ALLEGHENY TECHNOLOGIES INC
Form 10-Q
November 03, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the Quarterly Period Ended September 30, 2006

OR

o **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)

Delaware	25-1792394
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1000 Six PPG Place Pittsburgh, Pennsylvania	15222-5479
(Address of Principal Executive Offices)	(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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act: (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filero

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

At October 25, 2006, the registrant had outstanding 100,723,901 shares of its Common Stock.

ALLEGHENY TECHNOLOGIES INCORPORATED
SEC FORM 10-Q
QUARTER ENDED SEPTEMBER 30, 2006
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ALLEGHENY TECHNOLOGIES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In millions, except share and per share amounts)

	September 30, 2006 (Unaudited)	December 31, 2005 (Audited)
ASSETS		
Cash and cash equivalents	$ 405.9	$ 362.7
Accounts receivable, net	631.5	442.1
Inventories, net	1,044.3	607.1
Deferred income taxes	2.1	22.8
Prepaid expenses and other current assets	48.7	49.3
Total Current Assets	2,132.5	1,484.0
Property, plant and equipment, net	813.7	704.9
Cost in excess of net assets acquired	206.1	199.7
Deferred income taxes	176.5	155.3
Deferred pension asset	100.6	100.6
Other assets	94.0	87.1
Total Assets	**$ 3,523.4**	**$ 2,731.6**
LIABILITIES AND STOCKHOLDERS EQUITY		
Accounts payable	$ 578.6	$ 312.9
Accrued liabilities	239.7	216.1
Accrued income taxes	38.7	18.5
Short-term debt and current portion of long-term debt	24.3	13.4
Total Current Liabilities	881.3	560.9
Long-term debt	530.5	547.0
Accrued postretirement benefits	457.1	461.5
Pension liabilities	288.0	242.9
Other long-term liabilities	132.1	119.4
Total Liabilities	**2,289.0**	**1,931.7**
Stockholders Equity:		
Preferred stock, par value $0.10: authorized- 50,000,000 shares; issued-none	¾	¾
Common stock, par value $0.10, authorized-500,000,000 shares; issued-100,673,415 shares at September 30, 2006 and 98,951,490 shares at December 31, 2005; outstanding-100,667,194 shares at September 30, 2006 and 98,200,561 shares at December 31, 2005	10.1	9.9
Additional paid-in capital	578.7	535.6

Retained earnings		1,002.6		642.6
Treasury stock: 6,221 shares at September 30, 2006 and 750,929 shares at December 31, 2005		(0.4)		(18.8)
Accumulated other comprehensive loss, net of tax		(356.6)		(369.4)
Total Stockholders Equity		**1,234.4**		**799.9**
Total Liabilities and Stockholders Equity	**$**	**3,523.4**	**$**	**2,731.6**

The accompanying notes are an integral part of these statements.

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ALLEGHENY TECHNOLOGIES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In millions except per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Sales	$ 1,288.4	$ 861.7	$ 3,539.7	$ 2,645.5
Costs and expenses:				
Cost of sales	963.5	698.8	2,687.0	2,169.6
Selling and administrative expenses	72.8	64.4	221.1	196.6
Income before interest, other income (expense), and income taxes	252.1	98.5	631.6	279.3
Interest expense, net	(4.3)	(9.9)	(17.6)	(30.9)
Other income (expense)	(1.4)	(1.6)	(3.9)	(3.4)
Income before income tax provision	246.4	87.0	610.1	245.0
Income tax provision (benefit)	84.5	(1.3)	205.3	4.0
Net income	$ 161.9	$ 88.3	$ 404.8	$ 241.0
Basic net income per common share	$ 1.62	$ 0.91	$ 4.07	$ 2.51
Diluted net income per common share	$ 1.58	$ 0.87	$ 3.96	$ 2.40
Dividends declared per common share	$ 0.10	$ 0.06	$ 0.30	$ 0.18

The accompanying notes are an integral part of these statements.

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ALLEGHENY TECHNOLOGIES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Operating Activities:		
Net income	$ 404.8	$ 241.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	60.4	55.7
Deferred income taxes	3.5	6.5
Change in operating assets and liabilities:		
Inventories	(437.3)	(90.2)
Accounts payable	265.8	(3.1)
Accounts receivable	(189.4)	(68.1)
Pension assets and liabilities	43.8	43.4
Accrued income taxes, net of tax benefits on share-based compensation	20.2	
Postretirement benefits	(4.4)	(5.9)
Accrued liabilities and other	11.7	16.3
Cash provided by operating activities	**179.1**	**195.6**
Investing Activities:		
Purchases of property, plant and equipment	(159.7)	(41.2)
Asset disposals and other	1.8	(3.3)
Purchases of businesses and investment in ventures		(18.3)
Cash used in investing activities	**(157.9)**	**(62.8)**
Financing Activities:		
Payments on long-term debt and capital leases	(7.1)	(31.3)
Net borrowings under credit facilities	0.9	3.6
Borrowings on long-term debt		13.3
Net decrease in debt	(6.2)	(14.4)
Exercises of stock options	28.2	19.9
Tax benefits on share-based compensation	30.0	
Dividends paid	(30.0)	(17.4)
Cash provided by (used in) financing activities	**22.0**	**(11.9)**
Increase in cash and cash equivalents	**43.2**	**120.9**
Cash and cash equivalents at beginning of the year	**362.7**	**250.8**
Cash and cash equivalents at end of period	**$ 405.9**	**$ 371.7**

The accompanying notes are an integral part of these statements.

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ALLEGHENY TECHNOLOGIES INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Unaudited

Note 1. Accounting Policies

Basis of Presentation

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 2005 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.

Recent accounting pronouncements

In September 2006, the Financial Accounting Standards Board issued an amendment to its standards for defined benefit pension and other postretirement benefit plans accounting. The new standard, Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans , requires that the net funded position of the plans be recognized as an asset or liability in the employer s balance sheet. This change will be effective for year-end 2006. The Company has not determined the effect of adopting this change at year-end 2006 as the adjustment will depend upon the value of plan assets and obligations as of the Company s measurement date. In addition, the new standard will require assets and benefits to be measured at the date of the employer s statement of financial position rather than the Company s measurement date of November 30th, as currently permitted. This change will be effective for ATI s 2008 fiscal year.

The FASB issued in September 2006 a FASB Staff Position (FSP) titled Accounting for Planned Major Maintenance Activities (FSP PMMA). This FSP amends an AICPA Industry Audit guide and is applicable to all industries that accrue for planned major maintenance activities. The FSP PMMA prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities, which is the policy presently used by the Company to record planned plant outage costs on an interim basis within a fiscal year, and also to record the costs of major equipment rebuilds which extend the life of capital equipment. The FSP PMMA is effective as of the beginning of ATI s 2007 fiscal year, with retrospective application to all prior periods presented. Upon adoption of the FSP PMMA, the Company will report results using the deferral method whereby major equipment rebuilds are capitalized as costs are incurred and amortized into expense over their estimated useful lives, and planned plant outage costs are fully recognized in the interim period of the outage. The Company is currently analyzing the retrospective effects of the FSP on prior periods.

In June 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), an interpretation of FASB Statement No. 109, Accounting for Income Taxes . FIN 48 prescribes recognition and measurement standards for a tax position taken or expected to be taken in a tax return. The evaluation of a tax position in accordance with FIN 48 is a two step process. The first step is the determination of whether a tax position should be recognized. Under FIN 48, a tax position taken or expected to be taken in a tax return is to be recognized only if the Company determines that it is more-likely-than-not that the tax position will be sustained upon examination by the tax authorities based upon the technical merits of the position. In step two for those tax positions which should be recognized, the measurement of a tax position is determined as being the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. FIN 48 will be effective for the beginning of ATI s 2007 fiscal year, with adoption treated as a cumulative-effect-type adjustment to retained earnings as of the beginning of 2007. Although the Company s analysis of the effect of FIN 48 has not been completed, at this time the Company does not anticipate recording any material adjustment as a result of adopting this

Interpretation.

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Note 2. Acquisitions

On June 1, 2004, a subsidiary of the Company acquired substantially all of the assets of J&L Specialty Steel, LLC (J&L), a producer of flat-rolled stainless steel products with operations in Midland, Pennsylvania and Louisville, Ohio, for $69 million in total consideration, including the assumption of certain current liabilities, and which is subject to final adjustment. The acquired operations were integrated into the Allegheny Ludlum operation, which is part of the Company s Flat-Rolled Products business segment. The purchase price included payment of $7.5 million at closing, the issuance to the seller of a non-interest bearing $7.5 million promissory note that matured, and was paid, on June 1, 2005, and the issuance to the seller of a promissory note in the principal amount of $54 million, which is secured by the property, plant and equipment acquired, and which is subject to adjustment on the terms set forth in the asset purchase agreement and has a final maturity of July 1, 2011. The purchase price will be finalized upon agreement between buyer and seller regarding certain working capital adjustments.

Note 3. Inventories

Inventories at September 30, 2006 and December 31, 2005 were as follows (in millions):

	September 30, 2006	December 31, 2005
Raw materials and supplies	$ 388.7	$ 111.1
Work-in-process	884.1	645.4
Finished goods	152.1	128.5
Total inventories at current cost	1,424.9	885.0
Less allowances to reduce current cost values to LIFO basis	(376.1)	(269.7)
Progress payments	(4.5)	(8.2)
Total inventories, net	$ 1,044.3	$ 607.1

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, increased cost of sales by $54.0 million for the 2006 third quarter and by $106.4 million for the first nine months of 2006, compared to $12.1 million for the 2005 third quarter and $44.2 million for the first nine months of 2005.

Note 4. Supplemental Financial Statement Information

Property, plant and equipment at September 30, 2006 and December 31, 2005 were as follows (in millions):

	September 30, 2006	December 31, 2005
Land	$ 24.0	$ 23.5
Buildings	225.5	230.8
Equipment and leasehold improvements	1,653.3	1,580.1
	1,902.8	1,834.4
Accumulated depreciation and amortization	(1,089.1)	(1,129.5)
Total property, plant and equipment, net	$ 813.7	$ 704.9

Capitalized interest was $4.4 million for the nine months ended September 30, 2006.

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Note 5. Debt

Debt at September 30, 2006 and December 31, 2005 was as follows (in millions):

	September 30, 2006	December 31, 2005
Allegheny Technologies $300 million 8.375% Notes due 2011, net (a)	$ 306.7	$ 307.5
Allegheny Ludlum 6.95% debentures, due 2025	150.0	150.0
Promissory note for J&L asset acquisition	54.0	54.0
Domestic Bank Group $325 million secured credit agreement		
Foreign credit agreements	24.5	23.7
Industrial revenue bonds, due through 2020	11.1	11.8
Capitalized leases and other	8.5	13.4
Total short-term and long-term debt	554.8	560.4
Short-term debt and current portion of long-term debt	(24.3)	(13.4)
Total long-term debt	$ 530.5	$ 547.0

(a) Includes fair value adjustments for settled interest rate swap contracts of $11.0 million at September 30, 2006 and $12.2 million at December 31, 2005.

The Company has a $325 million senior secured domestic revolving credit facility (the facility), which is secured by all accounts receivable and inventory of its U.S. operations, and includes capacity for up to $175 million in letters of credit. As of September 30, 2006, there had been no borrowings made under the facility, although the facility is used to support approximately $97 million in letters of credit.

Note 6. Per Share Information

The following table sets forth the computation of basic and diluted net income per common share (in millions, except share and per share amounts):

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Numerator for basic and diluted net income per common share net income	$ 161.9	$ 88.3	$ 404.8	$ 241.0
Denominator:				
	100.1	96.5	99.5	95.9

Denominator for basic net income per common share-weighted average shares				
Effect of dilutive securities:				
Option equivalents	1.0	1.8	1.3	1.8
Contingently issuable shares	1.5	3.1	1.5	2.8
Denominator for diluted net income per common share adjusted weighted average shares and assumed conversions	102.6	101.4	102.3	100.5
Basic net income per common share	$ 1.62	$ 0.91	$ 4.07	$ 2.51
Diluted net income per common share	$ 1.58	$ 0.87	$ 3.96	$ 2.40

Weighted average shares issuable upon the exercise of stock options which were antidilutive, and thus not included in the calculation, were negligible for all periods presented.

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Note 7. Comprehensive Income

The components of comprehensive income, net of tax, were as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net income	$ 161.9	$ 88.3	$ 404.8	$ 241.0
Foreign currency translation gains (losses)	0.5	(3.8)	22.3	(12.0)
Unrealized gains (losses) on energy, raw material and currency hedges, net of tax	(3.8)	34.2	(10.2)	48.0
Unrealized gains on securities	0.6	0.1	0.7	0.1
	(2.7)	30.5	12.8	36.1
Comprehensive income	$ 159.2	$ 118.8	$ 417.6	$ 277.1

Note 8. Income Taxes

The third quarter 2006 included a provision for income taxes of $84.5 million, or 34.3% of income before tax, for U.S. Federal, foreign and state income taxes. The third quarter 2006 benefited from a favorable $4.2 million adjustment of prior years tax accruals. The third quarter 2005 included a tax benefit of $1.3 million which principally related to a $4.0 million favorable adjustment to prior years taxes resulting from settlement of open audit years partially offset by foreign and state income taxes. Prior to the fourth quarter 2005, the Company maintained a valuation allowance for a major portion of its U.S. Federal deferred tax assets and certain state deferred tax assets in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes , due to uncertainty regarding full utilization of the net deferred tax asset, including the 2003 and 2004 unutilized net operating losses.

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Note 9. 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. ATI is not required to make cash contributions to its U.S. defined benefit pension plan for 2006. However, in order to improve the plan s funded position the Company is considering making a voluntary cash contribution to this defined benefit pension plan of approximately $100 million in the 2006 fourth quarter.

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 months and nine months ended September 30, 2006 and 2005, the components of pension expense for the Company s defined benefit plans and components of other postretirement benefit expense included the following (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Pension Benefits:				
Service cost benefits earned during the year	$ 7.1	$ 7.0	$ 21.3	$ 21.0
Interest cost on benefits earned in prior years	32.1	31.2	96.2	93.8
Expected return on plan assets	(40.6)	(38.4)	(121.8)	(115.2)
Amortization of prior service cost	4.8	5.4	14.4	16.2
Amortization of net actuarial loss	12.6	10.5	37.8	31.5
Total pension expense	$ 16.0	$ 15.7	$ 47.9	$ 47.3

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Other Postretirement Benefits:				
Service cost benefits earned during the year	$ 0.7	$ 0.8	$ 2.1	$ 2.4
Interest cost on benefits earned in prior years	8.0	8.1	24.0	24.3
Expected return on plan assets	(1.6)	(2.0)	(4.8)	(6.0)
Amortization of prior service cost (credits)	(6.6)	(6.7)	(19.8)	(19.9)
Amortization of net actuarial loss	4.0	4.0	12.0	12.0
Total other postretirement benefit expense	$ 4.5	$ 4.2	$ 13.5	$ 12.8
Total retirement benefit expense	$ 20.5	$ 19.9	$ 61.4	$ 60.1

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Note 10. Business Segments

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Total sales:				
High Performance Metals	$ 490.0	$ 347.2	$ 1,407.4	$ 950.7
Flat-Rolled Products	747.5	450.8	1,953.8	1,490.1
Engineered Products	109.6	101.7	339.1	302.6
	1,347.1	899.7	3,700.3	2,743.4
Intersegment sales:				
High Performance Metals	35.0	22.6	90.1	61.8
Flat-Rolled Products	18.8	11.8	57.1	24.4
Engineered Products	4.9	3.6	13.4	11.7
	58.7	38.0	160.6	97.9
Sales to external customers:				
High Performance Metals	455.0	324.6	1,317.3	888.9
Flat-Rolled Products	728.7	439.0	1,896.7	1,465.7
Engineered Products	104.7	98.1	325.7	290.9
	$ 1,288.4	$ 861.7	$ 3,539.7	$ 2,645.5
Operating profit:				
High Performance Metals	$ 173.0	$ 87.9	$ 470.9	$ 228.0
Flat-Rolled Products	105.4	33.4	235.7	126.0
Engineered Products	12.4	12.7	45.2	35.7
Total operating profit	290.8	134.0	751.8	389.7
Corporate expenses	(15.1)	(13.8)	(47.0)	(35.7)
Interest expense, net	(4.3)	(9.9)	(17.6)	(30.9)
Other expense, net of gains on asset sales	(4.5)	(3.4)	(15.7)	(18.0)
Retirement benefit expense	(20.5)	(19.9)	(61.4)	(60.1)
Income before income taxes	$ 246.4	$ 87.0	$ 610.1	$ 245.0

Retirement benefit expense represents pension expense and other postretirement benefit expense. Operating profit with respect to the Company s business segments excludes any retirement benefit expense.

Corporate expenses for the first nine months of 2006 were $47.0 million, compared to $35.7 million for 2005. This increase is due to expenses associated with annual and long-term performance-based incentive compensation programs.

Other expense, net of gains on asset sales, includes charges incurred in connection with closed operations, pretax gains and losses on the sale of surplus real estate and other assets, 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 income. These items resulted in net charges of $15.7 million for the first nine months of 2006 and $18.0 million for the first nine months of 2005. Other expense for the first nine months of 2005 includes litigation expense of $5.3 million relating to an unfavorable court judgment concerning a commercial dispute with a raw materials supplier.

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 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 financial information in this Note 11 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 balance sheets.

In 1996, the defined benefit pension plans of the Subsidiary were merged with the defined benefit pension plans of Teledyne, Inc. and Allegheny Technologies became the plan sponsor. As a result, the balance sheets presented for the Subsidiary and the non-guarantor subsidiaries do not include the Allegheny Technologies deferred pension asset, pension liabilities or the related deferred taxes. The pension assets, liabilities and the 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.

Allegheny Technologies Incorporated
Financial Information for Subsidiary and Guarantor Parent
Balance Sheets
September 30, 2006

(In millions)	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Assets:					
Cash and cash equivalents	$ 0.2	$ 94.3	$ 311.4	$	$ 405.9
Accounts receivable, net	0.2	283.9	347.4		631.5
Inventories, net		544.1	500.2		1,044.3
Deferred income taxes	2.1				2.1
Prepaid expenses and other current assets	0.4	4.1	44.2		48.7
Total current assets	2.9	926.4	1,203.2		2,132.5
Property, plant and equipment, net	0.8	302.8	510.1		813.7
Cost in excess of net assets acquired		112.1	94.0		206.1
Deferred income taxes	176.5				176.5
Deferred pension asset	100.6				100.6
Investments in subsidiaries and other assets	2,939.1	679.1	875.5	(4,399.7)	94.0
Total assets	$3,219.9	$2,020.4	$2,682.8	$(4,399.7)	$3,523.4
Liabilities and stockholders equity:					
Accounts payable	$ 3.6	$ 399.7	$ 175.3	$	$ 578.6
Accrued liabilities	1,314.2	79.5	403.2	(1,557.2)	239.7
Accrued income taxes	38.7				38.7
Short-term debt and current portion of long-term debt		11.2	13.1		24.3
Total current liabilities	1,356.5	490.4	591.6	(1,557.2)	881.3
Long-term debt	306.7	395.0	28.8	(200.0)	530.5
Accrued postretirement benefits		267.4	189.7		457.1
Pension liabilities	288.0				288.0
Other long-term liabilities	34.3	26.0	71.8		132.1

Total liabilities	1,985.5	1,178.8	881.9	(1,757.2)	2,289.0
Total stockholders equity	1,234.4	841.6	1,800.9	(2,642.5)	1,234.4
Total liabilities and stockholders equity	$3,219.9	$2,020.4	$2,682.8	$(4,399.7)	$3,523.4

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Note 11. CONTINUED
Allegheny Technologies Incorporated
Financial Information for Subsidiary and Guarantor Parent
Statements of Income
For the nine months ended September 30, 2006

(In millions)	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Sales	$	$1,787.9	$1,751.8	$	$3,539.7
Cost of sales	32.2	1,544.7	1,110.1		2,687.0
Selling and administrative expenses	76.1	29.7	115.3		221.1
Interest income (expense), net	(25.3)	2.9	4.8		(17.6)
Other income (expense) including equity in income of unconsolidated subsidiaries	743.7	1.8	(5.8)	(743.6)	(3.9)
Income before income tax provision	610.1	218.2	525.4	(743.6)	610.1
Income tax provision	205.3	82.7	178.6	(261.3)	205.3
Net income	$404.8	$ 135.5	$ 346.8	$(482.3)	$ 404.8

Condensed Statements of Cash Flows
For the nine months ended September 30, 2006

(In millions)	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Cash flows provided by (used in) operating activities	$ (6.8)	$ 92.4	$ 93.5	$	$ 179.1
Cash flows used in investing activities	(21.9)	(35.6)	(136.3)	35.9	(157.9)
Cash flows provided by financing activities	28.2	14.6	15.1	(35.9)	22.0
Increase (decrease) in cash and cash equivalents	$ (0.5)	$ 71.4	$ (27.7)	$	$ 43.2

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Note 11. CONTINUED
Allegheny Technologies Incorporated
Financial Information for Subsidiary and Guarantor Parent
Balance Sheets
December 31, 2005

(In millions)	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Assets:					
Cash and cash equivalents	$ 0.7	$ 22.9	$ 339.1	$	$ 362.7
Accounts receivable, net	0.2	163.2	278.7		442.1
Inventories, net		244.2	362.9		607.1
Deferred income taxes	22.8				22.8
Prepaid expenses, and other current assets	0.1	3.8	45.4		49.3
Total current assets	23.8	434.1	1,026.1		1,484.0
Property, plant and equipment, net		295.7	409.2		704.9
Cost in excess of net assets acquired		112.1	87.6		199.7
Deferred income taxes	155.3				155.3
Deferred pension asset	100.6				100.6
Investment in subsidiaries and other assets	1,917.5	726.6	693.7	(3,250.7)	87.1
Total assets	$2,197.2	$1,568.5	$ 2,216.6	$ (3,250.7)	$ 2,731.6
Liabilities and stockholders equity:					
Accounts payable	$ 2.5	$ 150.3	$ 160.1	$	$ 312.9
Accrued liabilities	815.6	59.1	505.5	(1,145.6)	234.6
Short-term debt and current portion of long-term debt			13.4		13.4
Total current liabilities	818.1	209.4	679.0	(1,145.6)	560.9
Long-term debt	307.5	406.3	33.2	(200.0)	547.0
Accrued postretirement benefits		264.0	197.5		461.5
Pension liabilities	242.9				242.9
Other long-term liabilities	28.8	27.0	63.6		119.4
Total liabilities	1,397.3	906.7	973.3	(1,345.6)	1,931.7
Total stockholders equity	799.9	661.8	1,243.3	(1,905.1)	799.9
Total liabilities and stockholders equity	$2,197.2	$1,568.5	$ 2,216.6	$ (3,250.7)	$ 2,731.6

Note 11. CONTINUED
Allegheny Technologies Incorporated
Financial Information for Subsidiary and Guarantor Parent
Statements of Income
For the nine months ended September 30, 2005

(In millions)	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Sales	$	$ 1,357.2	$ 1,288.3	$	$ 2,645.5
Cost of sales	40.9	1,227.2	901.5		2,169.6
Selling and administrative expenses	65.6	25.2	105.8		196.6
Interest expense, net	(21.8)	(7.1)	(2.0)		(30.9)
Other income (expense) including equity in income of unconsolidated subsidiaries	373.3	3.3	1.1	(381.1)	(3.4)
Income before income tax provision	245.0	101.0	280.1	(381.1)	245.0
Income tax provision	4.0				4.0
Net income	$ 241.0	$ 101.0	$ 280.1	$ (381.1)	$ 241.0

Condensed Statements of Cash Flows
For the nine months ended September 30, 2005

(In millions)	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Cash flows provided by operating activities	$ 31.6	$ 90.5	$ 98.3	$ (24.8)	$ 195.6
Cash flows used in investing activities	(33.9)	(12.8)	(60.6)	44.5	(62.8)
Cash flows provided by (used in) financing activities	2.5	2.8	2.5	(19.7)	(11.9)
Increase in cash and cash equivalents	$ 0.2	$ 80.5	$ 40.2	$	$ 120.9

Note 12. 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 expects that it will adjust its accruals to reflect new information as appropriate. Future adjustments could have a material adverse effect on the Company s results of operations in a given period, but the Company cannot reliably predict the amounts of such future adjustments.

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Based on currently available information, the Company does not believe that there is a reasonable possibility that a loss exceeding the amount already accrued for any of the sites with which the Company is currently associated (either individually or in the aggregate) will be an amount that would be material to a decision to buy or sell the Company s securities. Future developments, administrative actions or liabilities relating to environmental matters, however, could have a material adverse effect on the Company s financial condition or results of operations.

At September 30, 2006, the Company s reserves for environmental remediation obligations totaled approximately $28 million, of which approximately $16 million were included in other current liabilities. The reserve includes estimated probable future costs of $10 million for federal Superfund and comparable state-managed sites; $10 million for formerly owned or operated sites for which the Company has remediation or indemnification obligations; $5 million for owned or controlled sites at which Company operations have been discontinued; and $3 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 future costs for environmental liabilities from third parties.

The action in U.S. District Court for the Southern District of California against TDY Industries, Inc. (TDY), a wholly-owned subsidiary of the Company, related to alleged environmental contamination on the San Diego property was stayed in January 2006 to allow the parties to attempt to settle the matter. The District Court lifted the stay in August 2006 and trial is scheduled for May 2007. The parties are continuing their efforts to settle the matter. At September 30, 2006, the Company believes its reserves for these matters are adequate.

With respect to the Li Tungsten Superfund Site in Glen Cove, New York, in August 2006, TDY, the other PRPs and the U.S. Government, including the U.S. Environmental Protection Agency, reached an agreement to resolve this matter and the parties are currently negotiating the written agreement of settlement. Based on information presently available, the Company believes its reserves on this matter are adequate.

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 14. 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, 2005 for a discussion of legal proceedings affecting the Company. The following are updates to that discussion.

In 2006, the Company paid approximately $37.5 million in previously accrued litigation costs for the resolution of the previously disclosed matters regarding TDY and San Diego Unified Port District, and TDY and Kaiser Aerospace & Electronics Corporation.

In October 2006, the Company paid a $5.6 million judgment against TDY, including interest, in a case filed in the United States District Court of the Northern District of Alabama relating to a disputed tantalum grade powder raw material supply arrangement. The judgment was issued in April 2005, and the Company s appeal of the adverse judgment in favor of the supplier was denied in the third quarter of 2006.

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, employment, employee benefits, taxes, environmental and health and safety, and stockholder 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 results of operations for that period.

Reserves for restructuring charges recorded in prior years involving future payments were approximately $3 million at September 30, 2006 and $4 million at December 31, 2005. The reduction in reserves was due to payments. The reserves relate to severance obligations and environmental exit costs.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Overview

Allegheny Technologies Incorporated is one of the largest and most diversified producers of specialty metals in the world. Unless the context requires otherwise, we , our and us refer to Allegheny Technologies Incorporated and its subsidiaries.

Results of Operations

We operate in the following three business segments, which accounted for the following percentages of total external sales and operating profit for the first nine months of 2006 and 2005:

	Nine Months Ended September 30, 2006		Nine Months Ended September 30, 2005	
Percentage of Total by Segment:	External Sales	Operating Profit	External Sales	Operating Profit
High Performance Metals	37%	63%	34%	59%
Flat-Rolled Products	54%	31%	55%	32%
Engineered Products	9%	6%	11%	9%

Sales for the third quarter 2006 were $1.29 billion, 50% higher than the third quarter 2005. Compared to the third quarter 2005, sales increased 40% in the High Performance Metals segment, 66% in the Flat-Rolled Products segment, and 7% in the Engineered Products segment. For the first nine months of 2006, sales were $3.54 billion, a 34% increase over the first nine months of 2005. Sales increased 48% in the High Performance Metals segment, 29% in the Flat-Rolled Products segment, and 12% in the Engineered Products segment, compared to the first nine months of 2005. Our key growth markets, namely aerospace and defense, chemical process industry, oil and gas, electrical energy, and medical, remained strong, representing 63% of ATI s year-to-date 2006 sales. Aerospace and defense was the largest of our markets at 30% of year-to-date 2006 sales.

Segment operating profit for the third quarter 2006 was $290.8 million, an increase of $156.8 million, or 117%, compared to the third quarter 2005, as a result of improved performance across the High Performance Metals and Flat-Rolled Products business segments. For the first nine months of 2006, segment operating profit was $751.8 million, a 93% increase over the first nine months of 2005. Operating performance in 2006 continued to benefit from strong end-market demand, especially from our key growth markets, higher selling prices for most of our products, and ATI Business System initiatives to reduce costs and improve productivity. Segment operating profit, and segment operating profit as a percentage of sales, for the three month and nine month periods ended September 30, 2006 and 2005, were:

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
Segment operating profit:	2006	2005	2006	2005
High Performance Metals	$ 173.0	$ 87.9	$ 470.9	$ 228.0
Segment operating profit %	*38.0%*	*27.1%*	*35.7%*	*25.6%*
Flat-Rolled Products	105.4	33.4	235.7	126.0
Segment operating profit %	*14.5%*	*7.6%*	*12.4%*	*8.6%*
Engineered Products	12.4	12.7	45.2	35.7
Segment operating profit %	*11.8%*	*12.9%*	*13.9%*	*12.3%*
Total segment operating profit	$ 290.8	$ 134.0	$ 751.8	$ 389.7
Total segment operating profit %	*22.6%*	*15.6%*	*21.2%*	*14.7%*

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, and other costs net of gains on asset sales. We believe segment operating profit, as defined, provides an appropriate measure of controllable operating results at the business segment level.

Results for the third quarter 2006 included a LIFO inventory valuation reserve charge of $54.0 million, due primarily to higher nickel, nickel-bearing scrap, and titanium alloy scrap costs. For the same 2005 period, the LIFO inventory valuation reserve charge was $12.1 million. For the first nine months of 2006, LIFO inventory valuation reserve charges were $106.4 million, compared to $44.2 million for the comparable 2005 period. Volatility in the cost of raw materials, particularly for nickel, nickel-bearing scrap, and titanium alloy scrap, has the potential to drive LIFO charges in the fourth quarter 2006 to a similar level as in the third quarter 2006.

Third quarter 2006 gross cost reductions, before the effects of inflation, totaled $34 million. Year-to-date gross cost reductions, before the effects of inflation, totaled $96 million. We will again exceed our yearly cost reduction goal, which was originally set at $100 million for 2006.

Income before tax for the third quarter 2006 was $246.4 million, an increase of $159.4 million compared to the third quarter 2005. Net income for the third quarter 2006 was $161.9 million, or $1.58 per share, compared to the third quarter 2005 of $88.3 million, or $0.87 per share. Third quarter 2006 results include an income tax provision of $84.5 million, or 34% of income before tax, which benefited from a $4.2 million favorable adjustment related to prior years tax accruals. The comparable 2005 quarter included an income tax benefit of $1.3 million, or 1.5% of income before tax, which benefited from a lower income tax provision due to a reduction in the valuation allowances associated with deferred tax assets.

Income before tax for the first nine months of 2006 was $610.1 million, a 149% increase over the first nine months of 2005. Net income for the nine months ended September 30, 2006 was $404.8 million, or $3.96 per share, compared to $241.0 million, or $2.40 per share for the first nine months of 2005. Results for the first nine months of 2006 include an income tax provision of $205.3 million, or 33.7% of income before tax, and benefited from $14.2 million of favorable adjustments related to prior years taxes and reductions in deferred tax asset valuation allowances. The results for the first nine months of 2005 included an income tax provision of $4.0 million, or 1.6% of income before tax, as prior year results benefited from a lower income tax provision due to reductions in deferred tax valuation allowances.

Looking ahead, our business remains strong, with significant opportunities for profitable growth. We continue to see strong growth opportunities for our specialty metals from our key markets, namely aerospace and defense, chemical process industry, oil and gas, electrical energy, and medical. Our strategic capital investments and strong financial position have ATI well-positioned to achieve continued profitable growth in 2007 and beyond.

High Performance Metals Segment

Sales increased 40% to $455.0 million, compared to the third quarter 2005. Demand for our titanium alloys, nickel-based alloys and superalloys, and vacuum-melted specialty alloys was robust from the aerospace and defense market, and strong from the medical, and oil and gas markets. Demand was strong for our exotic alloys from the global chemical process industry markets and from the aerospace and defense, and electrical energy markets. Segment operating profit in the quarter reached $173.0 million, or 38.0% of sales, an $85.1 million increase compared to the third quarter 2005. The significant increase in operating profit primarily resulted from increased shipments, higher selling prices for most products, and the benefits of gross cost reductions, which more than offset higher raw material costs. As a result of raw material cost inflation and higher inventory levels, a LIFO inventory valuation reserve charge of $11.6 million was recorded in the third quarter 2006, compared to a $12.9 million charge in the third quarter 2005. Results for the 2006 third quarter benefited from $7.2 million of gross cost reductions.

Certain comparative information on the segment s major products for the three months ended September 30, 2006 and 2005 is provided in the following table:

	Three Months Ended September 30,		%
	2006	2005	Change
Volume (000 s pounds):			
Nickel-based and specialty alloys	10,441	9,621	9%
Titanium mill products	6,618	6,169	7%
Exotic alloys	1,009	908	11%

Average prices (per pound):			
Nickel-based and specialty alloys	$ 14.81	$ 11.71	26%
Titanium mill products	$ 36.09	$ 25.49	42%
Exotic alloys	$ 41.26	$ 43.49	(5)%

The exotic alloys average price decrease is primarily due to product mix.

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For the nine months ended September 30, 2006, segment sales increased 48% to $1.32 billion. Operating profit was $470.9 million for the nine months ended September 30, 2006, or 35.7% of sales, compared to $228.0 million, or 25.6% of sales, for the comparable prior year to date period. Results for the first nine months of 2006 included a LIFO inventory valuation reserve charge of $37.0 million, compared to a charge of $36.2 million in the 2005 period. Year-to-date 2006 gross cost reductions were $21.5 million. Results were also affected by start-up expenses of $0.4 million in the third quarter and $4.7 million for the first nine months of 2006 associated with our Albany, OR titanium sponge facility.

Certain comparative information on the segment s major products for the nine months ended September 30, 2006 and 2005 is provided in the following table:

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005	% Change
Volume (000 s pounds):			
Nickel-based and specialty alloys	32,581	29,836	9%
Titanium mill products	19,744	18,610	6%
Exotic alloys	3,214	3,090	4%
Average prices (per pound):			
Nickel-based and specialty alloys	$ 13.84	$ 10.91	27%
Titanium mill products	$ 33.94	$ 21.20	60%
Exotic alloys	$ 40.35	$ 40.70	(1)%

The exotic alloys average price decrease is primarily due to product mix.

Flat-Rolled Products Segment

Third quarter 2006 sales were $728.7 million, 66% higher than the third quarter 2005, as a result of a 42% increase in pounds shipped, higher base-selling prices for many products, and improved product mix. Average transaction prices, which include surcharges, were 17% higher. Demand was strong for our stainless products from the chemical process industry, oil and gas, and electrical energy markets and from service center customers. Demand was also strong for our specialty stainless, grain-oriented silicon, and nickel-based alloy products from the chemical process industry, oil and gas, electrical energy, and aerospace and defense markets. Segment operating profit increased to $105.4 million, or 14.5% of sales, primarily as a result of increased shipments, improved product mix, higher selling prices, and the benefit of gross cost reductions. This was accomplished in spite of significantly higher LIFO inventory valuation reserve charges due primarily to higher nickel and nickel-bearing scrap raw material costs. Third quarter 2006 results included a LIFO inventory valuation reserve charge of $42.2 million, compared to a $3.2 million charge in the third quarter 2005, and a $27.0 million charge in the second quarter 2006. Results for the 2006 third quarter benefited from $24.8 million in gross cost reductions.

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Comparative information on the segment s products for the three months ended September 30, 2006 and 2005 is provided in the following table:

	Three Months Ended September 30, 2006	2005	% Change
Volume (000 s pounds):			
High value	123,784	123,174	%
Commodity	236,902	131,218	81%
Total	360,686	254,392	42%
Average prices (per lb.):			
High value	$ 2.56	$ 2.18	18%
Commodity	$ 1.71	$ 1.27	35%
Combined Average	$ 2.00	$ 1.71	17%

Volume and average price data includes the classification of grain-oriented silicon electrical steel and tool steel as high-value products for all periods presented.

For the nine months ended September 30, 2006, Flat-Rolled Products sales increased 29.4%, to $1.90 billion, and operating profit was $235.7 million, or 12.4% of sales, compared to $126.0 million, or 8.6% of sales, for the prior year-to-date period. Segment results for the 2006 year-to-date period included a LIFO inventory reserve charge of $69.2 million, compared to a prior year LIFO inventory reserve charge of $0.7 million in 2005, due primarily to higher nickel and nickel-bearing scrap raw material costs. Results for the first nine months of 2006 benefited from $69.7 million in gross cost reductions.

Comparative information on the segment s products for the nine months ended September 30, 2006 and 2005 is provided in the following table:

	Nine Months Ended September 30, 2006	2005	% Change
Volume (000 s pounds):			
High value	382,447	372,642	3%
Commodity	670,595	523,560	28%
Total	1,053,042	896,202	18%
Average prices (per lb.):			
High value	$ 2.38	$ 2.14	11%
Commodity	$ 1.45	$ 1.26	15%
Combined Average	$ 1.79	$ 1.63	10%

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Volume and average price data includes the classification of grain-oriented silicon electrical steel and tool steel as high-value products for all periods presented.

Engineered Products Segment

Sales for the third quarter 2006 increased to $104.7 million, a 7% increase over the third quarter 2005, due to increased volume and higher selling prices. Demand for our tungsten and tungsten carbide products was strong from the oil and gas, mining, and power generation markets, while demand was seasonally lower from the automotive market. Demand was strong for our forged products from the Class 8 truck, construction and mining, and oil and gas markets. Demand for our cast products was strong from the wind energy, and oil and gas markets. Demand remained very strong for our titanium precision metal processing conversion services. Segment operating profit was $12.4 million in the third quarter 2006, or 11.8% of sales, which was comparable to the same period of 2005. Segment operating profit has recently been negatively impacted due to the high cost of ammonium paratungstate (APT), a purchased raw material in our tungsten products business. We are in the process of investing to expand our APT production capacity to internally source all of our APT needs at what is expected to be a significantly lower cost than purchased APT. We expect to have this additional capacity in production by the end of 2006. Raw material cost inflation resulted in a LIFO inventory valuation reserve charge of $0.2 million in the third quarter 2006, compared to a $2.4 million charge in the third quarter 2005. Results benefited from $1.7 million of gross cost reductions.

For the nine months ended September 30, 2006, sales increased 12% to $325.7 million, and operating profit was $45.2 million, or 13.9% of sales, compared to $35.7 million, or 12.3% of sales in 2005. Operating results for the first nine months of 2006 included LIFO inventory valuation reserve charges of $0.2 million, compared to a charge of $7.3 million for the first nine months of 2005. Higher sales volumes, improved pricing, lower raw material cost inflation and 2006 gross cost reductions of $4.8 million favorably affected operating results.

Corporate Items

Corporate expenses increased to $15.1 million for the third quarter of 2006, compared to $13.8 million in the year-ago period. For the nine months ended September 30, 2006, corporate expenses were $47.0 million compared to $35.7 million in the prior year-to-date period. The increases in 2006 are due to expenses associated with annual and long-term performance-based incentive compensation programs. Compensation expense related to share-based incentive plans for three months ended September 30, 2006 and 2005 was $2.5 million and $2.4 million, respectively. For the nine months ended September 30, 2006 and 2005, share-based incentive plans compensation expense was $8.4 million and $7.5 million, respectively.

Net interest expense in the third quarter 2006 decreased to $4.3 million from $9.9 million for the same period last year. For the nine months ended September 30, 2006, net interest expense was $17.6 million compared to $30.9 million in the prior year-to-date period. The decreases in net interest expense in 2006 were primarily due to increased interest income resulting from higher cash balances and capitalization of interest costs on strategic capital projects, partially offset by higher interest rates on floating rate debt.

Other expense, net of gains on asset sales, includes charges incurred in connection with closed operations, pretax gains and losses on the sale of surplus real estate and other assets, operating results from equity-method investees, minority interest, and other non-operating income or expense. These items are presented primarily in selling and administration expenses, and in other income (expense) in the statement of income and resulted in expense of $4.5 million for the third quarter of 2006 and $3.4 million for the third quarter of 2005. For the nine months ended September 30, 2006, other expense, net of gains on asset sales was $15.7 million, compared to $18.0 million for the comparable 2005 period. Other expense for the first nine months of 2005 includes litigation expense of $5.3 million relating to an unfavorable court judgment concerning a settled commercial dispute with a raw material supplier.

Retirement benefit expense increased slightly to $20.5 million in the third quarter 2006, compared to $19.9 million in the third quarter 2005. For the third quarter 2006, the amount of retirement benefit expense included in cost of sales was $13.9 million, and the amount included in selling and administrative expenses was $6.6 million. For the third quarter 2005, the amount of retirement benefit expense included in cost of sales was $14.1 million, and the amount included in selling and administrative expenses was $5.8 million.

For the nine months ended September 30, 2006 retirement benefit expense was $61.4 million, compared to $60.1 million in the same period of 2005. Retirement benefit expense increased cost of sales for the nine months

ended September 2006 by $41.3 million, and increased selling and administrative expenses by $20.1 million. For the nine months ended September 2005, retirement benefit expenses increased cost of sales by $42.4 million and increased selling and administrative expenses by $17.7 million.

We are not required to make cash contributions to our U.S. defined benefit pension plan for 2006 and, based on current regulations and actuarial studies, we do not expect to be required to make cash contributions to our U.S. defined benefit pension plan during the next several years. However in order to improve the plan s funded position, we are considering making a voluntary cash contribution to this defined benefit pension plan of approximately $100 million in the 2006 fourth quarter.

Income Taxes

Results for the third quarter 2006 included a provision for income taxes of $84.5 million, or 34.3% of income before tax, for U.S. Federal, foreign and state income taxes. The third quarter 2006 benefited from a favorable $4.2 million adjustment of prior years tax accruals. The third quarter 2005 included a tax benefit of $1.3 million which principally related to a $4.0 million favorable adjustment to prior years taxes resulting from settlement of open audit years partially offset by foreign and state income taxes. Prior to the fourth quarter 2005, we maintained a valuation allowance for a major portion of our U.S. Federal deferred tax assets and certain state deferred tax assets in accordance with SFAS No. 109, Accounting for Income Taxes , due to uncertainty regarding full utilization of our net deferred tax asset, including the 2003 and 2004 unutilized net operating losses. In 2005, we generated taxable income which exceeded the 2003 and 2004 net operating losses, allowing us to fully realize these U.S. Federal tax benefits. This realization of tax benefits, together with our improved profitability, required us to eliminate the remaining valuation allowance for U.S. Federal income taxes in the fourth quarter 2005 in accordance with SFAS No. 109.

Financial Condition and Liquidity

Cash Flow and Working Capital

During the nine months ended September 30, 2006, cash provided by operating activities was $179.1 million, as the significant improvement in operating earnings more than offset a $488.4 million increase in managed working capital, and payment of previously accrued legal costs of $37.5 million. Investing activities included capital expenditures of $157.9 million. Cash provided by financing activities was $22.0 million in the first nine months of 2006, as $28.2 million of proceeds received from the exercise of stock options, and tax benefits on share-based compensation of $30.0 million, more than offset dividend payments of $30.0 million and a reduction in borrowings of $6.2 million. At September 30, 2006, cash and cash equivalents totaled $405.9 million, an increase of $43.2 million from year end 2005.

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 this 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 September 30, 2006, managed working capital was 29.0% of annualized sales compared to 30.3% of annualized sales at December 31, 2005. During the first nine months of 2006, managed working capital increased by $488.4 million, to $1,536.4 million. The increase in managed working capital from December 31, 2005 was due to increased accounts receivable of $188.7 million, which reflects the higher level of sales in the third quarter 2006 compared to the fourth quarter 2005, and increased inventory of $564.7 million, mostly as a result of higher raw material costs and higher inventory levels associated with increased business volumes, which were partially offset by increased accounts payable of $265.0 million. Most of the increase in raw material costs is expected to be recovered through surcharges or index pricing mechanisms. Managed working capital has increased $972 million since year-end 2002, as our level of business activity has improved and raw material costs have increased. This increase in managed working capital is expected to represent a future source of cash if the level of business activity were to decline. While accounts receivable balances have increased during 2006 compared to year-end 2005, days sales outstanding, which measures actual collection timing for accounts receivable, have improved. Gross inventory turns, which excludes the effect of LIFO inventory valuation reserves, have declined slightly at the end of the 2006 third quarter compared to year-end 2005, primarily a result of the longer production cycle associated with high performance metals and temporarily higher inventory levels in our Flat-Rolled Products segment.

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The components of managed working capital were as follows:

(in millions)	September 30, 2006	December 31, 2005
Accounts receivable	$ 631.5	$ 442.1
Inventories	1,044.3	607.1
Accounts payable	(578.6)	(312.9)
Subtotal	1,097.2	736.3
Allowance for doubtful accounts	7.3	8.1
LIFO reserves	376.1	269.7
Corporate and other	55.8	33.9
Managed working capital	$ 1,536.4	$ 1,048.0
Annualized prior two months sales	$ 5,295.0	$ 3,461.1
Managed working capital as a % of annualized sales	29.0%	30.3%
Change in managed working capital from December 31, 2005	$ 488.4	

Capital Expenditures

Capital expenditures for 2006 are expected to be in the range of $230 to $250 million, of which approximately $160 million had been expended in the first nine months of 2006.

A $475 million, four-phase titanium products expansion is expected to yield 40 million pounds of titanium sponge capacity and increase ATI s annual titanium melt capacity by approximately 25 million pounds. These strategic titanium capital investments are designed to expand and enhance ATI s capacity and capabilities to meet current and expected demand growth from the aerospace (engine and airframe), defense, chemical process industry, oil and gas and medical markets. The four-phase expansion includes the following:

The Phase I expansion of ATI s titanium production capabilities was announced on July 15, 2005, and includes upgrading and restarting ATI s titanium sponge facility in Albany, OR, constructing a third Plasma Arc Melt (PAM) cold-hearth furnace in Bakers, NC, adding four vacuum arc remelt (VAR) furnaces, expanding high-value plate products capacity by 25%, and continued upgrading of ATI s cold-rolling assets used in producing titanium sheet and strip products. Phase I of our Albany, OR titanium sponge facility is now fully operational with six new furnaces producing at an annualized rate of approximately 8.0 million pounds, and the additional melt capacity is expected to begin operations over the second half of 2006.

The Phase II expansion of ATI s titanium production capabilities was announced on March 17, 2006, and includes additional titanium sponge capacity at ATI s facility in Albany, OR, and an additional VAR furnace at ATI s facility in Bakers, NC. We expect the additional titanium sponge production capacity of approximately 4.0 million pounds annually from this phase to begin operation in the first half of 2007.

The Phase III expansion of ATI s titanium production capabilities was announced on June 22, 2006, and includes additional titanium sponge capacity and an additional VAR furnace at ATI s facility in Albany, OR. The additional titanium sponge production capacity of approximately 4.0 million pounds annually from this phase is expected to be fully operational in the second half of 2007. As a result of Phases I, II and III, we expect our annual titanium sponge production capacity from the Albany facility to be approximately 12 million pounds in 2007, expanding to 16 million pounds in 2008.

In addition, in June 2006 we announced that our Board of Directors approved the Phase IV expansion to our titanium capabilities. Phase IV is a greenfield premium-grade titanium sponge facility to be built in Rowley, UT with an annual capacity of 24 million pounds. This $325 million investment is aimed at increasing our capacity to produce titanium alloys for aerospace and defense applications. Premium-grade sponge is essential for many aerospace applications, including rotating quality titanium alloys used for new jet engines and spare parts. ATI expects initial production of titanium sponge to begin in the third quarter 2008, and grow to an annualized rate of 24 million pounds in 2009.

Upon the completion of Phases I through IV, ATI s internal titanium sponge annual capacity of approximately 40 million pounds will be in addition to the amount of titanium sponge ATI purchases from external sources.

Additionally, in September 2005 we announced a $30 million expansion of our premium-melt nickel-based alloy, superalloy, and specialty alloy production capabilities. These investments are aimed at increasing our capacity to produce these high performance alloys used for aero-engine rotating parts; airframe applications; oil and gas exploration, extraction, and refining; and power generation land-based turbines and flue gas desulfurization pollution control units. Major projects of this expansion, which are beginning operations over the second half of 2006 and which are expected to increase our premium-melt capacity by approximately 20%, include:

Upgrading and expanding vacuum induction melt (VIM) capacity. VIM is a melting process designed for premium grades with high alloy content that require more precise chemistry control and lower impurity levels.

Installation of two new electro-slag re-melt (ESR) furnaces and three new vacuum arc re-melt (VAR) furnaces. ESR and VAR furnaces are consumable electrode re-melting processes used to improve both the cleanliness and metallurgical structure of alloys.

We expect to fund these titanium-related and premium-melt nickel-based alloy, superalloy, and specialty alloy capital investments through current cash on hand and internal cash flow.

In the 2006 third quarter, our Chinese joint venture company known as Shanghai STAL Precision Stainless Steel Company Limited (STAL), in which ATI has a 60% interest, commenced an expansion of its operations in Shanghai, China. This expansion, which is expected to more than triple STAL s precision rolling and slitting capacity, is estimated to cost approximately $110 million. The expansion is expected to be fully operational in the 2009 first quarter and is expected to be funded through capital contributions from the joint venture partners, bank credit lines, and the internal cash flow of the joint venture. Our cash contribution to this expansion is expected to be approximately $25 million, of which $12.4 million was contributed by ATI in the 2006 third quarter with the remainder anticipated to be contributed in the first half of 2007. The financial results of STAL are consolidated into our financial statements with the 40% interest of our minority partner recognized as other income or expense in the statements of income and as a liability in the statements of financial position.

Dividends

A regular quarterly dividend of $0.10 per share of common stock was declared on September 14, 2006, payable on September 29, 2006 to stockholders of record at the close of business on September 22, 2006. 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.

Debt

At September 30, 2006, we had $554.8 million in total outstanding debt, compared to $560.4 million at December 31, 2005, a decrease of $5.6 million.

In managing our overall capital structure, one of the measures on which we focus is net debt to total capitalization, which is the percentage of our debt to our total invested and borrowed capital. In determining this measure, debt and total capitalization are net of cash on hand which may be available to reduce borrowings. Our net debt to total capitalization improved to 10.8% at September 30, 2006 from 19.8% at December 31, 2005. The net debt to total capitalization was determined as follows:

(in millions)	September 30, 2006	December 31, 2005
Total debt	$ 554.8	$ 560.4
Less: cash	(405.9)	(362.7)
Net debt	$ 148.9	$ 197.7
Net debt	$ 148.9	$ 197.7
Stockholders equity	1,234.4	799.9
Total capital	$ 1,383.3	$ 997.6
Net debt to total capitalization	10.8%	19.8%

We did not borrow funds under our $325 million secured domestic revolving credit facility (the facility) during the first nine months of 2006, or during all of 2005, 2004 or 2003, although a portion of the facility has been utilized to support the issuance of letters of credit. Outstanding letters of credit issued under the facility at September 30, 2006 were approximately $97 million. The facility is secured by all accounts receivable and inventory of our U.S. operations. At September 30, 2006, we had the ability to access the entire $325 million undrawn availability under the facility, which is calculated including outstanding letters of credit and domestic cash on hand.

We believe that internally generated funds, current cash on hand, and capacity provided from our secured credit facility will be adequate to meet our foreseeable liquidity needs.

Critical Accounting Policies

Inventory

At September 30, 2006, we had net inventory of $1,044.3 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 volatile. Since we value most of our inventory utilizing the LIFO inventory costing methodology, a rapid rise in raw material costs has a negative effect on our operating results. For example, during the first nine months of 2006 the effect of the increase in raw material costs on our LIFO inventory valuation method resulted in cost of sales which was $106.4 million higher than would have been recognized if 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 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 September 30, 2006, no such 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.

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Retirement Benefits

We have defined pension plans and defined contribution plans covering substantially all of our employees. During the fourth quarter 2005 and in the third quarter 2004, we made voluntary cash contributions of $100 million and $50 million, respectively, to our U.S. defined pension plan to improve the plan s funded position. We are not required to make a contribution to the U.S. defined benefit pension plan for 2006, and, based upon current regulations and actuarial analyses, we do not expect to be required to make cash contributions to the U.S. defined benefit pension plan for at least the next several years. However, in order to improve the plan s funded position, we are considering making a voluntary cash contribution to this defined benefit pension plan of approximately $100 million in the 2006 fourth quarter.

We account for our defined benefit pension plans in accordance with Statement of Financial Accounting Standards No. 87, Employers Accounting for Pensions (SFAS 87), which requires that amounts recognized in financial statements be determined on an actuarial basis, rather than as contributions are made to the plan. A significant element in determining our pension expense in accordance with SFAS 87 is the expected investment return on plan assets. In establishing the expected return on plan investments, which is reviewed annually in the fourth quarter, we take into consideration input from our third party pension plan asset managers and actuaries regarding the types of securities the plan investments are invested in, how those investments have performed historically, and expectations for how those investments will perform in the future. Based on this review, we currently use an expected return on pension plan investments of 8.75%. The assumed rate is applied to the market value of plan assets at the end of the previous year. This produces the expected return on plan assets that is included in annual pension expense for the current year. While the actual return on pension plan investments was 9.7% in 2005 and 11.7% in 2004, our expected return on pension plan investments for 2006 remains at 8.75%. The effect of increasing, or lowering, the expected return on pension plan investments by 0.25% results in a decrease or increase to annual pension expense of approximately $5 million. The cumulative difference between this expected return and the actual return on plan assets is deferred and amortized into pension expense over future periods. The amount of expected return on plan assets can vary significantly from year-to-year since the calculation is dependent on the market value of plan assets as of the end of the preceding year. U.S. generally accepted accounting principles allow companies to calculate the expected return on pension assets using either an average of fair market values of pension assets over a period not to exceed five years, which reduces the volatility in reported pension income or expense, or their fair market value at the end of the previous year. However, the Securities and Exchange Commission currently does not permit companies to change from the fair market value at the end of the previous year methodology, which is the methodology that we use, to an averaging of fair market values of plan assets methodology. As a result, our results of operations and those of other companies, including companies with which we compete, may not be comparable due to these different methodologies in calculating the expected return on pension investments.

At the end of November each year, we determine the discount rate to be used to value pension plan liabilities. In accordance with SFAS 87, the discount rate reflects the current rate at which the pension liabilities could be effectively settled. In estimating this rate, we receive input from our actuaries regarding the rates of return on high quality, fixed-income investments with maturities matched to the expected future retirement benefit payments. Based on this assessment, at the end of November 2005 we established a discount rate of 5.9% for valuing the pension liabilities as of the end of 2005, and for determining the pension expense for 2006. We had previously assumed a discount rate of 6.1% for 2004, which determined the 2005 pension expense. The effect of lowering the discount rate to 5.9% from 6.1% increased pension liabilities by approximately $47 million at 2005 year-end, and increased pension expense by approximately $2 million in 2006 compared to 2005. The effect on pension liabilities for changes to the discount rate, as well as the net effect of other changes in actuarial assumptions and experience, are deferred and amortized over future periods in accordance with SFAS 87.

Current accounting standards require that a minimum pension liability be recorded when the value of pension assets is less than the accumulated benefit obligation (ABO) at the annual measurement date. As of November 30, 2005, our measurement date for pension accounting, the value of the accumulated pension benefit obligation (ABO) exceeded the value of pension investments by approximately $247 million. Minimum pension liability adjustments affect our stockholders equity but do not affect our reported results of operations and do not have a cash impact.

We also sponsor several postretirement plans covering certain hourly and salaried employees and retirees. These plans provide health care and life insurance benefits for eligible employees. In most plans, our contributions towards premiums are capped based upon the cost of a certain date, thereby creating a defined contribution. For the non-collectively bargained plans, we maintain the right to amend or terminate the plans in the future. We account for these benefits in accordance with SFAS No. 106, Employers Account for Postretirement Benefits Other Than Pensions (SFAS 106), which requires that amounts recognized in financial statements be determined on an actuarial basis, rather than as benefits are paid. We use actuarial assumptions, including the discount rate and the expected trend in health care costs, to estimate the costs and benefits obligations for the plans. The discount rate, which is determined annually at the end of November of each year, is developed based upon rates of return on high quality, fixed-income investments. At the end of 2005, we determined this rate to be 5.9%, a reduction from a 6.1% discount rate in 2004. The effect of lowering the discount rate to 5.9% from 6.1% increased 2005 postretirement benefit liabilities by approximately $9 million, and increased 2006 postretirement benefit expenses by approximately $0.3 million compared to 2005. Based upon significant cost increases quoted by our medical care providers and predictions of continued significant medical cost inflation in future years, the annual assumed rate of increase in the per capita cost of covered benefits for health care plans was 10.3% for 2006 and was assumed to gradually decrease to 5.0% in the year 2014 and remain level thereafter.

The Medicare Prescription Drug, Improvements and Modernization Act (Medicare Act) was signed into law on December 8, 2003. The Medicare Act provides for a federal subsidy, with tax-free payments commencing in 2006, to sponsors of retiree health care benefits plans that provide a benefit that is at least actuarially equivalent to the benefit established by the law. In January 2005, the U.S. Federal government issued final regulations which clarify how the Medicare Act is to be implemented. Based upon estimates from our actuaries, we expect that the federal subsidy included in the law will result in a reduction of other postretirement benefits obligation of approximately $70 million. This reduction is being recognized in the financial statements over a number of years as an actuarial experience gain.

Certain of these postretirement benefits are funded using plan investments held in a VEBA trust. The expected return on plan investments is a significant element in determining postretirement benefit expenses in accordance with SFAS 106. In establishing the expected return on investments, which is reviewed annually in the fourth quarter, we take into consideration the types of securities the plan investments are invested in, how those investments have performed historically, and expectations for how those investments will perform in the future. For 2006, our expected return on investments held in the VEBA trust is 9%. This assumed long-term rate of return on investments is applied to the market value of plan investments at the end of the previous year. This produces the expected return on plan investments that is included in annual postretirement benefits expenses for the current year. While the actual return on investments held in the VEBA trust was 11.6% in both 2005 and 2004, our expected return on investments in the VEBA trust remains 9% for 2006. The expected return on investments held in the VEBA trust is expected to exceed the return on pension plan investments due to a higher percentage of private equity investments held by the VEBA trust.

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 of our Annual Report on Form 10-K for the year ended December 31, 2005.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board issued an amendment to its standards for defined benefit pension and other postretirement benefit plans accounting. The new standard, Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans , requires that the net funded position of the plans be recognized as an asset or liability in the employer s balance sheet. This change will be effective for year-end 2006. We have not determined the effect of adopting this change at year-end 2006 as the adjustment will depend upon the value of plan assets and obligations as of our measurement date. In addition, the new standard will require assets and benefits to be measured at the date of the employer s statement of financial position rather than our measurement date of November 30th, as currently permitted. This change will be effective for ATI s 2008 fiscal year.

The FASB issued in September 2006 a FASB Staff Position (FSP) titled Accounting for Planned Major Maintenance Activities (FSP PMMA). This FSP amends an AICPA Industry Audit guide and is applicable to all industries that accrue for planned major maintenance activities. The FSP PMMA prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities, which is the policy we presently use to record planned plant outage costs on an interim basis within a fiscal year, and also to record the costs of major equipment rebuilds which extend the life of capital equipment. The FSP PMMA is effective as of the beginning of ATI s 2007 fiscal year, with retrospective application to all prior periods presented. Under the FSP PMMA, we will report results using the deferral method whereby major equipment rebuilds are capitalized as costs are incurred and amortized into expense over their estimated useful lives, and planned plant outage costs are fully recognized in the interim period of the outage. We are currently analyzing the retrospective effects of the FSP on prior periods.

In June 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), an interpretation of FASB Statement No. 109, Accounting for Income Taxes . FIN 48 prescribes recognition and measurement standards for a tax position taken or expected to be taken in a tax return. The evaluation of a tax position in accordance with FIN 48 is a two step process. The first step is the determination of whether a tax position should be recognized. Under FIN 48, a tax position taken or expected to be taken in a tax return is to be recognized only if we determine that it is more-likely-than-not that the tax position will be sustained upon examination by the tax authorities based upon the technical merits of the position. In step two for those tax positions which should be recognized, the measurement of a tax position is determined as being the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. FIN 48 will be effective for the beginning of our 2007 fiscal year, with adoption treated as a cumulative-effect type adjustment to retained earnings as of the beginning of 2007. Although our analysis of the effect of FIN 48 has not been completed, at this time we do not anticipate recording any material adjustment as a result of adopting this Interpretation.

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 collectibility 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.

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, will likely result, 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 materially differ 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, construction and mining, automotive, electrical energy, chemical process industry, oil and gas, and other markets; (c) our inability to achieve the level of cost savings, productivity improvements, synergies, growth or other benefits anticipated by management, including those anticipated from strategic investments and the integration of acquired businesses, whether due to significant increases in energy, raw materials or employee benefits costs, 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) the other risk factors summarized in our Annual Report on Form 10-K for the year ended December 31, 2005, and other reports filed with the Securities and Exchange Commission. We assume no duty to update our forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risks associated with our business are discussed in Item 7A in our Annual Report on Form 10-K for the year ended December 31, 2005. There were no material changes in these Market Risks during the third quarter 2006.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer have evaluated the Company s disclosure controls and procedures as of September 30, 2006, and they concluded that these controls and procedures are effective.

(b) Changes in Internal Controls

There was no change in our internal control over financial reporting identified in connection with the evaluation of the Company s disclosure controls and procedures as of September 30, 2006, conducted by our Chief Executive Officer and Chief Financial Officer, that occurred during the quarter ended September 30, 2006 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 business, including those pertaining to product liability, patent infringement, commercial, employment, employee benefits, environmental and health and safety, and stockholder matters. Certain of such lawsuits, claims and proceedings are described in our Annual Report on Form 10-K for the year ended December 31, 2005, and updated in Note 12 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.

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, 2005, 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 2. Change in Securities, Use of Proceeds And Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares (or Units) Purchased (1)	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
Month 1 (7/1 7/31/06)	75,108	$ 67.735	0	0
Month 2 (8/1 8/31/06)	0	0	0	0
Month 3 (9/1 9/30/06)	0	0	0	0
Total	75,108	$ 67.735	0	0

(1) Shares withheld to satisfy

employee owed
taxes.

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Item 6. Exhibits

(a) Exhibits

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).

SIGNATURES

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

ALLEGHENY TECHNOLOGIES INCORPORATED
(Registrant)

Date: November 3, 2006	By	/s/ Richard J. Harshman
		Richard J. Harshman Executive Vice President-Finance and Chief Financial Officer (Principal Financial Officer and Duly Authorized Officer)
Date: November 3, 2006	By	/s/ Dale G. Reid
		Dale G. Reid Vice President, Controller and Chief Accounting Officer and Treasurer (Principal Accounting Officer)

EXHIBIT INDEX

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).