

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 June 30, 2001

OR

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

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 0-25032

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

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

25-1724540  
(IRS Employer  
Identification No.)

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

(412) 257-7600  
(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   
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As of August 13, 2001, there were 6,085,405 outstanding shares of the Registrant's Common Stock, \$.001 par value.

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 such as but not limited to expected market conditions that may cause the Company's actual results to differ from future performance suggested herein. 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 detailed in, as well as the other information contained in, the Company's filings with the Securities and Exchange Commission during the past 12 months.

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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 June 30,		For the Six-month period ended June 30,	
	2001	2000	2001	2000
Net sales	\$24,233	\$18,522	\$45,492	\$36,292
Cost of products sold	19,207	15,882	36,328	30,609
Selling and administrative expenses	1,816	1,433	3,374	2,535
Operating income	3,210	1,207	5,790	3,148
Interest expense and other financing costs	(160)	(231)	(341)	(453)
Other income (expense), net	2	(19)	22	(3)
Income before taxes	3,052	957	5,471	2,692
Income taxes	1,144	335	2,051	942
Income before cumulative effect of accounting change	1,908	622	3,420	1,750
Cumulative effect of accounting change, net of tax	--	--	--	(1,546)
Net income	\$ 1,908	\$ 622	\$ 3,420	\$ 204
EARNINGS PER COMMON SHARE				
Basic				
Income before cumulative effect of accounting change	\$ 0.31	\$ 0.10	\$ 0.56	\$ 0.29
Cumulative effect of accounting change, net of tax	--	--	--	(0.26)
Net income	\$ 0.31	\$ 0.10	\$ 0.56	\$ 0.03
Diluted				
Income before cumulative effect of accounting change	\$ 0.31	\$ 0.10	\$ 0.56	\$ 0.29

Cumulative effect of accounting change, net of tax	--	--	--	(0.26)
Net income	\$ 0.31	\$ 0.10	\$ 0.56	\$ 0.03

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

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UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS  
(Dollars in Thousands)

	June 30, 2001 (Unaudited)	December 31, 2000
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 128	\$ 1,109
Accounts receivable (less allowance for doubtful accounts of \$522 and \$192)	17,142	12,819
Inventory	21,060	18,788
Other current assets	1,823	1,347
Total current assets	40,153	34,063
Property, plant and equipment, net	40,184	39,090
Other assets	501	594
Total assets	\$80,838	\$73,747
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Trade accounts payable	\$ 7,265	\$ 5,624
Outstanding checks in excess of bank balance	1,642	1,445
Current portion of long-term debt	1,833	1,808
Accrued employment costs	1,834	1,297
Other current liabilities	1,705	331
Total current liabilities	14,279	10,505
Long-term debt	7,598	8,199
Deferred taxes	6,748	6,276
Total liabilities	28,625	24,980
Commitments and contingencies	--	--
Stockholders' equity		
Senior Preferred Stock, par value \$.001 per share; liquidation value \$100 per share; 2,000,000 shares authorized; 0 shares issued and outstanding	--	--
Common Stock, par value \$.001 per share; 10,000,000 shares authorized; 6,343,305 and 6,339,128 shares issued	6	6
Additional paid-in capital	25,914	25,888
Retained earnings	27,837	24,417
Treasury Stock at cost; 257,900 common shares held	(1,544)	(1,544)
Total stockholders' equity	52,213	48,767
Total liabilities and stockholders' equity	\$80,838	\$73,747

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

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UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

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

For the Six-month period ended  
June 30,  
2001                      2000  
----                      ----

Cash flow from operating activities:		
Net income	\$ 3,420	\$ 204
Cumulative effect of accounting change	--	1,546
Adjustments to reconcile to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	1,310	1,188
Deferred taxes	472	65
Changes in assets and liabilities:		
Accounts receivable, net	(4,323)	12,113
Inventory	(2,272)	(17,146)
Accounts payable	1,641	1,163
Accrued employment costs	537	669
Other, net	982	1,144
	-----	-----
Net cash provided by operating activities	1,767	946
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(2,395)	(2,291)
	-----	-----
Net cash used in investing activities	(2,395)	(2,291)
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance of Common Stock	26	25
Borrowings under revolving line of credit	8,710	7,026
Repayments under revolving line of credit	(8,516)	(5,901)
Proceeds from long-term debt	139	--
Long-term debt repayment	(909)	(913)
Increase in outstanding checks in excess of bank balance	197	598
	-----	-----
Net cash provided by (used in) financing activities	(353)	835
	-----	-----
Net decrease in cash	(981)	(510)
Cash and cash equivalents at beginning of period	1,109	868
	-----	-----
Cash and cash equivalents at end of period	\$ 128	\$ 358
	=====	=====
Supplemental disclosure of cash flow information:		
Interest paid (net of amount capitalized)	\$ 298	\$ 442
Income taxes paid	\$ 1,264	\$ 627

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

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UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

NOTES TO THE UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

- 1) The accompanying unaudited, consolidated condensed financial statements of operations for the three- and six-month periods ended June 30, 2001 and 2000, balance sheets as of June 30, 2001 and December 31, 2000, and statements of cash flows for the six-month periods ended June 30, 2001 and 2000 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, 2000. 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 June 30, 2001 and December 31, 2000 and the consolidated results of operations and of cash flows for the periods ended June 30, 2001 and 2000, and are not necessarily indicative of the results to be expected for the full year.
- 2) In the fourth quarter of 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). As a result of the adoption, the Company's statements of operations and cash flows for the three- and six-month periods ended June 30, 2000 have been restated to include the effect of conforming to SAB 101. Previously reported net sales and net income for the three- and six-month periods ended June 30, 2000 were \$19,012,000 and \$1,366,000, and \$37,101,000 and \$2,262,000, respectively. The application of the SEC's guidance to language in the Company's previous Standard Terms and Conditions of Sale required Universal Stainless to defer revenue recognition until cash was collected, even though risk of loss passed to the buyer at time of shipment. In the fourth quarter of 2000, management modified the Company's Standard Terms and Conditions of Sale to more closely reflect the substance of its sales transactions and permit the recognition of revenue on a basis consistent with past practices.
- 3) The reconciliation of the weighted average number of shares of Common Stock

outstanding utilized for the earnings per common share computations are as follows:

	For the Three-month period ended June 30,		For the Six-month period ended June 30,	
	2001	2000	2001	2000
Weighted average number of shares of Common Stock outstanding	6,081,274	6,072,564	6,081,251	6,072,540
Assuming exercise of stock options and warrants reduced by the number of shares which could have been purchased with the proceeds from exercise of such stock options and warrants	22,439	3,907	16,053	3,738
Weighted average number of shares of Common Stock outstanding, as adjusted	6,103,713	6,076,471	6,097,304	6,076,278

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

	June 30, 2001	December 31, 2000
Raw materials and supplies	\$ 1,603	\$ 1,695
Semi-finished and finished steel products	16,832	13,916
Operating materials	2,625	3,177
Total inventory	\$21,060	\$18,788

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

	June 30, 2001	December 31, 2000
Land and land improvements	\$ 822	\$ 822
Buildings	3,937	3,889
Machinery and equipment	41,727	39,838
Construction in progress	2,769	2,311
Accumulated depreciation	(9,071)	(7,770)
Property, plant and equipment, net	\$40,184	\$39,090

6) The Company has reviewed the status of its environmental contingencies 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, 2000.

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

RESULTS OF OPERATIONS

During 2000, the Company adopted the provisions of the Securities and Exchange Commission's (SEC) Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements." The application of the SEC's guidance to the language contained in the Company's Standard Terms and Conditions of Sale existing at the time of adoption required the Company to defer revenue until cash was collected, even though risk of loss passed to the buyer at 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. Because this did not occur until the fourth

quarter, the revenue and cost information for the three- and six-month periods ended June 30, 2000 relates to cash collections. In order to facilitate analysis of the Company's results of operations, amounts in the table below summarize revenue and cost information based on shipments made by the Company in the respective quarter, rather than cash collected for 2000. Such amounts are then reconciled to reported amounts as necessary (dollars in thousands):

	For the Three-Month Period Ended June 30,		For the Six-Month Period Ended June 30,	
	2001	2000	2001	2000
Net sales				
Stainless steel	\$21,200	\$15,604	\$38,623	\$30,169
Tool steel	848	2,028	2,365	4,255
High-strength low alloy steel	1,103	427	1,768	986
High temperature alloy steel	326	398	935	765
Conversion services	693	448	1,564	788
Other	63	107	237	138
Net sales on shipments	24,233	19,012	45,492	37,101
Effect of accounting change	--	(490)	--	(809)
Total net sales	\$24,233	18,522	\$45,492	\$36,292
Cost of products sold				
Raw materials	6,483	6,953	12,649	13,542
Other	12,724	8,274	23,679	17,088
Total cost of products shipped	19,207	15,227	36,328	30,630
Effect of accounting change	--	655	--	(21)
Total cost of products sold	19,207	15,882	36,628	30,609
Selling and administrative expenses	1,816	1,433	3,374	2,535
Operating income from shipments	3,210	2,352	5,790	3,936
Effect of accounting change	--	(1,145)	--	(788)
Operating income	\$ 3,210	\$ 1,207	\$ 5,790	\$ 3,148

Three- and six-month periods ended June 30, 2001 as compared to the similar periods in 2000

The increase in net sales for the three- and six-month periods ended June 30, 2001 as compared to the similar periods in 2000 reflects substantially increased shipments to OEM and forging markets. This increase is primarily due to continued high levels of demand in the power generation, aerospace and petrochemical markets. This increase was partially offset by lower shipments of stainless steel commodity products and tool steel products as a result of increased imports and the slowing economy. The Company shipped approximately 12,300 tons and 9,700 tons for the three-month periods ended June 30, 2001 and 2000 respectively, and 23,300 tons and 20,500 tons for the six-month periods ended June 30, 2001 and 2000, respectively.

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Cost of products shipped, as a percentage of net sales on shipments, was 79.3% and 80.1% for the three-month periods ended June 30, 2001 and 2000, respectively, and was 79.9% and 82.6% for the six-month periods ended June 30, 2001 and 2000, respectively. This decrease is primarily due to the impact of the mix of products shipped.

Selling and administrative expenses increased by \$383,000 in the three-month period ended June 30, 2001 as compared to June 30, 2000 and increased by \$839,000 for the six-month period ended June 30, 2001 as compared to June 30, 2000. This is primarily due to higher bad debt expense resulting from negative economic impacts on certain steel industry customers and increased employment and insurance costs related to the increased level of business.

Interest expense and other financing costs decreased by \$71,000 in the three-month period ended June 30, 2001 as compared to the three-month period ended June 30, 2000 and decreased by \$112,000 in the six-month period ended June 30, 2001 as compared to the six-month period ended June 30, 2000. The decreases were primarily due to a reduction in debt levels between the periods.

The effective income tax rate utilized in the three- and six-month periods ended June 30, 2001 and 2000 was 37.5% and 35.0%, respectively. The effective income

tax rate utilized in the current period reflects the anticipated effect of the Company's permanent tax deductions against expected income levels in 2001.

#### FINANCIAL CONDITION

The Company has financed its 2001 operating activities through cash flows from operations, cash on hand, borrowings from the PNC revolving line of credit and capitalized leases. At June 30, 2001, working capital approximated \$25.9 million, as compared to \$23.5 million at December 31, 2000. The ratio of current assets to current liabilities decreased from 3.2:1 at December 31, 2000 to 2.8:1 at June 30, 2001. The decrease in the ratio of current assets to current liabilities is primarily due to a decrease in cash, which was used to fund debt payments and an increase in liabilities to fund operations. The debt to capitalization was 15.3% at June 30, 2001 and 17% at December 31, 2000.

The Company's capital expenditures approximated \$2.4 million for the six-month period ended June 30, 2001, which primarily related to the purchase of a new electro slag remelt furnace and the installation of the billet grinder and Oliver plate saw at the Bridgeville facility. At June 30, 2001, the Company had outstanding purchase commitments in addition to the expenditures incurred to date of approximately \$2.2 million. These expenditures are expected to be funded substantially from internally generated funds and additional borrowings. As of June 30, 2001, the Company had \$6.3 million available for borrowings under a revolving line of credit with PNC Bank. On June 29, 2001, the Company entered into a third amendment to the second amended and restated credit agreement with PNC Bank which amended the existing agreement to extend the term of the \$6.5 million revolving credit facility to April 30, 2003.

In July 2001, the Company entered into a supply contract agreement with Talley Metals Technology, Inc., a subsidiary of Carpenter Technologies, Inc., covering a period of at least 18 months. Under terms of the agreement, the Company will supply Talley Metals with an average of 1,250 tons of stainless reroll billet products per month. The value of the contract on a monthly basis will depend on product mix and key raw material prices.

There were no shares of Common Stock repurchased by the Company during the six-month period ended June 30, 2001. The Company is authorized to repurchase an additional 57,100 shares of Common Stock as of June 30, 2001.

The Company anticipates that it will fund its 2001 working capital requirements, its capital expenditures and the stock repurchase program primarily from funds generated from operations and borrowings. 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.

#### 2001 OUTLOOK

The Company estimates that its sales for the third quarter of 2001 will be between \$20 and \$24 million, versus sales of \$19 million in the prior year period. Diluted earnings per share for the third quarter of 2001 are currently projected to range from \$0.27 to \$0.32, compared with \$0.24 reported in the third quarter of 2000 before the SAB 101 accounting adjustment. The following factors were considered in developing these estimates:

- . The Company's backlog approximated \$40 million on June 30, 2001 as compared to \$35 million on March 31, 2001. The mix of orders booked for delivery in the third quarter by market segment is in line with the 2001 second quarter shipments.
- . The Company believes that the high level of demand for its forging and OEM products will continue throughout 2001, while orders for its commodity and tool steel products are expected to remain at existing levels due to current economic conditions and imports.
- . The Company experienced a total of eight electrical curtailments in the second quarter, but was successful in rescheduling all affected production. The Company's third quarter estimates also take into account possible electrical curtailments in the summer months. Natural gas prices declined in the second quarter and are expected to remain at those levels in the third

quarter.

#### NEW ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 141 (FAS 141), "Business Combinations" and Statement No. 142 (FAS 142), "Goodwill and Other Intangible Assets". These statements will be adopted in 2002 and are not expected to impact the Company's results of operations or financial condition.

#### Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE 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, 2000.

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#### Part II. OTHER INFORMATION

#### Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

The Annual Meeting of Stockholders of Universal Stainless & Alloy Products, Inc. was held on May 23, 2001, for the purpose of electing a board of directors and approving the appointment of auditors. Proxies for meeting were solicited pursuant to section 14(a) of the Securities Exchange Act of 1934 and there was no solicitation in opposition to management's solicitation.

All of the management's nominees for directors as listed in the proxy statement were elected by the following vote:

	Shares Voted "For"	Shares "Withheld"	Shares Not Voted
D. Dunn	5,647,762	8,767	424,699
G. Keane	5,647,762	8,767	424,699
C. McAninch	4,717,229	939,300	424,699
U. Toledano	5,647,762	8,767	424,699
D. Wise	5,647,762	8,767	424,699

The appointment of PricewaterhouseCoopers LLP as independent auditors was approved by the following vote:

Shares Voted "For"	Shares Voted "Against"	Shares "Abstaining"	Shares Not Voted
5,641,142	1,870	13,517	424,699

#### Item 6. EXHIBITS AND REPORTS ON FORM 8-K

##### a. Exhibits.

- 10.1 Third Amendment to Second Amended and Restated Credit Agreement dated June 29, 2001 by and between the Company and PNC Bank, National Association (filed herewith).
- 10.2 Supply Contract Agreement, dated as of July 2001, between the Company and Talley Metals Technology, Inc., a subsidiary of Carpenter Technologies, Inc. (filed herewith).

##### b. No reports on Form 8-K were filed during the second quarter of 2001.

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: August 13, 2001 /s/ C. M. McAninch  
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Clarence M. McAninch  
President, Chief Executive Officer and Director  
(Principal Executive Officer)

Date: August 13, 2001 /s/ Richard M. Ubinger  
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Richard M. Ubinger  
Vice President of Finance,  
Chief Financial Officer and Treasurer  
(Principal Financial and Accounting Officer)

THIRD AMENDMENT TO SECOND AMENDED  
AND RESTATED CREDIT AGREEMENT

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

W I T N E S S E T H :

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

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

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

ARTICLE I  
AMENDMENTS TO ORIGINAL CREDIT AGREEMENT  
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Section 1.01 Amendments to Section 1.1 of the Original Credit Agreement. (a)  
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The following defined terms and the definitions therefor are hereby added to Section 1.1 of the Original Credit Agreement and inserted in correct alphabetical order:

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

Bridgeville Property: Those certain parcels of ground located  
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in the Borough of Bridgeville, Upper St. Clair Township, Collier Township and Scott Township, Allegheny County, Pennsylvania and more fully described on Schedule 1.1 attached hereto together with improvements thereto and all appurtenances thereto.

Bridgeville Property Acquisition: The acquisition by the  
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Borrower of a fee interest in the Bridgeville Property from AK Steel Corporation on or after the date hereof.

Third Amendment: The Third Amendment to Second Amended and  
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Restated Credit Agreement entered into by and between the Borrower and the Bank and dated as of June 1, 2001.

Third Amendment Effective Date: June 29, 2001, or such later  
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date as all of the conditions set forth in the Third Amendment have either been satisfied by the Borrower or waived in writing by the Bank.

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

follows:

Permitted Encumbrance: Any of the following:

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(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,

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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

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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

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no such Encumbrance may attach to the Bridgeville Property;

(vi) Security interests in favor of lessors of personal property, which property

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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

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secured by an such Encumbrance shall not exceed the amount shown opposite such Encumbrance on Schedule 6.3; and

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(viii) Security interests in favor of lenders whose loans to the Borrower are permitted pursuant to Section 6.1; provided, however, after

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the Bridgeville Property Acquisition no such Encumbrance may attach to the Bridgeville Property;

Revolving Credit Termination Date: April 30, 2003, as such date may

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be extended upon the terms and conditions set forth in Section 2.1f, or if any such day is not a Business Day, the Business Day next preceding such date.

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

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

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

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

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

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

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

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

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

5.9 Maintenance of Leases. The Borrower shall maintain in full

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

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

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

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

6.1 Indebtedness. The Borrower shall not nor shall the Borrower permit

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

- (i) Indebtedness owed by the Borrower to the Bank;
- (ii) Indebtedness in existence as of the date hereof as set forth on Schedule 6.1, including all extensions and renewals thereof; provided,  
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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

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

be secured by an Encumbrance on the Bridgeville Property;

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

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

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

be secured by an Encumbrance on the Bridgeville Property.

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

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

6.3 Encumbrances. The Borrower shall not nor shall the Borrower ----- permit Holdings to create, assume, incur, permit or suffer to exist any Encumbrance upon any of their respective assets and properties, whether tangible or intangible and whether now owned or in existence or hereafter acquired or created and wherever located, nor acquire nor agree to acquire any assets or properties subject to an Encumbrance, except for:

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

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

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

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

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

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

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

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

(iii) any sale, transfer or lease of assets in the ordinary course of business which assets are replaced by substitute assets acquired or leased by the Borrower; provided, however, that such substitute assets are subject  
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to a first and prior lien and security interest in favor of the Bank to the extent they are not subject to an Encumbrance in favor of the seller or lessor of such assets.

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

Section 1.08 Amendment to Section 6.16 of the Original Credit Agreement.  
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Section 6.16 of the Original Credit Agreement is hereby amended and restated to read as follows:

6.16 Amendments to Certain Documents. The Borrower shall not amend in any  
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material respect its certificate of incorporation, by-laws, or other organizational documents, or the Asset Purchase Agreement, the Armco Lease, the several USWA Agreements, the six and one-third (6 1/3) year power supply contract entered in between the Borrower and Duquesne Light Company on April 30, 1998, without providing at least 10 days' prior written notice to the Bank and, in the event that such amendment would be adverse to the Bank, as determined in the Bank's sole discretion, obtaining the prior written consent of the Bank; provided, however, that the provisions of this  
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Section 6.16 shall not prohibit the Borrower (i) from acquiring a fee interest in the Bridgeville Property and (ii) in connection with such acquisition from terminating the Armco Lease.

Section 1.09 Amendment of Schedules to Original Credit Agreement. The  
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Schedule 4.20 to the Original Credit Agreement is hereby deleted and there is hereby substituted therefor the Revised Schedule 4.20 attached hereto. The Original Credit Agreement is hereby amended to include the Schedule 1.1 attached to this Third Amendment.

Section 1.10 No Other Amendments. The amendments to the Original Credit  
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Agreement set forth herein do not either implicitly or explicitly alter, waive or amend, except as expressly provided in this Third Amendment, the provisions of the Original Credit Agreement. The amendments set forth herein do not waive, now or in the future, compliance with any other covenant, term or condition to be performed or complied with nor do they impair any rights or remedies of the Bank under the Original Credit Agreement with respect to any such violation. Nothing in this Third Amendment shall be deemed or construed to be a waiver or release of, or a limitation upon, the Bank's exercise of any of its rights and remedies under the Original Credit Agreement or any other document or instrument delivered in connection therewith, whether arising as a consequence of any Events of Default which may now exist or otherwise, and all such rights and remedies are hereby expressly reserved.

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ARTICLE II  
BORROWER'S SUPPLEMENTAL REPRESENTATIONS  
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Section 2.01 Incorporation by Reference. As an inducement to the Bank to  
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enter into this Third Amendment, the Borrower hereby repeats herein for the benefit of the Bank each of the representations and warranties made by the Borrower in the Original Credit Agreement, as amended hereby, except that for

purposes hereof such representations and warranties shall be deemed to extend to and cover this Third Amendment.

ARTICLE III  
CONDITIONS PRECEDENT  
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Section 3.01 Conditions Precedent. Each of the following shall be a condition  
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precedent to the effectiveness of this Third Amendment:

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

- (i) A duly executed counterpart original of this Third Amendment;
- (ii) A certificate from the Secretary of the Borrower certifying that the Articles of Incorporation and Bylaws of the Borrower previously delivered to the Bank are true, complete, and correct;
- (iii) A certificate from the Secretary of the Borrower certifying the corporate resolutions of the Borrower authorizing the execution and delivery of this Third Amendment and the officers of the Borrower authorized to execute and deliver this Third Amendment on behalf of the Borrower; and
- (iv) Such other instruments, documents and opinions of counsel as the Bank shall reasonably require, all of which shall be satisfactory in form and content to the Bank

(b) The following statements shall be true and correct on the Third Amendment Effective Date and the Bank shall have received a certificate signed by an Authorized Officer of the Borrower, dated the Third Amendment Effective Date, stating that:

- (i) the representations and warranties made pursuant to this Third Amendment and in the other Loan Documents, as amended hereby, are true and correct on and as of the Third Amendment Effective Date as though made on and as of such date;
- (ii) no petition by or against the Borrower has at any time been filed under the United States Bankruptcy Code or under any similar act;

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

ARTICLE IV  
GENERAL PROVISIONS  
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Section 4.01 Ratification of Terms. Except as expressly amended by this Third  
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Amendment, the Original Credit Agreement and each and every representation, warranty, covenant, term and condition contained therein is specifically

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

Section 4.02 References. All notices, communications, agreements,

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

Section 4.03 Incorporation Into Original Credit Agreement. This Third

Amendment is deemed incorporated into the Original Credit Agreement. To the extent that any term or provision of this Third Amendment is or may be deemed expressly inconsistent with any term or provision of the Original Credit Agreement, the terms and provisions hereof shall control.

Section 4.04 Counterparts. This Third Amendment may be executed in different

counterparts, each of which when executed by the Borrower and the Bank shall be regarded as an original, and all such counterparts shall constitute one-Third Amendment.

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

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

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

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

Section 4.07 Costs and Expenses. The Borrower will pay all costs and expenses

of the Bank (including, without limitation, the reasonable fees and the disbursements of the Bank's counsel, Tucker Arensberg, P.C.) in connection with the preparation, execution and delivery of this Third Amendment and the other documents, instruments and certificates delivered in connection herewith.

Section 4.08 GOVERNING LAW. THIS THIRD AMENDMENT AND THE RIGHTS AND

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

Section 4.09 Headings. The headings of the sections in this Third Amendment

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

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

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

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

ATTEST: UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

/s/ Paul A. McGrath By: /s/ Richard M. Ubinger (SEAL)
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Name: Paul A. McGrath Name: Richard M. Ubinger
Title: Secretary Title: Chief Financial Officer

PNC BANK, NATIONAL ASSOCIATION

By: /s/ David B. Gookin (SEAL)
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Name: David B. Gookin
Title: Vice President

SCHEDULE 1.1

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

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

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

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

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

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

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

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

S 89(degrees) 24' 50" W a distance of 367.59 feet to a point; thence leaving said creek by the southerly line of said Armco, Inc. N 6(degrees) 59' 10" W a distance of 43.24 feet to a point; thence N 87(degrees) 28' 50" W a distance 682.03 feet to a point; thence S 80(degrees) 10' 10" W a distance of 265.30 feet to a point; thence S 77(degrees) 01' 10" W a distance of 299.99 feet to point on the southerly right of way line

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

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

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

and

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

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

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

and

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

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

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

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

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

S 12(degrees) 58' 03" E a distance of 96.88 feet;

S 4(degrees) 05' 57" W a distance of 54.33 feet;

S 21(degrees) 02' 03" E a distance of 100.53 feet;

N 68(degrees) 57' 57" E a distance of 76.29 feet to a point at the line dividing lands now or formerly of Peter O. Calabro and lands of said Armco, Inc.; thence by said last mentioned dividing line in a southerly direction by a curve bearing to the left having a radius of 804.49 feet through an arc distance of 102.03 feet to a point at the line dividing lands of said Armco, Inc. and lands now or formerly of George Rupinsky; thence by said last mentioned dividing line the following four (4) bearings and distances:

S 68(degrees) 57' 57" W a distance of 96.20 feet;

S 21(degrees) 02' 03" E a distance of 68.20 feet;

S 32(degrees) 48' 03" E a distance of 44.30 feet;

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

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

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

and

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

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

N 58(degrees) 16' 00" E a distance of 115.16 feet;

S 34(degrees) 45' 00" E a distance of 2.49 feet;

S 12(degrees) 15' 00" E a distance of 35.28 feet,  
N 58(degrees) 16' 00" E a distance of 124.74 feet to a point at the line  
dividing lands of said Armco, Inc. and lands now or formerly of U.C.B.

Federal Credit Union No. 14018;

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

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

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

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

Containing an area approximately 16.331 acres and

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

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

and

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



Universal Stainless & Alloy Products Sales Agreement

This AGREEMENT is made and entered into as of the 1/st/ day of July, 2001, by and between UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC., a Delaware corporation (hereinafter "Universal") and TALLEY METALS TECHNOLOGY, a Carpenter Company (hereinafter "Talley Metals").

WITNESSETH:  
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WHEREAS, Talley Metals desires to insure a supply of billets for use in its rolling and finishing operations; and

WHEREAS, Universal desires to sell billets and allocate a portion of its monthly capacity to manufacture billets on a continuing basis;

NOW, THEREFORE, Universal and Talley Metals the ("Parties" or separately "Party"), intending to be legally bound, in consideration of the premises and the mutual covenants and agreements contained herein, agree as follows:

- 1. BILLET QUANTITIES During the term of this Agreement, Universal shall  
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sell to Talley Metals and Talley Metals shall purchase from Universal, stainless steel billets (hereinafter the "Billets") in an aggregate quantity, of no less than two million (2,000,000) pounds and no more than six million (6,000,000) pounds per month. On an annual basis Talley Metals purchases from Universal will average two million five hundred thousand pounds (2,500,000) pounds per month.
- 2. RESERVED CAPACITY Universal will set aside such capacity as necessary  
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to produce the billet quantities as ordered during the first week in any month for a shipment in the subsequent month, according to the terms of this Agreement. Talley Metals will give as much advanced notice as possible if the order quantity will vary significantly from month to month. Reserved capacity is based on heat-lot quantities. If product is rejected by Universal during processing, the order will be considered complete based on the shipped weight.
- 3. BILLET SIZES AND SPECIFICATIONS The Billets shall be provided by  
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Universal in the sizes and grades requested by Talley Metals' purchase orders and "Stainless grades" regularly produced by Universal and requested in accordance with the specifications set forth by Talley Metals and previously approved by Universal. The Billets shall be square, with rounded corners, in thickness of four and one-half (4.5") to eight (8") inches by ten (10") inches, and shall be delivered in such lengths as Talley Metals shall specify in its monthly purchase orders, but in no event shorter than twenty-two feet (22') or longer than forty feet (40').

Universal represents and warrants to Talley Metals that the Billets delivered by Universal pursuant to this Agreement have been produced in accordance with good mill practice with respect to dimensions, weight, straightness,

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section, composition and mechanical properties and has been inspected to assure Billets will meet all applicable standard industry specifications and all of the specifications set forth in this Agreement and Talley Metals purchase orders.

- 4. BILLET PRICES Pricing will be based on Universal's offering to Talley  
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metals dated 5/28/98 and 6/1/98. Exhibit "A" of this Agreement. Monthly adjustments to that offering will be made to address market changes in key raw material prices per existing formulas.

Any price changes, outside established formulas to adjust for raw material price fluctuation, must be negotiated in good faith and agreed to in writing by both parties prior to implementation and be consistent with market conditions and price changes then common in the industry.

5. BILLET ORDER; DELIVERY  
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- (a) Talley Metals will place orders in heat lot quantities specifying grade, billet size, and requested delivery on their standard purchase order form. Orders will be acknowledged by Universal on their standard acknowledgement form.
- (b) The parties acknowledge that this Agreement has been entered into with the intention that Universal shall retain the capacity needed to supply Talley Metals with its desired quantity of Billets. Universal must report all material changes in their plans, forecast, etc. for manufacturing Billets to Talley Metals as soon as such plans are known. Talley Metals will advise Universal of any change to monthly purchases or changes in usage by grade as soon as such information is available.
- (c) The prices and delivery for Billets ordered outside of the first week of any calendar month shall be as agreed upon by the parties at the time of order placement.
- (d) The Billet prices in all cases shall be exclusive of freight and insurance, the payment of which shall be solely Talley Metals' responsibility.

Billets are purchased F.O.B. Bridgeville, PA and Talley Metals accepts all risk of loss at that time. It is recognized that Billets are not accepted by Talley Metals until they have arrived at Talley metals and have been inspected to determine acceptability under quality standards specified in this Agreement.

- (e) Talley Metals guarantees the minimum order quantity of two million pounds (2,000,000) of Billet each month during the term of this Agreement.
- (f) Talley Metals purchase orders are placed upon the condition that Universal shall not assign it or any interest therein, including any payment due or to become due with respect thereto, and any assignment or any attempt to assign shall be void without Talley Metals prior written consent and that Talley Metals shall be entitled at all times, to setoff any

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undisputed amounts owing from Universal to Talley against any amount due or owing Universal with respect to this order.

6. PAYMENT. Talley Metals will pay to Universal the full invoiced amount  
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within forty-five (45) days of delivery of material.

7. TERM. The term of this Agreement shall commence on the date hereof and  
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continue for a period of eighteen (18) months. This Agreement will automatically renew each month with the placement of each separate order placed by Talley Metals unless and until notice not to renew is given in writing by either party.

Notwithstanding the foregoing Agreement is cancelable at any time after the expiration of the initial eighteen (18) month period upon the provision of 90 days prior written notice by either party. Either party may terminate the Agreement at any time in the event that the other party materially breaches its obligations as stated in this Agreement.

Either Party may terminate immediately upon the other Party declaring insolvency or bankruptcy.

8. FORCE MAJEURE. Both parties will make a good faith effort to perform  
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hereunder. Neither party, however, shall be liable for delay in performance or for failure to render any performance under this Agreement (and without in any way limiting the generality of the foregoing, any such delay or failure shall be excused) when such delay or failure is caused by governmental regulations (whether or not valid, fire, strike, war, flood, accident, epidemic, embargo, appropriation of plant or product, in whole or in part by Federal or State authority and any other cause or causes, whether of like or different nature, beyond the reasonable control of such party; provided, however that notwithstanding any provisions herein to the contrary, Talley Metals shall be entitled, in any such event, to purchase its required amounts in whole or in part from other vendors and, if necessary, to reduce its obligations hereunder in order to contract for such other supply requirements at such times that Universal cannot meet the supply requirements. Once events change allowing Universal to again supply Talley Metals, Talley Metals must do so in accordance with the terms and conditions set forth in this Agreement. Each party shall promptly notify the other of the occurrence (and the likelihoods of the occurrence) of any such event or condition and shall keep the other party fully informed of all relevant information. In the event Talley Metals purchases billets from another source under circumstances where Universal cannot or does supply the same, such purchases shall be counted for purposes of the purchase requirements and restriction set forth in this Agreement.
9. SUCCESSOR AND ASSIGNS. This Agreement shall be binding on and inure to  
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the benefit of the parties hereto and their respective successors and assigns.
10. GOVERNING LAW. This Agreement and the rights and obligations of the  
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parties hereunder shall be governed by and construed in accordance with the laws of Pennsylvania
11. CONFIDENTIALITY; DISCLOSURE. The parties hereby agree that they will  
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direct, and will use their best efforts to cause their directors, officers, employees, advisors and representatives of their advisors (collectively, the "Permitted Persons") to use the information in this Agreement solely for the purpose of evaluating and/or affecting the purchase and sale of Billets and that such information will be kept confidential by the parties and their Permitted Persons (it being understood and agreed that the efforts used to keep such request for information confidential shall not be less than the efforts currently used to keep non-public information about themselves confidential); provided, however, that any disclosure of such information may be made to which both parties consent in writing prior to the disclosure of such request. Notwithstanding the foregoing, either party hereto will be permitted to make disclosures required by law.
- The parties also hereby agree that all designs, drawings, patterns or customer chemistries provided by or on behalf of Talley Metals to Universal or information or material regarding or relating to Talley Metals' customers shall be deemed "Confidential Information" of Talley Metals whether or not such information is marked confidential.
12. ENTIRE AGREEMENT; NO ORAL MODIFICATION. This Agreement represents the  
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entire agreement of the parties with respect to the subject matter hereof, and all prior agreements, whether oral or written, are revoked and superseded by this Agreement. No representation, warranty, inducement or oral agreements have been made or relied upon by either party except as expressly stated herein. This Agreement may not be changed, modified, altered or amended in any way except in writing signed by both parties. Any attempt at oral modification shall be void and of no force or effect.
13. HEADINGS; CONSTRUCTION. The Articles and Section headings contained

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 in this Agreement are for reference purposes only and will not affect in any way the meaning or interpretation of this Agreement. Unless the context clearly otherwise requires, the words "hereby", "hereof", "herein", "hereto", "hereunder", and "hereinafter" and any similar term used in this Agreement refers to this Agreement as a whole and not merely the subsection or section in which such terms are used.

14. COUNTERPARTS. This Agreement may be executed in counterparts, each of -----  
 which shall be deemed an original, but both of which shall be deemed one and the same Agreement.
15. SEVERABILITY. The parties agree that should any part or portion of -----  
 this Agreement be found to be unenforceable, that the remainder of this Agreement be enforced, to the extent that it is legal and practicable to do so.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

Universal Stainless & Alloy Products  
 Inc., a Delaware Corporation

Talley Metals Technology,  
 A Carpenter Company

By: \_\_\_\_\_

By: \_\_\_\_\_

Its: \_\_\_\_\_

Its: \_\_\_\_\_

Carpenter Technology Corporation

By: \_\_\_\_\_

Its: \_\_\_\_\_

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EXHIBIT A

May 28, 1998

TO: Bruce Bogardus  
 Talley Metals

FROM: Mac McAninch

Stainless billet prices for JULY delivery.

GRADE	% NICKEL	BASE	CURRENT	PRICE DEDUCT	SELLING PRICE
155-00	4.5%	1.159	1.062	0.100	0.962
17-4	4.2%	0.740	0.650	0.050	0.600
203EZ	6.0%	0.778	0.649	0.050	0.599
302	8.5%	0.768	0.585	0.050	0.535
302-02	9.0%	0.796	0.603	0.050	0.553
302-03	9.7%	0.885	0.677	0.050	0.627
302-04	8.5%	0.776	0.593	0.050	0.543
302-05	8.5%	0.787	0.604	0.050	0.554
303	8.5%	0.778	0.595	0.050	0.545
304	8.5%	0.768	0.585	0.050	0.535
304-02	8.5%	0.783	0.600	0.050	0.550
304-03	9.0%	0.798	0.605	0.050	0.555

304-04	9.2%	0.816	0.618	0.050	0.568
304-05	8.7%	0.828	0.641	0.050	0.591
304L	8.5%	0.778	0.595	0.050	0.545
304L3+CAL	8.7%	0.800	0.613	0.050	0.563
305	11.1%	0.970	0.731	0.050	0.681
316	10.5%	0.920	0.694	0.020	0.674
316L	10.5%	0.930	0.704	0.020	0.684
316L3+CAL	10.7%	0.950	0.720	0.020	0.700
321	9.5%	0.979	0.775	0.050	0.725
347	9.5%	1.069	0.865	0.050	0.815
409-00	0.0%	0.415	0.415	0.000	0.415
409-01	0.0%	0.420	0.420	0.000	0.420
409-02	0.0%	0.425	0.425	0.000	0.425
410	0.0%	0.420	0.420	0.000	0.420
416-00	0.0%	0.425	0.425	0.025	0.400
416-01	0.0%	0.450	0.450	0.025	0.425
416-02	0.0%	0.450	0.450	0.025	0.425
416-03	0.0%	0.450	0.450	0.025	0.425

Above prices are based on previous 20 day average Nickel price of \$2.316/lb.

EXHIBIT A

June 1, 1998

TO: Bruce Bogardus  
Talley Metals

FROM: Mac McAninch

SUBJECT: Wire rod grade pricing for July delivery

GRADE	% NICKEL	BASE	CURRENT
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302-01	8.15%	0.735	.577/lb
302-06	8.25%	0.745	0.585
302-07	8.15%	0.719	0.567
302-08	8.50%	0.739	0.565
304-01	9.20%	0.777	0.589
304-06	10.00%	0.795	0.585
304-07	8.50%	0.755	0.581
304L1	9.20%	0.766	0.576
304L2	10.10%	0.810	0.612
316-01	11.00%	0.905	0.671
316L1	12.00%	0.935	0.700