

ALLEGHENY TECHNOLOGIES INC

Form 10-Q

August 05, 2013

[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the Quarterly Period Ended June 30, 2013

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 1-12001

**ALLEGHENY TECHNOLOGIES INCORPORATED**

(Exact name of registrant as specified in its charter)

Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 10-Q

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**25-1792394**  
(I.R.S. Employer  
Identification No.)

**1000 Six PPG Place**  
**Pittsburgh, Pennsylvania**  
(Address of Principal Executive Offices)

**15222-5479**  
(Zip Code)

**(412) 394-2800**

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

At July 31, 2013, the registrant had outstanding 107,954,571 shares of its Common Stock.

**Table of Contents**

ALLEGHENY TECHNOLOGIES INCORPORATED

SEC FORM 10-Q

Quarter Ended June 30, 2013

INDEX

	Page No.
<b><u>PART I. - FINANCIAL INFORMATION</u></b>	
<b><u>Item 1. Financial Statements</u></b>	
<u>Consolidated Balance Sheets</u>	1
<u>Consolidated Statements of Income</u>	2
<u>Consolidated Statements of Comprehensive Income</u>	3
<u>Consolidated Statements of Cash Flows</u>	4
<u>Statements of Changes in Consolidated Equity</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
<b><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	24
<b><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	40
<b><u>Item 4. Controls and Procedures</u></b>	41
<b><u>PART II. - OTHER INFORMATION</u></b>	
<b><u>Item 1. Legal Proceedings</u></b>	41
<b><u>Item 1A. Risk Factors</u></b>	42
<b><u>Item 6. Exhibits</u></b>	42
<b><u>SIGNATURES</u></b>	43
<b><u>EXHIBIT INDEX</u></b>	44

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****Allegheny Technologies Incorporated and Subsidiaries****Consolidated Balance Sheets***(In millions, except share and per share amounts)**(Current period unaudited)*

	June 30, 2013	December 31, 2012
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 74.1	\$ 304.6
Accounts receivable, net of allowances for doubtful accounts of \$5.8 and \$5.5 as of June 30, 2013 and December 31, 2012	655.5	613.3
Inventories, net	1,504.9	1,536.6
Prepaid expenses and other current assets	97.3	56.1
<b>Total Current Assets</b>	<b>2,331.8</b>	<b>2,510.6</b>
Property, plant and equipment, net	2,692.4	2,559.9
Cost in excess of net assets acquired	737.0	740.1
Deferred income taxes		71.5
Other assets	358.4	365.7
<b>Total Assets</b>	<b>\$ 6,119.6</b>	<b>\$ 6,247.8</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 445.6	\$ 499.9
Accrued liabilities	293.1	330.5
Deferred income taxes	27.6	24.0
Short term debt and current portion of long-term debt	420.3	17.1
<b>Total Current Liabilities</b>	<b>1,186.6</b>	<b>871.5</b>
Long-term debt	1,053.6	1,463.0
Accrued postretirement benefits	480.0	495.2
Pension liabilities	707.8	721.1
Deferred income taxes	4.2	
Other long-term liabilities	100.5	109.9
<b>Total Liabilities</b>	<b>3,532.7</b>	<b>3,660.7</b>
<b>Equity:</b>		
<b>ATI Stockholders Equity:</b>		
Preferred stock, par value \$0.10: authorized-50,000,000 shares; issued-none		
Common stock, par value \$0.10: authorized-500,000,000 shares; issued-109,695,171 shares at June 30, 2013 and December 31, 2012; outstanding- 108,000,543 shares at June 30, 2013 and 107,398,963 shares at December 31, 2012	11.0	11.0
Additional paid-in capital	1,175.1	1,181.7

Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 10-Q

Retained earnings	2,389.1	2,427.6
Treasury stock: 1,694,628 shares at June 30, 2013 and 2,296,208 shares at December 31, 2012	(79.2)	(111.3)
Accumulated other comprehensive loss, net of tax	(1,004.8)	(1,029.4)
<b>Total ATI stockholders equity</b>	<b>2,491.2</b>	<b>2,479.6</b>
<b>Noncontrolling interests</b>	<b>95.7</b>	<b>107.5</b>
<b>Total Equity</b>	<b>2,586.9</b>	<b>2,587.1</b>
<b>Total Liabilities and Equity</b>	<b>\$ 6,119.6</b>	<b>\$ 6,247.8</b>

The accompanying notes are an integral part of these statements.

**Table of Contents****Allegheny Technologies Incorporated and Subsidiaries****Consolidated Statements of Income***(In millions, except per share amounts)**(Unaudited)*

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Sales</b>	<b>\$ 1,135.5</b>	<b>\$ 1,357.4</b>	<b>\$ 2,314.9</b>	<b>\$ 2,709.9</b>
Costs and expenses:				
Cost of sales	1,031.7	1,158.5	2,096.8	2,304.0
Selling and administrative expenses	82.1	90.7	167.8	194.1
Income before interest, other income and income taxes	21.7	108.2	50.3	211.8
Interest expense, net	(13.9)	(18.6)	(28.3)	(38.5)
Other income (expense), net	(0.1)	0.1	1.0	0.5
Income before income tax provision	7.7	89.7	23.0	173.8
Income tax provision	1.1	31.0	4.8	56.8
<b>Net income</b>	<b>6.6</b>	<b>58.7</b>	<b>18.2</b>	<b>117.0</b>
Less: Net income attributable to noncontrolling interests	2.2	2.3	3.8	4.4
<b>Net income attributable to ATI</b>	<b>\$ 4.4</b>	<b>\$ 56.4</b>	<b>\$ 14.4</b>	<b>\$ 112.6</b>
<b>Basic net income attributable to ATI per common share</b>	<b>\$ 0.04</b>	<b>\$ 0.53</b>	<b>\$ 0.13</b>	<b>\$ 1.06</b>
<b>Diluted net income attributable to ATI per common share</b>	<b>\$ 0.04</b>	<b>\$ 0.50</b>	<b>\$ 0.13</b>	<b>\$ 1.00</b>
<b>Dividends declared per common share</b>	<b>\$ 0.18</b>	<b>\$ 0.18</b>	<b>\$ 0.36</b>	<b>\$ 0.36</b>

The accompanying notes are an integral part of these statements.

**Table of Contents****Allegheny Technologies Incorporated and Subsidiaries****Consolidated Statements of Comprehensive Income***(In millions)**(Unaudited)*

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Net income</b>	<b>\$ 6.6</b>	<b>\$ 58.7</b>	<b>\$ 18.2</b>	<b>\$ 117.0</b>
Currency translation adjustment				
Unrealized net change arising during the period	4.5	(14.6)	(8.5)	(5.2)
Unrealized holding gain (loss) on securities				
Net gain (loss) arising during the period	(0.1)			0.1
Derivatives				
Net derivatives gain (loss) on hedge transactions	(16.0)	15.9	(2.9)	(2.3)
Reclassification to net income of net realized gain	0.5	0.4	1.2	2.9
Income taxes on derivative transactions	(6.1)	6.2	(0.7)	0.2
Total	(9.4)	10.1	(1.0)	0.4
Postretirement benefit plans				
Amortization of net actuarial loss	33.5	30.0	67.0	59.9
Prior service cost				
Amortization to net income of net prior service cost (credits)	(3.8)	(3.0)	(7.6)	(5.9)
Income taxes on postretirement benefit plans	11.4	10.4	22.9	20.7
Total	18.3	16.6	36.5	33.3
Other comprehensive income, net of tax	13.3	12.1	27.0	28.6
<b>Comprehensive income</b>	<b>19.9</b>	<b>70.8</b>	<b>45.2</b>	<b>145.6</b>
Less: Comprehensive income attributable to noncontrolling interests	4.1	1.1	6.2	3.8
<b>Comprehensive income attributable to ATI</b>	<b>\$ 15.8</b>	<b>\$ 69.7</b>	<b>\$ 39.0</b>	<b>\$ 141.8</b>

**Table of Contents****Allegheny Technologies Incorporated and Subsidiaries****Consolidated Statements of Cash Flows***(In millions)**(Unaudited)*

	<b>Six Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>Operating Activities:</b>		
Net income	\$ 18.2	\$ 117.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	96.9	96.2
Deferred taxes	57.1	(17.6)
Changes in operating asset and liabilities:		
Inventories	31.6	(128.3)
Accounts receivable	(42.2)	(35.1)
Accounts payable	(54.2)	(39.0)
Retirement benefits	32.3	26.8
Accrued income taxes	(53.9)	12.2
Accrued liabilities and other	(27.8)	27.6
<b>Cash provided by operating activities</b>	<b>58.0</b>	<b>59.8</b>
<b>Investing Activities:</b>		
Purchases of property, plant and equipment	(223.7)	(165.7)
Asset disposals and other	0.5	0.9
<b>Cash used in investing activities</b>	<b>(223.2)</b>	<b>(164.8)</b>
<b>Financing Activities:</b>		
Payments on long-term debt and capital leases	(5.9)	(5.8)
Net borrowings under credit facilities	0.6	0.3
Dividends paid to stockholders	(38.4)	(38.2)
Dividends paid to noncontrolling interests	(18.0)	
Taxes on share-based compensation	2.6	1.0
Exercises of stock options and other	0.4	0.7
Shares repurchased for income tax withholding on share-based compensation	(6.6)	(23.3)
<b>Cash used in financing activities</b>	<b>(65.3)</b>	<b>(65.3)</b>
<b>Decrease in cash and cash equivalents</b>	<b>(230.5)</b>	<b>(170.3)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>304.6</b>	<b>380.6</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 74.1</b>	<b>\$ 210.3</b>

The accompanying notes are an integral part of these statements.



**Table of Contents****Allegheny Technologies Incorporated and Subsidiaries****Statements of Changes in Consolidated Equity***(In millions, except per share amounts)**(Unaudited)*

	ATI Stockholders				Accumulated	Non-	Total
	Common	Additional	Retained	Treasury	Other	controlling	Equity
	Stock	Paid-In	Earnings	Stock	Income (Loss)	Interests	Equity
	Common	Capital	Earnings	Stock	Income (Loss)	Interests	Equity
Balance, December 31, 2011	\$ 11.0	\$ 1,207.1	\$ 2,361.5	\$ (162.7)	\$ (941.6)	\$ 96.3	\$ 2,571.6
<b>Net income</b>			<b>112.6</b>			<b>4.4</b>	<b>117.0</b>
Other comprehensive income/(loss)					29.2	(0.6)	28.6
Cash dividends on common stock (\$0.36 per share)			(38.2)				(38.2)
Purchase of subsidiary shares from noncontrolling interest						(0.1)	(0.1)
Employee stock plans		(37.4)	(6.1)	40.1			(3.4)
<b>Balance, June 30, 2012</b>	<b>\$ 11.0</b>	<b>\$ 1,169.7</b>	<b>\$ 2,429.8</b>	<b>\$ (122.6)</b>	<b>\$ (912.4)</b>	<b>\$ 100.0</b>	<b>\$ 2,675.5</b>
Balance, December 31, 2012	\$ 11.0	\$ 1,181.7	\$ 2,427.6	\$ (111.3)	\$ (1,029.4)	\$ 107.5	\$ 2,587.1
<b>Net income</b>			<b>14.4</b>			<b>3.8</b>	<b>18.2</b>
Other comprehensive income					24.6	2.4	27.0
Cash dividends on common stock (\$0.36 per share)			(38.4)				(38.4)
Dividends paid to noncontrolling interest						(18.0)	(18.0)
Employee stock plans		(6.6)	(14.5)	32.1			11.0
<b>Balance, June 30, 2013</b>	<b>\$ 11.0</b>	<b>\$ 1,175.1</b>	<b>\$ 2,389.1</b>	<b>\$ (79.2)</b>	<b>\$ (1,004.8)</b>	<b>\$ 95.7</b>	<b>\$ 2,586.9</b>

The accompanying notes are an integral part of these statements.

---

**Table of Contents**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Unaudited

**Note 1. Accounting Policies**

The interim consolidated financial statements include the accounts of Allegheny Technologies Incorporated and its subsidiaries. Unless the context requires otherwise, Allegheny Technologies, ATI and the Company refer to Allegheny Technologies Incorporated and its subsidiaries.

These unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and note disclosures required by U.S. generally accepted accounting principles for complete financial statements. In management's opinion, all adjustments (which include only normal recurring adjustments) considered necessary for a fair presentation have been included. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2012 Annual Report on Form 10-K. The results of operations for these interim periods are not necessarily indicative of the operating results for any future period. The December 31, 2012 financial information has been derived from the Company's audited financial statements.

**New Accounting Pronouncements Adopted**

In January 2013, the Company adopted changes issued by the Financial Accounting Standards Board (FASB) to the disclosure of offsetting assets and liabilities. These changes require an entity to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. The enhanced disclosures will enable users of an entity's financial statements to understand and evaluate the effect or potential effect of master netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments. Other than the additional disclosure requirements, the adoption of these changes had no impact on the consolidated financial statements.

In January 2013, the Company adopted changes issued by the FASB to the reporting of amounts reclassified out of accumulated other comprehensive income. These changes require an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required to be reclassified in its entirety to net income. For other amounts that are not required to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures that provide additional detail about those amounts. These requirements are to be applied to each component of accumulated other comprehensive income. Other than the additional disclosure requirements (see Note 12), the adoption of these changes had no impact on the consolidated financial statements.

**Pending Accounting Pronouncements**

In February 2013, the FASB issued changes to the accounting for obligations resulting from joint and several liability arrangements. This guidance requires an entity that is joint and severally liable to measure the obligation as the sum of the amount the entity has agreed with co-obligors to pay and any additional amount it expects to pay on behalf of one or more co-obligors. Required disclosures include a description of the nature of the arrangement, how the liability arose, the relationship with co-obligors and the terms and conditions of the arrangement. These changes become effective for the Company in fiscal year 2014. The Company does not anticipate a material impact to the consolidated financial statements upon adoption.

In March 2013, the FASB issued changes to a parent entity's accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. The amendments specify that a cumulative translation adjustment (CTA) should be released into earnings when an entity ceases to have a controlling financial interest in a subsidiary or group of assets within a consolidated foreign entity and the sale or transfer results in the complete or substantially complete liquidation of the foreign entity. For sales of an equity method investment that is a foreign entity, a pro rata portion of CTA attributable to the investment would be recognized in earnings when the investment is sold. When an entity sells either a part or all of its investment in a consolidated foreign entity, CTA would be recognized in earnings only if the sale results in the parent no longer having a controlling financial interest in the foreign entity. In addition, CTA should be recognized in earnings in a business combination achieved in stages (i.e., a step acquisition). These changes become effective for the Company in fiscal year 2014. The Company does not anticipate a material impact to the consolidated financial statements upon adoption.



**Table of Contents****Note 2. Inventories**

Inventories at June 30, 2013 and December 31, 2012 were as follows (in millions):

	June 30, 2013	December 31, 2012
Raw materials and supplies	\$ 359.8	\$ 351.6
Work-in-process	1,026.7	1,063.9
Finished goods	195.2	209.0
Total inventories at current cost	1,581.7	1,624.5
Less allowances to reduce current cost values to LIFO basis	(50.1)	(76.9)
Progress payments	(26.7)	(11.0)
Total inventories, net	\$ 1,504.9	\$ 1,536.6

Inventories are stated at the lower of cost (last-in, first-out ( LIFO ), first-in, first-out ( FIFO ), and average cost methods) or market, less progress payments. Most of the Company's inventory is valued utilizing the LIFO costing methodology. Inventory of the Company's non-U.S. operations is valued using average cost or FIFO methods. The effect of using the LIFO methodology to value inventory, rather than FIFO, decreased cost of sales by \$26.8 million for the first six months of 2013 compared to a decrease of \$7.1 million for the first six months of 2012.

**Note 3. Property, Plant and Equipment**

Property, plant and equipment at June 30, 2013 and December 31, 2012 was as follows (in millions):

	June 30, 2013	December 31, 2012
Land	\$ 34.1	\$ 34.4
Buildings	970.8	921.0
Equipment and leasehold improvements	3,478.9	3,344.4
	4,483.8	4,299.8
Accumulated depreciation and amortization	(1,791.4)	(1,739.9)
Total property, plant and equipment, net	\$ 2,692.4	\$ 2,559.9

The construction in progress portion of property, plant and equipment at June 30, 2013 was \$743.5 million.

**Table of Contents****Note 4. Debt**

Debt at June 30, 2013 and December 31, 2012 was as follows (in millions):

	June 30, 2013	December 31, 2012
Allegheny Technologies 5.95% Notes due 2021	\$ 500.0	\$ 500.0
Allegheny Technologies 4.25% Convertible Notes due 2014	402.5	402.5
Allegheny Technologies 9.375% Notes due 2019	350.0	350.0
Allegheny Ludlum 6.95% debentures due 2025	150.0	150.0
ATI Ladish Series B 6.14% Notes due 2016 (a)	18.6	24.8
ATI Ladish Series C 6.41% Notes due 2015 (b)	31.7	32.5
Domestic Bank Group \$400 million unsecured credit facility		
Foreign credit facilities	14.5	14.2
Industrial revenue bonds, due through 2020, and other	6.6	6.1
Total short-term and long-term debt	1,473.9	1,480.1
Short-term debt and current portion of long-term debt	420.3	17.1
Total long-term debt	\$ 1,053.6	\$ 1,463.0

(a) Includes fair value adjustments of \$1.4 million at June 30, 2013 and \$1.9 million at December 31, 2012.

(b) Includes fair value adjustments of \$1.7 million at June 30, 2013 and \$2.5 million at December 31, 2012.

In May 2013, the Company amended its \$400 million senior unsecured domestic revolving credit facility to, among other things, extend the expiration date of the commitments of the lenders thereunder to May 31, 2018 and to modify the maximum leverage ratio permitted under the facility. Under the terms of the facility, the Company may increase the size of the credit facility by up to \$100 million without seeking the further approval of the lending group. As amended, the facility requires the Company to maintain a leverage ratio (consolidated total indebtedness divided by consolidated earnings before interest, taxes and depreciation and amortization for the four prior fiscal quarters) of not greater than 4.0 beginning with the quarter ended June 30, 2013. The maximum leverage ratio is reduced to 3.75 beginning with the quarter ended March 31, 2015 and further reduced to 3.50 beginning with the quarter ended June 30, 2015 and for each fiscal quarter thereafter. The credit facility continues to require that the company maintain an interest coverage ratio (consolidated earnings before interest and taxes divided by interest expense) of not less than 2.0. At June 30, 2013, the leverage ratio was 3.29 and the interest coverage ratio was 4.09. The definition of consolidated earnings before interest and taxes, and consolidated earnings before interest, taxes, depreciation and amortization as used in the interest coverage and leverage ratios excludes any non-cash pension expense or income, and consolidated indebtedness in the leverage ratio is net of cash on hand in excess of \$50 million. The Company was in compliance with these required ratios during all applicable periods. As of June 30, 2013, there were no outstanding borrowings made against the facility, although a portion of the facility was used to support approximately \$4 million in letters of credit. The facility includes a \$200 million sublimit for the issuance of letters of credit.

The Company has an additional separate credit facility for the issuance of letters of credit. As of June 30, 2013, \$32 million in letters of credit were outstanding under this facility.

In addition, Shanghai STAL Precision Stainless Steel Company Limited (STAL), the Company's Chinese joint venture company in which ATI has a 60% interest, has a 205 million renminbi (approximately \$33 million at June 30, 2013 exchange rates) revolving credit facility with a group of banks, which expires in August 2014. This credit facility is supported solely by STAL's financial capability without any guarantees from the joint venture partners. As of June 30, 2013, there were no borrowings under this credit facility.

The ATI Ladish Series B and Series C Notes are guaranteed by ATI and are equally ranked with all of ATI's existing and future senior unsecured debt.

## **Table of Contents**

### **Note 5. Derivative Financial Instruments and Hedging**

As part of its risk management strategy, the Company, from time-to-time, utilizes derivative financial instruments to manage its exposure to changes in raw material prices, energy costs, foreign currencies, and interest rates. In accordance with applicable accounting standards, the Company accounts for most of these contracts as hedges. In general, hedge effectiveness is determined by examining the relationship between offsetting changes in fair value or cash flows attributable to the item being hedged, and the financial instrument being used for the hedge. Effectiveness is measured utilizing regression analysis and other techniques to determine whether the change in the fair market value or cash flows of the derivative exceeds the change in fair value or cash flow of the hedged item. Calculated ineffectiveness, if any, is immediately recognized in the consolidated statements of income.

The Company sometimes uses futures and swap contracts to manage exposure to changes in prices for forecasted purchases of raw materials, such as nickel and natural gas. Under these contracts, which are generally accounted for as cash flow hedges, the price of the item being hedged is fixed at the time that the contract is entered into and the Company is obligated to make or receive a payment equal to the net change between this fixed price and the market price at the date the contract matures.

The majority of ATI's products are sold utilizing raw material surcharges and index mechanisms. However, as of June 30, 2013, the Company had entered into financial hedging arrangements primarily at the request of its customers, related to firm orders, for an aggregate notional amount of approximately 10% of its estimated annual nickel requirements. These nickel hedges extend to 2016.

At June 30, 2013, the outstanding financial derivatives used to hedge the Company's exposure to energy cost volatility included natural gas cost hedges for approximately 65% of its annual forecasted domestic requirements for 2013, approximately 50% for 2014, and approximately 5% for 2015, and electricity hedges for Western Pennsylvania operations of approximately 10% of its forecasted on-peak and off-peak requirements for 2014.

While the majority of the Company's direct export sales are transacted in U.S. dollars, foreign currency exchange contracts are used, from time-to-time, to limit transactional exposure to changes in currency exchange rates for those transactions denominated in a non-U.S. currency. The Company sometimes purchases foreign currency forward contracts that permit it to sell specified amounts of foreign currencies expected to be received from its export sales for pre-established U.S. dollar amounts at specified dates. The forward contracts are denominated in the same foreign currencies in which export sales are denominated. These contracts are designated as hedges of the variability in cash flows of a portion of the forecasted future export sales transactions which otherwise would expose the Company to foreign currency risk. The Company may also enter into foreign currency forward contracts that are not designated as hedges, which are denominated in the same foreign currency in which export sales are denominated. At June 30, 2013, the outstanding financial derivatives, including both hedges and undesignated derivatives, that are used to manage the Company's exposure to foreign currency, primarily euros, represented approximately 10% of its forecasted total international sales through 2016. In addition, the Company may also designate cash balances held in foreign currencies as hedges of forecasted foreign currency transactions.

The Company may enter into derivative interest rate contracts to maintain a reasonable balance between fixed- and floating-rate debt. There were no unsettled derivative financial instruments related to debt balances for the periods presented.

There are no credit risk-related contingent features in the Company's derivative contracts, and the contracts contained no provisions under which the Company has posted, or would be required to post, collateral. The counterparties to the Company's derivative contracts are substantial and creditworthy commercial banks that are recognized market makers. The Company controls its credit exposure by diversifying across multiple counterparties and by monitoring credit ratings and credit default swap spreads of its counterparties. The Company also enters into master netting agreements with counterparties when possible.

The fair values of the Company's derivative financial instruments are presented below, representing the gross amounts recognized which are not offset by counterparty or by type of item hedged. All fair values for these derivatives were measured using Level 2 information as defined by the accounting standard hierarchy, which includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs derived principally from or corroborated by observable market data.

**Table of Contents**

(in millions):		June 30,	December 31,
Asset derivatives	Balance sheet location	2013	2012
<b>Derivatives designated as hedging instruments:</b>			
Foreign exchange contracts	Prepaid expenses and other current assets	\$ 5.0	\$ 2.9
Nickel and other raw material contracts	Prepaid expenses and other current assets		0.6
Natural gas contracts	Prepaid expenses and other current assets	0.2	0.4
Foreign exchange contracts	Other assets	5.5	0.9
Nickel and other raw material contracts	Other assets		0.3
Natural gas contracts	Other assets	0.1	0.7
Total derivatives designated as hedging instruments:		10.8	5.8
<b>Derivatives not designated as hedging instruments:</b>			
Foreign exchange contracts	Prepaid expenses and other current assets	0.2	0.4
Total derivatives not designated as hedging instruments:		0.2	0.4
Total asset derivatives		\$ 11.0	\$ 6.2
Liability derivatives	Balance sheet location		
<b>Derivatives designated as hedging instruments:</b>			
Natural gas contracts	Accrued liabilities	\$ 2.9	\$ 4.4
Nickel and other raw material contracts	Accrued liabilities	11.2	1.1
Foreign exchange contracts	Accrued liabilities		1.7
Electricity contracts	Accrued liabilities	0.2	0.3
Natural gas contracts	Other long-term liabilities	0.5	0.6
Electricity contracts	Other long-term liabilities	0.2	0.4
Foreign exchange contracts	Other long-term liabilities		1.4
Nickel and other raw material contracts	Other long-term liabilities	1.9	0.3
Total derivatives designated as hedging instruments:		16.9	10.2
<b>Derivatives not designated as hedging instruments:</b>			
Foreign exchange contracts	Accrued liabilities	0.7	1.6
Total derivatives not designated as hedging instruments:		0.7	1.6
Total liability derivatives		\$ 17.6	\$ 11.8

For derivative financial instruments that are designated as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income (OCI) and reclassified into earnings in the same period or periods during which the hedged item affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current period results. The Company did not use fair value or net investment hedges for the periods presented. The effects of derivative instruments in the tables below are presented net of related income taxes.

**Table of Contents**

Activity with regard to derivatives designated as cash flow hedges for the three and six month periods ended June 30, 2013 and 2012 was as follows (in millions):

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on		Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (a)		Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) (b)	
	Derivatives (Effective Portion) Three months ended June 30,		Three months ended June 30,		Three months ended June 30,	
	2013	2012	2013	2012	2013	2012
Nickel and other raw material contracts	\$ (7.4)	\$ (3.1)	\$ (1.1)	\$ (0.7)	\$	\$
Natural gas contracts	(1.9)	1.2	0.1	(2.4)		
Electricity contracts	(0.1)	(0.1)		(0.4)		
Foreign exchange contracts	(0.4)	11.8	0.6	3.2		
<b>Total</b>	<b>\$ (9.8)</b>	<b>\$ 9.8</b>	<b>\$ (0.4)</b>	<b>\$ (0.3)</b>	<b>\$</b>	<b>\$</b>

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivatives		Amount of Gain (Loss) Reclassified from Accumulated OCI into Income		Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) (b)	
	(Effective Portion) Six Months Ended June 30,		(Effective Portion) (a) Six Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012	2013	2012
Nickel and other raw material contracts	\$ (8.8)	\$ (4.7)	\$ (1.0)	\$ (0.8)	\$	\$
Natural gas contracts	(0.3)	(3.3)	(0.9)	(5.0)		
Electricity contracts		(1.1)	(0.2)	(1.1)		
Foreign exchange contracts	7.3	7.7	1.3	5.1		
<b>Total</b>	<b>\$ (1.8)</b>	<b>\$ (1.4)</b>	<b>\$ (0.8)</b>	<b>\$ (1.8)</b>	<b>\$</b>	<b>\$</b>

(a) The gains (losses) reclassified from accumulated OCI into income related to the effective portion of the derivatives are presented in cost of sales in the same period or periods in which the hedged item affects earnings.

(b) The gains (losses) recognized in income on derivatives related to the ineffective portion and the amount excluded from effectiveness testing are presented in selling and administrative expenses.

Assuming market prices remain constant with those at June 30, 2013, a loss of \$5.6 million is expected to be recognized over the next 12 months.

The disclosures of gains or losses presented above for nickel and other raw material contracts and foreign currency contracts do not take into account the anticipated underlying transactions. Since these derivative contracts represent hedges, the net effect of any gain or loss on results of operations may be fully or partially offset.





**Table of Contents**

Derivatives that are not designated as hedging instruments were as follows:

<i>In millions</i>	Amount of Gain (Loss) Recognized in Income on Derivatives			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Derivatives Not Designated as Hedging Instruments				
Foreign exchange contracts	\$ (0.4)	\$ 1.3	\$ 0.4	\$ (0.1)

Changes in the fair value of foreign exchange contract derivatives not designated as hedging instruments are recorded in cost of sales.

**Note 6. Fair Value of Financial Instruments**

The estimated fair value of financial instruments at June 30, 2013 was as follows:

<i>(In millions)</i>	Total Carrying Amount	Total Estimated Fair Value	Fair Value Measurements at Reporting Date Using	
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)
Cash and cash equivalents	\$ 74.1	\$ 74.1	\$ 74.1	\$
Derivative financial instruments:				
Assets	11.0	11.0		11.0
Liabilities	17.6	17.6		17.6
Debt	1,473.9	1,613.1	1,541.7	71.4

The estimated fair value of financial instruments at December 31, 2012 was as follows:

<i>(In millions)</i>	Total Carrying Amount	Total Estimated Fair Value	Fair Value Measurements at Reporting Date Using	
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)
Cash and cash equivalents	\$ 304.6	\$ 304.6	\$ 304.6	\$
Derivative financial instruments:				
Assets	6.2	6.2		6.2
Liabilities	11.8	11.8		11.8
Debt	1,480.1	1,703.2	1,625.6	77.6

In accordance with accounting standards, fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Accounting standards established three levels of a fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

## Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 10-Q

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

**Table of Contents**

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

Cash and cash equivalents: Fair value was determined using Level 1 information.

Derivative financial instruments: Fair values for derivatives were measured using exchange-traded prices for the hedged items. The fair value was determined using Level 2 information, including consideration of counterparty risk and the Company's credit risk.

Short-term and long-term debt: The fair values of the Company's publicly traded debt were based on Level 1 information. The fair values of the other short-term and long-term debt were determined using Level 2 information.

**Note 7. Pension Plans and Other Postretirement Benefits**

The Company has defined benefit pension plans and defined contribution plans covering substantially all employees. Benefits under the defined benefit pension plans are generally based on years of service and/or final average pay. The Company funds the U.S. pension plans in accordance with the Employee Retirement Income Security Act of 1974, as amended, and the Internal Revenue Code.

The Company also sponsors several postretirement plans covering certain salaried and hourly employees. The plans provide health care and life insurance benefits for eligible retirees. In most plans, Company contributions towards premiums are capped based on the cost as of a certain date, thereby creating a defined contribution. For the non-collectively bargained plans, the Company maintains the right to amend or terminate the plans at its discretion.

For the three month periods ended June 30, 2013 and 2012, the components of pension expense and components of other postretirement benefit expense for the Company's defined benefit plans included the following (in millions):

	Pension Benefits		Other Postretirement Benefits	
	Three Months Ended		Three Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Service cost - benefits earned during the year	\$ 10.0	\$ 8.7	\$ 0.8	\$ 0.8
Interest cost on benefits earned in prior years	30.3	33.1	5.6	6.5
Expected return on plan assets	(43.8)	(45.3)	(0.1)	(0.2)
Amortization of prior service cost (credit)	0.7	1.6	(4.5)	(4.6)
Amortization of net actuarial loss	29.2	26.3	4.3	3.7
Total retirement benefit expense	\$ 26.4	\$ 24.4	\$ 6.1	\$ 6.2

For the six month periods ended June 30, 2013 and 2012, the components of pension expense and components of other postretirement benefit expense for the Company's defined benefit plans included the following (in millions):

	Pension Benefits		Other Postretirement Benefits	
	Six Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Service cost - benefits earned during the year	\$ 20.0	\$ 17.5	\$ 1.6	\$ 1.6
Interest cost on benefits earned in prior years	60.6	66.2	11.2	13.0
Expected return on plan assets	(87.6)	(90.7)	(0.2)	(0.4)
Amortization of prior service cost (credit)	1.5	3.2	(9.1)	(9.1)
Amortization of net actuarial loss	58.4	52.6	8.6	7.3
Total retirement benefit expense	\$ 52.9	\$ 48.8	\$ 12.1	\$ 12.4



**Table of Contents****Note 8. Income Taxes**

Second quarter 2013 results included a provision for income taxes of \$1.1 million, or 14.3% of income before tax, compared to \$31.0 million, or 34.6% of income before tax, for the comparable period.

For the first half of 2013, the provision for income taxes was \$4.8 million, or 20.9% of income before tax, compared to \$56.8 million, or 32.7% of income before tax, for the first half of 2012. The first six months of 2013 included a discrete tax benefit of \$4.6 million, primarily associated with adjustments to prior years' taxes and 2013 Federal tax law changes. Excluding the discrete tax benefit, the annual effective tax rate for 2013 was 41.1%. The first six months of 2012 included a discrete tax benefit of \$3.4 million primarily related to state income taxes.

**Note 9. Business Segments**

Following is certain financial information with respect to the Company's business segments for the periods indicated (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<b>Total sales:</b>				
High Performance Metals	\$ 500.9	\$ 587.6	\$ 1,039.2	\$ 1,195.4
Flat-Rolled Products	556.6	665.5	1,119.2	1,308.8
Engineered Products	106.4	143.2	220.2	287.0
	1,163.9	1,396.3	2,378.6	2,791.2
<b>Intersegment sales:</b>				
High Performance Metals	16.4	21.4	36.3	47.9
Flat-Rolled Products	4.4	8.1	8.9	15.4
Engineered Products	7.6	9.4	18.5	18.0
	28.4	38.9	63.7	81.3
<b>Sales to external customers:</b>				
High Performance Metals	484.5	566.2	1,002.9	1,147.5
Flat-Rolled Products	552.2	657.4	1,110.3	1,293.4
Engineered Products	98.8	133.8	201.7	269.0
	\$ 1,135.5	\$ 1,357.4	\$ 2,314.9	\$ 2,709.9
<b>Operating profit:</b>				
High Performance Metals	\$ 67.2	\$ 102.2	\$ 142.5	\$ 206.3
Flat-Rolled Products	1.4	44.5	3.8	91.3
Engineered Products	3.1	13.2	3.7	25.5
Total operating profit	71.7	159.9	150.0	323.1
Corporate expenses	(11.9)	(15.8)	(24.3)	(37.5)
Interest expense, net	(13.9)	(18.6)	(28.3)	(38.5)
Closed company and other expenses	(5.7)	(5.2)	(9.4)	(12.1)
Retirement benefit expense	(32.5)	(30.6)	(65.0)	(61.2)
<b>Income before income taxes</b>	<b>\$ 7.7</b>	<b>\$ 89.7</b>	<b>\$ 23.0</b>	<b>\$ 173.8</b>

Retirement benefit expense represents defined benefit plan pension expense, and other postretirement benefit expense for both defined benefit and defined contribution plans. Operating profit with respect to the Company's business segments excludes any retirement benefit expense. Costs associated with multiemployer pension plans are included in segment operating profit, and costs associated with defined contribution pension plans are included in segment operating profit or corporate expenses, as applicable.



**Table of Contents**

Corporate expenses for the three months ended June 30, 2013 were \$11.9 million compared to \$15.8 million for the three months ended June 30, 2012. The decrease in corporate expenses was primarily related to lower incentive compensation expenses associated with annual and long-term performance plans.

Interest expense, net of interest income, in the second quarter was \$13.9 million, compared to net interest expense of \$18.6 million in the second quarter 2012. The decrease in interest expense was primarily due to increased capitalized interest on major strategic capital projects. Interest expense benefited from the capitalization of interest costs of \$10.6 million in the second quarter 2013 compared to \$5.6 million in the second quarter 2012. The increased capitalized interest amounts are primarily related to the Hot-Rolling and Processing Facility ( HRPF ).

Closed company and other expenses primarily includes charges incurred in connection with closed operations and other non-operating income or expense. These items are presented primarily in selling and administrative expenses and in other expense in the statement of operations. These items resulted in net charges of \$5.7 million for the three months ended June 30, 2013 and \$5.2 million for the three months ended June 30, 2012.

Retirement benefit expense, which includes pension expense and other postretirement expense, increased to \$32.5 million in the second quarter 2013, compared to \$30.6 million in the second quarter 2012. This increase was primarily due to the utilization of a lower discount rate to value retirement benefit obligations.

**Note 10. Per Share Information**

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

(in millions, except per share amounts):	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<b>Numerator for basic net income per common share -</b>				
Net income attributable to ATI	\$ 4.4	\$ 56.4	\$ 14.4	\$ 112.6
<b>Effect of dilutive securities:</b>				
4.25% Convertible Notes due 2014		2.1		4.4
<b>Numerator for diluted net income per common share -</b>				
Net income available to ATI after assumed conversions	\$ 4.4	\$ 58.5	\$ 14.4	\$ 117.0
<b>Denominator for basic net income per common share-weighted average shares</b>				
Effect of dilutive securities:				
Share-based compensation	0.4	0.9	0.4	0.9
4.25% Convertible Notes due 2014		9.6		9.6
<b>Denominator for diluted net income per common share adjusted weighted average shares assuming conversions</b>				
	107.2	116.6	107.1	116.5
Basic net income attributable to ATI per common share	\$ 0.04	\$ 0.53	\$ 0.13	\$ 1.06
Diluted net income attributable to ATI per common share	\$ 0.04	\$ 0.50	\$ 0.13	\$ 1.00

Common stock that would be issuable upon the assumed conversion of the 2014 Convertible Notes and other option equivalents and contingently issuable shares are excluded from the computation of contingently issuable shares, and therefore, from the denominator for diluted earnings per share, if the effect of inclusion is anti-dilutive. Excluded shares for the three and six month periods ended June 30, 2013 were 9.6 million shares. There were no anti-dilutive shares for the periods ended June 30, 2012.



**Table of Contents****Note 11. Financial Information for Subsidiary and Guarantor Parent**

The payment obligations under the \$150 million 6.95% debentures due 2025 issued by Allegheny Ludlum, LLC (formerly known as Allegheny Ludlum Corporation) (the *Subsidiary*) are fully and unconditionally guaranteed by Allegheny Technologies Incorporated (the *Guarantor Parent*). In accordance with positions established by the Securities and Exchange Commission, the following financial information sets forth separately financial information with respect to the Subsidiary, the non-guarantor subsidiaries and the Guarantor Parent. The principal elimination entries eliminate investments in subsidiaries and certain intercompany balances and transactions. Investments in subsidiaries, which are eliminated in consolidation, are included in other assets on the consolidated balance sheets.

Allegheny Technologies is the plan sponsor for the U.S. qualified defined benefit pension plan (the *Plan*) which covers certain current and former employees of the Subsidiary and the non-guarantor subsidiaries. As a result, the balance sheets presented for the Subsidiary and the non-guarantor subsidiaries do not include any Plan assets or liabilities, or the related deferred taxes. The Plan assets, liabilities and related deferred taxes and pension income or expense are recognized by the Guarantor Parent. Management and royalty fees charged to the Subsidiary and to the non-guarantor subsidiaries by the Guarantor Parent have been excluded solely for purposes of this presentation.

Cash flows related to intercompany activity between the Guarantor Parent, the Subsidiary, and the non-guarantor subsidiaries are presented as financing activities on the condensed statements of cash flows.

Allegheny Technologies Incorporated

Financial Information for Subsidiary and Guarantor Parent

Balance Sheets

June 30, 2013

<i>(In millions)</i>	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
<b>Assets:</b>					
Cash and cash equivalents	\$ 2.9	\$ 4.7	\$ 66.5	\$	\$ 74.1
Accounts receivable, net	0.2	209.8	445.5		655.5
Inventories, net		315.1	1,189.8		1,504.9
Prepaid expenses and other current assets	54.7	10.5	32.1		97.3
<b>Total current assets</b>	<b>57.8</b>	<b>540.1</b>	<b>1,733.9</b>		<b>2,331.8</b>
Property, plant and equipment, net	3.6	1,063.6	1,625.2		2,692.4
Cost in excess of net assets acquired		112.1	624.9		737.0
Investments in subsidiaries and other assets	5,575.0	207.9	853.4	(6,277.9)	358.4
<b>Total assets</b>	<b>\$ 5,636.4</b>	<b>\$ 1,923.7</b>	<b>\$ 4,837.4</b>	<b>\$ (6,277.9)</b>	<b>\$ 6,119.6</b>
<b>Liabilities and stockholders' equity:</b>					
Accounts payable	\$ 3.7	\$ 248.1	\$ 193.8	\$	\$ 445.6
Accrued liabilities	1,101.3	660.9	246.5	(1,715.6)	293.1
Deferred income taxes	27.6				27.6
Short-term debt and current portion of long-term debt	402.8	0.1	17.4		420.3
<b>Total current liabilities</b>	<b>1,535.4</b>	<b>909.1</b>	<b>457.7</b>	<b>(1,715.6)</b>	<b>1,186.6</b>
Long-term debt	851.0	350.5	52.1	(200.0)	1,053.6
Accrued postretirement benefits		187.9	292.1		480.0
Pension liabilities	642.6	4.8	60.4		707.8
Deferred income taxes	4.2				4.2
Other long-term liabilities	16.3	19.4	65.0	(0.2)	100.5

Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 10-Q

Total liabilities	3,049.5	1,471.7	927.3	(1,915.8)	3,532.7
Total stockholders' equity	2,586.9	452.0	3,910.1	(4,362.1)	2,586.9
Total liabilities and stockholders' equity	\$ 5,636.4	\$ 1,923.7	\$ 4,837.4	\$ (6,277.9)	\$ 6,119.6

**Table of Contents**

Allegheny Technologies Incorporated

Financial Information for Subsidiary and Guarantor Parent

Statements of Income and Comprehensive Income

For the three months ended June 30, 2013

<i>(In millions)</i>	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Sales	\$	\$ 475.8	\$ 659.7	\$	\$ 1,135.5
Cost of sales	18.6	468.5	544.6		1,031.7
Selling and administrative expenses	25.9	9.5	46.7		82.1
Income (loss) before interest, other income and income taxes	(44.5)	(2.2)	68.4		21.7
Interest expense, net	(10.7)	(2.7)	(0.5)		(13.9)
Other income (loss) including equity in income of unconsolidated subsidiaries	62.9	(6.1)	9.2	(66.1)	(0.1)
Income before income tax provision	7.7	(11.0)	77.1	(66.1)	7.7
Income tax provision (benefit)	1.1	(0.7)	25.3	(24.6)	1.1
Net income (loss)	6.6	(10.3)	51.8	(41.5)	6.6
Less: Net income (loss) attributable to noncontrolling interests			2.2		2.2
Net income (loss) attributable to ATI	\$ 6.6	\$ (10.3)	\$ 49.6	\$ (41.5)	\$ 4.4
Comprehensive income (loss) attributable to ATI	\$ 19.9	\$ (10.2)	\$ 52.8	\$ (46.7)	\$ 15.8

Allegheny Technologies Incorporated

Financial Information for Subsidiary and Guarantor Parent

Statements of Income and Comprehensive Income

For the six months ended June 30, 2013

<i>(In millions)</i>	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Sales	\$	\$ 952.9	\$ 1,362.0	\$	\$ 2,314.9
Cost of sales	36.1	935.2	1,125.5		2,096.8
Selling and administrative expenses	55.0	19.9	92.9		167.8
Income (loss) before interest, other income and income taxes	(91.1)	(2.2)	143.6		50.3
Interest expense, net	(22.4)	(5.3)	(0.6)		(28.3)
Other income including equity in income of unconsolidated subsidiaries	136.5	(11.5)	18.4	(142.4)	1.0
Income before income tax provision	23.0	(19.0)	161.4	(142.4)	23.0
Income tax provision	4.8	(3.2)	55.1	(51.9)	4.8

Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 10-Q

Net income	18.2	(15.8)	106.3	(90.5)	18.2
Less: Net income attributable to noncontrolling interests			3.8		3.8
Net income attributable to ATI	\$ 18.2	\$ (15.8)	\$ 102.5	\$ (90.5)	\$ 14.4
Comprehensive income attributable to ATI	\$ 45.2	\$ (15.6)	\$ 92.8	\$ (83.4)	\$ 39.0

**Table of Contents**

## Condensed Statements of Cash Flows

For the six months ended June 30, 2013

<i>(In millions)</i>	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Cash flows provided by (used in) operating activities	\$ (21.1)	\$ 51.6	\$ 27.5	\$	\$ 58.0
Investing Activities:					
Purchases of property, plant and equipment	(0.1)	(201.7)	(21.9)		(223.7)
Asset disposals and other		0.1	0.4		0.5
Cash flows used in investing activities	(0.1)	(201.6)	(21.5)		(223.2)
Financing Activities:					
Net receipts/(payments) on intercompany activity	78.7	141.7	(220.4)		
Dividends paid to stockholders	(38.4)				(38.4)
Other	(21.7)	(0.1)	(5.1)		(26.9)
Cash flows provided by (used in) financing activities	18.6	141.6	(225.5)		(65.3)
Increase (decrease) in cash and cash equivalents	\$ (2.6)	\$ (8.4)	\$ (219.5)	\$	\$ (230.5)

Allegheny Technologies Incorporated

Financial Information for Subsidiary and Guarantor Parent

Balance Sheets

December 31, 2012

<i>(In millions)</i>	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Assets:					
Cash and cash equivalents	\$ 5.5	\$ 13.1	\$ 286.0	\$	\$ 304.6
Accounts receivable, net	0.4	190.1	422.8		613.3
Inventories, net		311.1	1,225.5		1,536.6
Prepaid expenses and other current assets	1.1	10.2	44.8		56.1
Total current assets	7.0	524.5	1,979.1		2,510.6
Property, plant and equipment, net	3.9	882.2	1,673.8		2,559.9
Cost in excess of net assets acquired		112.1	628.0		740.1
Deferred income taxes	71.5				71.5
Investments in subsidiaries and other assets	5,595.9	210.3	657.0	(6,097.5)	365.7
Total assets	\$ 5,678.3	\$ 1,729.1	\$ 4,937.9	\$ (6,097.5)	\$ 6,247.8
Liabilities and stockholders' equity:					
Accounts payable	\$ 5.3	\$ 262.6	\$ 232.0	\$	\$ 499.9
Accrued liabilities	1,137.4	419.8	401.1	(1,627.8)	330.5
Deferred income taxes	24.0				24.0
Short-term debt and current portion of long-term debt	0.3	0.1	16.7		17.1

Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 10-Q

Total current liabilities	1,167.0	682.5	649.8	(1,627.8)	871.5
Long-term debt	1,253.4	350.6	59.1	(200.1)	1,463.0
Accrued postretirement benefits		198.2	297.0		495.2
Pension liabilities	651.7	5.1	64.3		721.1
Other long-term liabilities	19.1	20.8	70.0		109.9
Total liabilities	3,091.2	1,257.2	1,140.2	(1,827.9)	3,660.7
Total stockholders' equity	2,587.1	471.9	3,797.7	(4,269.6)	2,587.1
Total liabilities and stockholders' equity	\$ 5,678.3	\$ 1,729.1	\$ 4,937.9	\$ (6,097.5)	\$ 6,247.8

**Table of Contents**

Allegheny Technologies Incorporated

Financial Information for Subsidiary and Guarantor Parent

Statements of Income and Comprehensive Income

For the three months ended June 30, 2012

<i>(In millions)</i>	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Sales	\$	\$ 573.6	\$ 783.8	\$	\$ 1,357.4
Cost of sales	13.4	526.4	618.7		1,158.5
Selling and administrative expenses	34.9	11.9	43.9		90.7
Income (loss) before interest, other income and income taxes	(48.3)	35.3	121.2		108.2
Interest income (expense), net	(15.6)	(2.6)	(0.4)		(18.6)
Other income including equity in income of unconsolidated subsidiaries	153.6	(12.5)	15.0	(156.0)	0.1
Income before income tax provision	89.7	20.2	135.8	(156.0)	89.7
Income tax provision	31.0	8.3	48.3	(56.6)	31.0
Net income	58.7	11.9	87.5	(99.4)	58.7
Less: Net income attributable to noncontrolling interests			2.3		2.3
Net income attributable to ATI	\$ 58.7	\$ 11.9	\$ 85.2	\$ (99.4)	\$ 56.4
Comprehensive income (loss) attributable to ATI	\$ 70.8	\$ 11.6	\$ 72.3	\$ (85.0)	\$ 69.7

Allegheny Technologies Incorporated

Financial Information for Subsidiary and Guarantor Parent

Statements of Income and Comprehensive Income

For the six months ended June 30, 2012

<i>(In millions)</i>	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Sales	\$	\$ 1,130.6	\$ 1,579.3	\$	\$ 2,709.9
Cost of sales	26.7	1,034.9	1,242.4		2,304.0
Selling and administrative expenses	78.0	22.4	93.7		194.1
Income (loss) before interest, other income and income taxes	(104.7)	73.3	243.2		211.8
Interest expense, net	(32.6)	(5.2)	(0.7)		(38.5)
Other income including equity in income of unconsolidated subsidiaries	311.1	(10.9)	16.5	(316.2)	0.5
Income before income tax provision	173.8	57.2	259.0	(316.2)	173.8
Income tax provision	56.8	22.3	89.1	(111.4)	56.8

Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 10-Q

Net income	117.0	34.9	169.9	(204.8)	117.0
Less: Net income attributable to noncontrolling interests			4.4		4.4
Net income attributable to ATI	\$ 117.0	\$ 34.9	\$ 165.5	\$ (204.8)	\$ 112.6
Comprehensive income attributable to ATI	\$ 145.6	\$ 34.3	\$ 161.9	\$ (200.0)	\$ 141.8



**Table of Contents**

## Condensed Statements of Cash Flows

For the six months ended June 30, 2012

<i>(In millions)</i>	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Cash flows provided by (used in) operating activities	\$ (25.9)	\$ 2.6	\$ 83.1	\$	\$ 59.8
Investing Activities:					
Purchases of property, plant and equipment	(0.8)	(127.9)	(37.0)		(165.7)
Asset disposals and other		0.2	0.7		0.9
Cash flows used in investing activities	(0.8)	(127.7)	(36.3)		(164.8)
Financing Activities:					
Net receipts/(payments) on intercompany activity	90.2	5.8	(96.0)		
Dividends paid to stockholders	(38.2)				(38.2)
Other	(21.6)	(0.1)	(5.4)		(27.1)
Cash flows provided by (used in) financing activities	30.4	5.7	(101.4)		(65.3)
Increase (decrease) in cash and cash equivalents	\$ 3.7	\$ (119.4)	\$ (54.6)	\$	\$ (170.3)

**Table of Contents****Note 12. Accumulated Other Comprehensive Income (Loss)**

The changes in the accumulated other comprehensive income (loss) (AOCI) by component, net of tax, for the three month period ended June 30, 2013 were as follows:

	Post- retirement benefit plans	Currency translation adjustment	Unrealized holding gains on securities	Derivatives	Total
<b>Attributable to ATI:</b>					
Balance, March 31, 2013	\$ (1,011.8)	\$ (10.1)	\$	\$ 5.7	\$ (1,016.2)
OCI before reclassifications		2.6	(0.1)	(9.8)	(7.3)
Amounts reclassified from AOCI	(a) 18.3	(b)	(b)	(c) 0.4	18.7
<b>Net current-period OCI</b>	<b>18.3</b>	<b>2.6</b>	<b>(0.1)</b>	<b>(9.4)</b>	<b>11.4</b>
Balance, June 30, 2013	\$ (993.5)	\$ (7.5)	\$ (0.1)	\$ (3.7)	\$ (1,004.8)
<b>Attributable to noncontrolling interests:</b>					
Balance, March 31, 2013	\$	\$ 24.2	\$	\$	\$ 24.2
OCI before reclassifications		1.9			1.9
<b>Net current-period OCI</b>		<b>1.9</b>			<b>1.9</b>
Balance, June 30, 2013	\$	\$ 26.1	\$	\$	\$ 26.1

The changes in accumulated other comprehensive income (loss) (AOCI) by component, net of tax, for the six month period ended June 30, 2013 were as follows:

	Post- retirement benefit plans	Currency translation adjustment	Unrealized holding gains on securities	Derivatives	Total
<b>Attributable to ATI:</b>					
Balance, December 31, 2012	\$ (1,030.0)	\$ 3.4	\$ (0.1)	\$ (2.7)	\$ (1,029.4)
OCI before reclassifications		(10.9)		(1.8)	(12.7)
Amounts reclassified from AOCI	(a) 36.5	(b)	(b)	(c) 0.8	37.3
<b>Net current-period OCI</b>	<b>36.5</b>	<b>(10.9)</b>		<b>(1.0)</b>	<b>24.6</b>
Balance, June 30, 2013	\$ (993.5)	\$ (7.5)	\$ (0.1)	\$ (3.7)	\$ (1,004.8)
<b>Attributable to noncontrolling interests:</b>					
Balance, December 31, 2012	\$	\$ 23.7	\$	\$	\$ 23.7
OCI before reclassifications		2.4			2.4
Amounts reclassified from AOCI		(b)			
<b>Net current-period OCI</b>		<b>2.4</b>			<b>2.4</b>
Balance, June 30, 2013	\$	\$ 26.1	\$	\$	\$ 26.1

- (a) Amounts were included in net periodic benefit cost for pension and other postretirement benefit plans (see Note 7).
- (b) No amounts were reclassified to earnings.
- (c) Amounts were included in cost of goods sold in the period or periods the hedged item affects earnings (see Note 5).

**Table of Contents**

Reclassifications out of AOCI for the three and six month periods June 30, 2013 were as follows:

Details about AOCI Components <i>(in millions)</i>	Amount reclassified from AOCI (c)		Affected line item in the income statement
	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013	
	Postretirement benefit plans	\$	
Prior service (cost) credit	3.8 (a)	7.6 (a)	
Actuarial losses	(33.5)(a)	(67.0)(a)	
	(29.7)(c)	(59.4)(c)	Total before tax
	(11.4)	(22.9)	Tax provision (benefit)
	\$ (18.3)	\$ (36.5)	Net of tax
<b>Derivatives</b>			
Nickel and other raw material contracts	\$ (1.6)(b)	\$ (1.5)(b)	
Natural gas contracts	0.2 (b)	(1.5)(b)	
Electricity contracts	(b)	(0.3)(b)	
Foreign exchange contracts	0.9 (b)	2.1 (b)	
	(0.5)(c)	(1.2)(c)	Total before tax
	(0.1)	(0.4)	Tax provision (benefit)
	\$ (0.4)	\$ (0.8)	Net of tax

- (a) Amounts are included in the computation of pension and other postretirement benefit expense, which is reported in both cost of goods sold and selling and administrative expenses. For additional information, see Note 7.
- (b) Amounts are included in cost of goods sold in the period or periods the hedged item affects earnings. For additional information, see Note 5.
- (c) For pretax items, positive amounts are income and negative amounts are expense in terms of the impact to net income. Tax effects are presented in conformity with ATI's presentation in the consolidated statements of income.

**Note 13. Commitments and Contingencies**

The Company is subject to various domestic and international environmental laws and regulations that govern the discharge of pollutants and disposal of wastes, and which may require that it investigate and remediate the effects of the release or disposal of materials at sites associated with past and present operations. The Company could incur substantial cleanup costs, fines, and civil or criminal sanctions, third party property damage or personal injury claims as a result of violations or liabilities under these laws or noncompliance with environmental permits required at its facilities. The Company is currently involved in the investigation and remediation of a number of its current and former sites, as well as third party sites.

Environmental liabilities are recorded when the Company's liability is probable and the costs are reasonably estimable. In many cases, however, the Company is not able to determine whether it is liable or, if liability is probable, to reasonably estimate the loss or range of loss. Estimates of the Company's liability remain subject to additional uncertainties, including the nature and extent of site contamination, available remediation alternatives, the extent of corrective actions that may be required, and the number, participation, and financial condition of other potentially responsible parties ( PRPs ). The Company adjusts its accruals to reflect new information as appropriate. Future adjustments could have a material adverse effect on the Company's consolidated results of operations in a given period, but the Company cannot reliably predict the amounts of such future adjustments.



## **Table of Contents**

At June 30, 2013, the Company's reserves for environmental remediation obligations totaled approximately \$15 million, of which \$8 million was included in other current liabilities. The reserve includes estimated probable future costs of \$5 million for federal Superfund and comparable state-managed sites; \$7 million for formerly owned or operated sites for which the Company has remediation or indemnification obligations; \$2 million for owned or controlled sites at which Company operations have been discontinued; and \$1 million for sites utilized by the Company in its ongoing operations. The Company continues to evaluate whether it may be able to recover a portion of past and future costs for environmental liabilities from third parties and to pursue such recoveries where appropriate.

Based on currently available information, it is reasonably possible that costs for active matters may exceed the Company's recorded reserves by as much as \$1 million. However, future investigation or remediation activities may result in the discovery of additional hazardous materials, potentially higher levels of contamination than discovered during prior investigation, and may impact costs of the success or lack thereof in remedial solutions. Therefore, future developments, administrative actions or liabilities relating to environmental matters could have a material adverse effect on the Company's consolidated financial condition or results of operations.

The timing of expenditures depends on a number of factors that vary by site. The Company expects that it will expend present accruals over many years and that remediation of all sites with which it has been identified will be completed within thirty years.

See Note 16. Commitments and Contingencies to the Company's consolidated financial statements in the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2012 for a discussion of legal proceedings affecting the Company.

A number of other lawsuits, claims and proceedings have been or may be asserted against the Company relating to the conduct of its currently and formerly owned businesses, including those pertaining to product liability, patent infringement, commercial, government contracting, employment, employee and retiree benefits, taxes, environmental, health and safety and occupational disease, and stockholder and corporate governance matters. While the outcome of litigation cannot be predicted with certainty, and some of these lawsuits, claims or proceedings may be determined adversely to the Company, management does not believe that the disposition of any such pending matters is likely to have a material adverse effect on the Company's financial condition or liquidity, although the resolution in any reporting period of one or more of these matters could have a material adverse effect on the Company's consolidated results of operations for that period.

### **Note 14. Subsequent Event**

On July 12, 2013, ATI issued \$500 million aggregate principal amount of 5.875% Senior Notes due 2023 (the "2023 Notes"). Interest on the 2023 Notes is payable semi-annually in arrears at a rate of 5.875% per year and will mature on August 15, 2023, unless redeemed or repurchased earlier. The Company intends to use net proceeds from the offering of the Senior Notes for general corporate purposes which may include repurchases, repayment or refinancing of debt, capital expenditures, additions to working capital, the financing of future acquisitions or strategic combinations.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**Overview**

Allegheny Technologies is one of the largest and most diversified specialty metals producers in the world. We use innovative technologies to offer global markets a wide range of specialty metals solutions. Our products include titanium and titanium alloys, nickel-based alloys and superalloys, zirconium and related alloys, advanced powder alloys, stainless and specialty steel alloys, grain-oriented electrical steel, tungsten-based materials and cutting tools, forgings, castings, and fabrication and machining capabilities. Our specialty metals are produced in a wide range of alloys and product forms and are selected for use in applications that demand metals having exceptional hardness, toughness, strength, resistance to heat, corrosion or abrasion, or a combination of these characteristics. ATI is a fully integrated supplier, from alloy development, to raw materials (for titanium sponge) to melting and hot-working (for other specialty alloy systems), through highly engineered finished components.

Sales for the second quarter 2013 were \$1.14 billion, compared to \$1.36 billion in the second quarter 2012. Compared to the second quarter 2012, sales decreased 14% in the High Performance Metals segment, 16% in the Flat-Rolled Products segment and 26% in the Engineered Products segment. For the first six months of 2013, total sales were \$2.31 billion, 15% less than the comparable period of the prior year.

Demand from the global aerospace and defense, electrical energy, oil and gas, chemical process industry, and medical markets represented 69% of our sales for the three and six month periods ended June 30, 2013. Comparative information for our overall revenues (in millions) by market and their respective percentages of total revenues for the three and six month periods ended June 30, 2013 and 2012 were as follows:

Market	Three Months Ended		Three Months Ended	
	June 30, 2013		June 30, 2012	
Aerospace & Defense	\$ 373.5	33%	\$ 414.3	31%
Oil & Gas/Chemical Process Industry	228.9	20%	261.8	19%
Electrical Energy	128.0	11%	168.9	12%
Medical	55.0	5%	56.2	4%
<b>Subtotal - Key Markets</b>	<b>785.4</b>	<b>69%</b>	<b>901.2</b>	<b>66%</b>
Automotive	96.8	9%	109.4	8%
Construction/Mining	67.5	6%	110.4	8%
Food Equipment & Appliances	63.7	6%	58.0	4%
Transportation	39.7	3%	65.6	5%
Electronics/Computers/Communication	35.2	3%	40.7	3%
Machine & Cutting Tools	24.4	2%	34.6	3%
Conversion Services & Other	22.8	2%	37.5	3%
<b>Total</b>	<b>\$ 1,135.5</b>	<b>100%</b>	<b>\$ 1,357.4</b>	<b>100%</b>

**Table of Contents**

Market	Six Months Ended		Six Months Ended	
	June 30, 2013		June 30, 2012	
Aerospace & Defense	\$ 775.5	34%	\$ 850.8	31%
Oil & Gas/Chemical Process Industry	446.7	19%	539.2	20%
Electrical Energy	257.0	11%	315.8	12%
Medical	114.2	5%	113.9	4%
<b>Subtotal - Key Markets</b>	<b>1,593.4</b>	<b>69%</b>	<b>1,819.7</b>	<b>67%</b>
Automotive	188.4	8%	215.2	8%
Construction/Mining	147.1	6%	213.9	8%
Food Equipment & Appliances	129.0	6%	113.1	4%
Transportation	91.7	4%	119.7	4%
Electronics/Computers/Communication	71.5	3%	85.9	3%
Machine & Cutting Tools	50.4	2%	70.9	3%
Conversion Services & Other	43.4	2%	71.5	3%
<b>Total</b>	<b>\$ 2,314.9</b>	<b>100%</b>	<b>\$ 2,709.9</b>	<b>100%</b>

For the second quarter 2013, direct international sales were \$452.3 million and represented 40% of total sales, compared to \$465.3 million or 34% for the second quarter 2012. Sales of our high-value products (titanium and titanium alloys, nickel-based alloys and specialty alloys, zirconium and related alloys, precision forgings and castings, grain-oriented electrical steel, precision and engineered strip, and tungsten materials) represented 79% of total sales for the three months ended June 30, 2013. Comparative information for our major high-value and standard products based on their percentages of our total sales is as follows:

	Three Months Ended	
	June 30,	
	2013	2012
<b>High-Value Products</b>		
Nickel-based alloys and specialty alloys	24%	25%
Titanium and titanium alloys	14%	13%
Precision forgings and castings	13%	12%
Precision and engineered strip	12%	11%
Tungsten-based materials	7%	6%
Zirconium and related alloys	5%	5%
Grain-oriented electrical steel	4%	5%
<b>Total High-Value Products</b>	<b>79%</b>	<b>77%</b>
<b>Standard Products</b>		
Specialty stainless sheet	9%	10%
Stainless steel sheet	8%	9%
Stainless steel plate	2%	2%
Iron castings and other	2%	2%
<b>Total Standard Products</b>	<b>21%</b>	<b>23%</b>
<b>Grand Total</b>	<b>100%</b>	<b>100%</b>

For the first six months of 2013, direct international sales were \$902.8 and represented nearly 39% of total sales, compared to \$973.6 million or 36% for the first six months of 2012. Sales of our high value (titanium and titanium alloys, nickel-based alloys and specialty alloys, zirconium and related alloys, precision forgings and castings, grain-oriented electrical steel, precision and engineered strip, and tungsten materials) represented 79% of total sales for the six months ended June 30, 2013. Comparative information for our major high-value and standard products based on their percentages of our total sales is as follows:



**Table of Contents**

	Six Months Ended June 30,	
	2013	2012
<b>High-Value Products</b>		
Nickel-based alloys and specialty alloys	24%	26%
Titanium and titanium alloys	15%	13%
Precision forgings and castings	13%	13%
Precision and engineered strip	12%	11%
Tungsten-based materials	7%	6%
Zirconium and related alloys	5%	5%
Grain-oriented electrical steel	3%	4%
<b>Total High-Value Products</b>	<b>79%</b>	<b>78%</b>
<b>Standard Products</b>		
Specialty stainless sheet	9%	9%
Stainless steel sheet	8%	8%
Stainless steel plate	2%	2%
Iron castings and other	2%	3%
<b>Total Standard Products</b>	<b>21%</b>	<b>22%</b>
<b>Grand Total</b>	<b>100%</b>	<b>100%</b>

Total titanium mill product shipments, including flat-rolled titanium products, were 9.3 million pounds in the second quarter 2013 bringing the first half total to 19.6 million pounds. These volumes represent a 3% increase compared to the second quarter 2012 and a 1% increase compared to the first half of 2012.

Segment operating profit for the second quarter 2013 was \$71.7 million, or 6.3% of sales, compared to \$159.9 million, or 11.8% of sales for the second quarter 2012. The decrease in operating profit was primarily due to lower shipments associated with most of our high-value and standard products, lower base-selling prices for many products, and the impact of higher raw material costs for products with longer manufacturing cycle times not aligned with lower raw material indices/surcharges. Segment operating profit for the second quarter 2013 in the High Performance Metals segment was \$67.2 million or 13.9% of sales compared to \$102.2 or 18.1% of sales for the second quarter 2012. Flat-Rolled Products segment operating profit was \$1.4 million or 0.3% of sales compared to \$44.5 million or 6.8% of sales for the second quarter 2012. Operating profit in our Engineered Products segment was \$3.1 million or 3.1% of sales for the second quarter 2013 compared to \$13.2 million or 9.9% of sales for the second quarter 2012. Segment operating profit benefited from \$40.1 million in costs reductions during the quarter ended June 30, 2013. Segment operating profit for the six months ended June 30, 2013 was \$150.0 million.

Segment operating profit as a percentage of sales for the three and six month periods ended June 30, 2013 and 2012 was:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
High Performance Metals	13.9%	18.1%	14.2%	18.0%
Flat-Rolled Products	0.3%	6.8%	0.3%	7.1%
Engineered Products	3.1%	9.9%	1.8%	9.5%

Our measure of segment operating profit, which we use to analyze the performance and results of our business segments, excludes income taxes, corporate expenses, net interest expense, retirement benefit expense, closed company expenses and restructuring costs, if any. We believe segment operating profit, as defined, provides an appropriate measure of controllable operating results at the business segment level.

Income before tax for the second quarter 2013 was \$7.7 million, or 0.7% of sales, compared to \$89.7 million, or 6.6% of sales for the second quarter 2012. The quarter benefited from lower corporate expenses, primarily the result of reduced annual and long-term performance-based incentive compensation expenses and lower interest expense. Income before tax for the first six months of 2013 was \$23.0 million, or 1.0% of sales, compared to \$173.8 million, or 6.4% of sales for the comparable 2012 period. The six months ended June 30, 2013 also benefited from lower corporate expenses, primarily the result of reduced annual and long-term performance-based incentive compensation expenses and lower interest expense.



**Table of Contents**

Net income attributable to ATI for the second quarter 2013 was \$4.4 million, or \$0.04 per share, compared to \$56.4 million, or \$0.50 per share for the second quarter 2012. For the first six months of 2013, net income attributable to ATI was \$14.4 million, or \$0.13 per share, compared \$112.6 million, or \$1.00 per share for the first six months of 2012.

At June 30, 2013, we had cash on hand of \$74.1 million, a decrease of \$230.5 million from year-end 2012. Cash flow provided by operations for the first six months of 2013 was \$58.0 million and included an investment of \$36.1 million in managed working capital. Additionally, in the first six months of 2013, we invested \$223.7 million in capital expenditures, primarily related to the Flat-Rolled Products segment's HRPF. Net debt to total capitalization was 36.0% and total debt to total capitalization was 37.2% at June 30, 2013. At December 31, 2012, net debt to total capitalization was 32.2% and total debt to total capitalization was 37.4%.

We continue to focus on taking actions within our control that are designed to improve ATI's financial performance and financial flexibility in the short-term and keep ATI well-positioned for profitable growth over the long-term as economic and market conditions improve. Specifically, we continued to accelerate our cost reduction efforts. In the first six months of 2013 we have achieved more than \$79 million in gross cost reductions. Recently, we took actions to improve ATI's liquidity and financial flexibility.

As we look ahead to the second half of 2013, we are not seeing any significant signs of changes in market conditions. The third quarter may prove to be even more challenging, as it is traditionally the softest quarter of the year in many of our end markets, especially in Europe.

We are encouraged by recent signs of stabilization in nickel and titanium scrap prices. If this continues, we may begin to see an improvement in demand and stabilization of selling prices beginning in the fourth quarter 2013. We believe many of our customers will continue to be cautious as near-term global economic uncertainties remain, lead times remain short, and raw materials prices, especially for nickel and titanium scrap, remain volatile.

Looking beyond the short-term challenges, our strategy is to continue to ensure that ATI remains well-positioned for profitable growth over the next 3 to 5 years and beyond. Our unmatched diversification in specialty metals products, technology leadership, unsurpassed manufacturing capabilities, customer responsiveness, and increasingly competitive cost structure are key elements of our growth strategy. We continue to believe that market conditions remain favorable for long-term secular growth from our key markets of aerospace, oil and gas/chemical process industry, electrical energy, and medical.

**Business Segment Results**

We operate in three business segments: High Performance Metals, Flat-Rolled Products, and Engineered Products. These segments represented the following percentages of our total revenues and segment operating profit for the first six months of 2013 and 2012:

	2013		2012	
	Revenue	Operating Profit	Revenue	Operating Profit
High Performance Metals	43%	95%	42%	64%
Flat-Rolled Products	48%	3%	48%	28%
Engineered Products	9%	2%	10%	8%

**High Performance Metals Segment**

Second quarter 2013 sales decreased 14% to \$484.5 million compared to the second quarter 2012, primarily as a result of lower mill product shipments of nickel-based and specialty alloys and titanium and titanium related alloys, and a decrease in sales of precision forged and cast components due to lower demand from the jet engine, construction and mining, nuclear energy, and oil and gas markets. In addition, lower raw material indices and lower base-selling prices negatively affected sales.

**Table of Contents**

Comparative information for our High Performance Metals segment revenues (in millions) by market and their respective percentages of the segment's overall revenues for the three month periods ended June 30, 2013 and 2012 is as follows:

Market	Three Months Ended		Three Months Ended	
	June 30, 2013		June 30, 2012	
<b>Aerospace:</b>				
Jet Engines	\$ 161.4	33%	\$ 182.7	32%
Airframes	90.0	19%	97.7	17%
Government	52.3	11%	48.9	9%
<b>Total Aerospace</b>	<b>303.7</b>	<b>63%</b>	<b>329.3</b>	<b>58%</b>
Medical	45.5	9%	46.5	8%
Oil & Gas/Chemical Process Industry	38.8	8%	57.8	10%
Electrical Energy	39.6	8%	45.9	8%
Defense	24.0	5%	28.8	5%
Construction/Mining	7.1	2%	19.9	4%
Other	25.8	5%	38.0	7%
<b>Total</b>	<b>\$ 484.5</b>	<b>100%</b>	<b>\$ 566.2</b>	<b>100%</b>

Direct international sales represented nearly 47% of total segment sales for the second quarter 2013 compared to 41% of total segment sales for the second quarter 2012. Comparative information for the High Performance Metals segment's major product categories, based on their percentages of sales for the three months ended June 30, 2013 and 2012, is as follows:

	Three Months Ended	
	June 30,	
	2013	2012
<b>High-Value Products</b>		
Nickel-based alloys and specialty alloys	32%	36%
Titanium and titanium alloys	28%	27%
Precision forgings and castings	27%	24%
Zirconium and related alloys	13%	13%
<b>Total High-Value Products</b>	<b>100%</b>	<b>100%</b>

Segment operating profit in the second quarter 2013 decreased to \$67.2 million, or 13.9% of total sales, compared to \$102.2 million, or 18.1% of total sales, for the second quarter 2012. The decrease in operating profit primarily resulted from lower shipment volumes for most products, the impact of higher raw material costs for products with longer manufacturing cycle times not aligned with falling raw material indices, and lower base-selling prices for some products. Results benefited from \$23.0 million in gross cost reductions in the second quarter 2013.

For the six months ended June 30, 2013, segment sales decreased 13% to \$1.00 billion, primarily as a result of lower mill product shipments of nickel-based and specialty alloys and zirconium and related alloys, and a decrease in sales of precision forged and cast components due to lower demand from the jet engine, construction and mining, nuclear energy, and oil and gas markets. In addition, lower raw material indices and lower base-selling prices negatively affected sales.

**Table of Contents**

Comparative information for our High Performance Metals revenues (in millions) by market and their respective percentages of the segment's overall revenues for the six month periods ended June 30, 2013 and 2012 is as follows:

Market	Six Months Ended June 30, 2013		Six Months Ended June 30, 2012	
	Aerospace:			
Jet Engines	\$ 331.8	33%	\$ 384.6	34%
Airframes	193.4	19%	203.6	18%
Government	104.7	10%	102.1	9%
<b>Total Aerospace</b>	<b>629.9</b>	<b>62%</b>	<b>690.3</b>	<b>61%</b>
Medical	94.8	10%	96.1	8%
Oil & Gas/Chemical Process Industry	83.0	8%	112.2	10%
Electrical Energy	78.0	8%	82.8	7%
Defense	47.0	5%	50.0	4%
Construction/Mining	14.8	1%	39.7	3%
Other	55.4	6%	76.4	7%
<b>Total</b>	<b>\$ 1,002.9</b>	<b>100%</b>	<b>\$ 1,147.5</b>	<b>100%</b>

Direct international sales represented nearly 46% of total segment sales for the six months ended June 30, 2013 compared to 43% of total segment sales for the six months ended June 30, 2012. Comparative information for the High Performance Metals segment's major product categories, based on their percentages of sales for the six months ended June 30, 2013 and 2012, is as follows:

	Six Months Ended June 30,	
	2013	2012
<b>High-Value Products</b>		
Nickel-based alloys and specialty alloys	32%	36%
Titanium and titanium alloys	30%	27%
Precision forgings and castings	26%	25%
Zirconium and related alloys	12%	12%
<b>Total High-Value Products</b>	<b>100%</b>	<b>100%</b>

Segment operating profit for the first six months of 2013 decreased to \$142.5 million, or 14.2% of sales, compared to \$206.3 million, or 18.0% of sales, for the comparable 2012 period. The decrease in operating profit primarily resulted from lower shipment volumes for most products, the impact of higher raw material costs for products with longer manufacturing cycle times not aligned with falling raw material indices, and lower base-selling prices for some products. Results benefited from \$49.5 million in gross cost reductions for the six months ended June 30, 2013.

The High Performance Metals segment operating profit was negatively impacted by continued declines in raw material surcharges due to continued falling raw material prices not being aligned with higher raw material costs due to long manufacturing cycles for many of our products. Further declines in raw material prices could negatively impact short-term demand and the High Performance Metals segment operating profit.

**Flat-Rolled Products Segment**

Second quarter 2013 sales decreased 16% compared to the second quarter 2012, to \$552.2 million, primarily due to lower shipments of both high-value and standard products, lower base-selling prices and lower raw material surcharges. Shipments of standard stainless products (sheet and plate) decreased 8% while shipments of high-value products declined 7%. Average transaction prices for all products, which include surcharges, declined 9%. Second quarter 2013 Flat-Rolled Products segment titanium shipments, including Uniti joint venture conversion, were 3.0 million pounds, a 7% increase compared to the second quarter 2012. Average selling prices, which include surcharges, declined 13% for standard products due to lower base prices and lower raw material surcharges. Average selling prices for high-value products decreased 7% due to product mix and lower material surcharges.



**Table of Contents**

Comparative information for our Flat-Rolled Products revenues (in millions) by market and their respective percentages of the segment's overall revenues for the three month periods ended June 30, 2013 and 2012 is as follows:

Market	Three Months Ended		Three Months Ended	
	June 30, 2013		June 30, 2012	
Oil & Gas/Chemical Process Industry	\$ 160.0	29%	\$ 163.9	25%
Automotive	87.9	16%	99.7	15%
Electrical Energy	82.2	15%	115.6	18%
Food Equipment & Appliances	63.4	12%	56.4	8%
Construction/Mining	51.2	9%	67.8	10%
Aerospace & Defense	34.4	6%	45.6	7%
Electronics/Computers/Communication	34.3	6%	38.6	6%
Transportation	23.2	4%	38.6	6%
Medical	7.0	1%	6.7	1%
Other	8.6	2%	24.5	4%
<b>Total</b>	<b>\$ 552.2</b>	<b>100%</b>	<b>\$ 657.4</b>	<b>100%</b>

Direct international sales represented 37% of total segment sales for the second quarter 2013 compared to 31% of total segment sales for the second quarter 2012. Comparative information for the Flat-Rolled Products segment's major product categories, based on their percentages of sales for the three months ended June 30, 2013 and 2012, is as follows:

	Three Months Ended	
	June 30,	
	2013	2012
<b>High-Value Products</b>		
Precision and engineered strip	24%	22%
Nickel-based alloys and specialty alloys	22%	21%
Grain-oriented electrical steel	8%	10%
Titanium and titanium alloys	5%	4%
<b>Total High-Value Products</b>	<b>59%</b>	<b>57%</b>
<b>Standard Products</b>		
Specialty stainless sheet	20%	21%
Stainless steel sheet	17%	18%
Stainless steel plate	4%	4%
<b>Total Standard Products</b>	<b>41%</b>	<b>43%</b>
<b>Grand Total</b>	<b>100%</b>	<b>100%</b>

Segment operating profit for the second quarter 2013 was \$1.4 million, or 0.3% of sales, compared to \$44.5 million, or 6.8% of sales, for the second quarter 2012, reflecting a sales mix of more standard stainless products, as well as lower base-selling prices for most products. Results benefited from \$15.3 million in gross costs reductions in the second quarter 2013.

**Table of Contents**

Comparative information on the segment's products for the three months ended June 30, 2013 and 2012 is provided in the following table:

	Three Months Ended June 30,		% Change
	2013	2012	
<b>Volume (000's pounds):</b>			
High value	120,272	128,793	(7)%
Standard	168,946	183,555	(8)%
<b>Total</b>	<b>289,218</b>	<b>312,348</b>	<b>(7)%</b>
<b>Average prices (per lb.):</b>			
High value	\$ 2.71	\$ 2.90	(7)%
Standard	\$ 1.33	\$ 1.52	(13)%
Combined Average	\$ 1.90	\$ 2.09	(9)%

For the six months ended June 30, 2013, sales were \$1.11 billion, a 14% decrease compared to the 2012 period, primarily due to lower raw material surcharges and base prices. Shipments of standard stainless sheet products increased 1% while high-value products shipments were 6% lower. Average transaction prices for all products, which include surcharges, were 12% lower due to lower raw material surcharges and lower base prices for standard stainless products as well as our high value products.

Comparative information for our Flat-Rolled Products revenues (in millions) by market and their respective percentages of the segment's overall revenues for the six month periods ended June 30, 2013 and 2012 is as follows:

Market	Six Months Ended June 30, 2013		Six Months Ended June 30, 2012	
	\$	%	\$	%
Oil & Gas/Chemical Process Industry	\$ 304.8	27%	\$ 349.2	27%
Automotive	171.3	15%	195.9	15%
Electrical Energy	166.6	15%	217.6	17%
Food Equipment & Appliances	128.3	12%	111.0	9%
Construction/Mining	108.1	10%	131.3	10%
Aerospace & Defense	76.3	7%	87.9	7%
Electronics/Computers/Communication	70.2	6%	80.4	6%
Transportation	52.9	5%	61.9	5%
Medical	14.1	1%	12.1	1%
Other	17.7	2%	46.1	3%
<b>Total</b>	<b>\$ 1,110.3</b>	<b>100%</b>	<b>\$ 1,293.4</b>	<b>100%</b>



**Table of Contents**

Direct international sales represented 35% of total segment sales for the six months ended June 30, 2013 compared to 33% of total segment sales for the six months ended June 30, 2012. Comparative information for the Flat-Rolled Products segment's major product categories, based on their percentages of sales for the six months ended June 30, 2013 and 2012, is as follows:

	Six Months Ended June 30,	
	2013	2012
<b>High-Value Products</b>		
Precision and engineered strip	24%	22%
Nickel-based alloys and specialty alloys	22%	24%
Grain-oriented electrical steel	7%	9%
Titanium and titanium alloys	5%	4%
<b>Total High-Value Products</b>	<b>58%</b>	<b>59%</b>
<b>Standard Products</b>		
Specialty stainless sheet	20%	20%
Stainless steel sheet	18%	17%
Stainless steel plate	4%	4%
<b>Total Standard Products</b>	<b>42%</b>	<b>41%</b>
<b>Grand Total</b>	<b>100%</b>	<b>100%</b>

Segment operating profit for the six months ended June 30, 2013 declined to \$3.8 million, or 0.3% of sales, compared to \$91.3 million, or 7.1% of sales, for the comparable 2012 period due to higher raw material costs, primarily nickel, which did not align with declining raw material surcharges. Results benefited from \$25.3 million in gross costs reductions for the six months ended June 30, 2013.

Comparative information on the segment's products for the six months ended June 30, 2013 and 2012 is provided in the following table:

	Six Months Ended June 30,		% Change
	2013	2012	
<b>Volume (000's pounds):</b>			
High value	233,295	249,297	(6)%
Standard	342,764	340,875	1%
<b>Total</b>	<b>576,059</b>	<b>590,172</b>	<b>(2)%</b>
<b>Average prices (per lb.):</b>			
High value	\$ 2.75	\$ 3.05	(10)%
Standard	\$ 1.35	\$ 1.54	(12)%
Combined Average	\$ 1.92	\$ 2.18	(12)%

The Flat-Rolled Products segment operating profit was negatively impacted by historically low base-selling prices for standard stainless sheet and plate. The total transaction price for the most common stainless steel sheet has declined significantly over the last several years due to falling raw material prices, most notably for nickel, resulting in lower raw material surcharges, and historically low base-selling prices due to weak demand and excess global supply. Further declines in raw material prices could negatively impact short-term demand and the Flat-Rolled Products segment operating profit.

**Engineered Products Segment**

Sales for the second quarter 2013 were \$98.8 million, a 26% decrease compared to the second quarter 2012. Sales for the six months ended June 30, 2013 were \$201.7 million, a decrease of 25% when compared to the first half of 2012. The decreases were primarily a result of lower overall demand for tungsten-based products and carbon alloy steel forgings.



**Table of Contents**

Comparative information for our Engineered Products revenues (in millions) by market and their respective percentages of the segment's overall revenues for the three and six month periods ended June 30, 2013 and 2012 is as follows:

Market	Three Months Ended		Three Months Ended	
	June 30, 2013		June 30, 2012	
Oil & Gas/Chemical Process Industry	\$ 30.2	31%	\$ 40.1	30%
Machine & Cutting Tools	16.1	16%	21.3	16%
Aerospace & Defense	11.5	12%	10.7	8%
Transportation	11.4	12%	21.2	16%
Construction/Mining	9.2	9%	22.7	17%
Electrical Energy	6.3	6%	7.4	5%
Automotive	5.7	6%	6.4	5%
Medical	2.5	2%	3.0	2%
Other	5.9	6%	1.0	1%
Total	\$ 98.8	100%	\$ 133.8	100%

Market	Six Months Ended		Six Months Ended	
	June 30, 2013		June 30, 2012	
Oil & Gas/Chemical Process Industry	\$ 58.9	29%	\$ 77.8	29%
Machine & Cutting Tools	33.0	16%	44.5	17%
Transportation	27.2	14%	44.1	16%
Construction/Mining	24.1	12%	42.8	16%
Aerospace & Defense	22.3	11%	22.7	8%
Electrical Energy	12.4	6%	15.3	6%
Automotive	11.7	6%	13.8	5%
Medical	5.3	3%	5.7	2%
Other	6.8	3%	2.3	1%
Total	\$ 201.7	100%	\$ 269.0	100%

Direct international sales represented 25% of total segment sales for the second quarter 2013 and 24% of total segment sales for the first half of 2013 compared to 21% of total segment sales for the second quarter 2012 and 22% of total segment sales for the first half of 2012. Comparative information for the Engineered Products segment's major product categories, based on their percentages of sales for the three and six month periods ended June 30, 2013 and 2012, is as follows:

	Three Months Ended	
	June 30,	
	2013	2012
High-Value Products		
Tungsten-based materials	75%	65%
Precision forgings	20%	27%
Total High-Value Products	95%	92%
Standard Products		
Iron castings and other	5%	8%
Total Standard Products	5%	8%

Grand Total

100%

100%

**Table of Contents**

	Six Months Ended June 30,	
	2013	2012
<b>High-Value Products</b>		
Tungsten-based materials	74%	65%
Precision forgings	21%	26%
<b>Total High-Value Products</b>	<b>95%</b>	<b>91%</b>
<b>Standard Products</b>		
Iron castings and other	5%	9%
<b>Total Standard Products</b>	<b>5%</b>	<b>9%</b>
<b>Grand Total</b>	<b>100%</b>	<b>100%</b>

Segment operating profit for the second quarter 2013 was \$3.1 million, compared to \$13.2 million in the second quarter 2012. Segment operating profit for the second quarter 2013 was negatively impacted by higher raw material inventory costs for tungsten-based products and lower business activity levels across most operating units in this segment. Segment operating profit benefited from \$1.8 million in gross cost reductions in the second quarter 2013. Segment operating profit for the six months ended June 30, 2013 was \$3.7 million, compared to \$25.5 million for the 2012 period.

**Corporate Items**

Corporate expenses for the second quarter 2013 were \$11.9 million, compared to \$15.8 million in the second quarter 2012. For the six months ended June 30, 2013, corporate expenses were \$24.3 million, compared to \$37.5 million for the six months ended June 30, 2012. The decrease in corporate expenses for the three and six month periods ended June 30, 2013 was primarily the result of reduced annual and long-term performance-based incentive compensation expenses.

Interest expense, net of interest income, in the second quarter 2013 was \$13.9 million, compared to net interest expense of \$18.6 million in the second quarter 2012. On a year-to-date basis, first half 2013 net interest expense was \$28.3 million compared to \$38.5 million for the first half 2012. The decrease in interest expense was primarily due to increased capitalized interest on major strategic capital projects. Interest expense benefited from the capitalization of interest costs on major strategic capital projects of \$10.6 million in the second quarter 2013 compared to \$5.6 million in the second quarter 2012. For the six months ended June 30, 2013 and 2012, capitalized interest was \$20.2 million and \$10.1 million, respectively. The increased capitalized interest amounts are primarily related to the HRPF.

Closed company and other expenses for the second quarter 2013 were \$5.7 million, compared to \$5.2 million for the second quarter 2012. For the six months ended June 30, 2013, other expenses were \$9.4 million compared to \$12.1 million for the comparable 2012 period. These items are presented primarily in selling and administrative expenses, and in other income (expense) in the consolidated statement of operations.

Retirement benefit expense, which includes pension expense and other postretirement expense, increased to \$32.5 million in the second quarter 2013, compared to \$30.6 million in the second quarter 2012. For the second quarter 2013, retirement benefit expense of \$25.3 million was included in cost of sales and \$7.2 million was included in selling and administrative expenses. For the second quarter 2012, the amount of retirement benefit expense included in cost of sales was \$22.3 million, and the amount included in selling and administrative expenses was \$8.3 million. For the six months ended June 30, 2013, retirement benefit expense was \$65.0 million, compared to \$61.2 million for the six months ended June 30, 2012. For the six months ended June 30, 2013, retirement benefit expense of \$50.6 million was included in cost of sales, and \$14.4 million was included in selling and administrative expenses. For the prior year to date period, retirement benefit expense of \$44.3 million was included in cost of sales and \$16.9 million was included in selling and administrative expenses. The quarter-to-date and year-to-date increases in retirement benefit expense were primarily due to the utilization of a lower discount rate to value retirement benefit obligations.

---

## **Table of Contents**

### **Income Taxes**

The second quarter 2013 provision for income taxes was \$1.1 million, or 14.3% of income before tax, compared to the second quarter 2012 provision for income taxes of \$31.0 million, or 34.6% of income before tax. For the six months ended June 30, 2013, the income tax provision was \$4.8 million, or 20.9% of income before tax. The first six months of 2013 included a discrete tax benefit of \$4.6 million, primarily associated with adjustments to prior years' taxes and 2013 Federal tax law changes. Excluding the discrete tax benefit, the annual effective tax rate for 2013 was 41.1%. The income tax provision for the six months ended June 30, 2012 was \$56.8 million, or 32.7% of income before tax, and included discrete tax benefits of \$3.4 million primarily related to state income taxes.

### **Financial Condition and Liquidity**

On July 12, 2013, we issued \$500 million aggregate principal amount of 5.875% Senior Notes due 2023 (the "2023 Notes"). Interest on the 2023 Notes is payable semi-annually in arrears at a rate of 5.875% per year and will mature on August 15, 2023, unless redeemed or repurchased earlier. The interest rate payable on the 2023 Notes is subject to adjustment in the event of a change in the credit ratings on the 2023 Notes. A downgrade of our credit ratings could result in an increase to our cost with respect to the 2023 Notes. We intend to use net proceeds from the offering of the 2023 Notes for general corporate purposes, which may include repurchases, repayment or refinancing of debt, capital expenditures, additions to working capital, the financing of future acquisitions or strategic combinations.

In May 2013, we amended our \$400 million senior unsecured domestic revolving credit facility to, among other things, extend the expiration date of the commitments of the lenders thereunder to May 31, 2018 and to modify the maximum leverage ratio permitted under the facility. As amended, the facility requires the Company to maintain a leverage ratio (consolidated total indebtedness divided by consolidated earnings before interest, taxes and depreciation and amortization for the four prior fiscal quarters) of not greater than 4.0 beginning with the quarter ended June 30, 2013. The maximum leverage ratio is reduced to 3.75 beginning with the quarter ended March 31, 2015 and further reduced to 3.50 beginning with the quarter ended June 30, 2015 and for each fiscal quarter thereafter. The credit facility continues to require that the company maintain an interest coverage ratio (consolidated earnings before interest and taxes divided by interest expense) of not less than 2.0. At June 30, 2013, our leverage ratio was 3.29, and our interest coverage ratio was 4.09. Changes in our credit rating do not impact our access to, or the cost of, our existing credit facilities.

As of June 30, 2013 we did not have any outstanding borrowings under our senior unsecured domestic credit facility, although approximately \$4 million of this facility was utilized to support letters of credit.

We believe that internally generated funds, current cash on hand including the proceeds from the 2023 Notes, and available borrowings under existing credit facilities will be adequate to meet foreseeable liquidity needs, including the completion of the HRPF. While we are in compliance with the amended financial covenants of our senior unsecured domestic credit facility, we have several options should we need to address future financial covenant concerns. If we needed to access the credit markets, the cost and the terms and conditions may be influenced by our credit rating.

We have no off-balance sheet arrangements as defined in Item 303(a)(4) of SEC Regulation S-K.

### **Cash Flow and Working Capital**

For the six months ended June 30, 2013, cash flow generated from operations was \$58.0 million, including an investment in managed working capital of \$36.1 million. Cash used in investing activities was \$223.2 million in the first six months of 2013 and consisted primarily of capital expenditures. Cash used in financing activities was \$65.3 million in the first six months of 2013 and included dividend payments of \$38.4 million to ATI stockholders and dividend payments to noncontrolling interests of \$18.0 million. At June 30, 2013, cash and cash equivalents on hand totaled \$74.1 million, a decrease of \$230.5 million from year end 2012. As of June 30, 2013, \$36.5 million of cash and cash equivalents were held by our foreign subsidiaries.

**Table of Contents**

As part of managing the liquidity of our business, we focus on controlling managed working capital, which is defined as gross accounts receivable and gross inventories, less accounts payable. In measuring performance in controlling managed working capital, we exclude the effects of LIFO inventory valuation reserves, excess and obsolete inventory reserves, and reserves for uncollectible accounts receivable which, due to their nature, are managed separately. At June 30, 2013, managed working capital decreased to 39.8% of annualized sales, compared to 41.1% of annualized sales at December 31, 2012. During the first six months of 2013, managed working capital increased by \$36.1 million, to \$1.8 billion. The growth in managed working capital from December 31, 2012 resulted from a \$43.7 million increase in accounts receivable, a \$61.1 million decrease in inventory, and a \$53.5 million decrease in accounts payable. While accounts receivable balances increased during 2013, days sales outstanding, which measures actual collection timing for accounts receivable, improved when compared to year end 2012. Gross inventory turns, which exclude the effect of LIFO inventory valuation reserves, remained essentially unchanged at June 30, 2013 compared to year end 2012.

The Components of managed working capital were as follows:

(in millions)	June 30, 2013	December 31, 2012
Accounts receivable	\$ 655.5	\$ 613.3
Inventory	1,504.9	1,536.6
Accounts payable	(445.6)	(499.9)
Subtotal	1,714.8	1,650.0
Allowance for doubtful accounts	5.8	5.5
LIFO reserve	50.1	76.9
Corporate and other	66.2	68.4
Managed working capital	1,836.9	1,800.8
Annualized prior 2 months sales	\$ 4,613.1	\$ 4,380.0
Managed working capital as a % of annualized sales	39.8%	41.1%
Change in managed working capital from December 31, 2012	\$ 36.1	

**Capital Expenditures**

We have significantly expanded and continue to expand our manufacturing capabilities to meet expected intermediate and long-term demand from the aerospace (engine and airframe), oil and gas, chemical process industry, electrical energy, and medical markets, especially for titanium and titanium-based alloys, nickel-based alloys and superalloys, specialty alloys, and zirconium and related alloys.

Ongoing capital expenditure projects include the design and construction of a new advanced specialty metals Hot-Rolling and Processing Facility (HRPF) at our existing Flat-Rolled Products segment Brackenridge, PA site for approximately \$1.2 billion. The HRPF construction is progressing on schedule and on budget. Construction is expected to be completed with assets ready for service by the end of 2013, and formal commissioning is expected to occur in the first half of 2014. The HRPF is designed to be the most powerful mill in the world for production of specialty metals. It is designed to produce thinner and wider hot-rolled coils of exceptional quality at reduced cost with shorter lead times, and require lower working capital requirements. When completed, we believe ATI's new HRPF will provide unsurpassed manufacturing capability and versatility in the production of a wide range of flat-rolled specialty metals. We expect improved productivity, lower costs, and higher quality for our diversified product mix of flat-rolled specialty metals, including nickel-based and specialty alloys, titanium and titanium alloys, zirconium alloys, Precision Rolled Strip<sup>®</sup> products, and stainless sheet and coiled plate products.

Capital expenditures were \$223.7 million for the first six months of 2013, primarily related to the HRPF project. We currently expect our 2013 capital expenditures to be approximately \$575 million, with approximately 90% of this being associated with the HRPF project. We expect 2013 to be our peak year of capital expenditures. Our objective is to fund these capital expenditures with cash on hand, including the proceeds from the 2023 Notes, cash flow generated from our operations, and if needed, by using a portion of our \$400 million unsecured domestic credit facility.





**Table of Contents****Debt**

At June 30, 2013, we had \$1,473.9 million in total outstanding debt, compared to \$1,480.1 million at December 31, 2012.

In managing our overall capital structure, some of the measures on which we focus are net debt to total capitalization, which is the percentage of our debt, net of cash that may be available to reduce borrowings, to our total invested and borrowed capital, and total debt to total capitalization, which excludes cash balances. Net debt as a percentage of total capitalization was 36.0% at June 30, 2013, compared to 32.2% at December 31, 2012. The net debt to total capitalization was determined as follows:

(\$ in millions)	June 30, 2013	December 31, 2012
Total debt	\$ 1,473.9	\$ 1,480.1
Less: Cash	(74.1)	(304.6)
<b>Net debt</b>	<b>\$ 1,399.8</b>	<b>\$ 1,175.5</b>
Net debt	\$ 1,399.8	\$ 1,175.5
Total ATI stockholders' equity	2,491.2	2,479.6
<b>Net ATI total capital</b>	<b>\$ 3,891.0</b>	<b>\$ 3,655.1</b>
<b>Net debt to ATI total capital</b>	<b>36.0%</b>	<b>32.2%</b>

Total debt to total capitalization decreased to 37.2% at June 30, 2013 from 37.4% December 31, 2012.

Total debt to total capitalization was determined as follows:

(\$ in millions)	June 30, 2013	December 31, 2012
Total debt	\$ 1,473.9	\$ 1,480.1
Total ATI stockholders' equity	2,491.2	2,479.6
<b>Total ATI capital</b>	<b>\$ 3,965.1</b>	<b>\$ 3,959.7</b>
<b>Total debt to total ATI capital</b>	<b>37.2%</b>	<b>37.4%</b>

In May 2013, the Company amended its \$400 million senior unsecured domestic revolving credit facility to, among other things, extend the expiration date of the commitments of the lenders thereunder to May 31, 2018 and to modify the maximum leverage ratio permitted under the facility. The Company was in compliance with the required ratios during all applicable periods. As of June 30, 2013, there were no outstanding borrowings made under the facility, although a portion of the facility was used to support approximately \$4 million in letters of credit.

We have an additional, separate credit facility for the issuance of letters of credit. As of June 30, 2013, \$32 million in letters of credit was outstanding under this facility.

In addition, STAL, the Company's Chinese joint venture company in which ATI has a 60% interest, has a 205 million renminbi (approximately \$33 million at June 30, 2013 exchange rates) revolving credit facility with a group of banks which expires in August 2014. This credit facility is supported solely by STAL's financial capability without any guarantees from the joint venture partners. As of June 30, 2013, there were no borrowings under this credit facility.

**Retirement Benefits**

At December 31, 2012, our U.S. qualified defined benefit pension plan (U.S. Plan) was approximately 77% funded as calculated in accordance with generally accepted accounting principles. Based upon current regulations and actuarial studies, we are not required to make a cash contribution to the U.S. Plan for 2013. However, we may elect, depending upon investment performance of the pension plan assets and other

factors, to make voluntary cash contributions to this plan in the future.

## **Table of Contents**

### **Dividends**

A regular quarterly dividend of \$0.18 per share of common stock was paid on June 19, 2013 to stockholders of record at the close of business on May 22, 2013. The payment of dividends and the amount of such dividends depends upon matters deemed relevant by our Board of Directors, such as our results of operations, financial condition, cash requirements, future prospects, any limitations imposed by law, credit agreements or senior securities, and other factors deemed relevant and appropriate.

### **Labor Matters**

On July 31, 2013, United Steelworkers (USW)-represented employees at ATI Wah Chang, approximately 500 employees, ratified a new four-year labor agreement. The agreement will expire on April 1, 2017.

### **Critical Accounting Policies**

#### **Inventory**

At June 30, 2013, we had net inventory of \$1,504.9 million. Inventories are stated at the lower of cost (last-in, first-out (LIFO), first-in, first-out (FIFO) and average cost methods) or market, less progress payments. Costs include direct material, direct labor and applicable manufacturing and engineering overhead, and other direct costs. Most of our inventory is valued utilizing the LIFO costing methodology. Inventory of our non-U.S. operations is valued using average cost or FIFO methods. Under the LIFO inventory valuation method, changes in the cost of raw materials and production activities are recognized in cost of sales in the current period even though these material and other costs may have been incurred at significantly different values due to the length of time of our production cycle. The prices for many of the raw materials we use have been extremely volatile during the past four years. Since we value most of our inventory utilizing the LIFO inventory costing methodology, a rise in raw material costs has a negative effect on our operating results, while, conversely, a fall in material costs results in a benefit to operating results. For example, in 2012 and 2011, the effect of falling raw material costs on our LIFO inventory valuation method resulted in cost of sales which were \$76.8 million and \$9.3 million lower than would have been recognized had we utilized the FIFO methodology to value our inventory. Conversely, in 2010, the effect of rising raw material costs on our LIFO inventory valuation method resulted in cost of sales which were \$60.2 million higher than would have been recognized had we utilized the FIFO methodology to value our inventory. In a period of rising prices, cost of sales expense recognized under LIFO is generally higher than the cash costs incurred to acquire the inventory sold. Conversely, in a period of declining raw material prices, cost of sales recognized under LIFO is generally lower than cash costs incurred to acquire the inventory sold.

Since the LIFO inventory valuation methodology is designed for annual determination, interim estimates of the annual LIFO valuation are required. We recognize the effects of the LIFO inventory valuation method on an interim basis by projecting the expected annual LIFO cost and allocating that projection to the interim quarters equally. These projections of annual LIFO inventory valuation reserve changes are updated quarterly and are evaluated based upon material, labor and overhead costs and projections for such costs at the end of the year plus projections regarding year-end inventory levels. We recorded a \$26.8 million reduction to our LIFO inventory valuation reserve in the first six months of 2013.

The LIFO inventory valuation methodology is not utilized by many of the companies with which we compete, including foreign competitors. As such, our results of operations may not be comparable to those of our competitors during periods of volatile material costs due, in part, to the differences between the LIFO inventory valuation method and other acceptable inventory valuation methods.

We evaluate product lines on a quarterly basis to identify inventory values that exceed estimated net realizable value. The calculation of a resulting reserve, if any, is recognized as an expense in the period that the need for the reserve is identified. At June 30, 2013, no significant reserves were required. It is our general policy to write-down to scrap value any inventory that is identified as obsolete and any inventory that has aged or has not moved in more than twelve months. In some instances this criterion is up to twenty-four months due to the longer manufacturing and distribution process for such products.

#### **Asset Impairment**

We monitor the recoverability of the carrying value of our long-lived assets. An impairment charge is recognized when the expected net undiscounted future cash flows from an asset's use (including any proceeds from disposition) are less than the asset's carrying value, and the asset's carrying value exceeds its fair value. Changes in the expected use of a long-lived asset group, and the financial performance of the long-lived assets group and its operating segment, are evaluated as indicators of possible impairment. Future cash flow value may include appraisals for property, plant and equipment, land and improvements, future cash flow estimates from operating the long-lived assets, and other

operating considerations. There were no significant charges for impairment of long-lived assets in the periods presented.

**Other Critical Accounting Policies**

A summary of other significant accounting policies is discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations and in Note 1 to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2012.

The preparation of the financial statements in accordance with U.S. generally accepted accounting principles requires us to make judgments, estimates and assumptions regarding uncertainties that affect the reported amounts of assets and liabilities. Significant areas of uncertainty that require judgments, estimates and assumptions include the accounting for derivatives, retirement plans, income taxes, environmental and other contingencies as well as asset impairment, inventory valuation and collectability of accounts receivable. We use historical and other information that we consider to be relevant to make these judgments and estimates. However, actual results may differ from those estimates and assumptions that are used to prepare our financial statements.

---

## **Table of Contents**

### **New Accounting Pronouncements Adopted**

In January 2013, the Company adopted changes issued by the Financial Accounting Standards Board (FASB) to the disclosure of offsetting assets and liabilities. These changes require an entity to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. The enhanced disclosures will enable users of an entity's financial statements to understand and evaluate the effect or potential effect of master netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments. Other than the additional disclosure requirements, the adoption of these changes had no impact on the consolidated financial statements.

In January 2013, the Company adopted changes issued by the FASB to the reporting of amounts reclassified out of accumulated other comprehensive income. These changes require an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required to be reclassified in its entirety to net income. For other amounts that are not required to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures that provide additional detail about those amounts. These requirements are to be applied to each component of accumulated other comprehensive income. Other than the additional disclosure requirements (see Note 12.), the adoption of these changes had no impact on the consolidated financial statements.

### **Pending Accounting Pronouncements**

In February 2013, the FASB issued changes to the accounting for obligations resulting from joint and several liability arrangements. This guidance requires an entity that is joint and severally liable to measure the obligation as the sum of the amount the entity has agreed with co-obligors to pay and any additional amount it expects to pay on behalf of one or more co-obligors. Required disclosures include a description of the nature of the arrangement, how the liability arose, the relationship with co-obligors and the terms and conditions of the arrangement. These changes become effective for the Company in fiscal year 2014. We do not anticipate a material impact on our financial statements upon adoption.

In March 2013, the FASB issued changes to a parent entity's accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. The amendments specify that a cumulative translation adjustment (CTA) should be released into earnings when an entity ceases to have a controlling financial interest in a subsidiary or group of assets within a consolidated foreign entity and the sale or transfer results in the complete or substantially complete liquidation of the foreign entity. For sales of an equity method investment that is a foreign entity, a pro rata portion of CTA attributable to the investment would be recognized in earnings when the investment is sold. When an entity sells either a part or all of its investment in a consolidated foreign entity, CTA would be recognized in earnings only if the sale results in the parent no longer having a controlling financial interest in the foreign entity. In addition, CTA should be recognized in earnings in a business combination achieved in stages (i.e., a step acquisition). These changes become effective for the Company in fiscal year 2014. We do not anticipate a material impact on our financial statements upon adoption.

### **Forward-Looking and Other Statements**

From time to time, we have made and may continue to make forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Certain statements in this report relate to future events and expectations and, as such, constitute forward-looking statements. Forward-looking statements include those containing such words as anticipates, believes, estimates, expects, would, should, will likely result, forecast, outlook, projects, and similar expressions. Forward-looking statements are based on management's current expectations and include known and unknown risks, uncertainties and other factors, many of which we are unable to predict or control, that may cause our actual results, performance or achievements to differ materially from those expressed or implied in the forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include: (a) material adverse changes in economic or industry conditions generally, including global supply and demand conditions and prices for our specialty metals; (b) material adverse changes in the markets we serve, including the aerospace and defense, oil and gas/chemical process industry, electrical energy, medical, automotive, construction and mining, and other markets; (c) our inability to achieve the level of cost savings, productivity improvements, synergies, growth or other benefits anticipated by management, from strategic investments and the integration of acquired businesses, whether due to significant increases in energy, raw materials or employee benefits costs, the possibility of project cost overruns or unanticipated costs and expenses, or other factors; (d) volatility of prices and availability of supply of the raw materials that are critical to the manufacture of our products; (e) declines in the value of our defined benefit pension plan assets or unfavorable changes in laws or regulations that govern pension plan funding; (f) significant legal proceedings or investigations adverse to us; and (g) other risk factors summarized in our Annual Report on Form 10-K for the year ended December 31, 2012, and in other reports filed with the Securities and Exchange Commission. We assume no duty to update our forward-looking statements.



---

**Table of Contents****Item 3. Quantitative and Qualitative Disclosures About Market Risk**

As part of our risk management strategy, we utilize derivative financial instruments, from time to time, to hedge our exposure to changes in raw material prices, energy prices, foreign currencies, and interest rates. We monitor the third-party financial institutions which are our counterparty to these financial instruments on a daily basis and diversify our transactions among counterparties to minimize exposure to any one of these entities. Fair values for derivatives were measured using exchange-traded prices for the hedged items including consideration of counterparty risk and the Company's credit risk.

**Volatility of Energy Prices.** Energy resources markets are subject to conditions that create uncertainty in the prices and availability of energy resources. The prices for and availability of electricity, natural gas, oil and other energy resources are subject to volatile market conditions. These market conditions often are affected by political and economic factors beyond our control. Increases in energy costs, or changes in costs relative to energy costs paid by competitors, have and may continue to adversely affect our profitability. To the extent that these uncertainties cause suppliers and customers to be more cost sensitive, increased energy prices may have an adverse effect on our results of operations and financial condition. We use approximately 10 to 12 million MMBtu's of natural gas annually, depending upon business conditions, in the manufacture of our products. These purchases of natural gas expose us to risk of higher natural gas prices. For example, a hypothetical \$1.00 per MMBtu increase in the price of natural gas would result in increased annual energy costs of approximately \$10 to \$12 million. We use several approaches to minimize any material adverse effect on our results of operations or financial condition from volatile energy prices. These approaches include incorporating an energy surcharge on many of our products and using financial derivatives to reduce exposure to energy price volatility.

At June 30, 2013, the outstanding financial derivatives used to hedge our exposure to energy cost volatility included both natural gas and electricity hedges. For natural gas, approximately 65% of our forecasted domestic requirements are hedged for 2013, approximately 50% for 2014, and approximately 5% for 2015. The net mark-to-market valuation of these outstanding natural gas hedges at June 30, 2013 was an unrealized pre-tax loss of \$3.1 million, comprised of \$0.2 million classified in prepaid expenses and other current assets, \$0.1 million was included in other long-term assets, \$2.9 million in accrued liabilities, and \$0.5 million in other long-term liabilities. For the three months ended June 30, 2013, the effects of natural gas hedging activity decreased cost of sales by \$0.2 million. For electricity usage in our Western Pennsylvania operations, we have hedged approximately 10% of our on-peak and off-peak forecasted requirements for 2014. The net mark-to-market valuation of the electricity hedges was an unrealized pre-tax loss of \$0.4 million, which was comprised of \$0.2 million in accrued liabilities and \$0.2 million in other long-term liabilities on the balance sheet. The effects of the hedging activity are recognized in income over the designated hedge periods.

**Volatility of Raw Material Prices.** We use raw materials surcharge and index mechanisms to offset the impact of increased raw material costs for a majority of our products; however, competitive factors in the marketplace can limit our ability to institute such mechanisms, and there can be a delay between the increase in the price of raw materials and the realization of the benefit of such mechanisms. For example, in 2012, we used approximately 100 million pounds of nickel; therefore, a hypothetical change of \$1.00 per pound in nickel prices would result in increased costs of approximately \$100 million. In addition, in 2012, we also used approximately 795 million pounds of ferrous scrap in the production of our flat-rolled products; a hypothetical change of \$0.01 per pound would result in increased costs of approximately \$8 million. While we enter into raw materials futures contracts from time-to-time to hedge exposure to price fluctuations, such as for nickel, we cannot be certain that our hedge position adequately reduces exposure. We believe that we have adequate controls to monitor these contracts, but we may not be able to accurately assess exposure to price volatility in the markets for critical raw materials.

---

**Table of Contents**

As of June 30, 2013, we had entered into financial hedging arrangements primarily at the request of our customers related to firm orders for approximately 10% of our total annual nickel requirements. These nickel hedges extend to 2016. Any gain or loss associated with these hedging arrangements is included in cost of sales. At June 30, 2013, the net mark-to-market valuation of our outstanding raw material hedges was an unrealized pre-tax loss of \$13.1 million, comprised of \$11.2 million in accrued liabilities, and \$1.9 million in long-term other liabilities on the balance sheet.

**Foreign Currency Risk.** Foreign currency exchange contracts are used, from time-to-time, to limit transactional exposure to changes in currency exchange rates. We sometimes purchase foreign currency forward contracts that permit us to sell specified amounts of foreign currencies expected to be received from our export sales for pre-established U.S. dollar amounts at specified dates. The forward contracts are denominated in the same foreign currencies in which export sales are denominated. These contracts are designated as hedges of the variability in cash flows of a portion of the forecasted future export sales transactions which otherwise would expose the Company to foreign currency risk. We may also enter into foreign currency forward contracts that are not designated as hedges, which are denominated in the same foreign currency in which export sales are denominated. At June 30, 2013, the outstanding financial derivatives, including both hedges and undesignated derivatives, that are used to manage our exposure to foreign currency, primarily euros, represented approximately 10% of our forecasted total international sales through 2016. In addition, we may also designate cash balances held in foreign currencies as hedges of forecasted foreign currency transactions. At June 30, 2013, the net mark-to-market valuation of the outstanding foreign currency forward contracts was a net asset of \$10.0 million, of which \$5.2 million is included in prepaid expenses and other current assets, \$5.5 million was included other long-term assets, and \$0.7 million was included in accrued liabilities on the balance sheet.

**Item 4. Controls and Procedures****(a) Evaluation of Disclosure Controls and Procedures**

Our Chief Executive Officer and Interim Chief Financial Officer have evaluated the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of June 30, 2013, and they concluded that these disclosure controls and procedures are effective.

**(b) Changes in Internal Controls**

During the second quarter of 2013, one of our operating companies implemented a new enterprise resource planning ( ERP ) system. The implementation of the new ERP system resulted in significant changes to the nature and type of the operating company's internal controls over financial reporting during the most recent fiscal quarter. The Company reviewed the implementation effort as well as the impact on its internal controls over financial reporting. Outside of the implementation of the ERP system, there were no other changes in our internal controls over financial reporting identified in connection with the evaluation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of June 30, 2013 conducted by our Chief Executive Officer and Interim Chief Financial Officer, that occurred during the quarter ended June 30, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

A number of lawsuits, claims and proceedings have been or may be asserted against the Company relating to the conduct of its currently or formerly owned businesses, including those pertaining to product liability, patent infringement, commercial, government contracting, employment, employee and retiree benefits, taxes, environmental, health and safety and occupational disease, and stockholder and corporate governance matters. Certain of such lawsuits, claims and proceedings are described in our Annual Report on Form 10-K for the year ended December 31, 2012, and addressed in Note 13 to the unaudited interim financial statements included herein. While the outcome of litigation cannot be predicted with certainty, and some of these lawsuits, claims or proceedings may be determined adversely to the Company, management does not believe that the disposition of any such pending matters is likely to have a material adverse effect on the Company's financial condition or liquidity, although the resolution in any reporting period of one or more of these matters could have a material adverse effect on the Company's results of operations for that period.





**Table of Contents****Item 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

**Item 6. Exhibits**

## (a) Exhibits

4.1	Fourth Supplemental Indenture, dated July 12, 2013, between Allegheny Technologies Incorporated and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated July 12, 2013 (File No. 1-12001)).
10.1	Sixth Amendment to Credit Agreement, dated May 31, 2013, by and among ATI Funding Corporation, TDY Holdings, LLC, the guarantors party thereto, the lenders party thereto and PNC Bank, National Association, as administrative agent for the lenders (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated June 7, 2013 (File No. 1-12001)).
10.2	Amended and Restated Change in Control Severance Agreement between the Company and Richard J. Harshman, dated August 2, 2013 (filed herewith).
12.1	Computation of the Ratio of Earnings to Fixed Charges (filed herewith).
31.1	Certification of Chief Executive Officer required by Securities and Exchange Commission Rule 13a-14(a) or 15d-14(a) (filed herewith).
31.2	Certification of Chief Financial Officer required by Securities and Exchange Commission Rule 13a-14(a) or 15d-14(a) (filed herewith).
32.1	Certification pursuant to 18 U.S.C. Section 1350 (filed herewith).
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

**Table of Contents**

**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.

**ALLEGHENY TECHNOLOGIES INCORPORATED**

**(Registrant)**

Date: August 5, 2013

By /s/ Patrick J. DeCourcy  
Patrick J. DeCourcy  
Interim Chief Financial Officer

(Principal Financial Officer and Duly Authorized Officer)

Date: August 5, 2013

By /s/ Karl D. Schwartz  
Karl D. Schwartz  
Controller and Chief Accounting Officer

(Principal Accounting Officer)

**Table of Contents**

EXHIBIT INDEX

4.1	Fourth Supplemental Indenture, dated July 12, 2013, between Allegheny Technologies Incorporated and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated July 12, 2013 (File No. 1-12001)).
10.1	Sixth Amendment to Credit Agreement, dated May 31, 2013, by and among ATI Funding Corporation, TDY Holdings, LLC, the guarantors party thereto, the lenders party thereto and PNC Bank, National Association, as administrative agent for the lenders (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated June 7, 2013 (File No. 1-12001)).
10.2	Amended and Restated Change in Control Severance Agreement between the Company and Richard J. Harshman, dated August 2, 2013 (filed herewith).
12.1	Computation of the Ratio of Earnings to Fixed Charges (filed herewith).
31.1	Certification of Chief Executive Officer required by Securities and Exchange Commission Rule 13a-14(a) or 15d-14(a).
31.2	Certification of Chief Financial Officer required by Securities and Exchange Commission Rule 13a-14(a) or 15d-14(a).
32.1	Certification pursuant to 18 U.S.C. Section 1350.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document