement ("CBA") at the Company's Dunkirk facility was to expire on October 31, 2012. The Company and the United Steelworkers ("USW"), representing the hourly employees at the Dunkirk facility agreed, to extend the CBA through November 11, 2012. The Company and the USW intend to continue to negotiate a new mutually agreeable CBA for the hourly employees at the Dunkirk facility.

On November 5, 2012 we filed a Form 8-K related to corrected results which was necessitated by the discovery of an incorrect customer invoice, for which a credit memo subsequently was issued after our earnings release on October 24, 2012. The discovery of the incorrect customer invoice was detected by an established key control in normal course prior to the filing of this Form 10Q. Additionally, the Company's management felt it prudent to add controls designed to identify errors in financial reporting on a more timely basis.

Results of Operations

Three months ended September 30, 2012 as compared to the three months ended September 30, 2011

An analysis of the Company's operations for the three months ended September 30, 2012 and 2011 is as follows:

	Three months ended September 30,	
(in thousands)	2012	2011
Net sales:		
Stainless steel	$48,432	$54,746
Tool steel	4,768	5,407
High-strength low alloy steel	4,880	4,440
High-temperature alloy steel	1,930	1,579
Conversion services	967	935
Scrap sales and other	383	192
Total net sales	61,360	67,299
Cost of products sold	52,023	54,725
Selling and administrative expenses	4,685	5,343
Operating income	$ 4,652	$ 7,231
Tons shipped	11,614	12,813

Market Segment Information

	Three months ended September 30,	
(in thousands)	2012	2011
Net sales:		
Service centers	$36,631	$35,067
Forgers	8,056	12,997
Rerollers	10,429	12,506
Original equipment manufacturers	4,148	4,518
Wire redrawers	746	1,084
Conversion services	967	935
Scrap sales and other	383	192
Total net sales	$61,360	$67,299

The above financial information includes the results of the North Jackson operation, which was acquired on August 18, 2011.

Net sales for the three months ended September 30, 2012 decreased $5.9 million as compared to the similar period in 2011. The decrease reflects a 9% decrease, for the quarter ended September 30, 2012, in consolidated shipments and a change in product mix.

Shipments of power generation, oil and gas, service center plate, and heavy equipment manufacturing products decreased 30%, 16%, 7%, and 51%, respectively, and were partially offset by increases in aerospace products and conversion services of 13% and 1%, respectively, for the quarter ended September 30, 2012, compared to the prior year third quarter.

Cost of products sold, as a percentage of sales, was 85% and 81% for the quarters ended September 30, 2012 and 2011, respectively. The increase in cost of products sold is primarily due to increased operations costs as a percentage of sales incurred in the current quarter as compared to the prior year second quarter. This increase is largely due to the aforementioned increased infrastructure costs, primarily related to our North Jackson facility. The increase in operations cost as a percentage of sales is partially offset by lower material costs as a percentage of sales in the current quarter, primarily due to reduced raw material prices.

S&A expense decreased by $0.7 million for the three months ended September 30, 2012 as compared to the similar period in 2011. S&A expenses as a percentage of net sales was 8% for both the quarters ended September 30, 2012 and 2011. Our S&A expense in the third quarter of 2011 included $1.1 million of acquisition costs related to the North Jackson facility acquisition. There were no similar costs in the third quarter of 2012. During the quarter ended September 30, 2012, we incurred an additional $0.5 million of S&A expense when compared to the quarter ended September 30, 2011 as a result of including North Jackson for the entire quarter in the current year. Our S&A expenses were favorably impacted by reduced variable incentive compensation costs, which decreased by $0.8 million in the third quarter of 2012 as compared to the same period in 2011.

Business Segment Results

We are comprised of four operating locations and a corporate headquarters. For segment reporting, our Bridgeville, North Jackson and Titusville facilities have been aggregated into one reportable segment, Universal Stainless & Alloy Products ("USAP"). Our Dunkirk Specialty Steel facility is our second reportable segment.

We have included the results of our North Jackson operation in the USAP segment as a result of North Jackson having consistent characteristics as identified in Accounting Standards Codification ("ASC") Topic 280, "Segment Reporting", with the USAP segment. As a result of the North Jackson acquisition, our operating facilities have become more integrated, resulting in our chief operating decision maker ("CODM") increasingly viewing the Company as one unit. As North Jackson becomes fully integrated within the Company, we expect to move to one reportable segment to more accurately reflect the information and measures which are used by our CODM to make key decisions.

An analysis of net sales and operating income for our reportable segments for the three month ended September 30, 2012 and 2011 is as follows:

Universal Stainless & Alloy Products Segment

	Three months ended September 30,	
(in thousands)	**2012**	**2011**
Net sales:		
Stainless steel	$30,138	$34,803
Tool steel	3,703	5,047
High-strength low alloy steel	1,106	662
High-temperature alloy steel	637	623
Conversion services	866	641
Scrap sales and other	267	230
	36,717	42,006
Intersegment	16,556	18,554
Total net sales	53,273	60,560
Material cost of sales	27,548	31,265
Operation cost of sales	21,534	20,511
Selling and administrative expenses	2,996	4,004
Operating income	$ 1,195	$ 4,780

The above financial information includes the results of the North Jackson operation, which was acquired on August 18, 2011.

Net sales for the three months ended September 30, 2012 for the Universal Stainless & Alloy Products segment decreased by $7.3 million, or 12%, in comparison to the quarter ended September 30, 2011. The results reflect a 3% decrease in shipments for the three months ended September 30, 2012, as well as a change in product mix. Shipments of power generation, oil and gas, service center plate, and heavy equipment manufacturing products decreased 29%, 20%, 4%, and 35%, respectively, and were partially offset by increases in aerospace products and conversion services of 23% and 43%, respectively, for the quarter ended September 30, 2012, when compared to the prior year third quarter.

For the quarter ended September 30, 2012, operating income declined by $3.6 million as compared to the prior year third quarter. This reduction in operating income is a result of decreased sales, as well as higher operations costs per sales dollar, partially offset by decreased material costs per sales dollar. Operation costs per sales dollar increased from 34% for the three months ended September 30, 2011 to 40% for the three months ended September 30, 2012. Material cost of sales, as a percentage of net sales, remained consistent at 52% between the periods presented. S&A expense for the USAP segment decreased from 7% of net sales for the quarter ended September 30, 2011 to 6% for the current quarter.

Dunkirk Specialty Steel Segment

	Three months ended September 30,	
(in thousands)	**2012**	**2011**
Net sales:		
Stainless steel	$18,294	$19,943
Tool steel	1,065	360
High-strength low alloy steel	3,774	3,778
High-temperature alloy steel	1,293	956
Conversion services	101	294
Scrap sales and other	116	(38)
	24,643	25,293
Intersegment	135	34
Total net sales	24,778	25,327
Material cost of sales	14,269	15,847
Operation cost of sales	6,499	5,628
Selling and administrative expenses	1,689	1,339
Operating income	$ 2,321	$ 2,513

Net sales for the three months ended September 30, 2012 for the Dunkirk Specialty Steel segment decreased by $0.5 million, or 2%, in comparison to the three months ended September 30, 2011. The decrease in sales is largely a result of a 4% decrease in shipments for the quarter ended September 30, 2012, offset by a change in product mix. For the three months ended September 30, 2012, decreases in shipments of conversion services, power generation, and oil and gas products of 87%, 32% and 9% were partially offset by increases in aerospace, service center bar and heavy equipment manufacturing products of 5%, 165% and 3%, respectively.

Operating income for the three months ended September 30, 2012 decreased by $0.2 million as compared to the similar period in 2011. The decrease during the third quarter is primarily due to decreased shipping volumes, as well as an increase in operation costs per sales dollar from 22% for the three months ended September 30, 2011 to 26% for the three months ended September 30, 2012, partially offset by lower material costs in relation to net sales, which decreased from 63% to 58% in the same period. Total cost of products sold as a percentage of sales was 85% during the three months ended September 30, 2011, compared to 84% during the current period.

Nine months ended September 30, 2012 as compared to the nine months ended September 30, 2011

An analysis of the Company's operations for the nine months ended September 30, 2012 and 2011 is as follows:

(in thousands)	Nine months ended September 30, 2012	2011
Net sales:		
Stainless steel	$160,844	$149,797
Tool steel	15,638	18,376
High-strength low alloy steel	16,959	13,925
High-temperature alloy steel	6,099	5,037
Conversion services	3,831	2,945
Scrap sales and other	469	348
Total net sales	203,840	190,428
Cost of products sold	168,658	154,884
Selling and administrative expenses	13,531	12,870
Operating income	$ 21,651	$ 22,674
Tons shipped	38,925	38,345

Market Segment Information

(in thousands)	Nine months ended September 30, 2012	2011
Net sales:		
Service centers	$120,091	$ 98,000
Forgers	30,924	36,792
Rerollers	31,851	35,983
Original equipment manufacturers	12,693	12,844
Wire redrawers	3,981	3,516
Conversion services	3,831	2,945
Scrap sales and other	469	348
Total net sales	$203,840	$190,428

The above financial information includes the results of the North Jackson operation, which was acquired on August 18, 2011.

Net sales for the nine months ended September 30, 2012 increased $13.4 million as compared to the similar period in 2011. The increase reflects a 2% increase, for the nine months ended September 30, 2012, in consolidated shipments, combined with a change in product mix. Increased shipments of aerospace products and conversion services of 20%, and 19%, respectively, were partially offset by decreases in shipments of power generation, oil and gas, heavy equipment manufacturing and service center plate products of 15%, 3%, 29% and 6%, respectively, as compared to the nine months ended September 30, 2011.

Cost of products sold, as a percentage of net sales, was 83% and 81% for the nine months ended September 30, 2012 and 2011, respectively. The increase in cost of products sold is primarily due to increased operations costs as a percentage of sales incurred in the nine months ended September 30, 2012 when compared to the prior year same period. This increase is largely due to the aforementioned increased infrastructure costs, primarily related to our North Jackson facility. The increase in operations cost as a percentage of sales is partially offset by lower material costs as a percentage of sales in the current period, primarily as a result of reduced raw material costs.

S&A expense increased by $0.7 million for the nine months ended September 30, 2012 as compared to the similar period in 2011. However, as a percentage of net sales, S&A expenses were 7% for both the nine months ended September 30, 2012 and 2011. Our S&A expense in the first nine months of 2011 included $2.1 million of acquisition costs related to the North Jackson facility acquisition. There were no similar costs in the first nine months of 2012. Our S&A expenses in the nine months ended September 30, 2012 were favorably impacted by reduced variable incentive compensation costs. Our variable incentive compensation expense decreased by $1.6 million during the first nine months of 2012 as compared to the same period in 2011.

Business Segment Results

An analysis of net sales and operating income for the reportable segments for the nine months ended September 30, 2012 and 2011 is as follows:

Universal Stainless & Alloy Products Segment

	Nine months ended September 30,	
(in thousands)	2012	2011
Net sales:		
Stainless steel	$ 98,926	$ 94,037
Tool steel	13,560	17,184
High-strength low alloy steel	5,093	1,816
High-temperature alloy steel	2,125	2,050
Conversion services	3,476	2,203
Scrap sales and other	365	359
	123,545	117,649
Intersegment	51,803	58,512
Total net sales	175,348	176,161
Material cost of sales	87,527	92,338
Operation cost of sales	67,730	58,811
Selling and administrative expenses	8,648	8,872
Operating income	$ 11,443	$ 16,140

The above financial information includes the results of the North Jackson operation, which was acquired on August 18, 2011.

Net sales for the nine months ended September 30, 2012 for the USAP segment decreased by $0.8 million, or less than 1%, in comparison to the nine months ended September 30, 2011. The decrease reflects an increase of less than 1% in shipments for the nine months ended September 30, 2012, as well as a change in product mix. Increases in shipments of aerospace products and conversion services of 16% and 49%, respectively, were partially offset by decreases in power generation, oil and gas, service center plate and heavy equipment manufacturing products of 16%, 10%, 3% and 34%, respectively, for the nine months ended September 30, 2012.

Operating income for the nine months ended September 30, 2012 declined by $4.7 million as compared to the nine months ended September 30, 2011. This reduction in operating income is primarily a result of higher operations costs per sales dollar, partially offset by decreased material costs per sales dollar. Operation costs per sales dollar increased from 33% for the nine months ended September 30, 2011 to 39% for the nine months ended September 30, 2012. Material cost of sales, as a percentage of net sales, decreased from 52% for the nine months ended September 30, 2011 to 50% for the nine months ended September 30, 2012.

Dunkirk Specialty Steel Segment

	Nine months ended September 30,	
(in thousands)	2012	2011
Net sales:		
Stainless steel	$61,918	$55,760
Tool steel	2,078	1,192
High-strength low alloy steel	11,866	12,109
High-temperature alloy steel	3,974	2,987
Conversion services	355	742
Scrap sales and other	104	(11)
	80,295	72,779
Intersegment	314	126
Total net sales	80,609	72,905
Material cost of sales	47,130	44,864
Operation cost of sales	20,195	16,230
Selling and administrative expenses	4,883	3,998
Operating income	$ 8,401	$ 7,813

Net sales for the nine months ended September 30, 2012 for the Dunkirk Specialty Steel segment increased by $7.7 million, or 11%, in comparison to the nine months ended September 30, 2011. The increase in sales is largely a result of a 6% increase in shipments for the nine months ended September 30, 2012, as well as a change in product mix. For the nine months ended September 30, 2012, increases in shipments of aerospace products, oil and gas, service center bar and heavy equipment manufacturing products of 15%, 3%, 55% and 7%, respectively, were partially offset by decreases in shipments of power generation products and conversion services materials of 7% and 66%, respectively.

Operating income for the nine months ended September 30, 2012 increased by $0.6 million, as compared to the similar period in 2011. The increase during the nine months ended September 30, 2012 is primarily due to the increase in sales during the period. Our cost of goods sold as a percentage of sales for the segment was 84% for each of the nine months ended September 30, 2012 and 2011.

Liquidity and Capital Resources

We have financed our operating activities through cash on hand at the beginning of the period, cash provided by operations, and cash provided by our credit facilities. Working capital increased $18.7 million to $132.7 million at September 30, 2012 compared to $114.0 million at December 31, 2011. The $16.5 million increase in net inventory at September 30, 2012 compared to December 31, 2011 is due primarily to a 18% increase in the level of work-in-process inventory, as well as a 31% increase in raw material inventory. The increases in both work-in-process and raw material inventories at September 30, 2012 are largely due to the production in our North Jackson facility's VIM furnace, which produced its first test heats late in the fourth quarter of 2011. We have built VIM inventory throughout 2012 while the material is in the process of being qualified for future customer orders. We expect to have the material qualified by our customers and to begin selling it in the fourth quarter of 2012. The backlog decreased from $102.6 million at December 31, 2011 to $68.3 million at September 30, 2012, a decrease of 33%. We believe our reduced backlog is a result of our customers delaying orders as a result of recent decreases in raw material prices and corresponding surcharges. As previously discussed, we expect to see reduced order activity for the remainder of 2012.

Cash received from sales of $68.5 million and $204.6 million for the three and nine months ended September 30, 2012, respectively, and of $60.8 million and $180.3 million for the three and nine months ended September 30, 2011, respectively, represent the primary source of cash from operations. The primary uses of cash for the quarter ended September 30, 2012 were raw material purchases of $26.7 million, employment costs of $13.3 million, capital expenditures of $11.3 million and utilities of $2.6 million. For the same period in 2011, excluding the purchase of our North Jackson facility, primary uses of cash were raw material purchases of $29.6 million, employment costs of $9.9 million, utilities of $3.6 million and capital expenditures of $1.2 million. For the nine-months ended September 30, 2012, primary uses of cash were raw material purchases of $91.6 million, employment costs of $43.9 million, capital expenditures of $27.5 million and utilities of $9.4 million. For the same period in 2011, excluding the purchase of our North Jackson facility, primary uses of cash were raw material purchases of $91.6 million, employment costs of $33.6 million, utilities of $11.8 million and capital expenditures of $4.9 million.

Prior to the North Jackson acquisition, we paid federal estimated taxes of $4.5 million for 2011. As a result of the North Jackson acquisition and the significant amount of machinery and equipment that was placed in service in 2011, we have claimed the available 100% bonus depreciation deduction on such equipment and, as a result, generated a net operating loss for the 2011 federal income tax return. We recorded refundable income taxes in the amount of $4.8 million as of December 31, 2011, which mostly represented the amount paid in federal taxes during 2011. In February 2012, we received a federal tax refund of $4.5 million. At December 31, 2011, we had a deferred tax asset of $15.1 million related to NOL carry forwards. During the second quarter, we carried back a portion of this NOL to 2010 to obtain a refund of the $5.2 million paid for federal income taxes for the 2010 tax year. We received this refund in July. The remaining portion of the NOL is being carried forward.

The following table reflects the average market values per pound for selected months during the last 21-month period.

	September 2012	December 2011	September 2011	December 2010
Nickel	$ 7.81	$ 8.23	$ 9.25	$ 10.94
Chrome	$ 1.04	$ 1.10	$ 1.16	$ 1.31
Molybdenum	$ 11.80	$ 13.42	$ 14.37	$ 16.17
Carbon scrap	$ 0.16	$ 0.21	$ 0.22	$ 0.19

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

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

We had capital expenditures for the nine months ended September 30, 2012 of $30.7 million, of which $3.2 million were included in accounts payable at the end of the period, compared with $7.9 million and $3.0 million for the same period in 2011. The most significant capital expenditures incurred during the nine months ended September 30, 2012 related to the continued build out of the North Jackson facility, which totaled $21.4 million. Exclusive of North Jackson, the most significant capital expenditures incurred during the nine months ended September 30, 2011 related to the Bridgeville remelt and laboratory upgrades which collectively totaled $1.9 million for the period.

On August 18, 2011, we entered into a Credit Agreement (the "Credit Agreement") which provides for a senior secured revolving credit facility (the "Revolver") and a senior secured term loan facility (the "Term Loan" and together with the Revolver, the

"Facilities"). On March 19, 2012, we entered into the First Amendment to the Credit Agreement (together with the Credit Agreement the "Amended Credit Agreement"). The Amended Credit Agreement provides for a $105.0 million Revolver and a $20.0 million Term Loan. The Amended Credit Agreement extended the expiration date for the Facilities from August 2016 to March 2017, provided additional availability under the Facilities and reduced fees and interest rates. The Facilities are collateralized by substantially all of the assets of the Company and its subsidiaries, except that no real property other than North Jackson is collateral under the Facilities. Universal Stainless & Alloy Products, Inc., Dunkirk Specialty Steel, LLC and North Jackson Specialty Steel, LLC are co-borrowers under the Facilities. The co-borrowers' obligations under the Facilities have been guaranteed by USAP Holdings, Inc.

At any time prior to August 18, 2015, we may make up to two requests to increase the maximum aggregate principal amount of borrowings under the Revolver by at least $10.0 million, with the maximum aggregate principal amount of borrowings under the Revolver not to exceed $130.0 million in any event. We are required to pay a commitment fee of 0.25% based on the daily unused portion of the Revolver. The Revolver also provides for up to $7.0 million of swing loans so long as the sum of the outstanding swing loans and the outstanding borrowings under the Revolver does not exceed $105.0 million under the Revolver at any given time. The Term Loan is payable in quarterly installments in the principal amount of $750,000 beginning on July 1, 2013, with the balance of the Term Loan payable in full on March 19, 2017.

Amounts outstanding under the Facilities, at our option, will bear interest at either a base rate or a LIBOR-based rate (the "LIBOR Option"), in either case calculated in accordance with the terms of the Amended Credit Agreement. We elected to use the LIBOR Option during the three months ended September 30, 2012, which was 1.97% for the Term Loan and revolving credit facility and 1.96% for the swing loan at September 30, 2012. Interest on the Facilities is payable monthly.

The Amended Credit Agreement requires that we maintain a leverage ratio not exceeding a ratio decreasing from 3.25 to 1.00 to 2.75 to 1.00 during the term of the Facilities and a fixed charge coverage ratio not less than 1.20 to 1.00. At September 30, 2012, we were obligated to maintain a leverage ratio not exceeding 3.00 to 1.00. We were in compliance with all covenants contained in the Amended Credit Agreement at September 30, 2012.

In connection with the North Jackson acquisition on August 18, 2011, we issued $20.0 million in convertible notes (the "Notes") to the sellers of the North Jackson facility as partial consideration of the acquisition. The Notes are subordinated obligations and rank junior to the Facilities. The Notes bear interest at a fixed rate of 4.0% per annum, payable in cash semi-annually in arrears on each June 18 and December 18, beginning on December 18, 2011. Unless earlier converted, the Notes mature and the unpaid principal balance is due on August 17, 2017. The Notes and any accrued and unpaid interest are convertible into shares of our Common Stock at the option of the holder at an initial conversion price of $47.1675 per share of Common Stock. The conversion price associated with the Notes may be adjusted in certain circumstances. We may prepay any outstanding Notes, in whole or in part, after August 17, 2014 during a fiscal quarter if our share price is greater than 140% of the current conversion price for at least 20 of the trading days in the 30 consecutive trading day period ending on the last trading day of the immediately preceding quarter.

We expect to meet all of our short-term liquidity requirements resulting from operations and current capital investment plans with internally generated funds and borrowings under the Revolver. At September 30, 2012, we had $31.6 million in availability under the Revolver.

As a result of the amendment to the Credit Facility during the nine months ended September 30, 2012, our contractual obligations for our long-term debt have changed from those presented in Part II, Item 7 ("Liquidity and Capital Resources") of our 2011 Form 10-K. Our contractual obligations for our long-term debt at September 30, 2012 were as follows (in thousands):

Less than 1 year	$ 3,393
1 - 3 years	11,128
3 - 5 years	110,636
More than 5 years	—
Total	$125,157

The contractual obligations above include interest expense, which was estimated based on balances and interest rates at September 30, 2012, and assumes that debt will not be repaid until its maturity.

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.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has reviewed the status of its market risk and believes there are no significant changes from that disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, except as provided in this Form 10-Q in "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 4. CONTROLS AND PROCEDURES

The Company's management, including the Company's 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 Chief Executive Officer and the Vice President of Finance, Chief Financial Officer and Treasurer concluded that, as of the end of the fiscal period covered by this quarterly report, the Company's disclosure controls and procedures were effective. There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the fiscal quarter ended September 30, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

There are no material changes from the legal proceedings disclosed in Item 3. of the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

Item 1A. RISK FACTORS

There are no material changes from the risk factors disclosed in Item 1A. of the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

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

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not Applicable.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

Exhibit Number	Exhibit
10.1	Form of notice of grant of restricted stock award (filed herewith).
10.2	Form of non-statutory stock option agreement (filed herewith).
10.3	Form of incentive stock option agreement (filed herewith).
10.4	Form of non-statutory stock option agreement for eligible directors (filed herewith).
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 and Chief Financial Officer pursuant to Rule 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
101	The following financial information from this Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2012, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Condensed Consolidated Balance Sheets; (ii) the Condensed Consolidated Statements of Operations; (iii) the Condensed Consolidated Statements of Comprehensive Income; (iv) the Condensed Consolidated Statements of Cash Flows; and (v) the Notes to the Condensed Consolidated Financial Statements.

SIGNATURES

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

November 9, 2012

/s/ Dennis M. Oates	/s/ Douglas M. McSorley
Dennis M. Oates	Douglas M. McSorley
Chairman, President and Chief Executive Officer	Vice President of Finance, Chief Financial Officer and Treasurer
(Principal Executive Officer)	(Principal Financial and Accounting Officer)

Exhibit 10.1

FORM OF NOTICE OF GRANT OF RESTRICTED STOCK AWARD

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.
OMNIBUS INCENTIVE PLAN

FOR GOOD AND VALUABLE CONSIDERATION, Universal Stainless & Alloy Products, Inc. (the "Company") hereby grants, pursuant to the provisions of the Company's Omnibus Incentive Plan (the "Plan"), to the Participant designated in this Notice of Grant of Restricted Stock Award (the "Notice") the number of shares of the common stock of the Company set forth in the Notice, subject to certain restrictions as outlined below in this Notice and the additional provisions set forth in the attached Terms and Conditions of Restricted Stock Award (the "Agreement").

Participant: [ ]

Grant Date: [ ]

# of Shares of Restricted Stock: [ ]

Vesting Schedule: Subject to the provisions contained in Paragraphs 4, 5 and 6 of the Terms and Conditions, this Restricted Stock Award shall vest, and the applicable Restrictions set forth in the Terms and Conditions shall lapse in accordance with the following schedule, in the event the Participant does not have a Termination of Service prior to the applicable vesting date:

Date of Vesting	Cumulative Amount Vested
[ ]	[ ]
[ ]	[ ]

Change in Control: Notwithstanding the foregoing vesting schedule, the Restricted Stock Award will be deemed fully vested and no longer subject to forfeiture in the event of a Change in Control of the Company (as defined in and subject to the provisions of the Plan).

Forfeiture: The Participant's rights in the Restricted Stock Award on which the Restrictions have not lapsed pursuant to the vesting schedule provisions above shall be forfeited in full in the event of the Participant's Termination of Service for any reason.

By signing below, the Participant agrees that this Restricted Stock Award is granted under and governed by the terms and conditions of the Company's Omnibus Incentive Plan and the attached Terms and Conditions.

Participant

____

Date: ________________________

Universal Stainless & Alloy Products, Inc.

By: ________________________

Title: ________________________

Date: ________________________

TERMS AND CONDITIONS OF RESTRICTED STOCK AWARD

These Terms and Conditions of Restricted Stock Award relate to the Notice of Grant of Restricted Stock Award (the "Notice") attached hereto, by and between the Company and the designated Participant.

The Committee has approved an award to the Participant of a number of shares of the Company's common stock, conditioned upon the Participant's acceptance of the provisions set forth in the Notice and these Terms and Conditions within 60 days after the Notice and these Terms and Conditions are presented to the Participant for review. For purposes of the Notice and these Terms and Conditions, any reference to the Company shall include a reference to any Affiliate.

1. Grant of Restricted Stock.

(a) Subject to the terms and conditions of the Plan, as of the Grant Date, the Company grants to the Participant the number of shares of Common Stock set forth in the Notice (the "Restricted Shares"), subject to the restrictions set forth in Paragraph 2 of these Terms and Conditions, the provisions of the Plan and the other provisions contained in these Terms and Conditions. If and when the restrictions set forth in Paragraph 2 expire in accordance with these Terms and Conditions without forfeiture of the Restricted Shares, and upon the satisfaction of all other applicable conditions as to the Restricted Shares, such shares shall no longer be considered Restricted Shares for purposes of these Terms and Conditions.

(b) As soon as practicable after the Grant Date, the Company shall direct that a stock certificate or certificates representing the applicable Restricted Shares be registered in the name of and issued to the Participant. Such certificate or certificates shall be held in the custody of the Company or its designee until the expiration of the applicable Restricted Period (as defined in Paragraph 3). On or before the date of execution of the Notice, the Participant has delivered to the Company one or more stock powers endorsed in blank relating to the Restricted Shares.

(c) Except as provided in Paragraph 1(d), in the event that a certificate for the Restricted Shares is delivered to the Participant, such certificate shall bear the following legend (the "Legend"):

> The ownership and transferability of this certificate and the shares of stock represented hereby are subject to the terms and conditions (including forfeiture) of the Universal Stainless & Alloy Products, Inc. Omnibus Incentive Plan and a Restricted Stock Award Notice entered into between the registered owner and the Company. Copies of such Plan and Notice are on file in the executive offices of Universal Stainless & Alloy Products, Inc.

In addition, the stock certificate or certificates for the Restricted Shares shall be subject to such stop-transfer orders and other restrictions as the Company may deem advisable under the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Common Stock is then listed, and any applicable federal or state securities law, and the Company may cause a legend or legends to be placed on such certificate or certificates to make appropriate reference to such restrictions.

(d) As soon as administratively practicable following the expiration of the Restricted Period without a forfeiture of the Restricted Shares, and upon the satisfaction of all other applicable conditions as to the Restricted Shares, including, but not limited to, the payment by the Participant of all applicable withholding taxes, the Company shall deliver or cause to be delivered to the Participant the applicable Restricted Shares which shall not bear the Legend.

2. Restrictions.

(a) The Participant shall have all rights and privileges of a stockholder as to the Restricted Shares, including the right to vote and receive dividends or other distributions with respect to the Restricted Shares (subject to the proviso in Section 7.02(b) of the Plan), except that the following restrictions shall apply:

(i) the Participant shall not be entitled to delivery of the Restricted Shares until the expiration of the Restricted Period without a forfeiture of the Restricted Shares and upon the satisfaction of all other applicable conditions;

(ii) none of the Restricted Shares may be sold, transferred, assigned, pledged or otherwise encumbered or disposed of during the Restricted Period applicable to such shares, except as provided in Section 7.02(c) of the Plan or as otherwise permitted by the Committee in its sole discretion or pursuant to rules adopted by the Committee in accordance with the Plan; and

(iii) all of the Restricted Shares shall be forfeited and returned to the Company and all rights of the Participant with respect to the Restricted Shares shall terminate in their entirety on the terms and conditions set forth in Paragraph 4.

(b) Any attempt to dispose of Restricted Shares or any interest in the Restricted Shares in a manner contrary to the restrictions set forth in these Terms and Conditions shall be void and of no effect.

3. Restricted Period and Vesting. The "Restricted Period" is the period beginning on the Grant Date and ending on the date the Restricted Shares, or such applicable portion of the Restricted Shares, are deemed vested under the schedule set forth in the Notice. The Restricted Shares shall be deemed vested and no longer subject to forfeiture under Paragraph 4 in accordance with the vesting schedule set forth in the Notice or earlier in the event of a Change in Control.

4. Forfeiture.

(a) Subject to Paragraph 6 below, if during the Restricted Period (i) the Participant incurs a Termination of Service, (ii) there occurs a material breach of the Notice or these Terms and Conditions by the Participant or (iii) the Participant fails to meet the tax withholding obligations described in Paragraph 5(b), all rights of the Participant to the Restricted Shares that have not vested in accordance with Paragraph 3 as of the date of such event shall terminate immediately and be forfeited in their entirety.

(b) In the event of any forfeiture under this Paragraph 4, the certificate or certificates representing the forfeited Restricted Shares shall be canceled to the extent of any Restricted Shares that were forfeited.

5. Withholding.

(a) The Committee shall determine the amount of any withholding or other tax required by law to be withheld or paid by the Company with respect to any income recognized by the Participant with respect to the Restricted Shares.

(b) The Participant shall be required to meet any applicable tax withholding obligation in accordance with the provisions of Section 10.05 of the Plan.

(c) Subject to any rules prescribed by the Committee, the Participant shall have the right to elect to meet any withholding requirement (i) by having withheld from this Award at the appropriate time that number of whole shares of common stock whose fair market value is equal to the amount of any taxes required to be withheld with respect to such Award, (ii) by direct payment to the Company in cash of the amount of any taxes required to be withheld with respect to such Award or (iii) by a combination of shares and cash.

6. Committee Discretion. Notwithstanding any provision of the Notice or these Terms and Conditions to the contrary, the Committee shall have discretion to waive, in accordance with the provisions of Section 3.02 of the Plan, any forfeiture of the Restricted Shares as set forth in Paragraph 4, the Restricted Period and any other conditions set forth in the Notice or these Terms and Conditions.

7. Defined Terms. Capitalized terms used but not defined in the Notice and Agreement shall have the meanings set forth in the Plan, unless such term is defined in any employment or similar agreement between the Participant and the Company or an Affiliate. Any terms used in the Notice and Agreement, but defined in such employment or similar agreement are incorporated herein by reference and shall be effective for purposes of the Notice and these Terms and Conditions without regard to the continued effectiveness of such agreement.

8. Nonassignability. The Restricted Shares may not be sold, assigned, transferred (other than by will or the laws of descent and distribution, or to an inter vivos trust with respect to which the Participant is treated as the owner under Sections 671 through 677 of the Code), pledged, hypothecated, or otherwise encumbered or disposed of until the restrictions on such Shares, as set forth in the Notice and Agreement, have lapsed or been removed.

9. Participant Representations. The Participant hereby represents to the Company that the Participant has read and fully understands the provisions of the Notice, these Terms and Conditions and the Plan and the Participant's decision to participate in the Plan is completely voluntary. Further, the Participant acknowledges that the Participant is relying solely on his or her own advisors with respect to the tax consequences of this restricted stock award.

10. Regulatory Restrictions on the Restricted Shares. Notwithstanding any other provision of the Plan, the obligation of the Company to issue Restricted Shares under the Plan shall be subject to all applicable laws, rules and regulations and such approval by any regulatory body as may be required. The Company reserves the right to restrict, in whole or in part, the delivery of the Restricted Shares pursuant to these Terms and Conditions prior to the satisfaction of all legal requirements relating to the issuance of such shares, to their registration, qualification or listing or to an exemption from registration, qualification or listing.

11. Miscellaneous.

11.1 Notices. All notices, requests, deliveries, payments, demands and other communications which are required or permitted to be given under these Terms and Conditions shall be in writing and shall be either delivered personally or sent by registered or certified mail, or by private courier, return receipt requested, postage prepaid to the parties at their respective addresses set forth herein, or to such other address as either shall have specified by notice in writing to the other. Notice shall be deemed duly given hereunder when delivered or mailed as provided herein.

11.2 Waiver. The waiver by any party hereto of a breach of any provision of the Notice or these Terms and Conditions shall not operate or be construed as a waiver of any other or subsequent breach.

11.3 Entire Agreement. These Terms and Conditions, the Notice and the Plan constitute the entire agreement between the parties with respect to the subject matter hereof.

11.4 Binding Effect; Successors. These Terms and Conditions shall inure to the benefit of and be binding upon the parties hereto and to the extent not prohibited herein, their respective heirs, successors, assigns and representatives. Nothing in these Terms and Conditions, express or implied, is intended to confer on any person other than the parties hereto and as provided above, their respective heirs, successors, assigns and representatives any rights, remedies, obligations or liabilities.

11.5 Governing Law. The Notice and these Terms and Conditions shall be governed by and construed in accordance with the laws of the State of Delaware.

11.6 Headings. The headings contained herein are for the sole purpose of convenience of reference, and shall not in any way limit or affect the meaning or interpretation of any of the terms or provisions of these Terms and Conditions.

11.7 Conflicts; Amendment. The provisions of the Plan are incorporated in these Terms and Conditions in their entirety. In the event of any conflict between the provisions of these Terms and Conditions and the Plan, the provisions of the Plan shall control. The Agreement may be amended at any time by written agreement of the parties hereto.

11.8 No Right to Continued Employment. Nothing in the Notice or these Terms and Conditions shall confer upon the Participant any right to continue in the employ or service of the Company or affect the right of the Company to terminate the Participant's employment or service at any time.

11.9 Further Assurances. The Participant agrees, upon demand of the Company or the Committee, to do all acts and execute, deliver and perform all additional documents, instruments and agreements which may be reasonably required by the Company or the Committee, as the case may be, to implement the provisions and purposes of the Notice and these Terms and Conditions and the Plan.

Exhibit 10.2

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

NON-STATUTORY STOCK OPTION AGREEMENT

1. Grant of Options

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC., a Delaware corporation (the "Company"), hereby grants to ***«FirstName» «LastName»*** (the "Optionee"), «NumberofShares» Options (the "Options"), pursuant to the Company's Omnibus Incentive Plan as amended (the "Plan"), to purchase an aggregate of ***«NumberofShares»*** shares of common stock, $.001 par value per share ("Common Stock"), of the Company at a price of ***$*** per share (the "Exercise Price Per Share"), purchasable as set forth in and subject to the terms and conditions of this Option Agreement and the Plan. All undefined capitalized terms herein shall have the same meaning as set forth in the Plan.

2. Exercise of Options and Provisions for Termination

(a) Exercisability of Options. The Options shall become exercisable and option shares may be purchased based on the number of full years of service for the Company or a Subsidiary that have expired since the date of grant (set forth on the signature page hereof), in accordance with the following schedule:

Number of Years of Service Since First Date of Grant	Percentage of Option Shares Available for Purchase (Cumulative)
1	25%
2	50%
3	75%
4	100%

Notwithstanding the foregoing, the Options shall not be exercisable unless such exercise is in compliance with the Securities Act of 1933, as amended (the "Securities Act"), all other applicable laws and regulations (including state securities laws) and the requirements of any securities exchange on which the shares of Common Stock are listed.

(b) Expiration Date. Except as otherwise provided in this Option Agreement or the Plan, the Options may not be exercised after the date (hereinafter the "Expiration Date") that is the tenth anniversary of the date of grant.

(c) Effect of Termination of Employment. The Options may not be exercised by an Optionee unless, at the time of such exercise, the Optionee is, and continuously since the date of grant of his or her Options has been, an employee of the Company or a Subsidiary, except that subject to the Options vesting as of the date of termination of employment:

(i) if the Optionee ceases to be an employee of the Company or a Subsidiary for any reason other than death or disability or a discharge for "cause" (as defined in (iv) below), the right to exercise the Options shall terminate three months after such cessation;

(ii) if the Optionee dies while an employee of the Company or a Subsidiary, or within three months after the Optionee ceases to be such an employee, the Options may be exercised by the administrator of the Optionee's estate, or by the person to whom the Options are transferred by will or the laws of descent and distribution, within the period of one year after the date of death;

(iii) if the Optionee becomes disabled (within the meaning of the Plan) while an employee of the Company or a Subsidiary, the Options may be exercised within the period of one year after the date the Optionee ceases to be an employee of the Company or Subsidiary because of such disability; and

(iv) if the Optionee, prior to the expiration date of the Options, ceases his or her services as an employee of the Company or a Subsidiary, because he or she is discharged for "cause" (as defined below), the right to exercise the Options shall terminate immediately upon such cessation of such services. "Cause" shall mean: willful misconduct in connection with the Optionee's performance of services for the Company or willful failure to perform his or her services in the best interest of the Company, as determined by the Board of Directors, which determination shall be conclusive;

provided, *however*, that in no event may the Options be exercised after the expiration date thereof.

(d) Exercise Procedure. Subject to the conditions set forth in this Agreement and, if applicable, Section 6 of the Plan, the Options shall be exercised by the Optionee's delivery of written notice of exercise to the Secretary of the Company, specifying the number of shares to be purchased and the Exercise Price Per Share to be paid therefor and accompanied by payment in accordance with Section 3 hereof. The Optionee may purchase less than the total number of shares covered hereby, provided that no exercise of less than all the Options may be for less than 100 whole shares.

3. Payment of Purchase Price

Payment of the Exercise Price Per Share for shares purchased upon exercise of an Option shall be made by delivery to the Company of the purchase price, payable in cash (by check) or any other method of payment that is permitted by the Plan and specifically authorized by the Committee on or before the time of exercise.

4. Delivery of Shares

The Company shall, upon payment of the Exercise Price Per Share for the number of shares purchased and paid for, make prompt delivery of such shares to the Optionee. No shares shall be issued and delivered upon exercise of an Option unless and until, in the opinion of counsel for the Company, any applicable registration requirements of the Securities Act, any applicable listing requirements of any national securities exchange on which stock of the same class is then listed, and any other requirements of law, including state securities laws, or of any regulatory bodies having jurisdiction over such issuance and delivery, shall have been fully complied with.

5. Non-transferability of Options

Except as provided in Section 2(c)(ii) hereof, the Options are personal and no rights granted hereunder may be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise), except by will or the laws of descent and distribution, nor shall any such rights be subject to execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of an Option or of such rights contrary to the provisions hereof, or upon the levy of any attachment or similar process upon any Option or such rights, this Option Agreement and such rights shall, at the election of the Company, become null and void.

6. No Special Employment Rights

Nothing contained in the Plan or this Option Agreement shall be construed or deemed by any person under any circumstances to bind the Company to continue the services of the Optionee for the period within which the Options may be exercised. However, during the period in which the Optionee is rendering services, the Optionee shall render diligently and faithfully the services which are assigned to him or her from time to time by the Board of Directors or by the executive officers of the Company and shall at no time take any action which directly or indirectly would be inconsistent with the best interests of the Company.

7. Rights as a Stockholder

The Optionee shall have no rights as a stockholder with respect to any shares which may be purchased by exercise of the Options unless and until a certificate representing such shares is duly issued to the Optionee. Except as otherwise expressly provided in the Plan, no adjustment shall be made for dividends or other rights for which the record date is prior to the date on such stock certificate.

8. Recapitalization

In the event that the outstanding shares of Common Stock of the Company are changed into or exchanged for a different number or kind of shares or other securities of the Company by reason of any recapitalization, reclassification, stock split, stock dividend, combination or subdivision, an appropriate and proportionate adjustment shall be made in the number and kind of shares subject to the Plan and in the number, kind, and per share exercise price, of shares subject to unexercised Options or portions thereof granted prior to such adjustment. Any such adjustment to an outstanding Option shall be made without change in the total price applicable to the unexercised portion of such Option as of the date of the adjustment.

9. Reorganization

In the event the Company is merged or consolidated with another entity and the Company is not a surviving entity, or in the event all or substantially all of the assets or more than 20% of the outstanding voting stock of the Company entitled to vote for directors is acquired by any other entity or person other than an Affiliate, or in the event of a reorganization or liquidation of the Company, prior to the Expiration Date or termination of this Option Agreement, the Optionee shall, with respect to the Options or any unexercised portion hereof, be entitled to the rights and benefits, and be subject to the limitations, set forth in Section 14 of the Plan.

10. Withholding Taxes

The Company's obligation to deliver shares upon the exercise of an Option shall be subject to the Optionee's satisfaction of all applicable federal, state and local income and employment tax withholding requirements ("Withholding Taxes") with respect to the Option. The Optionee shall pay the Withholding Taxes to the Company in cash prior to the issuance, or release from escrow, of shares of Common Stock. In satisfaction of the Withholding Taxes, the Committee may, in its discretion and subject to compliance with applicable securities laws and regulations, withhold a portion of the shares issuable to the Optionee upon exercise of the Option having an aggregate Fair Value on the date preceding the date of such issuance equal to the Withholding Taxes.

11. Optionee Representations; Legend

(a) Representations. The Optionee represents, warrants and covenants that he or she has had such opportunity as he or she has deemed adequate to obtain from representatives of the Company such information as is necessary to permit the Optionee to evaluate the merits and risks of his or her investment in the Company. The Optionee understands that there may be restrictions on his or her ability to resell any shares acquired on exercise of an Option, including insider trading laws and the Company's insider trading policy, as well as other restrictions that will apply if the Optionee is an "affiliate" of the Company. By making payment upon exercise of an Option, the Optionee shall be deemed to have reaffirmed, as of the date of such payment, the representations made in this Section 11.

(b) Legend on Stock Certificate. The Optionee understands that, any shares of Common Stock acquired upon exercise of an Option may not have been registered under the Securities Act nor the securities laws of any state. Accordingly, unless all such registrations are then in effect, all stock certificates representing shares of Common Stock issued to the Optionee upon exercise of an Option shall have affixed thereto a legend substantially in the following form, in addition to any other legends required by applicable state law:

> "THE SHARES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR THE SECURITIES LAW OF ANY STATE. CONSEQUENTLY, THE SHARES REPRESENTED BY THIS CERTIFICATE MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION, OR AN EXEMPTION FROM REGISTRATION UNDER SUCH LAWS."

12. Miscellaneous

In the event that the Plan terminates prior to the expiration date of the Options granted hereunder, this Option Agreement shall incorporate by reference all applicable provisions of the Plan until the earlier of 1. the close of business on the day the Option(s) granted hereunder expire, or 1. the date on which all shares available for issuance hereunder shall have been issued pursuant to the exercise of Options granted hereunder.

Except as provided herein or in the Plan, this Option Agreement may not be amended or otherwise modified unless evidenced in writing and signed by the Company and the Optionee.

All notices under this Option Agreement shall, unless otherwise provided herein, be mailed or delivered by hand to the parties at their respective addresses set forth beneath their names below or at such other address as may be designated in writing by either of the parties to the other.

This Option Agreement shall be governed by and construed in accordance with the laws of the State of Delaware.

This Option Agreement shall be binding upon and inure to the heirs, successors and assigns of the Optionee (subject, however, to the limitations set forth herein with respect to assignment of the Options or rights therein) and the Company, and shall be construed in a manner that is consistent with the provisions of the Plan.

Date of Grant:	UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.
______________________	By: ______________________
	Name:
	Title:
	Address:

OPTIONEE'S ACCEPTANCE

The undersigned hereby accepts the foregoing Option Agreement regarding Stock Options granted as of   and agrees to the terms and conditions thereof. The undersigned hereby acknowledges receipt of a copy of the Company's Omnibus Incentive Plan. The undersigned understands and agrees that the Option Agreement is not meant to interpret, extend, or change the Plan in any way, nor to represent the full terms of the Plan. If there is any discrepancy, conflict or omission between this Option Agreement and the provisions of the Plan as interpreted by the Company, the provisions of the Plan shall govern.

OPTIONEE:

By: ______________________________

Name: ***«FirstName» «LastName»***

Title: ***«JobTitle»***

Address: ***«Address1»***
«Address2»
«City», «State» «PostalCode»

Exhibit 10.3

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

INCENTIVE STOCK OPTION AGREEMENT

1. Grant of Options

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC., a Delaware corporation (the "Company"), hereby grants to ***«FirstName» «LastName»*** (the "Optionee"), «NumberofShares» Options (the "Options"), pursuant to the Company's Omnibus Incentive Plan as amended (the "Plan"), to purchase an aggregate of ***«NumberofShares»*** shares of common stock, $.001 par value per share ("Common Stock"), of the Company at a price of ***$*** per share (the "Exercise Price Per Share"), purchasable as set forth in and subject to the terms and conditions of this Option Agreement and the Plan. All undefined capitalized terms herein shall have the same meaning as set forth in the Plan.

2. Incentive Stock Options

These Options are intended to qualify as incentive stock options ("Incentive Stock Options") within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

3. Exercise of Options and Provisions for Termination

(a) Exercisability of Options. The Options shall become exercisable and option shares may be purchased based on the number of full years of service for the Company or a Subsidiary that have expired since the date of grant (set forth on the signature page hereof), in accordance with the following schedule:

Number of Years of Service Since First Date of Grant	Percentage of Option Shares Available for Purchase (Cumulative)
1	25%
2	50%
3	75%
4	100%

Notwithstanding the foregoing, the Options shall not be exercisable unless such exercise is in compliance with the Securities Act of 1933, as amended (the "Securities Act"), all other applicable laws and regulations (including state securities laws) and the requirements of any securities exchange on which the shares of Common Stock are listed.

(b) Expiration Date. Except as otherwise provided in this Option Agreement or the Plan, the Options may not be exercised after the date (hereinafter the "Expiration Date") that is the tenth anniversary of the date of grant, or, if the Optionee is a 10% Stockholder as described in Section 6 of the Plan, the fifth anniversary of the date of grant.

(c) Effect of Termination of Employment. The Options may not be exercised by an Optionee unless, at the time of such exercise, the Optionee is, and continuously since the date of grant of his or her Options has been, an employee of the Company or a Subsidiary, except that subject to the Options vesting as of the date of termination of employment:

(i) if the Optionee ceases to be an employee of the Company or a Subsidiary for any reason other than death or disability or a discharge for "cause" (as defined in (iv) below), the right to exercise the Options shall terminate three months after such cessation;

(ii) if the Optionee dies while an employee of the Company or a Subsidiary, or within three months after the Optionee ceases to be such an employee, the Options may be exercised by the administrator of the Optionee's estate, or by the person to whom the Options are transferred by will or the laws of descent and distribution, within the period of one year after the date of death; however, Options exercised more than three months after the Optionee ceased to be an employee may not qualify for treatment as Incentive Stock Options;

(iii) if the Optionee becomes disabled (within the meaning of the Plan) while an employee of the Company or a Subsidiary, the Options may be exercised within the period of one year after the date the Optionee ceases to be an employee of the Company or Subsidiary because of such disability; and

(iv) if the Optionee, prior to the expiration date of the Options, ceases his or her services as an employee of the Company or a Subsidiary, because he or she is discharged for "cause" (as defined below), the right to exercise the Options shall terminate immediately upon such cessation of such services. "Cause" shall mean: willful misconduct in connection with the Optionee's performance of services for the Company or willful failure to perform his or her services in the best interest of the Company, as determined by the Board of Directors, which determination shall be conclusive;

provided, *however*, that in no event may the Options be exercised after the expiration date thereof.

(d) Exercise Procedure. Subject to the conditions set forth in this Agreement and, if applicable, Section 6 of the Plan, the Options shall be exercised by the Optionee's delivery of written notice of exercise to the Secretary of the Company, specifying the number of shares to be purchased and the Exercise Price Per Share to be paid therefor and accompanied by payment in accordance with Section 4 hereof. The Optionee may purchase less than the total number of shares covered hereby, provided that no exercise of less than all the Options may be for less than 100 whole shares.

4. Payment of Purchase Price

Payment of the Exercise Price Per Share for shares purchased upon exercise of an Option shall be made by delivery to the Company of the purchase price, payable in cash (by check) or any other method of payment that is permitted by the Plan and specifically authorized by the Committee on or before the time of exercise.

5. Delivery of Shares

The Company shall, upon payment of the Exercise Price Per Share for the number of shares purchased and paid for, make prompt delivery of such shares to the Optionee. No shares shall be issued and delivered upon exercise of an Option unless and until, in the opinion of counsel for the Company, any applicable registration requirements of the Securities Act, any applicable listing requirements of any national securities exchange on which stock of the same class is then listed, and any other requirements of law, including state securities laws, or of any regulatory bodies having jurisdiction over such issuance and delivery, shall have been fully complied with.

6. Non-transferability of Options

Except as provided in Section 3(c)(ii) hereof, the Options are personal and no rights granted hereunder may be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise), except by will or the laws of descent and distribution, nor shall any such rights be subject to execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of an Option or of such rights contrary to the provisions hereof, or upon the levy of any attachment or similar process upon any Option or such rights, this Option Agreement and such rights shall, at the election of the Company, become null and void.

7. No Special Employment Rights

Nothing contained in the Plan or this Option Agreement shall be construed or deemed by any person under any circumstances to bind the Company to continue the services of the Optionee for the period within which the Options may be exercised. However, during the period in which the Optionee is rendering services, the Optionee shall render diligently and faithfully the services which are assigned to him or her from time to time by the Board of Directors or by the executive officers of the Company and shall at no time take any action which directly or indirectly would be inconsistent with the best interests of the Company.

8. Rights as a Stockholder

The Optionee shall have no rights as a stockholder with respect to any shares which may be purchased by exercise of the Options unless and until a certificate representing such shares is duly issued to the Optionee. Except as otherwise expressly provided in the Plan, no adjustment shall be made for dividends or other rights for which the record date is prior to the date on such stock certificate.

9. Recapitalization

In the event that the outstanding shares of Common Stock of the Company are changed into or exchanged for a different number or kind of shares or other securities of the Company by reason of any recapitalization, reclassification, stock split, stock dividend, combination or subdivision, an appropriate and proportionate adjustment shall be made in the number and kind of shares subject to the Plan and in the number, kind, and per share exercise price, of shares subject to unexercised Options or portions thereof granted prior to such adjustment. Any such adjustment to an outstanding Option shall be made without change in the total price applicable to the unexercised portion of such Option as of the date of the adjustment. No such adjustment shall be made with respect to an Option that would, within the meaning of any applicable provisions of the Code, constitute a modification, extension or renewal of any Option or a grant of additional benefits to the Optionee.

10. Reorganization

In the event the Company is merged or consolidated with another entity and the Company is not a surviving entity, or in the event all or substantially all of the assets or more than 20% of the outstanding voting stock of the Company entitled to vote for directors is acquired by any other entity or person other than an Affiliate, or in the event of a reorganization or liquidation of the Company, prior to the Expiration Date or termination of this Option Agreement, the Optionee shall, with respect to the Options or any unexercised portion hereof, be entitled to the rights and benefits, and be subject to the limitations, set forth in Section 14 of the Plan.

11. Withholding Taxes

The Company’s obligation to deliver shares upon the exercise of an Option shall be subject to the Optionee’s satisfaction of all applicable federal, state and local income and employment tax withholding requirements (“Withholding Taxes”) with respect to the Option. The Optionee shall pay the Withholding Taxes to the Company in cash prior to the issuance, or release from escrow, of shares of Common Stock. In satisfaction of the Withholding Taxes, the Committee may, in its discretion and subject to compliance with applicable securities laws and regulations, withhold a portion of the shares issuable to the Optionee upon exercise of the Option having an aggregate Fair Value on the date preceding the date of such issuance equal to the Withholding Taxes.

12. Optionee Representations; Legend

(a) Representations. The Optionee represents, warrants and covenants that he or she has had such opportunity as he or she has deemed adequate to obtain from representatives of the Company such information as is necessary to permit the Optionee to evaluate the merits and risks of his or her investment in the Company. The Optionee understands that there may be restrictions on his or her ability to resell any shares acquired on exercise of an Option, including insider trading laws and the Company’s insider trading policy, as well as other restrictions that will apply if the Optionee is an “affiliate” of the Company. By making payment upon exercise of an Option, the Optionee shall be deemed to have reaffirmed, as of the date of such payment, the representations made in this Section 12.

(b) Legend on Stock Certificate. The Optionee understands that, any shares of Common Stock acquired upon exercise of an Option may not have been registered under the Securities Act nor the securities laws of any state. Accordingly, unless all such registrations are then in effect, all stock certificates representing shares of Common Stock issued to the Optionee upon exercise of an Option shall have affixed thereto a legend substantially in the following form, in addition to any other legends required by applicable state law:

> "THE SHARES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR THE SECURITIES LAW OF ANY STATE. CONSEQUENTLY, THE SHARES REPRESENTED BY THIS CERTIFICATE MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION, OR AN EXEMPTION FROM REGISTRATION UNDER SUCH LAWS."

13. Limitation on Disposition of Incentive Stock Option Shares

It is understood and intended that these Options shall qualify as Incentive Stock Options, as defined in Section 422 of the Code. Accordingly, the Optionee understands that in order to obtain the benefits of an Incentive Stock Options under Section 421 of the Code, no sale or other disposition may be made of any shares acquired upon exercise of an Option within the one year period beginning on the day after the day of the issuance of such shares to him or her, nor within the two year period beginning on the day after the date of grant of such Option. If the Optionee disposes of any such shares (whether by sale, exchange, gift, transfer or otherwise) prior to the expiration of either such periods, he or she will notify the Company in writing within ten days after such disposition.

14. Miscellaneous

In the event that the Plan terminates prior to the expiration date of the Options granted hereunder, this Option Agreement shall incorporate by reference all applicable provisions of the Plan until the earlier of 1. the close of business on the day the Option(s) granted hereunder expire, or (ii) the date on which all shares available for issuance hereunder shall have been issued pursuant to the exercise of Options granted hereunder.

All notices under this Option Agreement shall, unless otherwise provided herein, be mailed or delivered by hand to the parties at their respective addresses set forth beneath their names below or at such other address as may be designated in writing by either of the parties to the other.

This Option Agreement shall be governed by and construed in accordance with the laws of the State of Delaware.

This Option Agreement shall be binding upon and inure to the heirs, successors and assigns of the Optionee (subject, however, to the limitations set forth herein with respect to assignment of the Options or rights therein) and the Company, and shall be construed in a manner that is consistent with the provisions of the Plan.

Date of Grant:

____

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

By: ______________________________

Name: ______________________________

Title: ______________________________

Address: ______________________________

OPTIONEE'S ACCEPTANCE

The undersigned hereby accepts the foregoing Option Agreement and agrees to the terms and conditions thereof. The undersigned hereby acknowledges receipt of a copy of the Company's Omnibus Incentive Plan. The undersigned understands and agrees that the Option Agreement is not meant to interpret, extend, or change the Plan in any way, nor to represent the full terms of the Plan. If there is any discrepancy, conflict or omission between this Option Agreement and the provisions of the Plan as interpreted by the Company, the provisions of the Plan shall govern.

OPTIONEE:

By: ______________________________

Name: ***«FirstName» «LastName»***

Title: ***«JobTitle»***

Address: ***«Address1»***
«Address2»
«City», «State» «PostalCode»

Exhibit 10.4

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

NON-STATUTORY STOCK OPTION AGREEMENT FOR
ELIGIBLE DIRECTORS

1. Grant of Options

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC., a Delaware corporation (the "Company"), hereby grants to **«Name»** (the "Optionee"), pursuant to the Company's Omnibus Incentive Plan (the "Plan") as amended, Options (the "Options"), to purchase an aggregate of 10,000 shares of common stock, $.001 par value per share ("Common Stock"), of the Company at a price of **$** per share (the "Exercise Price Per Share"), purchasable as set forth in and subject to the terms and conditions of this Option Agreement and the Plan. All undefined capitalized terms herein shall have the same meaning as set forth in the Plan.

2. Exercise of Options and Effect of Termination of Services or Death.

1. Exercisability of Options. The Options shall become exercisable and option shares may be purchased based on the number of full years of service for the Company or a Subsidiary that have expired since the date of grant (set forth on the signature page hereof), in accordance with the following:

Director Options shall vest based on years of service according to the following schedule:

Number of Years of Service Since First Date of Grant	Percentage of Award (as stated in item 2.1.B.) Available for Exercise (Cumulative)
1	33 1/3%
2	66 2/3%
3	100%

Notwithstanding the foregoing, the Options shall not be exercisable unless such exercise is in compliance with the Securities Act of 1933, as amended (the "Securities Act"), all other applicable laws and regulations (including state securities laws) and the requirements of any securities exchange on which the shares of Common Stock are listed.

2. Expiration Date. Except as otherwise provided in this Option Agreement or the Plan, the Options may not be exercised after the date (hereinafter the "Expiration Date") that is the tenth anniversary of the date of grant.

3. Effect of Termination of Services or Death. If the Optionee ceases to serve as a director of the Company or a Subsidiary, the Options that have been previously granted to the Optionee and that are vested as of the date of such cessation may be exercised by the Optionee after the date such Optionee ceases to be a director of the Company or Subsidiary. If the Optionee dies while a director of the Company or a Subsidiary, the Options that have been previously granted to the Optionee and that are vested as of the date of such death may be exercised by the administrator of the Optionee's estate, or by the person to whom such Options are transferred by will or the laws of descent and distribution. In no event, however, may any Option be exercised after the Expiration Date of such Option.

4. Exercise Procedure. Subject to the conditions set forth in this Agreement and, if applicable, Section 7 of the Plan, the Options shall be exercised by the Optionee's delivery of written notice of exercise to the Secretary of the Company, specifying the number of shares to be purchased and the Exercise Price Per Share to be paid therefor and accompanied by payment in accordance with Section 3 hereof. The Optionee may purchase less than the total number of shares covered hereby, provided that no exercise of less than all the Options may be for less than 100 whole shares.

3. Payment of Purchase Price

Payment of the Exercise Price Per Share for shares purchased upon exercise of an Option shall be made by delivery to the Company of the purchase price, payable in cash (by check) or any other method of payment that is permitted by the Plan.

4. Delivery of Shares

The Company shall, upon payment of the Exercise Price Per Share for the number of shares purchased and paid for, make prompt delivery of such shares to the Optionee. No shares shall be issued and delivered upon exercise of an Option unless and until, in the opinion of counsel for the Company, any applicable registration requirements of the Securities Act, any applicable listing requirements of any national securities exchange on which stock of the same class is then listed, and any other requirements of law, including state securities laws, or of any regulatory bodies having jurisdiction over such issuance and delivery, shall have been fully complied with.

5. Non-transferability of Options

Except as provided in the Plan, the Options are personal and no rights granted hereunder may be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise), except by will or the laws of descent and distribution, nor shall any such rights be subject to execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of an Option or of such rights contrary to the provisions hereof, or upon the levy of any attachment or similar process upon any Option or such rights, this Option Agreement and such rights shall, at the election of the Company, become null and void.

6. No Special Directorship Rights

Nothing contained in the Plan or in this Option Agreement shall constitute evidence of any agreement or understanding, express or implied, that the Optionee has a right to continue as a director for any period of time.

7. Rights as a Stockholder

The Optionee shall have no rights as a stockholder with respect to any shares which may be purchased by exercise of the Options unless and until a certificate representing such shares is duly issued to the Optionee. Except as otherwise expressly provided in the Plan, no adjustment shall be made for dividends or other rights for which the record date is prior to the date on such stock certificate.

8. Recapitalization

In the event that the outstanding shares of Common Stock of the Company are changed into or exchanged for a different number or kind of shares or other securities of the Company by reason of any recapitalization, reclassification, stock split, stock dividend, combination or subdivision, an appropriate and proportionate adjustment shall be made in the number and kind of shares subject to the Plan and in the number, kind, and per share exercise price, of shares subject to unexercised Options or portions thereof granted prior to such adjustment. Any such adjustment to an outstanding Option shall be made without change in the total price applicable to the unexercised portion of such Option as of the date of the adjustment.

9. Reorganization

In the event the Company is merged or consolidated with another entity and the Company is not a surviving entity, or in the event all or substantially all of the assets or more than 20% of the outstanding voting stock of the Company entitled to vote for directors is acquired by any other entity or person other than an Affiliate, or in the event of a reorganization or liquidation of the Company, prior to the Expiration Date or termination of this Option Agreement, the Optionee shall, with respect to the Options or any unexercised portion hereof, be entitled to the rights and benefits, and be subject to the limitations, set forth in Section 14 of the Plan.

10. Withholding Taxes

The Company's obligation to deliver shares upon the exercise of an Option shall be subject to the Optionee's satisfaction of all applicable federal, state and local income and employment tax withholding requirements, if any.

11. Optionee Representations; Legend

1. Representations. The Optionee represents, warrants and covenants that he or she has had such opportunity as he or she has deemed adequate to obtain from representatives of the Company such information as is necessary to permit the Optionee to evaluate the merits and risks of his or her investment in the Company. The Optionee understands that there may be restrictions on his or her ability to resell any shares acquired on exercise of an Option, including insider trading laws and the Company's insider trading policy, as well as other restrictions that will apply if the Optionee is an "affiliate" of the Company. By making payment upon exercise of an Option, the Optionee shall be deemed to have reaffirmed, as of the date of such payment, the representations made in this Section 11.

2. Legend on Stock Certificate. The Optionee understands that, any shares of Common Stock acquired upon exercise of an Option may not have been registered under the Securities Act nor the securities laws of any state. Accordingly, unless all such registrations are then in effect, all stock certificates representing shares of Common Stock issued to the Optionee upon exercise of an Option shall have affixed thereto a legend substantially in the following form, in addition to any other legends required by applicable state law:

> "THE SHARES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR THE SECURITIES LAW OF ANY STATE. CONSEQUENTLY, THE SHARES REPRESENTED BY THIS CERTIFICATE MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION, OR AN EXEMPTION FROM REGISTRATION UNDER SUCH LAWS."

12. Miscellaneous

In the event that the Plan terminates prior to the expiration date of the Options granted hereunder, this Option Agreement shall incorporate by reference all applicable provisions of the Plan until the earlier of 1.) the close of business on the day the Option(s) granted hereunder expire, or 2.) the date on which all shares available for issuance hereunder shall have been issued pursuant to the exercise of Options granted hereunder.

Except as provided herein or in the Plan, this Option Agreement may not be amended or otherwise modified unless evidenced in writing and signed by the Company and the Optionee.

All notices under this Option Agreement shall, unless otherwise provided herein, be mailed or delivered by hand to the parties at their respective addresses set forth beneath their names below or at such other address as may be designated in writing by either of the parties to the other.

This Option Agreement shall be governed by and construed in accordance with the laws of the State of Delaware.

This Option Agreement shall be binding upon and inure to the heirs, successors and assigns of the Optionee (subject, however, to the limitations set forth herein with respect to assignment of the Options or rights therein) and the Company, and shall be construed in a manner that is consistent with the provisions of the Plan.

Date of Grant: ____________________

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

, 20

By: ____________________

Name: ____________________

Title: ____________________

Address: ____________________

Optionee (for notice purposes)

Name «Name»

Address: «Address»

OPTIONEE'S ACCEPTANCE

The undersigned hereby accepts the foregoing Option Agreement dated , and agrees to the terms and conditions thereof. The undersigned hereby acknowledges receipt of a copy of the Company's Omnibus Incentive Plan. The undersigned understands and agrees that the Option Agreement is not meant to interpret, extend, or change the Plan in any way, nor to represent the full terms of the Plan. If there is any discrepancy, conflict or omission between this Option Agreement and the provisions of the Plan as interpreted by the Company, the provisions of the Plan shall govern.

OPTIONEE:

By: ______________________

Name: «Name»

Title: Director

Address: «Address»

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Dennis M. Oates, certify that:

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

Date: November 9, 2012

/s/ Dennis M. Oates
Dennis M. Oates
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Douglas M. McSorley, certify that:

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

Date: November 9, 2012

/s/ Douglas M. McSorley
Douglas M. McSorley
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 Quarterly Report of Universal Stainless & Alloy Products, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned, in the capacities and on the dates indicated below, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 9, 2012

/s/ Dennis M. Oates	/s/ Douglas M. McSorley
Dennis M. Oates	Douglas M. McSorley
Chairman, President and Chief Executive Officer	Vice President of Finance, Chief Financial Officer and Treasurer
(Principal Executive Officer)	(Principal Financial and Accounting Officer)