UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2003

OR

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

For the Transition Period from ______ to ______

Commission File Number 0-25032

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

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

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

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

As of November 7, 2003, there were 6,289,485 shares outstanding of the Registrant's Common Stock, $.001 par value per share.

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

This Quarterly Report on Form 10-Q contains historical information and forward-looking statements. Statements looking forward are included in this Form 10-Q pursuant to the "safe harbor" provisions 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 differ materially from forecasted results. Those risks include, among others, risks associated with the limited operating history of Dunkirk Specialty Steel, LLC, risks associated with the receipt, pricing and timing of future customer orders, risks related to the financial viability of customers, risks associated with the manufacturing process and production yields, and risks related to property, plant and equipment. In the context of forward-looking information provided in this Form 10-Q and in other reports, please refer to the discussion of risk factors as well as the other information detailed in the Company's Annual Report on Form 10-K and other filings with the Securities and Exchange Commission during the past 12 months.

Part I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(Dollars in Thousands, Except Per Share Information)
(Unaudited)

	For the Three-month period ended September 30,		For the Nine-month period ended September 30,	
	2003	2002	2003	2002
Net sales	$18,625	$15,919	$50,162	$54,937
Cost of products sold	17,296	14,180	47,917	46,999
Selling and administrative expenses	1,507	1,541	4,425	4,451
Operating income (loss)	(178)	198	(2,180)	3,487
Interest expense and other financing costs	(100)	(116)	(289)	(344)
Other income	24	39	74	101
Income (loss) before taxes	(254)	121	(2,395)	3,244
Income tax expense (benefit)	(133)	(70)	(1,251)	1,070
Net income (loss)	$ (121)	$ 191	$ (1,144)	$ 2,174
Earnings (loss) per common share				
Basic	$ (0.02)	$ 0.03	$ (0.18)	$ 0.35
Diluted	$ (0.02)	$ 0.03	$ (0.18)	$ 0.35

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

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UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS
(Dollars in Thousands)
(Unaudited)

	September 30, 2003	December 31, 2002
ASSETS		
Current assets		
Cash and cash equivalents	$ 3,193	$ 3,308
Accounts receivable (less allowance for doubtful accounts of $202 and $298, respectively)	13,717	11,550
Inventory	22,905	22,717
Other current assets	4,919	3,581
Total current assets	44,734	41,156
Property, plant and equipment, net	40,464	42,246
Other assets	812	642
Total assets	$ 86,010	$ 84,044
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Trade accounts payable	$ 6,749	$ 4,190
Outstanding checks in excess of bank balance	510	275
Current portion of long-term debt	1,958	1,971
Accrued employment costs	1,262	1,019
Other current liabilities	610	163
Total current liabilities	11,089	7,618
Long-term debt	6,082	7,502
Deferred taxes	9,157	8,123
Total liabilities	26,328	23,243
Commitments and contingencies	—	—
Stockholders' equity		
Senior Preferred Stock, par value $0.001 per share; 1,980,000 shares authorized; 0 shares issued and outstanding	—	—
Common Stock, par value $0.001 per share; 10,000,000 shares authorized; 6,559,385 and 6,554,538 shares issued, respectively	7	7
Additional paid-in capital	28,302	28,277
Retained earnings	33,004	34,148
Treasury Stock at cost; 269,900 common shares held	(1,631)	(1,631)
Total stockholders' equity	59,682	60,801
Total liabilities and stockholders' equity	$ 86,010	$ 84,044

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)
(Unaudited)

	For the Nine-month period ended September 30, 2003	2002
Cash flow from operating activities:		
Net income (loss)	$(1,144)	$ 2,174
Adjustments to reconcile to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	2,319	2,412
Deferred taxes	670	379
Tax benefit from exercise of stock options	—	428
Changes in assets and liabilities:		
Accounts receivable, net	(2,167)	426
Inventory	(188)	(2,973)
Trade accounts payable	2,559	1,648
Accrued employment costs	243	(153)
Refundable taxes	(930)	—
Other, net	227	(1,850)
Net cash provided by operating activities	1,589	2,491
Cash flows from investing activities:		
Acquisition of assets and real property through purchase agreements	—	(1,283)
Capital expenditures	(713)	(3,877)
Net cash used in investing activities	(713)	(5,160)
Cash flows from financing activities:		
Proceeds from the exercise of stock options	—	1,852
Proceeds from issuance of Common Stock	25	23
Proceeds from deferred loan agreement	200	—
Repayments of long-term debt	(1,451)	(1,381)
Increase in outstanding checks in excess of bank balance	235	667
Net cash (used in) provided by financing activities	(991)	1,161
Net (decrease) in cash and cash equivalents	(115)	(1,508)
Cash and cash equivalents at beginning of period	3,308	5,454
Cash and cash equivalents at end of period	$ 3,193	$ 3,946
Supplemental disclosure of cash flow information:		
Interest paid	$ 255	$ 249
Income taxes paid	$ 7	$ 1,293

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

NOTES TO THE UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Note 1 – Basis of Presentation

The accompanying unaudited consolidated condensed statements of operations for the three- and nine-month periods ended September 30, 2003 and 2002, balance sheets as of September 30, 2003 and December 31, 2002, and statements of cash flows for the nine-month periods ended September 30, 2003 and 2002 have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, these statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2002. In the opinion of management, the accompanying unaudited, condensed consolidated financial statements contain all adjustments, all of which were of a normal recurring nature, necessary to present fairly, in all material respects, the consolidated financial position at September 30, 2003 and December 31, 2002 and the consolidated results of operations and of cash flows for the periods ended September 30, 2003 and 2002, and are not necessarily indicative of the results to be expected for the full year.

Note 2 – Common Stock

The reconciliation of the weighted average number of shares of Common Stock outstanding utilized for the earnings (loss) per common share computations are as follows:

	For the Three-month period ended September 30,		For the Nine-month period ended September 30,	
	2003	2002	2003	2002
Weighted average number of shares of Common Stock outstanding	6,289,485	6,280,536	6,286,271	6,178,207
Effect of dilutive securities	—	16,359	—	42,702
Weighted average number of shares of Common Stock outstanding, as adjusted	6,289,485	6,296,895	6,286,271	6,220,909

The Company also had 9,206 and 3,794 common stock equivalents outstanding for the three- and nine-month periods ended, respectively, which were not included in the common share computations for earnings (loss) per share as the common stock equivalents are anti-dilutive.

Options to purchase 404,666 shares of common stock at a range from $7.10 to $15.60 per share were outstanding during the nine-month period ended 2003 but were not included in the computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares

Note 3 – Stock-Based Compensation Plans

The following table illustrates the effect on net income (loss) and earnings (loss) per share between the Company's use of the intrinsic value method and the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," to stock-based employee and director compensation (dollars, except per share amounts, in thousands):

	For the Three-month period ended September 30,		For the Nine-month period ended September 30,	
	2003	2002	2003	2002
Net Income (loss), as reported	$ (121)	$ 191	$(1,144)	$2,174
Total stock-based compensation expense determined under fair-value based method, net of taxes	(21)	(28)	(65)	(86)
Pro forma net income (loss)	$ (142)	$ 163	$(1,209)	$2,088
Earnings (loss) per common share:				
Basic – as reported	$ (0.02)	$ 0.03	$ (0.18)	$ 0.35
Basic – pro forma	$ (0.02)	$ 0.03	$ (0.19)	$ 0.34
Diluted – as reported	$ (0.02)	$ 0.03	$ (0.18)	$ 0.35
Diluted – pro forma	$ (0.02)	$ 0.03	$ (0.19)	$ 0.34

Note 4 – New Accounting Pronouncements

In August 2001, the Financial Accounting Standards Board ("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 was effective for the Company on January 1, 2003 and did not have a material impact on the Company's results of operations or financial condition.

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 are 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 voluntary 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.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities ("VIE") – an Interpretation of ARB No. 51" ("FIN 46"). FIN 46 clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 was effective immediately for VIE's created after January 31, 2003; for VIE's in existence prior to January 31, 2003 it's application is effective the first period ending after December 15, 2003 (as of December 31, 2003, for an entity with a calendar year-end or quarter-end of December 31). This statement was adopted during the first quarter of 2003 and did not impact the Company's results of operations or financial condition.

In April 2003, the FASB issued Statement No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging". This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities". This statement was adopted during the third quarter of 2003 and did not impact the Company's results of operations or financial condition.

In May 2003, the FASB issued Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity". This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). This statement was adopted during the third quarter of 2003 and did not impact the Company's results of operations or financial condition.

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Note 5 – Inventory

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

	September 30, 2003	December 31, 2002
Raw materials and supplies	$ 1,857	$ 1,719
Semi-finished and finished steel products	18,743	18,588
Operating materials	2,305	2,410
Total inventory	$ 22,905	$ 22,717

Note 6 – Property, Plant and Equipment

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

	September 30, 2003	December 31, 2002
Land and land improvements	$ 843	$ 822
Buildings	5,987	5,987
Machinery and equipment	49,266	48,110
Construction in progress	306	980
	56,402	55,899
Accumulated depreciation	(15,938)	(13,653)
Property, plant and equipment, net	$ 40,464	$ 42,246

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"). During the third quarter of 2003, the Company exercised 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, was 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.

Effective January 1, 2003, the Company entered into a $200,000 Deferred Loan Agreement maturing on December 31, 2006 with the Dunkirk Local Development Corporation. No principal or interest payments will be required under the Deferred Loan Agreement provided that the Company hires 30 new employees and more than 50% of those jobs are made available to certain Dunkirk City residents. The Company believes that it will meet the conditions of the Deferred Loan Agreement, although it can make no assurances to that effect. Therefore, the proceeds have been applied to reduce the acquisition cost of new equipment at the Company's Dunkirk facility.

Note 7 – Commitments and Contingencies

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

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

On April 7, 2003, United States Aviation Underwriters, Inc., ("USAU") a New York corporation, as managers and on behalf of United States Aircraft Insurance Group ("USAIG"), the Company's Aircraft Products Liability insurance carrier, filed suit in the Court of Common Pleas of Allegheny County, Pennsylvania asking the court for a declaratory judgement as to what actual liability and obligations were applicable to USAIG relating to the insurance policy issued to the Company, and the allegations made by Teledyne. At this time, the Company is engaged in discovery and believes that USAIG is responsible for providing defense and damage coverage with regard to the Teledyne allegations. To date USAIG has provided for and continues to provide for a defense to the Teledyne claim. While the Company believes that insurance coverage is available for the defense and damages, if any, relating to the Teledyne claim, an unfavorable ruling in both the USAIG suit and the Teledyne claim could have a material adverse effect on the Company's financial condition.

Note 8 – Business Segments

The Company is comprised of two business segments: Universal Stainless & Alloy Products, which consists of the Bridgeville and Titusville facilities, and Dunkirk Specialty Steel, the Company's wholly-owned subsidiary located in Dunkirk, New York. The Universal Stainless & Alloy Products manufacturing process involves melting, remelting, treating and hot and cold rolling of semi-finished and finished specialty steels. Dunkirk Specialty Steel's manufacturing process involves hot rolling and finishing of specialty steel bar, rod and wire. The Segment Data are as follows (dollars in thousands):

	For the Three-Month Period Ended September 30,		For the Nine-Month Period Ended September 30,	
	2003	2002	2003	2002
Net sales:				
Universal Stainless & Alloy Products	$16,168	$15,211	$43,068	$53,731
Dunkirk Specialty Steel	5,225	3,983	15,404	6,362
Intersegment	(2,768)	(3,275)	(8,310)	(5,156)
Consolidated net sales	$18,625	$15,919	$50,162	$54,937
Operating income (loss):				
Universal Stainless & Alloy Products	$ 554	$ 489	$ (475)	$ 4,660
Dunkirk Specialty Steel	(732)	(291)	(1,705)	(1,173)
Total operating income (loss)	$ (178)	$ 198	$ (2,180)	$ 3,487
Interest expense and other financing costs:				
Universal Stainless & Alloy Products	$ 64	$ 81	$ 179	$ 255
Dunkirk Specialty Steel	36	35	110	89
Total interest expense and other financing costs	$ 100	$ 116	$ 289	$ 344
Other income:				
Universal Stainless & Alloy Products	$ 15	$ 27	$ 55	$ 78
Dunkirk Specialty Steel	9	12	19	23
Total other income	$ 24	$ 39	$ 74	$ 101

	September 30, 2003	December 31, 2002
Total assets:		
Universal Stainless & Alloy Products	$ 65,539	$ 65,413
Dunkirk Specialty Steel	12,380	12,337
Corporate assets	8,091	6,294
Consolidated total assets	$ 86,010	$ 84,044

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

Results of Operations

An analysis of the Company's operations for the three- and nine-month periods ended September 30, 2003 and 2002 are as follows (dollars in thousands):

	For the Three-Month Period Ended September 30,		For the Nine-Month Period Ended September 30,	
	2003	2002	2003	2002
Net sales				
Stainless steel	$14,215	$12,975	$38,064	$44,060
Tool steel	2,828	1,321	7,328	4,605
High-strength low alloy steel	619	660	1,958	3,124
High temperature alloy steel	608	536	1,750	1,725
Conversion services	247	352	845	1,181
Other	108	75	217	242
Total net sales	18,625	15,919	50,162	54,937
Cost of products sold	17,296	14,180	47,917	46,999
Selling and administrative expenses	1,507	1,541	4,425	4,451
Operating income (loss)	$ (178)	$ 198	$ (2,180)	$ 3,487

Three- and nine-month periods ended September 30, 2003 as compared to the similar periods in 2002

The increase in net sales for the three-month period ended September 30, 2003, as compared to the similar period in 2002, reflects increased sales of aerospace, power generation, petrochemical and tool steel products, partially offset by a decline in commodity products. The increases are primarily due to a strengthening economy, a weak dollar that made imports less attractive, and the Company's ability to obtain new orders in a competitive market. The Company shipped approximately 9,600 tons and 8,600 tons for the three-month periods ended September 30, 2003 and 2002, respectively.

The decrease in net sales for the nine-month period ended September 30, 2003, as compared to the similar period in 2002, reflects lower sales of aerospace, power generation and commodity products, partially offset by increases in sales of petrochemical and tool steel products. The lower demand for aerospace and power generation products is a result of reduced demand for commercial aircraft for the airline industry as well as steam and gas turbines for the electric utility industry. The lower demand for commodity products for the three- and nine-month periods ended September 30, 2003, as compared to the similar periods in 2002 reflect the temporary benefit resulting from tariffs imposed by President Bush on certain imported specialty steel products in March 2002. The Company shipped approximately 25,700 tons and 29,600 tons for the nine-month periods ended September 30, 2003 and 2002, respectively.

Cost of products sold, as a percentage of net sales, was 92.9% and 89.1% for the three-month periods ended September 30, 2003 and 2002, respectively, and was 95.5% and 85.6% for the nine-month periods ended September 30, 2003 and 2002, respectively. During the three-month period ended September 30, 2003, the Company recorded a $537,000 write-down of finished and semi-finished inventory at its Bridgeville and Dunkirk operations, which will be used as scrap at its melt shop in Bridgeville. This write-down represents, as a percentage of net sales, 2.9% and 1.1% for the three- and nine-month periods ended September 30, 2003. The remaining increases are primarily due to higher raw material, labor and energy costs, as well as shifts in product mix and lower production volumes during the first six months of 2003. In addition, Dunkirk Specialty Steel, the Company's wholly owned subsidiary that acquired the assets of Empire Specialty Steel on February 14, 2002 and became operational on March 14, 2002, has not generated sufficient order volumes to operate profitably since the completion of the acquisition.

Selling and administrative expenses decreased by $34,000 and $26,000, respectively, in the three-and nine-month periods ended September 30, 2003 as compared to September 30, 2002. The Bridgeville facility operated under a day-to-day extension of the collective bargaining agreement that was scheduled to terminate August 31, 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 for the three-month period ended September 30, 2002. This one-time expense has been partially offset in 2003 by increases directly related to the increased business activity at Dunkirk Specialty Steel.

Interest expense and other financing costs decreased by $16,000 in the three-month period ended September 30, 2003 as compared to the three-month period ended September 30, 2002 and decreased by $55,000 in the nine-month period ended September 30, 2003 as compared to the nine-month period ended September 30, 2002. The decreases were primarily due to the continued reduction in long-term debt outstanding.

The effective income tax rate utilized in the nine-month periods ended September 30, 2003 and 2002 was 52.2% and 33%, respectively. The effective income tax rate utilized in the nine-month period ended September 30, 2003 reflects the anticipated effect of the Company's permanent tax deductions against expected income levels in 2003.

Business Segment Results

An analysis of the net sales and operating income for the reportable segments for the three- and nine-month periods ended September 30, 2003 and 2002 is as follows (dollars in thousands):

	For the Three-Month Period Ended September 30,		For the Nine-Month Period Ended September 30,	
	2003	2002	2003	2002
Net sales:				
Universal Stainless & Alloy Products	$16,168	$15,211	$43,068	$53,731
Dunkirk Specialty Steel	5,225	3,983	15,404	6,362
Intersegment	(2,768)	(3,275)	(8,310)	(5,156)
Consolidated net sales	$18,625	$15,919	$50,162	$54,937
Operating income (loss):				
Universal Stainless & Alloy Products	$ 554	$ 489	$ (475)	$ 4,660
Dunkirk Specialty Steel	(732)	(291)	(1,705)	(1,173)
Total operating income (loss)	$ (178)	$ 198	$ (2,180)	$ 3,487

Universal Stainless & Alloy Products Segment

Net sales for this segment, which consists of the Bridgeville and Titusville facilities, increased by $957,000 for the three-month period ended September 30, 2003, as compared to the similar period in 2002. This increase reflects higher sales of aerospace, power generation, petrochemical and tool steel products, partially offset by a decrease in sales of commodity products. Net sales decreased by $10.7 million for the nine-month period ended September 30, 2003, as compared to the similar period in 2002, primarily due to lower demand for aerospace, power generation and commodity products in the first half of 2003.

Operating income for the Universal Stainless & Alloy Products segment increased by $65,000 for the three-month period ended September 30, 2003, as compared to September 30, 2002. This increase is due primarily to increase production volumes and the $267,000 one-time charge to selling and administrative expenses recognized in the three-month period ended September 30, 2002. This improvement was partially offset by higher raw material, labor and energy costs as well as a $209,000 inventory write-down of finished and semi-finished inventory at its Bridgeville operation, which will be used as scrap at its melt shop in Bridgeville. Operating income for the segment decreased by $5.1 million for the nine-month period ended September 30, 2003, as compared to September 30, 2002. This decrease is due primarily to higher raw material, labor and energy costs, shift in product mix and lower production volumes at the Bridgeville and Titusville facilities.

Dunkirk Specialty Steel Segment

Net sales for the three- and nine-month periods ended September 30, 2003 for this segment increased by $1.2 and $9.0 million, respectively, in comparison to the same periods a year ago. These increases primarily reflect increased sales of bar, rod and wire products to an increasing customer base. The Dunkirk Specialty Steel segment has not generated sufficient order volume to operate profitably and has incurred operating losses in each quarter since the completion of the February 2002 acquisition. The loss for the three- and nine month periods ended September 30, 2003 was impacted by a $328,000 inventory write-down of finished and semi-finished inventory that will be used as scrap at the Company's melt shop in Bridgeville.

Liquidity and Capital Resources

The Company has financed its operating activities through cash flows from operations and cash on hand at the beginning of the period. At September 30, 2003, working capital approximated $33.6 million, as compared to $33.5 million at December 31, 2002. The ratio of current assets to current liabilities decreased from 5.4:1 at December 31, 2002 to 4.0:1 at September 30, 2003. The debt to capitalization ratio was 11.9% at September 30, 2003 and 13.5% at December 31, 2002.

The Company's capital expenditures for the three- and nine-month periods ended September 30, 2003 were $522,000 and $713,000, respectively. The Company will continue to limit its capital expenditures until current market conditions improve.

Effective January 1, 2003, the Company entered into a $200,000 Deferred Loan Agreement maturing on December 31, 2006 with the Dunkirk Local Development Corporation. No principal or interest payments will be required under the Deferred Loan Agreement provided that the Company hires 30 new employees and more than 50% of those jobs are made available to certain Dunkirk City residents. The Company believes it will meet the conditions of the Deferred Loan Agreement, although it can make no assurances to that effect. Therefore, the proceeds have been applied to reduce the acquisition cost of new equipment at the Company's Dunkirk facility.

The Company satisfies its capital requirements primarily through funds generated from operations and borrowings and 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.

Effective September 29, 2003, the Company executed the Seventh Amendment to the Second Amended and Restated Credit Agreement with PNC Bank. The amendment replaced certain financial covenants with an asset-based funding formula that will permit the Company full access to its $6.5 million revolving line of credit through June 30, 2005. At September 30, 2003, the Company was in compliance with the financial covenants in effect.

There were no shares of Common Stock purchased by the Company during the nine-month period ended September 30, 2003. The Company is authorized to purchase an additional 45,100 shares of Common Stock as of September 30, 2003.

The Company anticipates that it will fund its 2003 working capital requirements, its capital expenditures and the stock repurchase program primarily from funds generated from operations and borrowings and the sale of Common Stock and the issuance of long-term debt. The Company's long-term liquidity requirements, including capital expenditures, are expected to be financed by a combination of internally generated funds, borrowings and other sources of external financing if needed.

2003 Outlook

These are forward-looking statements for purposes 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 to vary materially from those disclosed below.

The Company estimates that fourth quarter 2003 sales will range from $15 to $19 million and that diluted earnings per share will range from a net loss of $0.05 to breakeven. In the fourth quarter of 2002, sales were $15.9 million and the Company incurred a net loss per diluted share of $0.01. The fourth quarter 2002 results include other income of $310,000 or $0.03 per diluted share due to receipt of import duties related to the Continued Dumping and Subsidy Act of 2000. While the Company has applied for similar relief in 2003, it is unable to estimate the program's impact on 2003 fourth quarter results at this time. The following factors were considered in developing these estimates:

- The Company's total backlog approximated $18.3 million on September 30, 2003, as compared to $13.3 million at June 30, 2003.

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- Sales of non-commodity reroll products are expected to offset seasonal sales declines anticipated in other markets at the Universal Stainless and Alloy Products segment.
- Sales from the Dunkirk Specialty Steel segment are expected to approximate $5 million in the 2003 fourth quarter, based on its September 30, 2003 backlog of $3.3 million. Despite its growing customer base, Dunkirk's sales are likely to remain at current levels because of expected lower sales to service centers. This is consistent with normal end-of-year buying patterns within the service center industry, Dunkirk's main market.

New Accounting Pronouncements

In August 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("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 was effective for the Company on January 1, 2003 and did not have a material impact on the Company's results of operations or financial condition.

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)." SFAS146 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 voluntary 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.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities – an Interpretation of ARB No. 51" ("FIN 46"). FIN 46 clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 was effective immediately for VIE's created after January 31, 2003; for VIE's in existence prior to January 31, 2003 it's application was effective beginning the third quarter of 2003. This statement was adopted during the first quarter of 2003 and did not impact the Company's results of operations or financial condition.

In April 2003, the FASB issued Statement No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging". This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities". This statement was adopted during the third quarter of 2003 and did not impact the Company's results of operations or financial condition.

In May 2003, the FASB issued Statement No. 150, “Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity”. This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). This statement was adopted during the third quarter of 2003 and did not impact the Company’s results of operations or financial condition.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has reviewed the status of its market risk and believes there are no significant changes from that disclosed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2002, except as provided in this Form 10-Q in “Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Item 4. CONTROLS AND PROCEDURES

The Company’s management, including the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) evaluated the effectiveness of the design and operation of the Company’s disclosure controls and procedures as of the end of the period covered by this report. Based upon their evaluation, management, including the CEO and CFO, concluded that the Company’s disclosure controls and procedures were effective to ensure that information required to be disclosed in reports filed or submitted under the Securities and Exchange Act of 1934 is recorded, processed, summarized and reported in accordance with the rules and forms of the Securities and Exchange Commission. During the quarter ended September 30, 2003, there were no significant changes in the Company’s internal controls or in other factors that could significantly affect these controls subsequent to their evaluation.

Part II. OTHER INFORMATION

Item 1. 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 for use in aircraft engines to be defective. As a result, Teledyne is claiming damages relating to the recall, replacement and repair of aircraft engines.

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

On April 7, 2003, United States Aviation Underwriters, Inc., (“USAU”) a New York corporation, as managers and on behalf of United States Aircraft Insurance Group (“USAIG”), the Company’s Aircraft Products Liability insurance carrier, filed suit in the Court of Common Pleas of Allegheny County, Pennsylvania asking the court for a declaratory judgement as to what actual liability and obligations were applicable to USAIG relating to the insurance policy issued to the Company, and the allegations made by Teledyne. At this time the Company is engaged in discovery and believes that USAIG is responsible for providing defense and damage coverage with regard to the Teledyne allegations. To date, USAIG has provided and continues to provide for a defense to the Teledyne claim. While the Company believes that insurance coverage is available for the defense and damages, if any, relating to the Teledyne claim, an unfavorable ruling in both the USAIG suit and the Teledyne claim could have a material adverse effect on the Company’s financial condition.

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Item 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits

10.29 Seventh Amendment to Second Amended and Restated Credit Agreement, dated as of October 20, 2003, and effective as of September 29, 2003, between the Company and PNC Bank, National Association (filed herewith).

31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).

31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbances-Oxley Act of 2002 (filed herewith).

32.1 Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

b. Four Reports on Form 8-K were filed during the third quarter 2003.

1.) A Report on Form 8-K, under Item 9, was filed on July 23, 2003 which the Company announced the results for the second quarter 2003.

2.) Two reports on Form 8-K, under Item 4, were filed on September 10, 2003 which the Company and the Employee Stock Purchase Plan announced a change in independent accountants.

3.) A Report on Form 8-K, under Item 5, was filed on September 16, 2003 which the Company announced that it had increased its third quarter earnings estimates.

SIGNATURES

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

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

Date: November 7, 2003	/s/ C. M. MCANINCH
	Clarence. M. McAninch **President and Chief Executive Officer** **(Principal Executive Officer)**
Date: November 7, 2003	/s/ RICHARD M. UBINGER
	Richard M. Ubinger **Vice President of Finance,** **Chief Financial Officer and Treasurer** **(Principal Financial and Accounting Officer)**

Exhibit 10.24

SEVENTH AMENDMENT
TO SECOND AMENDED AND RESTATED CREDIT AGREEMENT

This SEVENTH AMENDMENT TO SECOND AMENDED AND RESTATED CREDIT AGREEMENT (this "Amendment") is dated as of October 20, 2003, and effective as of September 29, 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:

Account Debtor: Any Person who is or may become obligated under or with respect to an Account.

Borrowing Base: The sum of (i) 70% of the book value of the Borrower's and Dunkirk's Qualified Accounts, plus (ii) 40% of Value of the Borrower's and Dunkirk's Qualified Inventory; provided, however that the principal amount of all credit extended hereunder against Qualified Inventory shall not exceed at any time the lesser of (x) $3,250,000 plus 50% of the outstanding Term Loan or (y) 50% of the Borrowing Base. The advance percentages shown above may be modified by the Bank from time to time in its sole discretion, as a result of the audit and appraisal described in Section 2.1a or otherwise. In addition, the Borrowing Base shall be reduced by the amount then outstanding under the Borrower's $15,000,000 Amended and Restated Term Note dated December 31, 1998 (currently, approximately $4,400,000).

Borrowing Base Certificate: A borrowing base certificate substantially in the form of Exhibit "A" to the Seventh Amendment which has been executed by an Authorized Officer and delivered to the Bank.

Dunkirk: Dunkirk Specialty Steel, LLC, a Delaware limited liability company and subsidiary of Borrower and Guarantor of the Indebtedness issued hereunder.

Outstanding Revolving Credit Amount: The sum of the aggregate principal amount of outstanding Loans, plus the aggregate Stated Amounts of all outstanding Letters of Credit, including any unreimbursed draws on Letters of Credit which have not yet been converted to Loans.

Qualified Account: Any Account of the Borrower or Dunkirk which the Bank, in its sole discretion exercised in good faith, determines to have met all of the following requirements, which requirements may be revised by the Bank in its sole discretion exercised in good faith from time to time after giving prior notice to the Borrower:

(i) The Account represents a complete bona fide transaction for goods sold or services rendered (including conversion services rendered but excluding any amounts in the nature of a service charge added to the amount due on an invoice because the invoice has not been paid when due) which requires no further act under any circumstances on the part of the Borrower or Dunkirk to make such Account payable by the Account Debtor;

(ii) The Account arises from an arm's-length transaction in the ordinary course of the Borrower's or Dunkirk's business between the Borrower or Dunkirk and an Account Debtor which is not (A) an Affiliate or Subsidiary of the Borrower or Dunkirk, (B) a Person controlled by a Subsidiary or Affiliate of the Borrower or Dunkirk, (C) an officer, director, stockholder or employee of the Borrower or Dunkirk or (D) a member of the family of an officer, director, stockholder or employee of the Borrower or Dunkirk;

(iii) The Account shall not (A) be or have been unpaid more than 120 days from the original invoice date, or (B) be payable by an Account Debtor (1) more than 50% of whose Accounts (in Dollar value) are not deemed Qualified Accounts or (2) whose Accounts constitute 15% or more of the aggregate amount of all outstanding Accounts unless such Account Debtor is specifically identified on Schedule 5.2 hereto. Such Schedule 5.2 may be revised from time to time in accordance with Section 5.2i hereof. In no event shall Accounts of any Account Debtor listed on Schedule 5.2 exceed 40% or more of the aggregate amount of all outstanding Accounts. When applying the tests set forth in clause (2) immediately above and the immediately preceding sentence, only those Accounts which exceed by Dollar value the respective percentage thresholds shall not be Qualified Accounts;

(iv) The goods the sale of which gave rise to the Account (A) were shipped or delivered or provided to the Account Debtor on an absolute sale basis and not on a consignment sale basis, a guaranteed sale basis, a sale-or-return basis or on the basis of any other similar understanding or (B) were provided to the Account Debtor on a bill and hold basis; provided that the aggregate of all such bill and hold Accounts which shall be Qualified Accounts shall not at any time exceed $1,000,000, and no part of such goods has been returned or rejected;

(v) The Account is not evidenced by Chattel Paper or an Instrument of any kind and has not been reduced to judgment;

(vi) The Account Debtor with respect to the Account (A) is Solvent, (B) is not the subject of any bankruptcy or insolvency proceedings of any kind or of any other proceeding or action, threatened or pending, which might have a materially adverse effect on his or its business, operations or properties, (C) has not made an assignment for the benefit of his or its creditors, (D) has not suspended business, dissolved or consented to or suffered the appointment of a receiver, trustee, liquidator or custodian for him or it or for all or a significant portion of his or its assets or affairs and (E) is not, in the sole discretion of the Bank exercised in good faith, deemed ineligible for credit for other reasons (including, without limitation, unsatisfactory past experience of the Borrower or Dunkirk or the Bank with such Account Debtor or the unsatisfactory reputation of such Account Debtor);

(vii) The Account Debtor is not located outside of the continental United States of America, unless the Borrower or Dunkirk has delivered to the Bank any or all letters of credit and/or cash against documents relating to such Account or evidence of insurance, as requested by the Bank and deemed adequate and acceptable by the Bank;

(viii) The Account Debtor is not the government of the United States of America, or any Governmental Authority thereof, unless the Assignment of Claims Act of 1940 (31 U.S.C §3727 et seq.), as amended from time to time, or applicable similar or successor legislation, has been fully complied with to the Bank's satisfaction so that the Bank has a valid, perfection first priority lien and security interest in such Account;

(ix) The Account is a valid, legally enforceable obligation of the Account Debtor with respect thereto and is not subject to any dispute, condition, contingency, offset, recoupment, reduction, claim for credit, allowance, adjustment, counterclaim or defense on the part of such Account Debtor, and the Account is not otherwise subject to any right of setoff to the extent of any of the foregoing, and no facts or circumstances exist which may provide a basis for any of the foregoing; provided, however, to the extent that such Account is subject to an allowance adjustment or reduction in an amount that does not exceed 35% of such Account, such Account shall be a Qualified Account in an amount equal to such Account, less such allowance, adjustment or reduction;

(x) The Account is subject to a valid, perfected first priority lien and security interest in favor of the Bank and is not subject to any other Encumbrance whatsoever;

(xi) The Account is evidenced by an invoice or other documentation in form acceptable to the Bank and arises from a contract which is in form and substance satisfactory to the Bank;

(xii) The Borrower and Dunkirk has observed and complied with all Governmental Rules of the state in which the Account Debtor is located or the Account is payable, which laws, if not observed and complied with, would deny to the Borrower or Dunkirk access to the courts of such state;

(xiii) The Account is not subject to any provision prohibiting its assignment or requiring notice of or consent to such assignment;

(xiv) The goods or services giving rise to the Account were not, at the time of sale thereof, subject to any Encumbrance except a first priority lien and security interest in favor of the Bank;

(xv) The Account is payable in freely transferable Dollars;

(xvi) The Borrower or Dunkirk has not made any agreement with the Account Debtor for any deduction therefrom, except agreements relating to (A) discounts or allowances which are made in the ordinary course of business for prompt payment and which discounts or allowances are reflected in the calculation of the face value of each invoice related to such Account and (B) discounts or allowances permitted by item (ix) of this definition;

(xvii) The Borrower or Dunkirk has not made any agreement with the Account Debtor to extend the time of payment of such Account;

(xviii) The Account does not arise from a retail sale of goods to a Person who is purchasing the same primarily for personal, family or household purposes;

(xix) No covenant, representation or warranty contained in this Agreement or any of the other Loan Documents with respect to such Account has been breached; and

(xx) The Account would not be disqualified for any other reason generally accepted in the commercial finance business.

In addition to the foregoing requirements, Accounts of any Account Debtor which are otherwise Qualified Accounts shall be reduced to the extent of any accounts payable (including, without limitation, the Bank's good faith estimate of any contingent liabilities) owing by the Borrower or Dunkirk to such Account Debtor, which accounts payable are known as "contras".

Qualified Inventory: Any Inventory of the Borrower or Dunkirk which the Bank, in its sole discretion exercised in good faith, determines to have met all of the following requirements, which requirements may be revised by the Bank in its sole discretion exercised in good faith from time to time after giving prior notice to the Borrower:

(i) The Inventory is either (A) finished goods, (B) work-in-process, or (C) raw materials, including but not limited to scrap metals and alloys; but excluding in all cases Inventory which (1) consists of steel rolls or ingot molds used in the processing of steel; or (2) has been shipped, delivered, provided to, purchased or sold by the Borrower or Dunkirk on a bill-and-hold basis, a consignment sale basis, a guaranteed sale basis, a sale-or-return basis, or any other similar basis or understanding other than an absolute sale;

(ii) The Inventory (A) is located in the continental United States at the premises listed on Schedule 1 to the Security Agreement and, for each of such premises which are leased by the Borrower or Dunkirk as tenant, a duly executed Landlord's Waiver satisfactory to the Bank has been executed by the landlord, delivered to the Bank and (B) is not in transit or, if the Inventory is in transit, the Bank has determined in its sole discretion that the Bank has a valid, perfected first priority lien and security interest in such Inventory; provided, however, that in no event will the Bank advance in excess of $1,000,000 at any one time outstanding on Inventory in transit;

(iii) Except as set forth in Schedule 1 to the Security Agreement, the Inventory is not stored with a third party processor, bailee, warehouseman, consignee or similar party;

(iv) The Inventory is not packaging material or supplies, unless such materials or supplies have already been incorporated into the finished goods;

(v) The Inventory is subject to a valid, perfected first priority lien and security interest in favor of the Bank and is not subject to any other Encumbrance whatsoever;

(vi) The Inventory meets all applicable standards imposed by any Governmental Authority;

(vii) None of the Inventory, the manufacturing of which is subject to such laws, has been manufactured in violation of any Federal minimum wage or overtime laws, including without limitation the Fair Labor Standards Act, 29 U.S.C. §215(a)(1) or any similar or successor legislation;

(viii) No covenant, representation or warranty contained in this Agreement or any of the other Loan Documents with respect to such Inventory has been breached; and

(ix) The Inventory is not, and should not be, disqualified for any other reason generally accepted in the commercial finance business.

Seventh Amendment: The Seventh Amendment to Second Amended and Restated Credit Agreement entered into by and between the Borrower and the Bank and dated as of October 20, 2003, and effective nunc pro tunc as of September 29, 2003.

Seventh Amendment Effective Date: This term shall have the meaning given to it in Section 3.02 of the Seventh Amendment.

Value: When used in the context of the Borrower's and Dunkirk's Qualified Inventory, shall mean the lower of cost (determined on a first-in-first-out basis) or market.

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

Consolidated Total Indebtedness: The Indebtedness of the Borrower and its Subsidiaries on a Consolidated basis, net of excess cash balances, all as determined in accordance with GAAP consistently applied. Any reference herein to the term "Consolidated Indebtedness" shall have the same meaning as "Consolidated Total Indebtedness" set forth herein.

Revolving Credit Commitment: The obligation of the Bank to make available to the Borrower an amount which, when added to the aggregate Stated Amounts of all Letters of Credit, (including any unreimbursed draws on Letters of Credit which have not yet been converted to Loans) does not exceed the lesser of (i) $6,500,000 or (ii) the Borrowing Base.

Section 1.02 Amendment to Subsection 2.1 of the Existing Credit Agreement. Subsections 2.1a and 2.1b of the Existing Credit Agreement are hereby amended and restated to read as follows:

2.1 Revolving Credit Commitment.

2.1a Loans. The Bank agrees, subject to the terms and conditions hereof and relying upon the representations and warranties herein set forth, that the Borrower shall have the right to borrow, repay and reborrow, from the date hereof until the Revolving Credit Termination Date, an aggregate principal amount which, together with the aggregate Stated Amounts of all outstanding Letters of Credit, including any unreimbursed draws thereunder which have not been converted to Loans, shall not exceed the lesser of $6,500,000, or the Borrowing Base in the aggregate at any one time outstanding. In the event of any advance under the Revolving Credit Commitment, the Bank may, at its option, conduct an audit and appraisal of the Borrower's Accounts and Inventory (at the sole cost of the Borrower) to evidence compliance with the Borrowing Base and modify, in the Bank's sole discretion, the advance rates for borrowing against Qualified Accounts, Qualified Inventory, or both.

2.1b Mandatory and Voluntary Reductions of Revolving Credit Commitment.

(i) Borrowing Base. In the event that at any time either the Bank's Loan Account or the Borrowing Base Certificate (in the form of Exhibit "A" to the Seventh Amendment) most recently delivered by the Borrower to the Bank shows that the Outstanding Revolving Credit Amount exceeds the Borrowing Base, the Borrower shall repay, simultaneously with the delivery of any such Borrowing Base Certificate to the Bank or upon demand by the Bank, whichever is earlier, an amount which is sufficient to reduce the aggregate outstanding principal amount of Loans so that, after such payment, the Outstanding Revolving Credit Amount does not exceed the Borrowing Base.

(ii) Voluntary Reductions. Upon at least ten Business Days' prior written notice to the Bank, the Borrower may from time to time permanently reduce the Revolving Credit Commitment, and, to the extent of such reduction, the portion of the Revolving Credit Commitment shall no longer be available for borrowing. Simultaneously with any such voluntary permanent reduction, the Borrower shall make a payment of the outstanding Loans equal to the excess, if any, of (A) the Outstanding Revolving Credit Amount over (B) the lesser of (i) the Revolving Credit Commitment, as so reduced, and (ii) the Borrowing Base. Each such reduction shall be in a minimum principal amount of $500,000 or, if in excess of $500,000, in integral multiples of $250,000. Notice of a reduction, once given, shall be irrevocable.

(iii) Application of Payments. Any and all Revolving Credit Commitment reductions or mandatory or voluntary prepayments made pursuant to any particular item of this Section 2.1b shall be made in addition to, and not in lieu of, any and all Revolving Credit Commitment reductions and mandatory and voluntary prepayments required to be made pursuant to any other item of this Section 2.1b. All such mandatory and voluntary prepayments shall be accompanied by all accrued and unpaid interest thereon, and all amounts due pursuant to Section 2.4, if any.

Section 1.04 Amendment to Subsection 5.2 of the Existing Credit Agreement. Subsection 5.2 of the Existing Credit Agreement is hereby amended to insert new Subsections 5.2h, 5.1i, 5.2j and 5.2k as follows:

5.2h Borrowing Base Certificate. On the Seventh Amendment Closing Date and thereafter no later than the fifteenth day of each month, the Borrower shall deliver to the Bank a completed Borrowing Base Certificate executed by an Authorized Officer and containing such additional information as may be requested by the Bank from time to time, for the month just ended.

5.2i Receivables and Payables Aging Reports. Semiannually or more frequently as may be requested by the Bank from time to time, within 15 days thereof, a report detailing the aging of the Borrower's accounts payable and accounts receivable for such month, in form and substance satisfactory to the Bank.

5.2j Inventory Reports. Semiannually or more frequently as may be requested by the Bank from time to time, within 15 days thereof, a report detailing the Value and turnover of the Borrower's Inventory for such month, in form and substance satisfactory to the Bank.

5.2k Schedule of Major Account Debtors. On or prior to the Seventh Amendment Closing the Borrower shall submit to the Bank for the Bank's approval, which approval shall not be unreasonably withheld, a listing of major Account Debtors. Schedule 5.2 attached to the Seventh Amendment hereto identifies major Account Debtors as of the Seventh Amendment Closing Date. The Borrower may revise and update Schedule 5.2 from time to time by submitting to the Bank for the Bank's approval, which approval shall not be unreasonably withheld, a revised listing of the major Account Debtors.

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

(ii) Minimum Consolidated Tangible Net Worth. At all times during the term hereof, the Borrower's Consolidated Tangible Net Worth shall not be less than:

Period	**Minimum Consolidated Tangible Net Worth**
From the Closing Date to and including December 30, 2003	$45,000,000
From December 31, 2003 to and including March 30, 2004	An amount equal to the sum of (a) the Minimum Consolidated Tangible Net Worth as set forth immediately above plus (b) 50% of Consolidated Net Income (if positive) for the Fiscal Quarter ending December 31, 2003
From March 31, 2004 through June 30, 2004 and for each successive fiscal period thereafter, each such fiscal period beginning with the last date of a Fiscal Quarter and continuing to the penultimate day of the next Fiscal Quarter.	An amount equal to the sum of (a) the required Minimum Consolidated Tangible Net Worth for the immediately preceding period plus (b) 50% of Consolidated Net Income (if positive) earned during the Fiscal Quarter ending on the first day of the period being tested.

Section 1.06 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. Beginning with the Fiscal Quarter ending June 30, 2005, and as at the end of each Fiscal Quarter thereafter, the Borrower's ratio of Consolidated Total Indebtedness to EBITDA shall not exceed 2.50:1.00.

Section 1.07 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. Beginning with the Fiscal Quarter ending June 30, 2005, and as at the end of each Fiscal Quarter thereafter, the ratio of the Borrower's EBITDA to Consolidated Debt Service shall not be less than 2.0:1.0.

Section 1.08 Amendment to Section 6.4 of the Existing Credit Agreement. Section 6.4 of the Existing Credit Agreement is hereby amended by amending and restating Section 6.4(v) in its entirety, which shall read as follows:

(v) Minimum EBITDA. Beginning with the Fiscal Quarter ending September 30, 2003, and as at the end of each Fiscal Quarter thereafter, the Borrower shall maintain a minimum EBITDA of at least $100,000.

Section 1.09 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 Seventh Amendment Effective Date, and (ii) the Borrower hereby represents and warrants that on and as the Seventh 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 Seventh Amendment Effective Date, the following items, each, unless otherwise indicated, dated on or before the Seventh 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; and

(iv) A Guaranty and Security Agreement duly executed by Dunkirk, and such other documents, certificates and agreements relating to Dunkirk as the Bank shall reasonably require in its sole discretion.

(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 Sixth Amendment Effective Date, and the Borrower shall deliver to the Bank a certificate certifying that:

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

(iv) after giving effect to this Seventh Amendment, 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) after giving effect to this Seventh Amendment, the Borrower has in all material respects performed all agreements, covenants and conditions required to be performed on or prior to the date hereof under the Existing Credit Agreement and the other Loan Documents.

Section 3.02 Seventh Amendment Effective Date. Upon completion of the conditions set forth in Section 3.01 of this Seventh Amendment, the effective date of this Seventh Amendment is deemed to be September 29, 2003, nunc pro tunc.

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 Sixth 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 Seventh 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 October 20, 2003, and effective nunc pro tunc as of September 29, 2003.

ATTEST:

Name: **Paul A. McGrath**
Title: **Secretary**

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

By: ______________________ (SEAL)

Name: **Richard M. Ubinger**
Title: **Chief Financial Officer**

PNC BANK, NATIONAL ASSOCIATION

By: ______________________

Name: **David B. Gookin**
Title: **Vice President**

EXHIBIT A

Borrowing Base Certificate

SCHEDULE 5.2

Major Account Debtors

1. Carpenter Technology Corporation, and its subsidiaries
2. General Electric

CERTIFICATIONS

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

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

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

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

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

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

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

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

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

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

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

Date: November 7, 2003

/s/ C. M. MCANINCH

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

CERTIFICATIONS

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

Date: November 7, 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 Quarterly Report of Universal Stainless & Alloy Products, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2003 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: November 7, 2003

/s/ C. M. MCANINCH

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

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request. This certification accompanies the Form 10-Q and shall not be treated as having been filed as part of the Form 10-Q.

In connection with the Quarterly Report of Universal Stainless & Alloy Products, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2003 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: November 7, 2003

/s/ RICHARD M. UBINGER

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

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request. This certification accompanies the Form 10-Q and shall not be treated as having been filed as part of the Form 10-Q.