UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2002

OR

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

For the Transition Period from _________ to _________

Commission File Number 0-25032

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

DELAWARE	**25-1724540**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

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

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

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

None

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

Title of Class

Common Stock, par value $.001 per share

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant on February 14, 2003, based on the closing price of $5.30 per share on that date, was $23,405,298. For the purposes of this disclosure only, the registrant has assumed that its directors, executive officers, and beneficial owners of 5% or more of the registrant's Common Stock are the affiliates of the registrant.

As of February 14, 2003, there were 6,284,638 shares of the Registrant's Common Stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Annual Report to Stockholders and definitive Proxy Statement for the Annual Meeting of Stockholders scheduled to be held May 20, 2003, are incorporated into Parts II and III of this Form 10-K, respectively.

TABLE OF CONTENTS

PART I

ITEM 1. BUSINESS

General

Universal Stainless & Alloy Products, Inc. (the “Company”), which was incorporated in 1994, manufactures and markets semi-finished and finished specialty steel products, including stainless steel, tool steel and certain other alloyed steels. The Company’s manufacturing process involves melting, remelting, treating, hot and cold rolling, machining and cold drawing of semi-finished and finished specialty steels. The Company’s products are sold to rerollers, forgers, service centers, original equipment manufacturers and wire redrawers. The Company’s customers further process its products for use in a variety of industries, including the power generation, aerospace, petrochemical and heavy equipment manufacturing industries. The Company also performs conversion services on materials supplied by customers that lack certain of the Company’s production facilities or that are subject to their own capacity constraints.

On February 14, 2002, the Company, through its wholly-owned subsidiary, Dunkirk Specialty Steel, LLC (“Dunkirk Specialty Steel”), completed the acquisition of certain assets and real property formerly owned by Empire Specialty Steel, Inc. at its idled production facility located in Dunkirk, New York. This acquisition expanded the production capabilities of the Company to become a fully integrated manufacturer of finished bar, rod and wire specialty steel products to complement its semi-finished products.

The Company’s products are manufactured in a wide variety of grades, widths and gauges in response to customer specifications at three operating locations. At its Bridgeville facility, the Company produces specialty steel products in the form of long products (ingots, blooms, billets and bars) and flat rolled products (slabs and plates). Certain grades requiring vacuum-arc remelting are transported to the Titusville facility to complete that process and transported back to the Bridgeville facility for further processing. The semi-finished long products are primarily used by the Company’s Dunkirk facility and certain customers to produce finished bar, rod and wire products, and the semi-finished flat rolled products are used by customers to produce fine-gauge plate, sheet and strip products. The finished bar products manufactured by the Company are primarily used by service center customers for distribution to a variety of end users. The Company also produces customized shapes primarily for original equipment manufacturers that are cold rolled from purchased coiled strip, flat bar or extruded bar at its Precision Rolled Products department (“PRP”), located at its Titusville facility.

Industry Overview

The specialty steel industry is a relatively small but distinct segment of the overall steel industry. Specialty steels include stainless steels, high speed and tool steels, electrical steels, high temperature alloys, magnetic alloys and electronic alloys. Specialty steels are made with a high alloy content, which enables their use in environments that demand exceptional hardness, toughness, strength and resistance to heat, corrosion or abrasion, or combinations thereof. Specialty steels generally must conform to more demanding customer specifications for consistency, straightness and surface finish than carbon steels. Annual domestic consumption of specialty steels approximates three million tons according to the Specialty Steel Industry of North America (“SSINA”). Of this amount, approximately two million tons of specialty steels consumed domestically represent stainless steel sheet and strip and electrical alloys that the Company does not produce.

The Company primarily manufactures its products within the following product lines:

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

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

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

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

Net sales by principal product line were as follows:

For the years ended December 31,	2002	2001	2000
(dollars in thousands)			
Stainless steel	$56,813	$76,908	$62,346
Tool steel	6,643	4,503	6,960
High-temperature alloy steel	3,474	2,471	1,754
High-strength low alloy steel	2,213	3,379	2,161
Conversion service	1,495	3,054	2,309
Other	239	343	355
Net sales on shipments	70,877	90,658	75,885
Effect of accounting change	—	—	12,462
Total net sales	$70,877	$90,658	$88,347

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

Raw Materials

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

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

The cost of raw materials approximates one-third of the Company's total cost of products sold. Raw material prices vary based on numerous factors, including quality, and are subject to frequent market fluctuations and future prices cannot be predicted with any degree of certainty. Therefore, the Company does not maintain any long-term written agreements with any of its raw material suppliers. The Company has implemented a sales price surcharge mechanism on its products to help offset the impact of raw material price fluctuations.

Energy Agreements

The production of specialty steel requires the ready availability of substantial amounts of electricity, natural gas and certain industrial and refining gases. Electricity and natural gas are consumed within each of the Company's operations and the industrial and refining gases, including oxygen, nitrogen and argon, are primarily consumed within the melting operations. The Company has long-term supply agreements for all of its energy requirements.

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

Customers

The Company's five largest customers in the aggregate accounted for approximately 56% of net sales on shipments for the year ended December 31, 2002. Talley Metals Technology, Inc., a subsidiary of Carpenter Technology Corporation ("Talley Metals"), and its affiliates accounted for 35% of the Company's net sales on shipments. No other customer accounted for more than 10% of the Company's net sales on shipments for the year ended December 31, 2002.

The Company maintains a supply contract agreement with Talley Metals. While the initial term of the agreement expired December 31, 2002, the agreement continues to automatically renew with the placement of new orders each month and requires a ninety-day notice to terminate. In addition, Talley Metals is required under the agreement to purchase a minimum of 1,000 tons of stainless reroll billet products each calendar month and average at least 1,250 tons per month during the last twelve-month period. The value of the contract on a monthly basis will depend on product mix and key raw material prices. During 2002, Talley Metals did not comply with the monthly minimum purchase requirement due to market conditions. The Company granted a waiver from this requirement until market conditions improve, which the Company believes will coincide with a market price increase for stainless steel bar, rod and wire products.

A principal element of the Company's business strategy is to seek new customers so that over time it will reduce its dependence on one or a small number of customers. The addition of Dunkirk Specialty Steel provides the opportunity to reduce the Company's dependence on any customer. The Company's customer base increased from 288 at December 31, 2001 to 372 at December 31, 2002, primarily as a result of the addition of Dunkirk Specialty Steel.

Backlog

The Company primarily manufactures products to meet specific customer orders, generally fulfilling orders in eight weeks or less for its semi-finished products and in 16 weeks or less for its finished products. The Company's backlog of orders on hand as of December 31, 2002, was approximately $14 million as compared to $19 million at the same time in 2001. The decline in the backlog is primarily due to unfavorable economic conditions impacting the purchasing practices of the Company's customer base, especially those participating in the aerospace and power generation industries. Customer orders are generally subject to cancellation with the payment of a penalty charge prior to delivery. The Company's backlog may not be indicative of actual sales and therefore should not be used as a measure of future revenue.

Competition

Competition in the Company's markets is based upon product quality, delivery capability, customer service and price. Maintaining high standards of product quality while keeping production costs at competitive levels is essential to the Company's ability to compete in its markets. The ability of a manufacturer to respond quickly to customer orders is currently, and is expected to remain, important in the specialty steel market.

The addition of Dunkirk Specialty Steel requires the Company to view its competition differently than prior years. Annual domestic consumption of specialty steel products manufactured by the Company approximates 1 million tons. The Company further restricts its participation in this market by limiting the volume of commodity stainless steel products it markets because of the highly competitive nature of that business.

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

High import penetration of specialty steel products, especially stainless and tool steels, also impact the competitive nature within the United States. Unfair pricing practices by foreign producers have resulted in high import penetration into the U.S. markets that the Company now participates in. According to SSINA, import penetration for the year ended December 31, 2001 was 46% for stainless bar, 79% for stainless rod, 51% for stainless wire and 95% for tool steel.

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

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

The Continued Dumping and Subsidy Act of 2000 ("CDSOA") provides for payment of import duties collected by the U. S. Treasury to domestic companies injured by unfair foreign trade practices. The actions taken by AL Tech

Specialty Steel, Inc. and Empire Specialty Steel, Inc. permitted the Company to receive $310,000, net of expenses, representing their appropriate share of the import duties collected during the past fiscal year. The Company expects to benefit from CDSOA in future years unless the Act is repealed. The amount of future benefits is dependent on the amount of import duties collected and the relationship of Dunkirk Specialty Steel's claim in relation to claims filed by other domestic specialty steel producers.

The Company also faces competition from producers of certain materials, particularly aluminum, composites and plastics. Any competitive factors that adversely affects the market for finished products manufactured by the Company or its customers could indirectly adversely affect the demand for the Company's specialty steel products. See "Risk Factors—Competition".

Employee Relations

The Company considers the maintenance of good relations with its employees to be important to the successful conduct of its business. The Company has profit-sharing plans for certain salaried employees and all of its United Steelworkers of America (the "USWA") represented employees and has equity ownership programs for all of its eligible employees, in an effort to forge an alliance between its employee's interests and those of the Company's stockholders. At December 31, 2002, the Company had 227 employees at its Bridgeville facility, 46 employees at its Titusville facility and 120 employees at its Dunkirk facility, of whom 180, 39 and 95 were USWA members, respectively.

Collective Bargaining Agreements
In December 2002, the Company and the USWA completed negotiation of a new six-year comprehensive collective bargaining agreement (the "Bridgeville CBA") that recognizes the USWA as the exclusive representative for the Company's hourly Bridgeville employees with respect to the terms and conditions of their employment. The basic structure of the Bridgeville CBA is similar to its prior agreements.

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

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

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

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

Employee Stock Purchase Plan
Under the 1996 Employee Stock Purchase Plan (the "Plan"), the Company is authorized to issue up to 90,000 shares of Common Stock to its full-time employees, nearly all of whom are eligible to participate. Under the terms of the Plan, employees can choose as of January 1 and July 1 of each year to have up to 10% of their total earnings

withheld to purchase up to 100 shares of the Company's Common Stock each six-month period. The purchase price of the stock is 85% of the lower of its beginning-of-the-period or end-of-the-period market prices. At December 31, 2002, the Company has issued 52,905 shares of Common Stock since the plan's inception.

Safety

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

Executive Officers

The following table sets forth, as of December 31, 2002, certain information with respect to the executive officers of the Company:

NAME (AGE)	EXECUTIVE OFFICER SINCE	POSITION
Clarence M. McAninch (67)	1994	President and Chief Executive Officer
Paul McGrath (51)	1996	Vice President of Operations, General Counsel and Secretary
Richard M. Ubinger (43)	1994	Vice President of Finance, Chief Financial Officer and Treasurer

Clarence M. McAninch, 67, has been President and Chief Executive Officer and a Director of the Company since July 1994. Mr. McAninch served as Vice President, Sales and Marketing, of the Stainless and Alloy Products Division of Armco from 1992 to 1994.

Paul A. McGrath, 51, has been Vice President of Operations of the Company since March 2001, General Counsel and Director of Employee Relations since January 1995 and was appointed Secretary in May 1996. Prior thereto, he was employed by Westinghouse Electric Corporation for approximately 24 years in various management positions.

Richard M. Ubinger, 43, has been Vice President of Finance of the Company since March 2001, Chief Financial Officer and Principal Accounting Officer of the Company since August 1994 and was appointed Assistant Secretary in November 1995 and Treasurer in May 1996. From 1981 to 1994, Mr. Ubinger was employed by Price Waterhouse LLP (currently known as PricewaterhouseCoopers LLP) in its audit department, and he served in the capacity of Senior Manager for Price Waterhouse LLP from 1990 to 1994. Mr. Ubinger is a Certified Public Accountant.

Patents and Trademarks

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

Risk Factors

The Company's business and results of operations are subject to a wide range of substantial business and economic factors including, but not limited to the factors discussed below, many of which are not within the Company's control.

Limited Operating History of Dunkirk Specialty Steel
On February 14, 2002, Dunkirk Specialty Steel acquired certain assets of the idled Dunkirk, New York production facility of Empire Specialty Steel, Inc. On March 14, 2002, Dunkirk Specialty Steel commenced operations and reported an operating loss of $2.0 million through December 31, 2002. The Company has only a limited operating history from which an evaluation of the prospects for Dunkirk Specialty Steel may be made. Those prospects must be considered in light of the numerous risks, expenses, problems and difficulties frequently encountered in connection with the establishment of a business and the competitive environment in which the Company, as well as Dunkirk Specialty Steel, operates. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Business Segment Results."

Significant Customer and Concentrated Customer Base
For the year ended December 31, 2002, Talley Metals and its affiliates accounted for approximately 35% of the Company's net sales on shipments. The Company's five largest customers in the aggregate accounted for approximately 56% of net sales on shipments. An adverse change in, or termination of, the Company's relationship with one or more of its major customers or one or more of its market segments could have a material adverse effect upon the Company. See "Business—Customers."

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

Supply of Raw Materials and Cost of Raw Materials
The Company relies on a limited number of suppliers, some of which are foreign owned, for its raw material needs which currently approximates one-third of the Company's total cost of products sold. Raw material prices are affected by cyclical, seasonal and other market factors. Alloys consumed by the Company are primarily available from foreign sources, some of which are located in countries that may be subject to unstable political and economic conditions. Those conditions might disrupt supplies or affect the prices of the raw materials used by the Company. The Company does not maintain long-term supply agreements with any of its independent suppliers. If its supply of raw materials were interrupted, the Company might not be able to obtain sufficient quantities of raw materials, or obtain sufficient quantities of such materials at satisfactory prices, which, in either case, could adversely affect the Company's results of operations. In addition, significant increases in the price of the Company's principal raw materials could adversely affect the Company's financial results. See "Business—Raw Materials."

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

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

Environmental Issues
The Company is subject to demanding federal, state and local environmental laws and regulations ("Environmental Laws") governing, among other things, air emissions, waste water discharge and solid and hazardous waste disposal. The Company leases or owns certain real property previously owned and used by Armco, which merged with and into AK Steel in 1999 ("Armco"). In connection with the acquisition of the Bridgeville facility assets and the Titusville facility, Armco agreed to retain responsibility for certain environmental liabilities and agreed to indemnify the Company for environmental liabilities existing prior to the respective transaction dates. The Company has filed no claims against Armco since the inception of the acquisition agreements. The indemnification associated with the acquisition of the Bridgeville facility assets, due to expire on August 15, 2004, will terminate if the Company purchases the Bridgeville property prior to the expiration date. Because the indemnification is the Company's primary remedy against Armco for a given environmental liability, the Company will be materially dependent upon that indemnity should any environmental liability arise. There can be no assurance that the indemnities from Armco will fully cover any or all environmental liabilities, and there can be no assurance that the Company will have the financial resources to discharge the liabilities if legally compelled to do so.

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

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

Environmental laws and regulations have changed rapidly in recent years, and the Company may be subject to increasingly stringent environmental standards in the future. See "Properties—Environmental Compliance."

Legal Matter
The Company is currently defending itself in a suit that alleges it manufactured steel product, utilized in the manufacturing of crankshafts, that was defective. The Company believes the suit is without merit and that insurance coverage will be available for this claim. There can be no assurance that the Company will have the financial resources to discharge the liabilities if legally compelled to do so. See "Legal Proceedings."

ITEM 2. PROPERTIES

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

The Bridgeville Lease is for 10 years commencing on August 15, 1994, which includes the payment by the Company of real and personal property taxes, water and sewage charges, special assessment and insurance premiums associated therewith. The Bridgeville Lease also provides for three five-year options to renew on the same terms at the sole discretion of the Company. In addition, the Bridgeville Lease provides the Company with an option to purchase substantially all of the leased premises for $1 any time during the term of the Bridgeville Lease prior to August 15, 2015.

On February 6, 2003, the Company submitted a notice to exercise its option to purchase all of the property permitted under the Bridgeville Lease for $1. The ESR building, which houses the Company's four electro-slag remelting furnaces and ancillary equipment, is not included in the option to purchase. The Company will continue to operate the equipment in the ESR building under the existing lease due to expire on August 15, 2004. The Company has expressed an interest to purchase or extend the current lease for the ESR building to AK Steel. In the event that the lease of the ESR building is not extended and the property is not purchased, the relocation of the ESR equipment would have an adverse material effect on the financial condition of the Company.

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

The Company owns its Dunkirk facility, which consists of approximately 800,000 square feet of floor space on approximately 79 acres. The Dunkirk facility processes semi-finished billet and bar stock through one of more of its four rolling mills. The products are then finished and shipped as finished bar, rod and wire products.

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

Environmental Compliance

The Company is subject to Environmental Laws, including those governing discharges of pollutants into the air and water, and the generation, handling and disposal of hazardous and non-hazardous substances. The Company may be liable for the remediation of contamination associated with generation, handling and disposal activities. The Company is subject periodically to environmental compliance reviews by various regulatory offices. The Company monitors its compliance with Environmental Laws applicable to it and, accordingly, believes that it is currently in compliance with all laws and regulations in all material respects. Environmental costs could be incurred which may be significant, related to environmental compliance at any time or from time to time in the future.

Bridgeville Facility
The Company has not incurred to date and does not anticipate incurring any significant remediation costs from environmental conditions at the Bridgeville facility. The Company does not expect that any remediation that may be required at the Bridgeville facility will have a material adverse effect on the Company's results of operations, liquidity or financial condition.

Armco remains contractually obligated for environmental matters, including compliance with laws governing the removal of hazardous materials and the elimination of hazardous conditions, which stem from any operations or activities at the leased Bridgeville facility prior to August 15, 1994. In addition, Armco has agreed to indemnify the Company against any liability arising from any of those matters with respect to the Bridgeville facility to the extent of $6.0 million in the aggregate until 2004. Armco has further agreed (subject to the indemnity limits) to pay up to $1.0 million for certain non-recoverable operating costs should the Company's business be interrupted as a result of environmental remediation that stems from occurrences prior to August 15, 1994. Except as required by law or for the protection of public health or the safety of its employees, the Company is contractually prohibited from taking voluntary or discretionary action to accelerate or delay the timing, or increase the cost of, Armco's environmental obligations with respect to the Bridgeville facility. Armco's indemnification will terminate in connection with the purchase of the Bridgeville facility.

Titusville Facility
The Company operates its production and processing equipment that was acquired from Armco on real property the Company owns. Armco has agreed to indemnify the Company to the extent of $3.0 million in the aggregate against liability for environmental matters that pertain to environmental conditions existing on or under the Titusville facility prior to June 2, 1995. In addition, Armco has agreed to indemnify the Company for any liabilities arising out of environmental conditions existing offsite as of June 2, 1995, and that indemnification is not subject to the $3.0 million limitation. The Company believes the amount and terms of Armco's indemnity are sufficient to protect the Company against environmental liabilities arising at the Titusville facility from environmental conditions existing as of June 2, 1995.

In connection with the acquisition of the Titusville facility, the Company conducted a Phase I and Phase II environmental study (the "Study") of the parcel of real estate acquired. The Study noted that as is typical of the Titusville, Pennsylvania area generally, there is regional soil and groundwater hydrocarbon contamination present reflecting the fact that this area contains natural petroleum deposits and that petroleum-refining operations had been conducted nearby. To date, no environmental governmental authority has contacted the Company concerning this matter. The Company believes it unlikely that it or Armco will be required to provide cleanup at the Titusville facility for the local hydrocarbon contamination. If the Company accelerates the timing or increases the cost of any environmental obligation retained by Armco, except as required by law or for the protection of public health or for the safety of its employees, the Company shall bear such accelerated or increased cost. Any accelerated or increased cost of an environmental obligation retained by Armco resulting from the Company seeking financing or from the sale of less than a controlling interest in the voting stock of the Company shall be borne equally by Armco and the Company.

The Company's primary remedies for reimbursement from Armco for losses stemming from pre-closing environmental conditions at each of the Bridgeville facility and the Titusville facility are the indemnities agreed to with respect to each of the facilities. The Company believes the amount and terms of the Armco indemnities are sufficient to protect the Company against environmental liabilities arising from environmental conditions prior to August 15, 1994, with respect to the Bridgeville facility, and prior to June 2, 1995, with respect to the Titusville facility. There can be no assurance, however, that those indemnities will fully cover all environmental liabilities incurred by the Company and there can be no assurance that the Company will have the financial resources to discharge those liabilities if legally compelled to do so.

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

See "Risk Factors—Environmental Issues."

ITEM 3. LEGAL PROCEEDINGS

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

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

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

No matters were submitted to a vote of security holders during the fourth quarter of 2002.

PART II

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

At December 31, 2002, a total of 6,554,538 shares of the Company's Common Stock, par value $.001 per share, were issued and held by approximately 155 holders of record. A substantial number of the outstanding shares of Common Stock were owned of record on said date by "Cede & Co.," the nominee for Depository Trust Company, which is the clearing agency for most broker-dealers. Management believes that these shares are beneficially owned by customers of these broker-dealers and that the number of beneficial owners of the Company's Common Stock is substantially greater than 155. In addition, 269,900 shares of the issued Common Stock of the Company were held in treasury at December 31, 2002.

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

Price Range of Common Stock

The information called for by this item is set forth on page 35 of the Annual Report to Stockholders for the year ended December 31, 2002, which is incorporated herein.

Equity Compensation Plan Information

Securities authorized for issuance under equity compensation plans at December 31, 2002 are as follows:

Plan Category	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans(a)
Equity compensation plans approved by security holders	427,999	$ 9.38	338,763
Equity compensation plans not approved by security holders	—	—	—
Total	427,999	$ 9.38	338,763

(a) *Includes 301,668 shares of common stock on stock options not issued under the Stock Incentive Plan and 37,095 available under the 1996 Employee Stock Purchase Plan.*

Preferred Stock

The Company's Certificate of Incorporation provides that the Company may, by vote of its Board of Directors, issue up to 1,980,000 shares of Preferred Stock. The Preferred Stock may have rights, preferences, privileges and restrictions thereon, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series or designation of such series, without further vote or action by the stockholders. The issuance of Preferred Stock may have the effect of delaying, deferring or preventing a change in control of the Company without further action by the stockholders and may adversely affect the voting and other rights of the holders of Common Stock. The issuance of Preferred Stock with voting and conversion rights may adversely affect the voting power of the holders of Common Stock, including the loss of voting control to others.

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

Dividends

The Company has never paid a cash dividend on its Common Stock and currently has no plans to pay dividends in the foreseeable future. The Company's Credit Agreement with PNC Bank currently limits the payment of cash dividends payable on it's Common Stock to 50% of the Company's excess cash flow per fiscal year. Excess cash flow represents the amount of the Company's earnings before interest, taxes, depreciation and amortization that is greater than the sum of the Company's payments for interest, income taxes, the principal portion of long-term debt and capital lease obligations, and capital expenditures. Therefore, the Company would be restricted from granting a dividend for the year ended December 31, 2002.

ITEM 6. SELECTED FINANCIAL DATA

The information called for by this item is set forth on page 36 of the Annual Report to Stockholders for the year ended December 31, 2002, which is incorporated herein.

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

The information called for by this item is set forth on pages 13 through 19 of the Annual Report to Stockholders for the year ended December 31, 2002, which is incorporated herein.

ITEM 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by this item is set forth on pages 16 through 17 of the Annual Report to Stockholders for the year ended December 31, 2002, which is incorporated herein.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information called for by this item is set forth on pages 21 through 34 of the Annual Report to Stockholders for the year ended December 31, 2002, which is incorporated herein.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

The information concerning the directors of the Company is set forth in the Proxy Statement (the “Proxy Statement”) to be sent to stockholders in connection with the Company’s Annual Meeting of Stockholders to be held on May 20, 2003, under the heading “Proposal No. 1—Election of Directors,” which information is incorporated by reference. With the exception of the information specifically incorporated herein by reference, the Company’s Proxy Statement is not to be deemed filed as part of this report for the purposes of this Item.

ITEM 11. EXECUTIVE COMPENSATION

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

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

ITEM 14. CONTROLS AND PROCEDURES

The Company’s management performed an evaluation of the effectiveness of the Company’s disclosure controls and procedures. Based on that evaluation, the Company’s President and Chief Executive Officer and the Vice President of Finance, Chief Financial Officer and Treasurer concluded that the Company’s disclosure controls and procedures are effective in the timely identification of material information required to be included in the Company’s periodic filings with the SEC. There have been no significant changes in the Company’s internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies or material weaknesses.

Table of Contents

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

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

1) Consolidated Financial Statements:

The consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP, appearing on pages 21 through 34 of the accompanying Annual Report, are incorporated in this Form 10-K Annual Report.

2) Consolidated Financial Statement Schedules:

The following financial statement schedule is included herewith on page 23 and made a part hereof; Schedule II (Valuation and Qualifying Accounts).

3) Exhibits:

EXHIBIT NUMBER	DESCRIPTION
2.1	Certificate of Merger, dated July 29, 1994, between Universal Stainless & Alloy Products, Inc., a Pennsylvania corporation, and the Company (incorporated herein by reference to Exhibit 2.1 to Registration No. 33-85310).
2.2	Agreement and Plan of Merger, dated July 28, 1994, among Universal Stainless & Alloy Products, Inc., a Pennsylvania corporation, and the Company (incorporated herein by reference to Exhibit 2.2 to Registration No. 33-85310).
3.1	Amended and Restated Certificate of Incorporation (incorporated herein by reference to Exhibit 3.1 to Registration No. 33-85310).
3.2	By-laws of the Company (incorporated herein by reference to Exhibit 3.2 to Registration No. 33-85310).
4.1	Specimen Copy of Stock Certificate for shares of Common Stock (incorporated herein by reference to Exhibit 4.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998).
10.1	Stockholders Agreement, dated as of August 1, 1994, by and among the Company and its existing stockholders (incorporated herein by reference to Exhibit 10.1 to Registration No. 33-85310).
10.2	Asset Purchase Agreement, dated August 15, 1994, by and between the Company and Armco Inc., as amended by letter agreement, dated October 5, 1994, by and between the Company and Armco, Inc. (incorporated herein by reference to Exhibit 10.2 to Registration No. 33-85310).
10.3	Lease Agreement, dated August 15, 1994, by and between Armco Inc. and the Company (incorporated herein by reference to Exhibit 10.3 to Registration No. 33-85310).
10.4	Security Agreement, dated August 15, 1994, by and between the Company and Armco Inc (incorporated herein by reference to Exhibit 10.4 to Registration No. 33-85310).

EXHIBIT NUMBER	DESCRIPTION
10.5	Asset and Real Property Purchase Agreement, dated as of June 2, 1995, by and between Armco Inc. and the Company (incorporated herein by reference to Exhibit 2.3 to Registration No. 33-97896).
10.6	Employment Agreement, dated November 20, 1998 by and between the Company and Clarence M. McAninch (incorporated herein by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998).
10.7	Employment Agreement dated January 1, 1998 between the Company and Paul McGrath (incorporated herein by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).
10.8	Employment Agreement dated January 1, 1998 between the Company and Richard M. Ubinger (incorporated herein by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).
10.9	Stock Incentive Plan (filed herewith).
10.10	Second Amended and Restated Credit Agreement, dated as of January 30, 1998, between the Company and PNC Bank, National Association, with Exhibits and Schedules (incorporated herein by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).
10.11	Security Agreement and Collateral Assignment, dated as of January 30, 1998, by and between the Company and PNC Bank, National Association (incorporated herein by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).
10.12	Note, dated as of January 30, 1998, by and between the Company and PNC Bank, National Association (incorporated herein by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).
10.13	Landlord's Waiver, dated as of January 30, 1998, by Armco Inc (incorporated herein by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).
10.14	Open-End Leasehold Mortgage, Collateral Assignment and Security Agreement dated as of January 30, 1998, by the Company in favor of PNC Bank, National Association (incorporated herein by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).
10.15	First Amendment to Second Amended and Restated Credit Agreement, dated as of December 31, 1998, between the Company and PNC Bank, National Association (incorporated herein by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998).
10.16	Second Amendment to Second Amended and Restated Credit Agreement, dated as of May 25, 2000, between the Company and PNC Bank, National Association (incorporated herein by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000).
10.17	Third Amendment to the Second Amended and Restated Credit Agreement, dated as of June 29, 2001, between the Company and PNC Bank, National Association (incorporated herein by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).

EXHIBIT NUMBER	DESCRIPTION
10.18	Fourth Amendment to the Second Amended and Restated Credit Agreement, dated as of May 31, 2002, between the Company and PNC Bank, National Association (incorporated herein by reference to Exhibit 10.26 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2002).
10.19	Fifth Amendment to the Second Amended and Restated Credit Agreement, dated as of February 18, 2003, between the Company and PNC Bank, National Association (filed herewith).
10.20	Loan Agreement, dated October 3, 1995, by and between the Company and Commonwealth of Pennsylvania (incorporated herein by reference to Exhibit 10.20 to Registration No. 33-97896).
10.21	Note, dated October 3, 1995, for the principal sum of $500,000, by the Company, in favor of the Commonwealth of Pennsylvania (incorporated herein by reference to Exhibit 10.21 to Registration No. 33-97896).
10.22	Security Agreement, dated October 3, 1995, by and between the Company and the Commonwealth of Pennsylvania (incorporated herein by reference to Exhibit 10.22 to Registration No. 33-97896).
10.23	Supply Contract Agreement, dated as of July 1, 2001, between the Company and Talley Metals Technology, Inc. a subsidiary of Carpenter Technology Corporation (incorporated herein by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
10.24	Personal Property Asset Purchase Agreement, dated as of February 8, 2002, between the Company and New York Job Development Authority (incorporated herein by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
10.25	Real Property Asset Purchase Agreement, dated as of February 8, 2002, between the Company and New York Job Development Authority (incorporated herein by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
10.26	Promissory Note, dated as of February 13, 2002, between the Company and New York Job Development Authority (incorporated herein by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
10.27	Promissory Note, dated as of February 14, 2002, between the Company and New York Job Development Authority (incorporated herein by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
13.01	Selected pages of the Company's 2002 Annual Report to Stockholders (filed herewith).
23.01	Consent of PricewaterhouseCoopers LLP (filed herewith).
24.01	Powers of Attorney (included on the signature page herein).

(b) The following reports on Form 8-K were filed during the fourth quarter of 2002:

A report on Form 8-K was filed on November 20, 2002. The report covered a press release under Item 5, Other Events, relating to the Bridgeville employees rejecting the Company's contract offer.

A report on Form 8-K was filed on December 9, 2002. The report covered a press release under Item 5, Other Events, relating to the Company reaching a labor agreement with its Bridgeville employees.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, on February 26, 2003.

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

By: /s/ C.M. McAninch

Clarence M. McAninch
President and Chief Executive Officer

POWER OF ATTORNEY

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

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

SIGNATURE	TITLE	DATE
/s/ C.M. McAninch Clarence M. McAninch	President, Chief Executive Officer and Director (Principal Executive Officer)	February 26, 2003
/s/ Richard M. Ubinger Richard M. Ubinger	Vice President of Finance, Chief Financial Officer and Treasurer (Principal Accounting Officer)	February 26, 2003
/s/ Douglas M. Dunn Douglas M. Dunn	Director	February 26, 2003
/s/ George F. Keane George F. Keane	Director	February 26, 2003
/s/ Udi Toledano Udi Toledano	Director	February 26, 2003

CERTIFICATION

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

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

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

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

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: Febraury 26, 2003

/s/ C. M. McAninch

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

Table of Contents

CERTIFICATION

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

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

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

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

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 26, 2003

/s/ Richard M. Ubinger

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

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

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

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

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

Date: February 26, 2003

/s/ C. M. McAninch

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

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

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

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

Date: February 26, 2003

/s/ Richard M. Ubinger

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

REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULE

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

Our audits of the consolidated financial statements referred to in our report dated February 18, 2003, appearing in the 2002 Annual Report to Stockholders of Universal Stainless & Alloy Products, Inc. (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 15(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Pittsburgh, Pennsylvania
February 18, 2003

Table of Contents

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended December 31, 2000, 2001 and 2002
(Dollars in thousands)

	Balance at Beginning of Year	Charged to costs and Expenses	Deductions	Balance at End of Year
Inventory reserve:				
Year ended December 31, 2000	$ 161	$ 514	$ (206)	$ 469
Year ended December 31, 2001	469	332	(321)	480
Year ended December 31, 2002	480	678	(221)	937
Allowance for doubtful accounts:				
Year ended December 31, 2000	$ 418	$ 151	$ (377)	$ 192
Year ended December 31, 2001	192	336	(94)	434
Year ended December 31, 2002	434	47	(183)	298

Exhibit 10.9

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

STOCK INCENTIVE PLAN

1. Purpose

The purpose of this plan (the "Plan") is to secure for Universal Stainless & Alloy Products, Inc. (the "Company"), and its stockholders, the benefits arising from the ownership of stock options by directors and employees (including, without limitation, officers) of the Company or Subsidiaries (as defined in Section 18 hereof) who are expected to contribute to the Company's future growth and success.

2. Types of Plan Benefits and Administration

(a) Types of Awards. Under the Plan, the Company may in its sole discretion grant, with respect to the Company's common stock, par value $.001 per share ("Common Stock"), options ("Options") to employees (the "Employees"), as authorized by action of the Board of Directors of the Company (or a committee designated by the Board of Directors), and the Company shall, subject to the terms and conditions hereof, grant to each director of the Company who is not an employee and does not own, individually or together with family members, in excess of 5 % of outstanding Common Stock (an "Eligible Director"), Options in accordance with the formula set forth in Section 7 hereof. As used in the Plan, an "Award" shall mean an Option and an "Award Owner" shall mean the owner of an Option. Options granted pursuant to the Plan to Employees may be either incentive stock options ("Incentive Stock Options") meeting the requirements of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), or non-statutory options ("Non-Statutory Stock Options"), which are not intended to or do not meet the requirements of Code Section 422. Options granted to Eligible Directors pursuant to the Plan shall be only Non-Statutory Stock Options.

(b) Administration. The Plan will be administered by the Board of Directors of the Company, except to the extent the Board of Directors appoints from among its members a committee to administer the Plan (in either case, the group administering the Plan is hereinafter referred to as the "Committee"). The Committee's construction and interpretation of the terms and provisions of the Plan shall be final and conclusive. The Committee may in its sole discretion grant Options to purchase shares of the Company's Common Stock to Employees, and issue shares upon exercise of such Options, as provided in the Plan. The Committee shall grant Options to purchase shares of the Company's Common Stock to the Eligible Directors, and issue shares upon exercise of such Options, as provided in the Plan. The Committee shall have authority, subject to the express provisions of the Plan, including, but not limited to Section 7 hereof, to construe the respective Award agreements and the Plan; to prescribe, amend and rescind rules and regulations relating to the Plan; to determine the terms and provisions of the respective Award agreements, which need not be identical; to advance the lapse of any waiting or installment periods and exercise dates; and to make all other determinations in the sole judgment of the Committee necessary or desirable for the administration of the Plan. The Committee may correct any defect or supply any omission or reconcile any inconsistency in the

Plan or in any Award agreement in the manner and to the extent it shall deem expedient to carry the Plan into effect, and such determination shall be in the sole and final judgement of the Committee. No director shall be liable for any action or determination taken or made under or with respect to the Plan or any Award in good faith.

3. Eligibility

(a) Generally.

(i) Except as provided in paragraph (b) of this Section 3 and Section 7 hereof, Awards shall be granted only to persons selected by the Committee who are, at the time of grant, directors or employees (including, without limitation, officers) of the Company or any Subsidiary of the Company.

(ii) An Employee may be granted Incentive Stock Options and/or Non-Statutory Stock Options. An Employee who has been granted an Award may, if he or she is otherwise eligible, be granted one or more additional Awards if the Committee shall so determine.

(b) Incentive Stock Options. No person shall be granted any Incentive Stock Option under the Plan unless, at the time such Option is granted, such person is an employee of the Company or any Subsidiary of the Company, and does not own, directly or indirectly, Common Stock of the Company possessing more than 10% of the total combined voting power of all classes of stock of the Company or of any Subsidiary (unless the requirements of Section 6(f)(i) are satisfied).

4. Stock Subject to Plan

Subject to adjustment as provided in Sections 13 and 14 below, the maximum number of shares of Common Stock of the Company that may be issued and sold pursuant to Options granted under the Plan is 900,000 shares in the aggregate (one share per Option). No individual employee shall be granted Options to purchase more than 100,000 shares in any calendar year. The Company shall reserve for the purposes of the Plan, out of its authorized but unissued shares of Common Stock or out of shares held in the Company's treasury, or partly out of each, such number of shares of Common Stock as shall be determined by the Committee. If Options granted under the Plan shall expire or terminate for any reason without having been exercised in full, the shares subject to the unexercised portions of such Options shall again be available for subsequent Award grants under the Plan. Common Stock issuable upon exercise of Options may be subject to such restrictions on transfer, repurchase rights or other restrictions as shall be determined by the Committee.

5. Form of Option Agreements

As a condition to the grant of an Option under the Plan, each Employee recipient of an Option shall execute an Option Agreement, substantially in the form of not inconsistent with the Plan as shall be specified by the Committee at the time such Option is granted. Each Eligible

Director, as a condition to the grant of Options to him or her pursuant to Section 7(a) hereof, shall execute an Option Agreement, substantially in the form not inconsistent with the Plan as shall be specified by the Committee at the time such option is granted.

6. Grants of Awards to Employees

(a) Disinterested Committee. Any Employee who is a director or officer of the Company shall be granted Awards only if such person has been selected for participation and the terms and provisions of such Awards have been determined, solely by, and in the sole discretion of, a Committee of two or more directors, each of whom is a "disinterested person. For purposes of the Plan, a person shall be deemed to be "disinterested" only if such person qualifies as a "disinterested person" within the meaning of paragraph (c)(2) of Rule 16b-3 of the Securities and Exchange Commission (the "SEC"). The term "officer" shall have the same meaning as in paragraph (f) of Rule 16a-1. To the extent required to comply with the rules under Rule 16b-3, all references to the Committee in the Plan shall mean and relate to the Committee of two or more "disinterested persons" described in this Section 6(a).

(b) Purchase Price. The purchase price per share of stock issuable upon the exercise of an Option granted pursuant to this Section 6 shall be, the Fair Value on the date that such Option is granted. Notwithstanding anything to the contrary contained herein, in the case of an Incentive Stock Option, the exercise price shall not be less than 100% of the Fair Value of such stock at the date of grant of such Option, or less than 110% of such Fair Value in the case of Options described in Section 6(f)(i).

(c) Exercise Period. Each Award to an Employee shall expire on such date as the Committee shall determine on the date such Award is granted, but in no event after the expiration of ten years from the date on which such Award is granted, and in all cases each Award shall be subject to earlier termination as provided in the Plan.

(d) Vesting of Awards. An Award granted to an Employee may be exercised, and payment shall be made upon exercise of such Award, only to the extent that such Award has vested. Awards shall vest based on the collective number of years of service with or for the Company or a Subsidiary, in accordance with the schedule or terms set forth in the Award agreement executed by the Award Owner and a duly authorized officer of the Company. Notwithstanding the foregoing, unless the Committee specifically authorizes a different vesting schedule with respect to an Award, an Award to an Employee shall become exercisable based on the number of full years of service that such Award Owner has completed with the Company or a Subsidiary since the date of the grant of such Award, in accordance with the following schedule:

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

(e) Effect of Termination of Employment. No Award to an Employee may be exercised unless, at the time of such exercise the Employee is, and continuously since the date of grant of his or her Award has been, an employee of the Company or a Subsidiary, except that subject to Section 6(d) and if and to the extent the Award agreement or instrument so provides:

(i) if the Employee 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 Award shall terminate three months after such cessation (or within such lesser period as may be specified in the Award agreement or instrument);

(ii) if the Employee dies while an employee of the Company or a Subsidiary, or within three months after the Employee ceases to be such an employee, the Awards may be exercised by the administrator of the Employee’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 (or within such lesser period as may be specified in the Award agreement or instrument);

(iii) if the Employee become disabled (within the meaning of Section 22(e)(3) of the Code) while an employee of the Company or a Subsidiary, the Awards may be exercised within the period of one year after the date the Employee ceases to be an employee of the Company or Subsidiary because of such disability (or within such lesser period as may be specified in the Award agreement or instrument); and

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

provided, however, that in no event may any Award be exercised after the expiration date of the Award. Any Award or portion thereof that is not exercised during the applicable time period specified above (or any shorter period specified in the Award agreement or instrument) shall be deemed terminated at the end of the applicable time period for purposes of Section 4 hereof.

(f) Incentive Stock Options. Options granted under the Plan that are intended to be Incentive Stock Options shall be specifically designated as intending to be Incentive Stock Options and shall be subject to the following additional terms and conditions:

(i) 10% Stockholder. If an Employee to whom an Incentive Stock Option is to be granted under the Plan is at the time of the grant of such Option the owner of stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any Subsidiary, then the following special provisions shall be applicable to the Incentive Stock Option granted to such individual: (x) the exercise price per share of the Common Stock subject to such Incentive Stock Option shall not be less than 110% of the Fair Value (as defined in Section 18) of one share of Common Stock at the time of grant; and (y) the option exercise period shall not exceed five years from the date of grant.

(ii) Dollar Limitation. Common Stock of the Company that is acquired pursuant to the exercise of an Incentive Stock Option granted to an Employee under the Plan shall be deemed to be acquired pursuant to the exercise of an Incentive Stock Option under Code Section 422, only to the extent that the aggregate Fair Value (determined as of the respective date or dates of grant) of the Common Stock with respect to which such Incentive Stock Option, and all other Incentive Stock Options that are granted to such Employee under the Plan (and under any other incentive stock option plans of the Company or any Subsidiary), are exercisable for the first time by such Employee in any one calendar year, does not exceed $100,000. To effectuate the provisions of Section 6(f), the Committee may designate the shares of Common Stock that are treated as acquired pursuant to the exercise of an Incentive Stock Option by issuing a separate certificate for such shares and identifying such certificates as Incentive Stock Option stock in its stock transfer records.

(iii) If an Employee makes a disposition, within the meaning of Section 424(c) of the Code and regulations promulgated thereunder, of any share or shares of Common Stock issued to such Employee pursuant to the exercise of an Incentive Stock Option within the two-year period commencing on the day after the date of the grant or within the one-year period commencing on the day after the date of transfer of such share or shares to the Employee pursuant to such exercise, the Employee shall, within ten (10) days of such disposition, notify the Company thereof, by delivery of written notice to the Company at its principal executive office.

Except as modified by the preceding provisions of this Section 6(f), all the provisions of the Plan applicable to Options shall be applicable to Incentive Stock Options granted hereunder.

7. Non-discretionary Formula Grants of Awards to Eligible Directors

(a) Non-discretionary Grants. Notwithstanding anything to the contrary contained in this Plan, Eligible Directors shall be granted Options (“Director Options”) as follows: following each successive annual meeting of shareholders so long as Director Options remain available for grant, each person who is elected as a Director at that meeting and is an Eligible Director, and each person who continues to serve as a director after that meeting, and is an Eligible director, shall be granted 2,500 Director Options to purchase 2,500 shares of Common Stock in the aggregate on each of the following dates during the twelve (12) month period following the annual meeting of shareholders: May 31, August 31, November 30 and February 28, in recognition of service, subject to vesting as provided in Section 7(d) below, for the following year ending on the day prior to the next succeeding annual meeting of shareholders of the Company to elect directors.

(b) Purchase Price. The purchase price per share of stock issuable upon the exercise of an Option granted pursuant to this Section 7 shall be the Fair Value on the date that such Option is granted.

(c) Exercise Period. The term of each Option granted pursuant to this Section 7 shall be ten years from the date of the grant thereof, subject to earlier termination as herein provided. Any Option that is not exercised during the applicable time period specified in this Section 7 shall be deemed terminated at the end of the applicable time period for purposes of Section 4 hereof. In no event may any Option granted pursuant to this Section 7 be exercised after the expiration date thereof.

(d) Vesting of Awards. Director Options shall be exercisable by an Eligible Director only to the extent that they have vested.

(i) Director Options shall vest based on years of service as follows:

Number of Years of Service Since First Date of Grant	Percentage of Award Available for Exercise (Cumulative)
1	33%
2	66%
3	100%

(e) Effect of Termination of Service or Death. If an Eligible Director ceases to serve as a director of the Company or a Subsidiary, the Options that have been previously granted to that Eligible Director and that are vested as of the date of such cessation may be exercised by the Eligible Director after the date such Eligible Director ceases to be a director of the Company or Subsidiary. If an Eligible Director dies while a director of the Company or a Subsidiary, the Options that have been previously granted to that Eligible Director and that are vested as of the date of such death may be exercised by the administrator of the Eligible Director'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. Any Option or portion thereof that is not exercised during the applicable time period specified above shall be deemed terminated at the end of the applicable time period for purposes of Section 4 hereof.

(f) Limitation on Amendments to Terms of Non-discretionary Grants. Notwithstanding anything to the contrary contained in this Plan, the provisions of this Section 7 shall not be amended more than once every six months, other than to comport with changes in the Code, the Employee Retirement Income Security Act of 1974, as amended, or the rules thereunder. Any reference to Option or Options in this Section 7 shall refer to Options granted to Eligible Directors pursuant to this Section 7

8. Method of Exercise

An Award Owner may exercise an Option granted hereunder by delivering to the Company at its main office (to the attention of the Secretary) written notice of exercise, which notice shall specify the number of shares with respect to which the Option is being exercised, together with payment of the purchase price in exchange for the Company's issuance and delivery of certificates therefor. The purchase price for any shares of Common Stock purchased pursuant to the exercise of an Option shall be paid in full upon such exercise by any one or a combination of the following: (i) cash (by check), (ii) transferring shares of fully paid Common Stock to the Company with a Fair Value equal to the aggregate purchase price, or (iii) solely with respect to Options that are not Director Options, by cash payments in installments or pursuant to a full recourse promissory note, in either case, upon such terms as the Committee deems appropriate. Notwithstanding the foregoing, the Committee shall have discretion to determine at the time of grant of each Option (other than a Director Option) or at any later date (up to and including the date of exercise) the form of payment acceptable in respect of the exercise of such Option. The written notice pursuant to this Section 8 may also provide instructions to the Company that upon receipt of the purchase price in cash from the Award Owner's broker or dealer, designated as such on the written notice, in payment for any shares purchased pursuant to the exercise of an Option, the Company shall issue such shares directly to the designated broker or dealer. Any shares transferred to the Company as payment of the purchase price under an Option shall be valued at their Fair Value on the day preceding the date of exercise of such Option. If requested by the Committee, the Award Owner shall deliver the related Award agreement to the Secretary of the Company who shall endorse thereon a notation of such exercise and return such agreement to the Award Owner. No fractional shares (or cash in lieu thereof) shall be issued upon exercise of an Option and the number of shares that may be purchased upon exercise shall be rounded to the nearest number of whole shares.

9. Reload Options

Options (other than Director Options) granted under the Plan may, in the discretion of the Committee, include the right to acquire a reload option ("Reload Option"). The term "Reload Option" shall mean the right to purchase a number of shares of Common Stock equal to the number of shares tendered by an Employee in exercising an Option, and the number of whole shares, if any, withheld by the Company in satisfaction of Withholding Taxes (as defined in Section 20). A Reload Option shall have a purchase price equal to the Fair Value of Common Stock on the date the Employee receives the Reload Option and a term extending to the expiration date of the Option with respect to which the Reload Option was granted.

10. Nontransferability of Awards

No Award granted under the Plan shall be assignable or transferable by the person to whom it is granted, either voluntarily or by operation of law, except by will or the laws of descent and distribution. During the life of the recipient, the Award shall be exercisable only by or on behalf of such person.

11. General Restrictions

(a) Award Owner Representations. The Company may require a person to whom an Award is granted, as a condition of exercising such Award, to:

(i) give such written assurances, in substance and form satisfactory to the Company, as the Company deems necessary or appropriate in order to comply with federal and applicable state securities laws, including, without limitation, that such person is acquiring the Common Stock subject to the Award for his or her own account for investment and not with any present intention of selling or otherwise distributing the same;

(ii) with respect to Employees only, grant to the Company the right, which may be upon such terms as the Committee, in its sole discretion, prescribes, to repurchase from the Award Owner any or all shares acquired by such Award Owner through the exercise of an Award which such Award owner may at any time desire to sell, transfer or otherwise dispose of; and

(iii) if the Award Owner is a director or officer, give written assurances, in substance and form satisfactory to the Company, that such person has consulted with competent counsel as to the application of Section 16(b) of the Securities Exchange Act of 1934 (the Exchange Act") to such exercise.

Certificates representing shares issued upon exercise of the Award shall bear such legends as are deemed appropriate by legal counsel to the Company, unless the Award Owner provides a written opinion of legal counsel, satisfactory to the Company, that any such legend is not required.

(b) Compliance With Securities Laws.

(i) Each Award shall be subject to the requirement that, if at any time counsel to the Company shall determine that the listing, registration or qualification of such Award or the shares subject to such Award upon any securities exchange or under any state or federal law, or the consent or approval of any governmental or regulatory body, is necessary as a condition of, or in connection with the grant or exercise of such Award or the issuance or purchase of shares thereunder, such Award shall not be effective or may not be accepted or exercised in whole or in part (as applicable) unless such listing, registration, qualification, consent or approval shall have been effected or obtained on conditions acceptable to the Committee. Nothing herein shall be deemed to require the Company to apply for or to obtain such listing, registration, qualification, consent or approval.

(ii) The Company shall provide each Award Owner with such information, statements, discussions and analyses with respect to the Company in such manner and at such times as may be required under state or federal securities laws.

12. Rights as a Stockholder

The Award Owner shall have no rights as a stockholder with respect to any shares covered by the Award until the date upon which the stock certificates are issued to him or her for such shares. 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 which such stock certificate is issued.

13. 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 Incentive Stock 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 holder of an Option.

14. Reorganization

In the event the Company is merged or consolidated with another entity or person other than an Affiliate, 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 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 the Committee, or the board of directors of any corporation assuming the obligations of the Company, shall, as to outstanding Awards, either (i) in the case of a merger, consolidation or reorganization of the Company, make appropriate provision for the protection of any such outstanding Awards by the substitution on an equivalent basis of appropriate stock of the Company, or of the merged, consolidated or otherwise reorganized corporation that will be issuable in respect of the shares of Common Stock of the Company (provided that no additional benefit shall be conferred upon Award Owners as a result of such substitution), or (ii) upon written notice to the Award Owners, provide that all unexercised Awards must be exercised within a specified number of days of the date of such notice or they will be terminated, or (iii) upon written notice to the Award Owners, provide that all unexercised Awards shall be purchased by the Company or its successor within a specified number of days of the date of such notice at a price equal to the value the Award Owners would have received if they then exercised all their Awards and immediately received full payment in respect of such exercise, as determined in good faith by the Committee.

15. No Special Employment Rights

Nothing contained in the Plan or in any Award granted under the Plan shall confer upon any Award Owner any right with respect to the continuation of his or her employment by the Company (or any Subsidiary) or interfere in any way with the right of the Company (or any Subsidiary), subject to the terms of any separate employment agreement to the contrary, at any time to terminate such employment or to increase or decrease the compensation of the Award Owner from the rate in existence at the time of the grant of an Award. Whether an authorized leave of absence, or absence in military or government service, shall constitute termination or cessation of services for purposes of this Plan shall be determined by the Committee.

16. No Special Directorship Rights

Nothing contained in the Plan or in any Award granted under the Plan shall constitute evidence of any agreement or understanding, express or implied, that an Eligible Director has a right to continue as a director for any period of time.

17. Other Employee Benefits

The amount of any income deemed to be received by an Award Owner as a result of the exercise of an Award or the sale of shares received upon such exercise will not constitute “compensation” or “earnings” with respect to which any other benefits of such person are determined by the Company, including without limitation benefits under any pension, profit sharing, life insurance or salary continuation plan.

18. Definitions

(a) Affiliate. The term "Affiliate" shall mean a corporation or other entity or person which, at the time of reference, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, the Company.

(b) Fair Value. The term "Fair Value" of a share of Common Stock shall mean (i) if the Common Stock is traded on a national securities exchange, the closing price for such stock on the day immediately preceding the date of determination or if there is no closing price on such date, the last preceding closing price, (ii) if the Common Stock is not traded on a national securities exchange, the mean of the high bid and ask quotes of such stock as reported in the NASDAQ/NMS reports or the National Quotation Bureau Inc.'s pink sheets or in the NASD Bulletin Board on the day immediately preceding the date of determination or if there were no high bid and ask quotes on such date, the last preceding day that there were, and (iii) if neither (i) or (ii) are applicable, as determined in good faith by the Committee, provided, however, that if the recipient is a director or holds 10% or more of the Common Stock possessing more than 10% of the total combined voting power of all classes of stock of the Company (directly or beneficially), Fair Value shall be determined by an independent securities valuation firm selected by a committee of "disinterested" persons (as defined in Section 6(a) hereof) appointed by the Committee.

(c) Rule 16b-3. The term "Rule 16b-3" shall mean Rule 16b-3 of the SEC (or any successor rule).

(d) Subsidiary. The term "Subsidiary" shall mean any corporation in an unbroken chain of corporations beginning with the Company if, at the time of the grant of the Award, each of the corporations other than the last Corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

19. Amendment of the Plan

(a) Except as provided in Section 7 hereof, the Board may at any time and from time to time modify or amend the Plan in any respect, provided that, unless the Board shall have received the consent of the stockholders, the board may not make any amendments that require approval of the stockholders under Rule 16b-3. As of September 23, 1994, Rule 16b-3 required stockholder approval of amendments that (i) materially increase the benefits accruing to individuals who participate in the Plan, (ii) materially increase the maximum number of shares that may be issued under the Plan (except for permissible adjustments provided in the Plan), or (iii) materially modify the requirements as to eligibility for participation in the Plan. In addition, the Board shall not modify or amend the Plan in a manner that would require stockholder approval under Section 422 of the Code, without obtaining such stockholder approval, if such amendment would affect the status of any outstanding Incentive Stock Option as an incentive stock option under Section 422 of the Code. As of September 23, 1994, Section 422 of the Code required stockholder approval of amendments that (A) increase the aggregate number of shares that may be issued pursuant to Incentive Stock Options (except for permissible adjustments provided in the Plan), or (B) change the designation of employees or the class of employees eligible to receive Incentive Stock Options. The termination or any modification or amendment of the Plan shall not, without the consent of an Award Owner, affect his or her rights under an Award previously granted to him or her. With the consent of the Award Owners affected, the Committee may amend outstanding Award agreements in a manner not inconsistent with the Plan.

(b) Notwithstanding the provisions of Sections 19(a)(i) and (iii), the Board shall have the right, but not the obligation, without the consent of the Company's stockholders, to (i) amend or modify the terms and provisions of the Plan and of any outstanding Incentive Stock Options granted under the Plan to the extent necessary to qualify any or all such options for such favorable federal income tax treatment (including deferral of taxation upon exercise), as may be afforded incentive stock options under Section 422 of the Code; and (ii) amend or modify the terms and provisions of the Plan and of any outstanding Award granted under the Plan to the extent necessary to comply with any securities law to which, in the opinion of counsel to the Company, the Plan or Award is subject.

20. Withholding

At such times as an Award Owner recognizes taxable income in connection with the receipt of shares of Common Stock hereunder (a "Taxable Event"), the Award Owner shall pay to the Company an amount equal to the federal, state and local income taxes and other amounts as may be required by law to be withheld by the Company in connection with the Taxable Event (the "Withholding Taxes") prior to the issuance, or release from escrow, of such shares. In satisfaction of the obligation to pay Withholding Taxes to the Company, the Committee may, in its discretion and subject to compliance with applicable securities laws and regulations, withhold Common Stock having an aggregate Fair Value on the date preceding the date of such issuance equal to the Withholding Taxes.

21. Effective Date and Duration of the Plan

(a) Effective Date. The Plan shall become effective when adopted by the Board, but no award granted under the Plan (other than Director Options granted pursuant to Section 7 hereof) shall become exercisable unless and until the Plan shall have been approved by the Company's stockholders within twelve months before or after the date of such adoption. If such stockholder approval is not obtained within such period, any Award previously granted under the Plan (other than Director Options, which shall remain in effect but which shall not qualify for the exemption from Section 16(b) of the Exchange Act under Rule 16b-3) shall terminate and no further Awards shall be granted. Subject to this limitation, Awards may be granted under the Plan at any time after the effective date and before the date fixed for termination of the Plan.

(b) Termination. The Plan shall terminate upon the earlier of (i) the close of business on the day next preceding the tenth anniversary of the date of its adoption by the Board or (ii) the date on which all shares available for issuance under the Plan shall have been issued pursuant to the exercise of Awards granted under the Plan. If the date of termination is determined under (i) above, then Awards outstanding on such date shall continue to have force and effect in accordance with the provisions of the instruments evidencing such Awards.

22. Governing Law

The Plan and all Award agreements issued hereunder shall be governed by the laws of the State of Delaware.

23. Expenses of Administration

All costs and expenses incurred in the operation and administration of this Plan shall be borne by the Company.

Exhibit 10.19

FIFTH AMENDMENT
TO SECOND AMENDED AND RESTATED CREDIT AGREEMENT

This FIFTH AMENDMENT TO SECOND AMENDED AND RESTATED CREDIT AGREEMENT (this “Amendment”) is made as of February 18, 2003, and entered into by and between UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC., a corporation organized and existing under the laws of the state of Delaware (the “Borrower”), and PNC BANK, NATIONAL ASSOCIATION (the “Bank”), and amends that certain Second Amended and Restated Credit Agreement dated as of January 30, 1998 by and between the Borrower and the Bank (the Second Amended and Restated Credit Agreement, as amended prior to the date hereof, is hereinafter referred to as the “Existing Credit Agreement”).

W I T N E S S E T H :

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

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

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

ARTICLE I
AMENDMENTS TO EXISTING CREDIT AGREEMENT

Section 1.01 Amendments to Section 1.1 of the Existing Credit Agreement. (a) The following defined terms and the definitions therefor are hereby added to Section 1.1 of the Existing Credit Agreement and inserted in correct alphabetical order:

Fifth Amendment: The Fifth Amendment to Second Amended and Restated Credit Agreement entered into by and between the Borrower and the Bank and dated as of February 18, 2003.

Fifth Amendment Effective Date: February 18, 2003, or such later date as all of the conditions set forth in the Fifth Amendment have either been satisfied by the Borrower or waived in writing by the Bank.

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

Government Loan: Any BIDP Loan, EDF Loan, EDS Loan, Melf Loan, Redevelopment Authority Loan, any loan from the New York Job Development Authority in connection with the Dunkirk Acquisition or a deferred loan in the principal amount of $200,000 from the Dunkirk Local Development Corporation to Dunkirk in connection with the acquisition by Dunkirk of a multiple bar shotblaster for the steel factory of Dunkirk located at 88 Howard Avenue in Dunkirk, New York.

Permitted Encumbrance: Any of the following:

(i) The Encumbrances in the Collateral granted to the Bank;

(ii) Encumbrances for taxes, assessments, governmental charges or levies on any of the Borrower's properties if such taxes, assessments, governmental charges or levies (A) are not at the time due and payable or if they can thereafter be paid without penalty or are being contested in good faith by appropriate proceedings diligently conducted and with respect to which the Borrower has created adequate reserves, and (B) are not pursuant to any Environmental Law;

(iii) Pledges or deposits to secure payment of workers' compensation obligations, unemployment insurance, deposits or indemnities to secure public or statutory obligations or for similar purposes; provided, however, after the Bridgeville Property Acquisition no such Encumbrance may attach to the Bridgeville Property;

(iv) Encumbrances arising out of judgments or awards against the Borrower with respect to which enforcement has been stayed and such Person at the time shall currently be prosecuting an appeal or proceeding for review in good faith by appropriate proceedings diligently conducted and with respect to which the Borrower has created adequate reserves or has adequate insurance protection; provided, however, that at no time may the aggregate Dollar amount of such liens exceed $100,000, and after the Bridgeville Property Acquisition no such Encumbrance may attach to the Bridgeville Property;

(v) Mechanics', carriers', workmen's, repairmen's and other similar statutory liens incurred in the ordinary course of the Borrower's business, so long as the obligation secured is not overdue or, if overdue, is being contested in good faith by appropriate actions or proceedings diligently conducted; provided, however, after the Bridgeville Property Acquisition no such Encumbrance may attach to the Bridgeville Property;

(vi) Security interests in favor of lessors of personal property, which property is the subject of a true lease between such lessor and the Borrower;

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

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

(ix) Security interest in favor of the Dunkirk Local Development Corporation to secure the repayment of the deferred loan of $200,000 by the Dunkirk Local Development Corporation to Dunkirk incurred by Dunkirk to finance the acquisition of a multiple bar shotblaster for the steel factory of Dunkirk located at 88 Howard Avenue in Dunkirk, New York; provided, that, such lien is limited to such multiple bar shotblaster.

Revolving Credit Termination Date: April 30, 2005, as such date may be extended upon the terms and conditions set forth in Section 2.1f, or if any such day is not a Business Day, the Business Day next preceding such date.

Section 1.02 Amendment to Section 2.8 of the Existing Credit Agreement. Section 2.8 of the Existing Credit Agreement is hereby amended to add a new Subsection 2.8e which shall read as follows:

2.8e Fifth Amendment Closing Fee. The Borrower shall pay to the Bank on the Fifth Amendment Effective Date an amendment fee equal to the product determined by multiplying (x) the sum of the Term Loan outstanding on the Fifth Amendment Effective Date plus the Revolving Credit Commitment existing on the Fifth Amendment Effective Date, by (y) twenty-five (25) basis points (.25%).

Section 1.03 Amendment to Section 6.1 of the Existing Credit Agreement. Section 6.1 of the Existing Credit Agreement is hereby amended and restated to read as follows

6.1 Indebtedness. The Borrower shall not, nor shall the Borrower permit any Subsidiary of the Borrower, to create, incur, assume, cause, permit or suffer to exist or remain outstanding, any Indebtedness, except for:

(i) Indebtedness owed by the Borrower to the Bank or an affiliate of the Bank;

(ii) Indebtedness in existence as of the date hereof as set forth on Schedule 6.1, including all extensions and renewals thereof; provided, however that no such extension or renewal may involve an increase in the principal amount of such Indebtedness or any other significant change in the terms thereof;

(iii) Indebtedness due under Governmental Loans; provided, however that (A) the outstanding principal amount of all such Indebtedness shall not exceed, in the aggregate at any one time outstanding, $6,500,000, (B) all such Indebtedness (other than Indebtedness to (x) the New York Job Development Authority incurred in connection with the Dunkirk Acquisition, or (y) the Dunkirk Local Development Corporation incurred in connection with the acquisition of a multiple bar shotblaster for the steel factory of Dunkirk located at 88 Howard Avenue in Dunkirk, New York) must (I) be subject to an Intercreditor Agreement or (II) be subordinated to the repayment of the Obligations, as to security and repayment, in a manner in form and substance satisfactory to the Bank, and (C) after the Bridgeville Property Acquisition no such Indebtedness may be secured by an Encumbrance on the Bridgeville Property;

(iv) Indebtedness incurred by the Borrower, other than Indebtedness enumerated in items (i) through (iii) above, incurred after the date hereof; provided, however, that the outstanding principal amount of such Indebtedness shall not exceed, in the aggregate at any one time, $1,500,000, and, provided further however, after the Bridgeville Property Acquisition no such Indebtedness may be secured by an Encumbrance on the Bridgeville Property;

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

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

Section 1.04 Amendment to Subsection 6.4(iii) of the Existing Credit Agreement. Subsection 6.4(iii) of the Existing Credit Agreement is hereby amended and restated to read as follows:

(iii) Leverage. (x) Prior to January 1, 2003, the Borrower's ratio of Consolidated Total Indebtedness to EBITDA, shall at all times not exceed 2.50:1.00, (y) on and after January 1, 2003, but prior to January 1, 2004, the Borrower's ratio of Consolidated Total Indebtedness to EBITDA, shall at all times not exceed 3.50:1.00, and (z) on and after January 1, 2004, the Borrower's ratio of Consolidated Total Indebtedness to EBITDA, shall at all times not exceed 2.50:1.00.

Section 1.05 Amendment to Subsection 6.4(iv) of the Existing Credit Agreement. Subsection 6.4(iv) of the Existing Credit Agreement is hereby amended and restated to read as follows:

(iv) Consolidated Debt Service Ratio. (x) Prior to January 1, 2003, as at the end of each Fiscal Quarter occurring during such period, the ratio of the Borrower's EBITDA to Consolidated Debt Service shall not be less than 2.0:1.0, (y) on and after January 1, 2003, but prior to January 1, 2004, as at the end of each Fiscal Quarter occurring during such period, the ratio of the Borrower's EBITDA to Consolidated Debt Service shall not be less than 1.5:1.0, and (z) on and after January 1, 2004, as at the end of each Fiscal Quarter occurring during such period, the ratio of the Borrower's EBITDA to Consolidated Debt Service shall not be less than 2.0:1.0.

Section 1.06 No Other Amendments. The amendments to the Existing Credit Agreement set forth herein do not either implicitly or explicitly alter, waive or amend, except as expressly provided in this Amendment, the provisions of the Existing Credit Agreement. The amendments set forth herein do not waive, now or in the future, compliance with any other covenant, term or condition to be performed or complied with nor do they impair any rights or remedies of the Bank under the Existing Credit Agreement with respect to any such violation. Nothing in this Amendment shall be deemed or construed to be a waiver or release of, or a limitation upon, the Bank's exercise of any of its rights and remedies under the Existing Credit Agreement or any other document or instrument delivered in connection therewith, whether arising as a consequence of any Events of Default which may now exist or otherwise, and all such rights and remedies are hereby expressly reserved.

ARTICLE II
BORROWER'S SUPPLEMENTAL REPRESENTATIONS

Section 2.01 Incorporation by Reference. As an inducement to the Bank to enter into this Amendment, (i) the Borrower hereby repeats and remakes herein, for the benefit of the Bank, the representations and warranties made by the Borrower in Sections 4.1 through 4.23, inclusive, of the Existing Credit Agreement, as amended hereby, except that for purposes hereof such representations and warranties shall be deemed to extend to and cover this Amendment and are remade as of the Fifth Amendment Effective Date, and (ii) the Borrower hereby represents and warrants that on and as the Fifth Amendment Effective Date that no Default or Event of Default has occurred and is continuing.

ARTICLE III
CONDITIONS PRECEDENT

Section 3.01 Conditions Precedent. Each of the following shall be a condition precedent to the effectiveness of this Amendment:

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

(i) A duly executed counterpart original of this Amendment;

(ii) A certificate from the Secretary of the Borrower certifying that the Articles of Incorporation and Bylaws of the Borrower previously delivered to the Bank are true, complete, and correct;

(iii) A certificate from the Secretary of the Borrower certifying the corporate resolutions of the Borrower authorizing the execution and delivery of this Amendment and the officers of the Borrower authorized to execute and deliver this Amendment on behalf of the Borrower;

(iv) Payment to the Bank of the amendment fee set forth in Subsection 2.8e of the Agreement as amended by this Amendment; and

(v) Such other instruments, documents and opinions of counsel as the Bank shall reasonably require, all of which shall be satisfactory in form and content to the Bank

(b) The following statements shall be true and correct on the Fifth Amendment Effective Date, and the Borrower shall deliver to the Bank a certificate certifying that:

(i) the representations and warranties made pursuant to this Amendment and in the other Loan Documents, as amended hereby, are true and correct on and as of the Fifth Amendment Effective Date as though made on and as of such date;

(ii) no petition by or against the Borrower or any Subsidiary of the Borrower has at any time been filed under the United States Bankruptcy Code or under any similar act;

(iii) no Event of Default or event which with the giving of notice, the passage of time or both would become an Event of Default has occurred and is continuing, or would result from the execution of or performance under this Amendment;

(iv) no material adverse change in the properties, business, operations, financial condition or prospects of the Borrower has occurred which has not been disclosed in writing to the Bank; and

(v) the Borrower has in all material respects performed all agreements, covenants and conditions required to be performed on or prior to the date hereof under the Existing Credit Agreement and the other Loan Documents.

ARTICLE IV
GENERAL PROVISIONS

Section 4.01 Ratification of Terms. Except as expressly amended by this Amendment, the Existing Credit Agreement and each and every representation, warranty, covenant, term and condition contained therein is specifically ratified and confirmed. The Borrower hereby confirms that any collateral for the Obligations, including but not limited to liens, Encumbrances, security interests, mortgages and pledges granted by the Borrower or third parties, shall continue unimpaired and in full force and effect. **THE BORROWER EXPRESSLY RATIFIES AND CONFIRMS THE CONFESSION OF JUDGMENT AND WAIVER OF JURY TRIAL PROVISIONS CONTAINED IN THE EXISTING CREDIT AGREEMENT AND THE OTHER LOAN DOCUMENTS.**

Section 4.02 References. All notices, communications, agreements, certificates, documents or other instruments executed and delivered after the execution and delivery of this Amendment in connection with the Existing Credit Agreement, any of the other Loan Documents or the transactions contemplated thereby may refer to the Existing Credit Agreement without making specific reference to this Amendment, but nevertheless all such references shall include this Amendment unless the context requires otherwise. From and after the Fifth Amendment Effective Date, all references in the Existing Credit Agreement and each of the other Loan Documents to the Existing Credit Agreement shall be deemed to be references to the Existing Credit Agreement, as amended hereby.

Section 4.03 Incorporation Into Existing Credit Agreement. This Amendment is deemed incorporated into the Existing Credit Agreement. To the extent that any term or provision of this Amendment is or may be deemed expressly inconsistent with any term or provision of the Existing Credit Agreement, the terms and provisions hereof shall control.

Section 4.04 Counterparts. This Amendment may be executed in different counterparts, each of which when executed by the Borrower and the Bank shall be regarded as an original, and all such counterparts shall constitute one amendment.

Section 4.05 Capitalized Terms. Except for proper nouns and as otherwise defined herein, capitalized terms used herein as defined terms shall have the same meanings herein as are ascribed to them in the Existing Credit Agreement, as amended hereby.

Section 4.06 Taxes. The Borrower shall pay any and all stamp and other taxes and fees payable or determined to be payable in connection with the execution, delivery, filing and recording of this Amendment and such other documents and instruments as are delivered in connection herewith and agrees to save the Bank harmless from and against any and all liabilities with respect to or resulting from any delay in paying or omission to pay such taxes and fees.

Section 4.07 Costs and Expenses. The Borrower will pay all costs and expenses of the Bank (including, without limitation, the reasonable fees and the disbursements of the Bank's counsel, Tucker Arensberg, P.C.) in connection with the preparation, execution and delivery of this Amendment and the other documents, instruments and certificates delivered in connection herewith.

Section 4.08 GOVERNING LAW. THIS AMENDMENT AND THE RIGHTS AND OBLIGATIONS HEREUNDER SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE COMMONWEALTH OF PENNSYLVANIA WITHOUT REGARD TO THE PROVISIONS THEREOF REGARDING CONFLICTS OF LAW.

Section 4.09 Headings. The headings of the sections in this Amendment are for purposes of reference only and shall not be deemed to be a part hereof.

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

ATTEST:	UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.		
/s/ Paul A. McGrath	By:	/s/ Richard M. Ubinger	(SEAL)
Name: Paul A. McGrath	Name:	Richard M. Ubinger	
Title: Secretary	Title:	Chief Financial Officer	
	PNC BANK, NATIONAL ASSOCIATION		
	By:	/s/ David B. Gookin	
	Name:	David B. Gookin	
	Title:	Vice President	

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

RESULTS OF OPERATIONS

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

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

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

	2002		2001		2000	
	AMOUNT	**%**	AMOUNT	%	AMOUNT	%
(DOLLARS IN THOUSANDS)						
NET SALES						
Stainless steel	**$56,813**	**80.1%**	$76,908	84.8%	$62,346	70.6%
Tool steel	**6,643**	**9.4**	4,503	5.0	6,960	7.9
High-temperature alloy steel	**3,474**	**4.9**	2,471	2.7	1,754	2.0
High-strength low alloy steel	**2,213**	**3.1**	3,379	3.7	2,161	2.4
Conversion services	**1,495**	**2.1**	3,054	3.4	2,309	2.6
Other	**239**	**0.4**	343	0.4	355	0.4
Net sales on shipments	**70,877**	**100.0**	90,658	100.0	75,885	85.9
Effect of accounting change	**—**	**—**	—	—	12,462	14.1
Total net sales	**70,877**	**100.0**	90,658	100.0	88,347	100.0
Total cost of products shipped	**61,971**	**87.4**	71,915	79.4	61,873	70.0
Effect of accounting change	**—**	**—**	—	—	9,988	11.3
Total cost of products sold	**61,971**	**87.4**	71,915	79.4	71,861	81.3
Selling and administrative expenses	**5,883**	**8.3**	6,199	6.8	4,998	5.7
Operating income from shipments	**3,023**	**4.3**	12,544	13.8	9,014	10.2
Effect of accounting change	**—**	**—**	—	—	2,474	2.8
Operating income	**$ 3,023**	**4.3%**	$12,544	13.8%	$11,488	13.0%

Net sales on shipments by market segment are as follows:

	2002		2001		2000	
	AMOUNT	**%**	AMOUNT	%	AMOUNT	%
(DOLLARS IN THOUSANDS)						
Rerollers	**$26,791**	**37.8%**	$31,936	35.2%	$33,549	44.2%
Service centers	**23,478**	**33.1**	19,178	21.2	16,137	21.3
Original equipment manufacturers	**8,578**	**12.1**	17,714	19.5	9,321	12.3
Forgers	**8,370**	**11.8**	18,484	20.4	14,288	18.8
Wire redrawers	**1,926**	**2.7**	—	—	—	—
Conversion services	**1,495**	**2.1**	3,054	3.4	2,309	3.0
Miscellaneous	**239**	**0.4**	292	0.3	281	0.4
Net sales on shipments	**$70,877**	**100.0%**	$90,658	100.0%	$75,885	100.0%

2002 RESULTS AS COMPARED TO 2001 The decrease in net sales on shipments in 2002 reflected reduced demand from two important end markets, aerospace and power generation. Net sales to those markets in 2002 decreased 36% and 53%, respectively, from 2001. These declines were primarily due to production cutbacks of power generation equipment and commercial aircraft. Sales of bar, rod and wire products from Dunkirk Specialty Steel, and sales of tool steel and commodity reroller products partially offset the lower sales to the power generation and aerospace markets. The Company shipped approximately 38,400 tons in 2002, compared to shipments of 46,800 tons in 2001. During the first half of 2002, management believed the increase in demand for tool steel products represented the beginning of an economic recovery. In addition, the increase in demand for commodity reroller products reflected the impact of the Section 201 tariffs imposed by President Bush in March 2002 on imported specialty steel products. While increased demand for tool steel products continued during the second half of the year, the economic recovery did not materialize and demand for the Company's remaining products declined.

Cost of products sold, as a percent of net sales, increased in 2002 as compared to 2001. This increase is primarily due to the shift in product mix, lower production volumes at the Bridgeville and Titusville facilities, and the start-up of Dunkirk Specialty Steel.

Selling and administrative expenses decreased by $316,000 in 2002 as compared to 2001. The Bridgeville facility operated under a day-to-day extension of its collective bargaining agreement from August 31, 2002 to December 7, 2002. While the facility operated under the extension, management modified certain aspects of the facility's normal operations relating to production processes, security and maintenance to accommodate the situation. These modifications resulted in a $267,000 increase in selling and administrative expenses. This event and the inclusion of direct expenses of $740,000 associated with Dunkirk Specialty Steel were more than offset by a $460,000 decrease in employee compensation, a $283,000 decrease in bad debt expense and the absence of several significant charges in 2001. The 2001 charges included a $200,000 charge to demolish certain vacant buildings within the Bridgeville facility, a $190,000 obligation to a former vice president of operations and a $115,000 charge for the services of an investment-banking firm previously engaged by the Company.

Interest expense and other financing costs decreased from $576,000 in 2001 to $455,000 in 2002. The decrease was primarily due to a reduction in borrowings under the revolving line of credit with PNC Bank and lower interest rates between the two periods. This decrease was partially offset by $125,000 of amortization expense associated with the discount recognized on debt issued by Dunkirk Specialty Steel in 2002.

Other income (expense), net increased from $57,000 in 2001 to $457,000 in 2002. The increase was primarily due to an increase in cash available for investing during the respective periods and the receipt of $310,000, net of expenses, under the Continued Dumping and Subsidy Act of 2000 ("CDSOA").

The 2002 effective income tax rate was 30.8% compared to 36.5% in 2001. The decrease in the effective income tax rate was primarily attributable to tax credit benefits and the impact of permanent tax differences applied against lower levels of income in 2002. Dunkirk Specialty Steel operates within a New York State Empire Zone that allowed the Company to recognize $340,000 of income tax credits in 2002.

2001 RESULTS AS COMPARED TO 2000 The increase in net sales on shipments in 2001 reflected increased shipments within each market segment, except reroller, partially offset by price decreases related to lower raw material costs. The Company shipped approximately 46,800 tons in 2001, compared to shipments of 41,800 tons in 2000. The increased sales were primarily due to increased shipments of power generation, aerospace and petrochemical products to the Company's reroller, forging, service center and original equipment manufacturers ("OEM") markets. These increases were partially offset by lower sales of commodity products to the reroller market and of tool steel products to the service center market, primarily due to imports and the recessionary economy experienced during 2001.

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

Selling and administrative expenses increased by $1.2 million in 2001 as compared to 2000. This increase primarily reflected higher insurance and other costs that are associated with the revenue growth experienced during 2001. In addition, the Company recorded a $200,000 charge to demolish certain vacant buildings within the Bridgeville facility, a $190,000 obligation to a former vice president of operations and a $115,000 charge for the services of an investment banking firm previously engaged by the Company.

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

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

BUSINESS SEGMENT RESULTS

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS SEGMENT Net sales on shipments for the years ended December 31, 2002, 2001 and 2000 were $70.1 million, $90.7 million and $75.9 million, respectively. The 2002 decrease in comparison to 2001 reflected lower demand for power generation and aerospace products, partially offset by an increase in demand for tool steel products and for commodity reroller products, including $8.6 million of net sales on shipments to the Dunkirk Specialty Steel segment. The 2001 increase in comparison to 2000 was primarily due to increased shipments of power generation, aerospace and petrochemical products to the Company's reroller, forging, service center and OEM markets. These increases were partially offset by lower sales of commodity products to the reroller market and of tool steel products to the service center market, primarily due to imports and the recessionary economy experienced during 2001.

Operating income for the years ended December 31, 2002, 2001 and 2000 were $5.0 million, $12.6 million and $11.5 million, respectively. Changes in production volumes and shifts in product mix between years represent the primary causes for the difference in operating income between each year. In addition, the 2000 operating income result included $2.5 million associated with revenues and cost of goods sold in 1999 but deferred until 2000 as a result of implementing SAB 101.

DUNKIRK SPECIALTY STEEL SEGMENT Net sales on shipments and the operating loss for the year ended December 31, 2002 was $10.5 million and $2.0 million, respectively. Net sales primarily reflected sales to service centers, OEMs and wire redrawers. The operating loss primarily related to the start-up costs incurred since February 14, 2002 and production volumes below the level necessary to sufficiently absorb the period costs incurred.

LIQUIDITY AND CAPITAL RESOURCES

The Company generated cash flow from operations in 2002 and 2001 of $3.8 million and $11.9 million, respectively. This decrease was primarily due to the decrease in net income and increases in working capital related to the start-up of Dunkirk Specialty Steel and recoverable federal income taxes associated with estimated payments made during the first half of 2002.

At December 31, 2002, working capital approximated $33.5 million, as compared to $28.7 million at December 31, 2001. The increase was primarily attributable to the addition of Dunkirk Specialty Steel in 2002, including the purchase of $4.0 million of inventory from the JDA. The ratio of current assets to current liabilities at December 31, 2002 and 2001, was 5.4:1 and 4.0:1, respectively. The debt to total capitalization ratio was 13.5% at December 31, 2002 and 12.9% at December 31, 2001.

CAPITAL EXPENDITURES AND INVESTMENTS The Company's capital expenditures, excluding the costs of the Dunkirk Specialty Steel acquisition, were approximately $4.2 million and $5.3 million in 2002 and 2001, respectively. These expenditures primarily reflected the upgrade or replacement of various pieces of equipment at the Bridgeville facility and the installation of grit blasting equipment at the Dunkirk facility. The Company also expended $1.3 million in connection with the Purchase Agreements entered into with the JDA to acquire certain assets and real property formerly owned by Empire Specialty Steel, Inc. Capital expenditures are expected to approximate $2.0 million in 2003, based on current market conditions, and will be used primarily to upgrade or replace various pieces of equipment at the Bridgeville and Dunkirk facilities. Commitments of additional capital expenditures may occur if current market conditions improve.

CAPITAL RESOURCES INCLUDING OFF-BALANCE SHEET ARRANGEMENTS

The Company satisfies its capital requirements primarily through the sale of Common Stock and the issuance of long-term debt. The Company does not maintain off-balance sheet arrangements other than operating leases nor does it participate in non-exchange traded contracts requiring fair value accounting treatment or material related party transaction arrangements.

PNC CREDIT AGREEMENT The Company maintains a credit agreement with PNC Bank for a $6.5 million revolving credit facility ("PNC Line") through April 30, 2005. This credit agreement also includes a term loan ("PNC Term Loan") scheduled to mature in June 2006 and is collateralized by substantially all of the Company's assets.

Interest on borrowings under the PNC Line and the PNC Term Loan is based on short-term market rates, which may be further adjusted based upon the Company maintaining certain financial ratios. In addition, the Company pays a commitment fee of 0.5% per annum on the unused portion of the PNC Line. As a condition of the PNC Line and the PNC Term Loan, the Company is required to maintain certain levels of net worth, working capital and other financial ratios; to limit the amount of capital expenditures it may incur without PNC Bank's approval; and to restrict the payment of dividends. As of December 31, 2002, the Company was in compliance with all financial ratios and restrictive covenants. On February 18, 2003, the Company and PNC Bank agreed to adjust certain financial ratio covenants through December 31, 2003 as a result of the Company's projected earnings throughout 2003. The Company believes it will maintain compliance with the adjusted covenants unless economic conditions remain at 2002 fourth quarter levels throughout 2003.

GOVERNMENT FINANCING PROGRAMS The Company has entered into several separate loan agreements with the Commonwealth of Pennsylvania's Department of Commerce aggregating $1.6 million with terms ending between the years 2002 and 2016. The loans bear interest at rates ranging from 5% to 6% per annum. In 1996, the Company entered into a ten-year, 6% interest-bearing loan agreement with the Redevelopment Authority of Allegheny County Economic Development Fund in the amount of $1.5 million.

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

STOCK-BASED FINANCING ACTIVITY The Company issued 207,366 and 8,044 shares of its Common Stock for the years ended December 31, 2002 and 2001, respectively, through its two stock-based compensation plans. In 2002, certain members of the Company's Board of Directors exercised 200,000 stock options issued under the Stock Incentive Plan for $1.9 million plus related tax benefits of $417,000. The remaining shares were issued to employees participating in the Employee Stock Purchase Plan.

On October 19, 1998, the Company initiated a stock repurchase program to repurchase up to 315,000 shares of its outstanding Common Stock in open market transactions at market prices. The Company repurchased no shares of Common Stock during 2002 while 12,000 shares of Common Stock were repurchased during 2001. The Company is authorized to repurchase 45,100 additional shares of Common Stock as of December 31, 2002.

SHORT – AND LONG-TERM LIQUIDITY The Company expects to meet substantially all of its short-term liquidity requirements resulting from operations and current capital investment plans with internally generated funds and borrowings under the PNC Line. At December 31, 2002, the Company had $3.3 million in cash and $6.5 million available under the PNC Line.

The Company's long-term liquidity depends upon its ability to obtain additional orders from its customers, attract new customers and control costs during periods of low demand or pricing. At this time, management intends to closely monitor its discretionary spending until general economic conditions improve.

CONTRACTUAL OBLIGATIONS At December 31, 2002, the Company had the following contractual obligations:

(DOLLARS IN THOUSANDS)	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS
Long-term debt	$10,660	$ 2,253	$4,424	$1,946	$ 2,037
Capital lease obligations	134	54	66	14	—
Operating lease obligations	117	53	58	6	—
Purchase obligations	2,493	2,013	480	—	—
Total contractual obligations	$13,404	$ 4,373	$5,028	$1,966	$ 2,037

Long-term debt includes the PNC Term Loan. The Company has fixed the rate of interest at 2.84% through December 12, 2003. The table assumes the Company will maintain that interest rate until maturity. Purchase obligations primarily include minimum purchase commitments under various utility contracts. One utility contract expires in August 2004. The table assumes the minimum monthly payment under this contract is $60,000.

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

The Company is exposed to market risk from changes in interest rates related to its long-term debt. At December 31, 2002, $4.4 million of the Company's total long-term debt and capital lease obligations has fixed interest rates. The remaining $5.1 million represents the PNC Term Loan outstanding balance that bears a variable interest rate.

SUPPLY CONTRACT The Company maintains a supply contract agreement with Talley Metals Technology, Inc., a subsidiary of Carpenter Technology Corporation ("Talley Metals"), and the Company's largest customer. While the initial term of the agreement expired December 31, 2002, the agreement continues to automatically renew with the placement of new orders each month and requires a ninety-day notice to terminate. In addition, Talley Metals is required under the agreement to purchase a minimum of 1,000 tons of stainless reroll billet products each calendar month and average at least 1,250 tons per month during the last twelve-month period. The value of the contract on a monthly basis will depend on product mix and key raw material prices. During 2002, Talley Metals did not comply with the monthly minimum purchase requirement due to market conditions. The Company granted a waiver from this requirement until market conditions improve, which the Company believes will coincide with a market price increase for stainless steel bar, rod and wire products.

IMPORT PROTECTIONS On October 22, 2001, the U.S. International Trade Commission determined that import of certain stainless steel and alloy tool steel products are seriously injuring the domestic specialty steel industry. On March 5, 2002, the President imposed tariffs on certain imported stainless steel rod, bar and wire products ranging from 6% to 15% over the next three years under Section 201 of the 1974 Trade Act. During the 2002 second quarter, the Company experienced a significant increase in demand for commodity reroller products. This trend did not continue during the second half of the year and is not expected to signifi-cantly impact future results.

The assets purchased by Dunkirk Specialty Steel were previously owned and operated by AL Tech Specialty Steel, Inc. and Empire Specialty Steel, Inc. During their ownership, both organizations participated in several anti-dumping lawsuits with other domestic specialty steel producers. CDSOA provides for payment of import duties collected by the U. S. Treasury to domestic companies injured by unfair foreign trade practices. In accordance with CDSOA, the Company filed claims to receive their appropriate share of the import duties collected during the past fiscal year and received $310,000, net of expenses. The Company expects to benefit from CDSOA in future years unless the Act is repealed. The amount of future benefits is dependent on the amount of import duties collected and the relationship of Dunkirk Specialty Steel's claim in relation to claims filed by other domestic specialty steel producers.

BRIDGEVILLE LEASE Property, plant and equipment includes a capital lease with Armco, which merged with and into AK Steel in 1999 ("Armco"), for the land and certain buildings and structures located in Bridgeville (the "Bridgeville Lease"). The Bridgeville Lease is for a ten-year term which commenced on August 15, 1994, with three five-year options to renew on the same terms at the Company's discretion at a rental of $1 per year plus payment of real and personal property taxes and other charges associated with the property.

On February 6, 2003, the Company submitted a notice to exercise its option to purchase all of the property permitted under the Bridgeville Lease for $1. The ESR building, which houses the Company's four electro-slag remelting furnaces and ancillary equipment, is not included in the option to purchase. The Company will continue to operate the equipment in the ESR building under the existing lease which is due to expire on August 15, 2004. The Company has expressed an interest to purchase or extend the current lease for the ESR building from AK Steel. In the event that the lease of the ESR building is not extended and the property is not purchased, the relocation of the ESR equipment would have an adverse material effect on the financial condition of the Company.

CONTINGENT ITEMS

ENVIRONMENTAL MATTERS The Company, as well as other steel companies, is subject to demanding environmental standards imposed by federal, state and local environmental laws and regulations. The Company is not aware of any environmental condition that currently exists at any of its facilities that would cause a material adverse effect on the financial condition of the Company.

In connection with the 1994 acquisition of the Bridgeville facility assets, Armco agreed to retain responsibility for liabilities asserted against it under environmental laws with respect to environmental conditions existing at the Bridgeville facility prior to August 15, 1994, and to indemnify the Company up to $6.0 million. This indemnification, due to expire on August 15, 2004, will terminate if the Company purchases the Bridgeville property prior to the expiration date.

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

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

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

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

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

CRITICAL ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

CRITICAL ACCOUNTING POLICIES Revenue recognition is the most critical accounting policy of the Company. The Company manufactures specialty steel product in accordance with customer purchase orders that contain specific product requirements. Each purchase order provides detailed information regarding the requirements for product acceptance. Executed material certification forms are completed indicating the Company's compliance with the customer purchase order before the specialty steel products are packaged and shipped to the customer. Revenue is generally recognized at point of shipment because risk of loss and title has transferred. Revenue is also recognized in certain situations in which products available for shipment are held at the Company's facility beyond the stated shipment date at the customer's specific request.

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

Long-lived assets are reviewed for impairment annually by operating facility. An impairment write down will be recognized whenever events or changes in circumstances indicate that the carrying value may not be recoverable through estimated future undiscounted cash flows. The Company has not recognized an impairment write down on any of its assets held at December 31, 2002.

NEW ACCOUNTING PRONOUNCEMENTS In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" ("SFAS 141") and SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). These standards require that all business combinations be accounted for using the purchase method and that goodwill and intangible assets with indefinite useful lives not be amortized but should be tested for impairment at least annually. These standards also outline the criteria for initial recognition and measurement of intangibles, assignment of assets and liabilities including goodwill to reporting units and goodwill impairment testing. The provisions of SFAS 141 apply to all business combinations after June 30, 2001. Effective January 1, 2002, the Company adopted SFAS 142, which did not impact the Company's results of operations or financial condition.

On August 15, 2001, FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"). SFAS 143 establishes accounting standards for the recognition and measurement of an asset retirement obligation and its associated asset retirement cost. SFAS 143 is effective for the Company on January 1, 2003 and is not expected to have a material impact on the Company's results of operations or financial condition.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). This statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" ("SFAS 121"). It also amends Accounting Principles Board Statement No. 30, "Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" ("APB 30"). SFAS 144 requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value less costs to sell. SFAS 144 retains the fundamental provisions of SFAS 121 for recognition and measurement of the impairment of long-lived assets to be held and used and measurement of long-lived assets to be disposed of by sale. This statement also retains APB 30's requirement that a company report discontinued operations separately from continuing operations. All provisions of SFAS 144 were adopted on January 1, 2002 and did not have a material impact on the Company's consolidated financial position or results of operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"). This statement supersedes Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS 146 requires the recognition of a liability for costs associated with an exit or disposal activity when incurred. SFAS 146 also establishes that the liability should initially be measured and recorded at fair value. The provisions of SFAS 146 will be effective for any exit and disposal activities initiated after December 31, 2002.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 requires that upon issuance of a guarantee, a guarantor must recognize a liability for the fair value of an obligation assumed under a guarantee. FIN 45 also requires additional disclosures by a guarantor in its interim and annual financial statements about the obligations associated with guarantees issued. The recognition provisions of FIN 45 will be effective for any guarantees that are issued or modified after December 31, 2002. The provisions of FIN 45 are not expected to have a material impact on our results of operations or financial position.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of FASB Statement No. 123" ("SFAS 148"). This statement amends SFAS No. 123, "Accounting for Stock Based Compensation" to provide alternative methods of voluntarily transitioning to the fair value based method of accounting for stock-based employee compensation. SFAS 148 also requires disclosure of the method used to account for stock-based employee compensation and the effect of the method on reported results in both annual and interim financial statements. The Company does not intend to change its current method of accounting for stock-based employee compensation unless required by the issuance of a new pronouncement. The Company has adopted the disclosure requirements of SFAS 148 as of December 31, 2002.

FUTURE OUTLOOK

The Company enters 2003 with a total backlog of $14 million and expects demand for aerospace and power generation products to remain weak due to projected reductions in the deliveries of commercial airplanes and industrial gas turbines. The Company expects its results will improve throughout 2003 in conjunction with the pace of the domestic economy's recovery and the market's increasing acceptance of Dunkirk Specialty Steel as a reliable supplier of quality specialty steel bar, rod and wire products.

The Company's actual results will be affected by a wide range of factors including the limited operating history of Dunkirk Specialty Steel; the receipt, pricing and timing of future customer orders; changes in product mix; the concentrated nature of the Company's customer base to date and the Company's dependence on its significant customers; the Company's reliance on certain critical manufacturing equipment; the limited number of raw material and energy suppliers and significant fluctuations that may occur in raw material and energy prices; the ability of the Company to meet its current debt covenants; the ultimate outcome of the Company's current and future litigation matters; and the Company's ongoing requirement for continued compliance with environmental laws. Any unfavorable change in the foregoing or other factors could have a material adverse effect on the Company's business, financial condition and results of operations. Many of these factors are not within the Company's control, and there can be no assurances regarding the Company's future sales or earnings. For a discussion of these and other matters, refer to the Company's Annual Report on Form-10K for the year ended December 31, 2002 and other reports on file with the Securities and Exchange Commission.

Report of Management

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

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

/s/ Clarence M. McAninch

Clarence M. McAninch
President and Chief Executive Officer

/s/ Richard M. Ubinger

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

February 18, 2003

Report of Independent Accountants

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and of cash flows present fairly, in all material respects, the financial position of Universal Stainless & Alloy Products, Inc., and its subsidiaries (the Company) at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Pittsburgh, Pennsylvania

February 18, 2003

Consolidated Statement of Operations

FOR THE YEARS ENDED DECEMBER 31,	**2002**	2001	2000
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE INFORMATION)			
Net sales	**$ 70,877**	$ 90,658	$ 88,347
Cost of products sold	**61,971**	71,915	71,861
Selling and administrative expenses	**5,883**	6,199	4,998
Operating income	**3,023**	12,544	11,488
Interest expense and other financing costs	**(455)**	(576)	(905)
Other income (expense), net	**457**	57	(3)
Income before taxes and cumulative effect of accounting change	**3,025**	12,025	10,580
Provision for income taxes	**933**	4,386	3,970
Income before cumulative effect of accounting change	**2,092**	7,639	6,610
Cumulative effect of accounting change, net of tax	**—**	—	(1,546)
Net income	**$ 2,092**	$ 7,639	$ 5,064
EARNINGS PER COMMON SHARE			
BASIC			
Income before cumulative effect of accounting change	**$ 0.34**	$ 1.26	$ 1.09
Cumulative effect of accounting change, net of tax	**—**	—	(0.26)
Net income	**$ 0.34**	$ 1.26	$ 0.83
DILUTED			
Income before cumulative effect of accounting change	**$ 0.34**	$ 1.25	$ 1.09
Cumulative effect of accounting change, net of tax	**—**	—	(0.26)
Net income	**$ 0.34**	$ 1.25	$ 0.83
Weighted average number of shares of Common Stock outstanding	**6,203,800**	6,080,045	6,074,701

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

Consolidated Balance Sheets

DECEMBER 31,	2002	2001
(DOLLARS IN THOUSANDS)		
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 3,308**	$ 5,454
Accounts receivable (less allowance for doubtful accounts of $298 and $434)	**11,550**	13,257
Inventory	**22,717**	17,900
Deferred taxes	**1,127**	1,022
Other current assets	**2,454**	460
Total current assets	**41,156**	38,093
Property, plant and equipment, net	**42,246**	41,202
Other assets	**642**	151
Total assets	**$84,044**	$79,446
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Trade accounts payable	**$ 4,190**	$ 4,597
Outstanding checks in excess of bank balance	**275**	857
Current portion of long-term debt	**1,971**	1,832
Accrued employment costs	**1,019**	1,562
Other current liabilities	**163**	590
Total current liabilities	**7,618**	9,438
Long-term debt	**7,502**	6,490
Deferred taxes	**8,123**	7,146
Total liabilities	**23,243**	23,074
Commitments and Contingencies		
Stockholders' Equity		
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; 6,554,538 and 6,347,172 shares issued	**7**	6
Additional paid-in capital	**28,277**	25,941
Retained earnings	**34,148**	32,056
Treasury Stock at cost; 269,900 common shares held	**(1,631)**	(1,631)
Total stockholders' equity	**60,801**	56,372
Total liabilities and stockholder's equity	**$84,044**	$79,446

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

Consolidated Statement of Cash Flows

FOR THE YEARS ENDED DECEMBER 31,	2002	2001	2000
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE INFORMATION)			
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 2,092	$ 7,639	$ 5,064
Adjustments to reconcile to net cash and cash equivalents provided by operating activities:			
Depreciation and amortization	3,271	2,782	2,466
Deferred taxes	596	1,087	1,509
Tax benefit from exercise of stock options	417	—	—
Changes in assets and liabilities:			
Accounts receivable, net	1,150	(438)	(706)
Inventory	(859)	888	(3,058)
Accounts payable	(407)	(1,027)	147
Accrued employment costs	(543)	265	570
Refundable income taxes paid	(990)	—	—
Other, net	(903)	709	293
Net cash provided by operating activities	3,824	11,905	6,285
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of assets and real property through purchase agreements	(1,283)	—	—
Capital expenditures	(4,194)	(5,253)	(4,598)
Net cash used in investing activities	(5,477)	(5,253)	(4,598)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term debt	—	136	—
Long-term debt repayment	(1,831)	(1,821)	(1,834)
Borrowings under revolving line of credit	—	8,893	14,107
Repayments under revolving line of credit	—	(8,893)	(14,107)
(Decrease) increase in outstanding checks in excess of bank balance	(582)	(588)	338
Proceeds from issuance of Common Stock	1,920	53	50
Purchase of Treasury Stock	—	(87)	—
Net cash used in financing activities	(493)	(2,307)	(1,446)
Net (decrease) increase in cash and cash equivalents	(2,146)	4,345	241
Cash and cash equivalents at beginning of period	5,454	1,109	868
Cash and cash equivalents at end of period	$ 3,308	$ 5,454	$ 1,109
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest paid (net of amount capitalized)	$ 318	$ 605	$ 827
Income taxes paid	$ 1,329	$ 3,144	$ 1,593

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

Notes to the Consolidated Financial Statements

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

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

USE OF ESTIMATES The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. The estimates and assumptions used in these consolidated financial statements are based on known information available as of the balance sheet date. Actual results could differ from those estimates.

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

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

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

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

The Company purchases scrap metal and alloy additives, principally nickel, chrome and molybdenum, for its melting operation. A substantial portion of the alloy additives is available only from foreign sources, some of which are located in countries that may be subject to unstable political and economic conditions. Those conditions might disrupt supplies or affect the prices of the raw materials used by the Company. The Company maintains sales price surcharges to help offset the impact of raw material price fluctuations.

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

PROPERTY, PLANT AND EQUIPMENT Property, plant and equipment are recorded at cost. Costs incurred in connection with the construction or major rebuild of facilities, including interest directly related to the project, are capitalized as construction in progress. No interest was capitalized for the fiscal year 2002, 2001 and 2000. No depreciation is recognized on these assets until placed in service. Maintenance and repairs are charged to expense as incurred, and costs of improvements and renewals are capitalized. Major maintenance costs are expensed in the same annual period as incurred; however, the estimated costs are expensed throughout the year on a pro rata basis. Maintenance expense for the fiscal year 2002, 2001 and 2000 was $6,390,000, $6,611,000 and $6,626,000, respectively.

Depreciation and amortization are computed using the straight-line method based on the estimated useful lives of the related assets. The estimated useful lives of buildings and land improvements is 25 years, machinery and equipment is between 5 and 20 years, and software is 3 years. When property, plant and equipment are retired, or otherwise disposed of, the asset and related accumulated depreciation are removed from the accounts, with any resulting gain or loss included in results of operations. Depreciation and amortization expense for fiscal year 2002, 2001 and 2000 was $3,130,000, $2,764,000 and $2,448,000, respectively.

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

LONG-LIVED ASSET IMPAIRMENT Long-lived assets, including property, plant and equipment are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in relation to the operating performance and future undiscounted cash flows of the underlying assets. Adjustments are made if the sum of expected future cash flows is less than book value. Based on management's assessment of the carrying values of such long-lived assets, no impairment reserve has been deemed necessary as of December 31, 2002 and 2001.

REVENUE RECOGNITION Revenue from the sale of products is recognized when both risk of loss and title has transferred to the customer, which generally coincides with shipment of the related products, provided that no significant company obligation exists, the fee is fixed or determinable and collection is reasonably assured. Revenue from conversion services is recognized when the performance of the service is complete. Invoiced shipping and handling costs are also accounted for as revenue. Customer claims are accounted for primarily as a reduction to gross sales after the matter has been researched and an acceptable resolution has been reached.

INCOME TAXES Deferred income taxes are provided for unused tax credits earned and the tax effect of temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. The Company uses the liability method to account for income taxes, which requires deferred taxes to be recorded at the statutory rate expected to be in effect when the taxes are paid. Valuation allowances are provided if a deferred tax asset will more likely than not be realized.

STOCK-BASED COMPENSATION PLANS The Company accounts for stock-based employee and director compensation using the intrinsic value method. No stock-based employee compensation cost is reflected in net income if the exercise price of the options granted equals or exceeds market value of the underlying common stock on the date of grant. The tax effects of exercising stock options are added to additional paid in capital at the exercise date. The following table illustrates the effect on net income and earnings per share if the company had applied the fair value recognition provisions of issued Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), to stock-based employee and director compensation:

FOR THE YEARS ENDED DECEMBER 31,	**2002**	2001	2000
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE INFORMATION)			
Net income, as reported	**$2,092**	$7,639	$5,064
Total stock-based compensation expense determined under fair-value based method, net of taxes	**(129)**	(131)	(350)
Pro forma net income	**$1,963**	$7,508	$4,714
EARNINGS PER SHARE			
Basic – as reported	**$ 0.34**	$ 1.26	$ 0.83
Basic – pro forma	**$ 0.32**	$ 1.23	$ 0.78
Diluted – as reported	**$ 0.34**	$ 1.25	$ 0.83
Diluted – pro forma	**$ 0.31**	$ 1.23	$ 0.78

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants issued in 2002, 2001 and 2000, respectively: dividend yield of 0.0% for each year; interest rate of 3.7%, 5.0% and 6.0%; expected volatility of 53.0%, 50.0%, and 50.0%; and expected lives for options of five years.

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

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

NEW ACCOUNTING PRONOUNCEMENTS In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations" ("SFAS 141") and SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). These standards require that all business combinations be accounted for using the purchase method and that goodwill and intangible assets with indefinite useful lives not be amortized but should be tested for impairment at least annually. These standards also outline the criteria for initial recognition and measurement of intangibles, assignment of assets and liabilities including goodwill to reporting units and goodwill impairment testing. The provisions of SFAS 141 apply to all business combinations after June 30, 2001. Effective January 1, 2002, the Company adopted SFAS 142, which did not impact the Company's results of operations or financial condition.

On August 15, 2001, FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"). SFAS 143 establishes accounting standards for the recognition and measurement of an asset retirement obligation and its associated asset retirement cost. SFAS 143 is effective for the Company on January 1, 2003 and is not expected to have a material impact on the Company's results of operations or financial condition.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). This statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" ("SFAS 121"). It also amends Accounting Principles Board Statement No. 30, "Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" ("APB 30"). SFAS 144 requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value less costs to sell. SFAS 144 retains the fundamental provisions of SFAS 121 for recognition and measurement of the impairment of long-lived assets to be held and used and measurement of long-lived assets to be disposed of by sale. This statement also retains APB 30's requirement that a company report discontinued operations separately from continuing operations. All provisions of SFAS 144 were adopted on January 1, 2002 and did not have a material impact on the Company's consolidated financial position or results of operations.

In June 2002, the FASB issued SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"). This statement supersedes Emerging Issues Task Force Issue No. 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS 146 requires the recognition of a liability for costs associated with an exit or disposal activity when incurred. SFAS 146 also establishes that the liability should initially be measured and recorded at fair value. The provisions of SFAS 146 will be effective for any exit and disposal activities initiated after December 31, 2002.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 requires that upon issuance of a guarantee, a guarantor must recognize a liability for the fair value of an obligation assumed under a guarantee. FIN 45 also requires additional disclosures by a guarantor in its interim and annual financial statements about the obligations associated with guarantees issued. The recognition provisions of FIN 45 will be effective for any guarantees that are issued or modified after December 31, 2002. The provisions of FIN 45 are not expected to have a material impact on our results of operations or financial position.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure – an amendment of FASB Statement No. 123" ("SFAS 148"). This statement amends SFAS No. 123 to provide alternative methods of voluntarily transitioning to the fair value based method of accounting for stock-based employee compensation. SFAS 148 also requires disclosure of the method used to account for stock-based employee compensation and the effect of the method on reported results in both annual and interim financial statements. The Company does not intend to change its current method of accounting for stock-based employee compensation unless required by the issuance of a new pronouncement. The Company has adopted the disclosure requirements of SFAS 148 as of December 31, 2002.

NOTE 2: INVENTORY

The major classes of inventory are as follows:

DECEMBER 31,	2002	2001
(DOLLARS IN THOUSANDS)		
Raw materials and supplies	**$ 1,719**	$ 1,880
Semi-finished and finished steel products	**18,588**	13,593
Operating materials	**2,410**	2,427
Total inventory	**$22,717**	$17,900

NOTE 3: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

DECEMBER 31,	2002	2001
(DOLLARS IN THOUSANDS)		
Land and land improvements	**$ 822**	$ 822
Buildings	**5,987**	4,701
Machinery and equipment	**48,110**	43,572
Construction in progress	**980**	2,641
	55,899	51,736
Accumulated depreciation	**(13,653)**	(10,534)
Property, plant and equipment, net	**$ 42,246**	$ 41,202

Property, plant and equipment includes a capital lease with Armco, which merged with and into AK Steel in 1999 ("Armco"), for the land and certain buildings and structures located in Bridgeville (the "Bridgeville Lease"). The Bridgeville Lease is for a ten-year term which commenced on August 15, 1994, with three five-year options to renew on the same terms at the Company's discretion at a rental of $1 per year plus payment of real and personal property taxes and other charges associated with the property.

On February 6, 2003, the Company submitted a notice to exercise its option to purchase all of the property permitted under the Bridgeville Lease for $1. The ESR building, which houses the Company's four electro-slag remelting furnaces and ancillary equipment, is not included in the option to purchase. The Company will continue to operate the equipment in the ESR building under the existing lease due to expire on August 15, 2004. The Company has expressed an interest to purchase or extend the current lease for the ESR building to AK Steel. In the event that the lease of the ESR building is not extended and the property is not purchased, the relocation of the ESR equipment would have an adverse material effect on the financial condition of the Company.

NOTE 4: LONG-TERM DEBT AND OTHER FINANCING

Long-term debt consists of the following:

DECEMBER 31,	2002	2001
(DOLLARS IN THOUSANDS)		
PNC Term Loan	**$ 5,100**	$ 6,500
Government debt	**4,252**	1,598
Capital lease obligations	**121**	224
	9,473	8,322
Less amounts due within one year	**(1,971)**	(1,832)
Total long-term debt	**$ 7,502**	$ 6,490

The Company maintains a credit agreement with PNC Bank for a $6,500,000 million revolving credit facility ("PNC Line") through April 30, 2005. This credit agreement, which also includes a term loan scheduled to mature in June 2006 ("PNC Term Loan"), is collateralized by substantially all of the Company's assets.

Interest on borrowings under the PNC Line and the PNC Term Loan is based on short-term market rates, which may be further adjusted based upon the Company maintaining certain financial ratios. The effective interest rate at December 31, 2002 was 2.84%. In addition, the Company pays a commitment fee of 0.5% per annum on the unused portion of the PNC Line. As a condition of the PNC Line and the PNC Term Loan, the Company is required to maintain certain levels of net worth, working capital and other financial ratios; to limit the amount of capital expenditures it may incur without PNC Bank's approval; and to restrict the payment of dividends. The Company was in compliance with all financial ratios and restrictive covenants at December 31, 2002. On February 18, 2003, the Company and PNC Bank agreed to adjust certain financial ratio covenants through December 31, 2003 as a result of the Company's projected earnings throughout 2003.

The Company has entered into several separate loan agreements with the Commonwealth of Pennsylvania's Department of Commerce aggregating $1,600,000 with terms ending between the years 2002 and 2016. The loans bear interest at rates ranging from 5% to 6% per annum. In 1996, the Company entered into a ten-year, 6% interest-bearing loan agreement with the Redevelopment Authority of Allegheny County Economic Development Fund in the amount of $1,514,000.

On February 14, 2002, Dunkirk Specialty Steel, LLC ("Dunkirk Specialty Steel") issued two ten-year, 5% interest-bearing notes payable to the New York Job Development Authority (the "JDA") for the combined amount of $3,000,000 million ("JDA Notes"). No principal or interest payments are due under the JDA Notes during the first year. The JDA Notes were recorded net of a $143,000 debt discount, of which $125,000 was amortized in 2002 and included as interest expense.

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

FOR THE YEARS ENDED DECEMBER 31,	2003	2004	2005	2006	2007	THERE-AFTER	DEDUCTIONS	TOTAL
(DOLLARS IN THOUSANDS)								
Long-term debt	$1,923	$1,916	$2,014	$1,343	$365	$1,809	(18)	$ 9,352
Capital lease minimum payments	54	33	33	14	—	—	(13)	121
Operating lease minimum payments	53	46	12	6	—	—	—	117

The deduction for long-term debt represents the unamortized portion of the debt discount recognized on the JDA Notes at December 31, 2002. The deduction for capital lease minimum payments represents the imputed interest included within the remaining capital lease payments.

NOTE 5: INCOME TAXES

Components of the provision for income taxes are as follows:

FOR THE YEARS ENDED DECEMBER 31,	**2002**	2001	2000
(DOLLARS IN THOUSANDS)			
CURRENT PROVISION (BENEFIT)			
Federal	**$ 453**	$3,160	$2,461
State	**(116)**	139	—
	337	3,299	2,461
DEFERRED PROVISION (BENEFIT)			
Federal	**602**	903	1,238
State	**(6)**	184	271
	596	1,087	1,509
Provision for income taxes	**$ 933**	$4,386	$3,970

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

FOR THE YEARS ENDED DECEMBER 31,	**2002**	2001	2000
Federal statutory tax	**34.0%**	34.0%	34.0%
State income taxes, net of federal benefit	**4.5**	2.7	3.3
Government grants, net of federal benefit	**(7.2)**	(0.4)	—
Other, net	**(0.5)**	0.2	0.2
Effective income tax rate	**30.8%**	36.5%	37.5%

Dunkirk Specialty Steel operates in a New York State Empire Zone and is qualified to benefit from investments made and employees hired at the Dunkirk, NY facility for up to fifteen years. The Company recognized tax credit benefits of $340,000 in 2002, of which $170,000 was applied against the current tax provision and the balance will be applied against future tax liabilities for income apportioned to New York State. The Company believes it will generate sufficient income in conjunction with the reversal of its temporary differences to utilize this tax credit.

Deferred taxes result from the following:

DECEMBER 31,	**2002**	2001
(DOLLARS IN THOUSANDS)		
DEFERRED TAX ASSETS		
Receivables	**$ 130**	$ 187
Inventory	**861**	600
Accrued liabilities	**136**	235
	1,127	1,022
Federal and state tax carry forwards	**470**	–
Total deferred tax assets	**$1,597**	$1,022
DEFERRED TAX LIABILITIES		
Property, plant and equipment	**$8,123**	$7,146

Federal and state tax carry forwards include federal alternative minimum tax and New York Empire Zone tax credits of $377,000 with no expiration date. The remaining balance relates to net operating loss carry forwards allocated to certain states which expire within 5 to 20 years.

NOTE 6: STOCKHOLDERS' EQUITY

	COMMON SHARES OUTSTANDING	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY SHARES	TREASURY STOCK
(DOLLARS IN THOUSANDS)						
Balance at December 31, 1999	6,330,416	$ 6	$ 25,838	$ 19,353	257,900	$ (1,544)
Common Stock issuance under Employee Stock Purchase Plan	8,712		50			
Net income				5,064		
Balance at December 31, 2000	6,339,128	6	25,888	24,417	257,900	(1,544)
Common Stock issuance under Employee Stock Purchase Plan	8,044		53			
Purchase of Treasury Stock					12,000	(87)
Net income				7,639		
Balance at December 31, 2001	6,347,172	6	25,941	32,056	269,900	(1,631)
Common Stock issuance under Employee Stock Purchase Plan	7,366		44			
Exercise of Stock Options	200,000	1	1,875			
Tax benefit from exercise of Stock Options			417			
Net income				2,092		
Balance at December 31, 2002	**6,554,538**	**$ 7**	**$ 28,277**	**$ 34,148**	**269,900**	**$ (1,631)**

On October 19, 1998, the Company's Board of Directors authorized a stock repurchase program. Under the program, the Company may repurchase up to 315,000 shares, or approximately 5%, of the Company's Common Stock in open market transactions at market prices. At December 31, 2002, the Company is authorized to repurchase 45,100 additional shares of the Company's Common Stock.

The Company has 1,980,000 authorized shares of Preferred Stock. At December 31, 2002 and 2001, there were no shares issued or outstanding.

NOTE 7: BASIC AND DILUTED EARNINGS PER SHARE

The computation of basic and diluted earnings per share for the years ended December 31, 2002, 2001 and 2000 is performed as follows:

	INCOME	2002 SHARES	INCOME	2001 SHARES	INCOME	2000 SHARES
(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)						
Income available to common Stockholders	**$ 2,092**	**6,203,800**	$7,639	6,080,045	$5,064	6,074,701
Effect of dilutive securities		**32,048**		17,379		5,057
Income available to common Stockholders plus assumed conversion	**$ 2,092**	**6,235,848**	$7,639	6,097,424	$5,064	6,079,758
BASIC EARNING PER COMMON SHARE						
Income before cumulative effect of accounting change	**$ 0.34**		$ 1.26		$ 1.09	
Net income	**$ 0.34**		$ 1.26		$ 0.83	
DILUTED EARNINGS PER COMMON SHARE						
Income before cumulative effect of accounting change	**$ 0.34**		$ 1.25		$ 1.09	
Net income	**$ 0.34**		$ 1.25		$ 0.83	

NOTE 8: INCENTIVE COMPENSATION PLANS

At December 31, 2002, the Company has three incentive compensation plans that are described below:

STOCK INCENTIVE PLAN

The Company maintains the Stock Incentive Plan that has been adopted and amended from time to time by the Company's Board of Directors, and approved by its stockholders. The Stock Incentive Plan permits the issuance of stock options to non-employee directors, other than those directors owning more than 5% of the Company's outstanding Common Stock, officers and other key employees of the Company who are expected to contribute to the Company's future growth and success. The Company may grant options up to a maximum of 950,000 shares of Common Stock. Options granted to non-employee directors vest over a three-year period, and options granted to employees vest over a four-year period. All options under the Stock Incentive Plan will expire no later than ten years after the grant date.

A summary of the Stock Incentive Plan activity as of and for the years ended December 31, 2002, 2001 and 2000 is presented below:

	SHARES	2002 WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	2001 WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	2000 WEIGHTED-AVERAGE EXERCISE PRICE
FIXED OPTIONS						
Outstanding at beginning of year	**617,500**	**$ 9.36**	522,500	$ 9.58	482,500	$ 9.79
Granted	**25,000**	**10.31**	100,000	8.22	40,000	7.13
Exercised	**(200,000)**	**9.40**	—	—	—	—
Forfeited	**(14,501)**	**9.86**	(5,000)	9.88	—	—
Outstanding at end of year	**427,999**	**$ 9.38**	617,500	$ 9.36	522,500	$ 9.58
Options exercisable at year-end	**331,996**		472,746		414,287	
Weighted-average fair value of options granted during the year		**$ 5.09**		$ 4.07		$ 3.63

The following table summarizes information about stock options outstanding at December 31, 2002:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED-AVERAGE EXERCISE PRICE
$ 6.06 to $ 7.30	129,666	8.2	$ 6.88	61,164	$ 6.71
$ 8.00 to $ 9.94	175,033	4.9	$ 9.66	155,032	$ 9.63
$10.25 to $ 15.60	123,300	4.1	$ 11.66	115,800	$ 11.40
Outstanding at end of year	427,999	5.7	$ 9.38	331,996	$ 9.71

EMPLOYEE STOCK PURCHASE PLAN

Under the 1996 Employee Stock Purchase Plan (the “Stock Purchase Plan”), the Company is authorized to issue up to 90,000 shares of Common Stock to its full-time employees, nearly all of whom are eligible to participate. Under the terms of the plan, employees can choose as of January 1 and July 1 of each year to have up to 10% of their total earnings withheld to purchase shares of the Company’s Common Stock. The purchase price of the stock is 85% of the lower of its beginning-of-the-period or end-of-the-period market prices. At December 31, 2002, the Company has issued 52,905 shares of Common Stock since the plan’s inception.

CASH-INCENTIVE PLANS

The Company has a management cash-incentive plan covering certain key executives and employees and profit-sharing plans that cover the remaining employees. The profit-sharing plans provide for the sharing of pre-tax profits in excess of specified amounts. For the years ended December 31, 2002, 2001 and 2000, the Company expensed $511,000, $1,949,000, and $1,328,000, respectively, under these plans.

NOTE 9: RETIREMENT PLANS

The Company has defined contribution retirement plans that cover substantially all employees. The Company accrues its contribution to the hourly employee plan based on time worked while contributions to the salaried plan are accrued as a fixed amount per month. Company contributions to both plans are funded periodically. The total expense for the years ended December 31, 2002, 2001 and 2000 was $418,000, $413,000 and $320,000, respectively. $74,000 of the total expense for the year ended December 31, 2002 related to the Dunkirk Specialty Steel employees.

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

No other post-retirement benefit plans exist.

NOTE 10: COMMITMENTS AND CONTINGENCIES

The Company, as well as other steel companies, is subject to demanding environmental standards imposed by federal, state and local environmental laws and regulations. The Company is not aware of any environmental condition that currently exists at any of its facilities that would cause a material adverse effect on the financial condition of the Company.

In connection with the 1994 acquisition of the Bridgeville facility assets, Armco agreed to retain responsibility for liabilities asserted against it under environmental laws with respect to environmental conditions existing at the Bridgeville facility prior to August 15, 1994, and to indemnify the Company up to $6,000,000. This indemnification, due to expire on August 15, 2004, will terminate if the Company purchases the Bridgeville property prior to the expiration date.

In connection with the Company’s June 2, 1995 agreement with Armco to purchase certain assets and a parcel of real property located at Titusville, Armco agreed to indemnify the Company up to $3,000,000 in the aggregate for liabilities under environmental laws arising out of conditions on or under the Titusville property existing prior to June 2, 1995. Armco also agreed to indemnify the Company for any liabilities arising out of environmental conditions existing off-site as of June 2, 1995 and is not subject to the $3,000,000 limitation.

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

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

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

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

The Company maintains a supply contract agreement with Talley Metals Technology, Inc., a subsidiary of Carpenter Technology Corporation ("Talley Metals"). While the initial term of the agreement expired December 31, 2002, the agreement continues to automatically renew with the placement of new orders each month and requires a ninety-day notice to terminate. In addition, Talley Metals is required under the agreement to purchase a minimum of 1,000 tons of stainless reroll billet products each calendar month and average at least 1,250 per month during the last twelve-month period. The value of the contract on a monthly basis will depend on product mix and key raw material prices. During 2002, Talley Metals did not comply with the monthly minimum purchase requirement due to market conditions. The Company granted a waiver from this requirement until market conditions improve, which the Company believes will coincide with a market price increase for stainless steel bar, rod and wire products.

NOTE 11: SEGMENT AND RELATED INFORMATION

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

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

DECEMBER 31,	**2002**	2001
(DOLLARS IN THOUSANDS)		
ASSETS		
Universal Stainless & Alloy Products	$65,413	$72,599
Dunkirk Specialty Steel	12,337	—
Corporate	6,294	6,847
	$84,044	$79,446

FOR THE YEARS ENDED DECEMBER 31,	**2002**	2001	2000[(a)]
(DOLLARS IN THOUSANDS)			
NET SALES			
Universal Stainless & Alloy Products	**$70,120**	$90,658	$88,347
Dunkirk Specialty Steel	**10,483**	—	—
Intersegment	**(9,726)**	—	—
	$70,877	$90,658	$88,347
OPERATING INCOME (LOSS)			
Universal Stainless & Alloy Products	**$ 5,013**	$12,544	$11,488
Dunkirk Specialty Steel	**(1,990)**	—	—
	$ 3,023	$12,544	$11,488
INTEREST EXPENSE AND OTHER FINANCING COSTS[(b)]			
Universal Stainless & Alloy Products	**$ 330**	$ 576	$ 905
Dunkirk Specialty Steel	**125**	—	—
	$ 455	$ 576	$ 905
OTHER INCOME (EXPENSE), NET			
Universal Stainless & Alloy Products	**$ 119**	$ 57	$ (3)
Dunkirk Specialty Steel	**338**	—	—
	$ 457	$ 57	$ (3)
DEPRECIATION AND AMORTIZATION			
Universal Stainless & Alloy Products	**$ 3,049**	$ 2,764	$ 2,448
Dunkirk Specialty Steel	**81**	—	—
	$ 3,130	$ 2,764	$ 2,448
CAPITAL EXPENDITURES			
Universal Stainless & Alloy Products	**$ 2,104**	$ 5,253	$ 4,401
Dunkirk Specialty Steel	**1,928**	—	—
Corporate	**162**	—	197
	$ 4,194	$ 5,253	$ 4,598

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

(b) Includes amortization of deferred financing costs and debt discount of $141,000, $18,000 and $18,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

The following table presents net sales by product line:

FOR THE YEARS ENDED DECEMBER 31,	**2002**	2001	2000
(DOLLARS IN THOUSANDS)			
Stainless steel	**$56,813**	$76,908	$62,346
Tool steel	**6,643**	4,503	6,960
High-temperature alloy steel	**3,474**	2,471	1,754
High-strength low alloy steel	**2,213**	3,379	2,161
Conversion services	**1,495**	3,054	2,309
Miscellaneous	**239**	343	355
Net sales on shipments	**70,877**	90,658	75,885
Effect of accounting change	**—**	—	12,462
Total net sales	**$70,877**	$90,658	$88,347

Net sales on shipments to the Company's largest customer and its affiliates, which were generated primarily from the Bridgeville operations, approximated 35%, 32% and 39% of total 2002, 2001 and 2000 sales, respectively. The accounts receivable balances from this customer comprised approximately 25% and 21% of total accounts receivable at December 31, 2002 and 2001, respectively.

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

NOTE 12: ACQUISITION

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

Through December 31, 2002, the Company has sold certain assets for $18,000 and has invested $33,000 to prepare certain assets for sale. While the specific identification of assets to be sold continues, management intends to sell an office building located on the property. Based on available information, management believes the market value of the office building supports the recorded asset value. Future costs will be expensed as incurred in accordance with SFAS 146.

The assets purchased by Dunkirk Specialty Steel were previously owned and operated by AL Tech Specialty Steel, Inc. and Empire Specialty Steel, Inc. During their ownership, both organizations participated in several anti-dumping lawsuits with other domestic specialty steel producers. The Continued Dumping and Subsidy Act of 2000 ("CDSOA") provides for payment of import duties collected by the U. S. Treasury to domestic companies injured by unfair foreign trade practices. In accordance with CDSOA, the Company filed claims to receive their appropriate share of the import duties collected during the past fiscal year. In 2002, the Company received $310,000, net of expenses, which is included in other income.

NOTE 13: QUARTERLY FINANCIAL DATA (UNAUDITED)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
2002 DATA				
Net sales	**$ 17,596**	**$ 21,422**	**$ 15,919**	**$ 15,940**
Gross profit	**3,351**	**2,848**	**1,739**	**968**
Operating income (loss)	**1,978**	**1,311**	**198**	**(464)**
Net income (loss)	**1,206**	**777**	**191**	**(82)**
Earnings (loss) per common share:				
Basic	**$ 0.20**	**$ 0.13**	**$ 0.03**	**$ (0.01)**
Diluted	**$ 0.20**	**$ 0.12**	**$ 0.03**	**$ (0.01)**
2001 DATA				
Net sales	$ 21,259	$ 24,233	$ 23,344	$ 21,822
Gross profit	4,138	5,026	5,152	4,427
Operating income	2,580	3,210	3,851	2,903
Net income	1,512	1,908	2,330	1,889
Earnings per common share:				
Basic	$ 0.25	$ 0.31	$ 0.38	$ 0.31
Diluted	$ 0.25	$ 0.31	$ 0.38	$ 0.31

PRICE RANGE OF COMMON STOCK

The Common Stock is listed on the Nasdaq National Market under the symbol "USAP." There were 155 stockholders of record as of February 18, 2003. The following table sets forth the range of high and low sale prices per share of Common Stock, for the periods indicated below:

	HIGH	LOW
YEAR 2002		
First quarter	**$11.59**	**$ 8.30**
Second quarter	**$16.40**	**$10.36**
Third quarter	**$11.75**	**$ 5.26**
Fourth quarter	**$ 7.65**	**$ 4.86**
YEAR 2001		
First quarter	$ 8.06	$ 7.00
Second quarter	$10.40	$ 7.19
Third quarter	$10.73	$ 6.84
Fourth quarter	$ 8.49	$ 6.85

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

FORWARD-LOOKING INFORMATION SAFE HARBOR

This Annual Report contains historical information and forward-looking statements. Statements looking forward in time, including statements regarding future growth, cost savings, expanded production capacity, broader product lines, greater capacity to meet customer quality reliability, price and delivery needs, enhanced competitive posture, effect of new accounting pronouncements and no material financial impact from litigation or contingencies are included in this Annual Report pursuant to the "safe harbor" provision of the Private Securities Litigation Reform Act of 1995. They involve known and unknown risks and uncertainties that may cause the Company's actual results in future periods to be materially different from any future performance suggested herein. Further, the Company operates in an industry sector where securities values may be volatile and may be influenced by economic and other factors beyond the Company's control. In the context of the forward-looking information provided in this Annual Report, please refer to the discussions of risk factors detailed in, as well as the other information contained in, this Annual Report and the Company's filings with the Securities and Exchange Commission during the past 12 months.

FIVE-YEAR SUMMARY

FOR THE YEARS ENDED DECEMBER 31,	**2002**	2001	2000(a)	1999	1998
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)					
SUMMARY OF OPERATIONS					
Net sales	**$70,877**	$90,658	$88,347	$66,663	$ 72,595
Operating income	**3,023**	12,544	11,488	3,731	7,566
Income before cumulative effect of accounting change	**2,092**	7,639	6,610	2,103	5,004
Cumulative effect of accounting change, net of tax	**—**	—	(1,546)	—	—
Net income	**2,092**	7,639	5,064	2,103	5,004
PRO FORMA SUMMARY OF OPERATIONS[b]					
Net sales	**$70,877**	$90,658	$88,347	$66,330	$ 78,170
Operating income	**3,023**	12,544	11,488	3,373	8,437
Net income	**2,092**	7,639	6,610	1,854	5,558
FINANCIAL POSITION AT YEAR-END					
Working capital	**$33,538**	$28,655	$23,558	$20,800	$ 21,829
Total assets	**84,044**	79,446	73,747	68,179	64,450
Total debt	**9,473**	8,322	10,007	11,841	12,958
Stockholders' equity	**60,801**	56,372	48,767	43,653	42,565
COMMON SHARE DATA					
Basic earnings per share:					
As reported	**$ 0.34**	$ 1.26	$ 0.83	$ 0.34	$ 0.79
Pro forma under SAB 101[b]	**0.34**	1.26	1.09	0.30	0.88
Diluted earnings per share:					
As reported	**0.34**	1.25	0.83	0.34	0.79
Pro forma under SAB 101[b]	**0.34**	1.25	1.09	0.30	0.87
Stockholders' equity	**9.67**	9.28	8.03	7.19	6.82
OTHER DATA					
Cash flow from operations	**$ 3,824**	$11,905	$ 6,285	$ 4,967	$ 9,007
Cash flow from investments	**(5,477)**	(5,253)	(4,598)	(3,366)	(12,146)
Cash flow from financing activities	**(493)**	(2,307)	(1,446)	(2,170)	4,399
EBITDA[c]	**6,610**	15,365	11,459	5,844	8,960
Capital expenditures	**4,194**	5,253	4,598	3,366	12,146
Depreciation and amortization	**3,271**	2,782	2,466	2,101	1,516
Return of stockholders' equity	**3.7%**	13.6%	10.4%	4.8%	11.8%
Debt to total capitalization	**13.5**	12.9	17.0	21.3	23.3
Employees	**393**	304	280	277	280
Customers	**372**	288	250	235	200
AVERAGE SHARES OUTSTANDING (IN THOUSANDS)					
Basic	**6,204**	6,080	6,075	6,111	6,305
Diluted	**6,236**	6,097	6,080	6,111	6,355

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

[b] Includes the effect of implementing SAB 101 as required under generally accepted accounting principles in 2000.

[c] Represents earnings before interest expense, income taxes and depreciation and amortization. This is not a generally accepted accounting principle measure and is presented to disclose the liquidity of the Company.

Exhibit 23.01

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Prospectus constituting part of the Registration Statement on Form S-3 (No. 33-98534) and the Registration Statements on Form S-8 (No. 333-13599, No. 333-13509, No. 333-13511 and No. 333-100263) of Universal Stainless & Alloy Products, Inc. of our report dated February 18, 2003, which appears in the Annual Report to Stockholders, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated February 18, 2003 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Pittsburgh, Pennsylvania
February 26, 2003