ALLEGHENY TECHNOLOGIES INC
Form 10-Q
October 31, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2014
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period From to
Commission File Number 1-12001

ALLEGHENY TECHNOLOGIES INCORPORATED
(Exact name of registrant as specified in its charter)

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 ý No ¨
Indicate by check mark whether the Registrant submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

At October 24, 2014, the registrant had outstanding 108,702,948 shares of its Common Stock.

Table of Contents

ALLEGHENY TECHNOLOGIES INCORPORATED
SEC FORM 10-Q
Quarter Ended September 30, 2014
INDEX

Table of Contents

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

	September 30, 2014	December 31, 2013
ASSETS		
Current Assets:		
Cash and cash equivalents	$264.2	$1,026.8
Accounts receivable, net of allowances for doubtful accounts of $4.8 and $5.3 as of September 30, 2014 and December 31, 2013, respectively	623.7	528.2
Inventories, net	1,417.7	1,322.1
Prepaid expenses and other current assets	109.4	73.7
Total Current Assets	2,415.0	2,950.8
Property, plant and equipment, net	2,937.1	2,874.1
Cost in excess of net assets acquired	782.8	727.9
Other assets	368.3	345.7
Total Assets	$6,503.2	$6,898.5
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable	$482.7	$471.8
Accrued liabilities	305.7	315.8
Deferred income taxes	33.7	3.5
Short term debt and current portion of long-term debt	17.5	419.9
Total Current Liabilities	839.6	1,211.0
Long-term debt	1,509.1	1,527.4
Accrued postretirement benefits	420.5	442.4
Pension liabilities	348.4	368.2
Deferred income taxes	244.6	206.6
Other long-term liabilities	149.3	148.2
Total Liabilities	3,511.5	3,903.8
Redeemable noncontrolling interest	12.1	—
Equity:		
ATI Stockholders' Equity:		
Preferred stock, par value $0.10: authorized-50,000,000 shares; issued-none	—	—
Common stock, par value $0.10: authorized-500,000,000 shares; issued-109,695,171 shares at September 30, 2014 and December 31, 2013; outstanding- 108,711,001 shares at September 30, 2014 and 107,983,360 shares at December 31, 2013	11.0	11.0
Additional paid-in capital	1,161.9	1,185.9
Retained earnings	2,396.4	2,490.1
Treasury stock: 984,170 shares at September 30, 2014 and 1,711,811 shares at December 31, 2013	(44.5)	(79.6)
Accumulated other comprehensive loss, net of tax	(653.6)	(713.2)
Total ATI stockholders' equity	2,871.2	2,894.2
Noncontrolling interests	108.4	100.5
Total Equity	2,979.6	2,994.7
Total Liabilities and Equity	$6,503.2	$6,898.5

The accompanying notes are an integral part of these statements.

1

Table of Contents

Allegheny Technologies Incorporated and Subsidiaries
Consolidated Statements of Operations
(In millions, except per share amounts)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Sales	$1,069.6	$972.4	$3,175.9	$3,128.2
Costs and expenses:				
Cost of sales	972.6	919.3	2,919.2	2,886.9
Selling and administrative expenses	68.7	70.6	202.1	210.1
Income (loss) before interest, other income and income taxes	28.3	(17.5)	54.6	31.2
Interest expense, net	(25.2)	(18.2)	(82.8)	(46.5)
Other income, net	1.0	0.4	2.9	1.3
Income (loss) from continuing operations before income taxes	4.1	(35.3)	(25.3)	(14.0)
Income tax provision (benefit)	0.5	(8.5)	(12.4)	(4.4)
Income (loss) from continuing operations	3.6	(26.8)	(12.9)	(9.6)
Loss from discontinued operations, net of tax	(0.7)	(5.4)	(2.8)	(4.4)
Net income (loss)	2.9	(32.2)	(15.7)	(14.0)
Less: Net income attributable to noncontrolling interests	3.6	1.6	9.0	5.4
Net loss attributable to ATI	$(0.7)	$(33.8)	$(24.7)	$(19.4)
Income (loss) per common share:				
Basic				
Continuing operations attributable to ATI per common share	$—	$(0.27)	$(0.20)	$(0.14)
Discontinued operations attributable to ATI per common share	(0.01)	(0.05)	(0.03)	(0.04)
Basic net loss attributable to ATI per common share	$(0.01)	$(0.32)	$(0.23)	$(0.18)
Diluted				
Continuing operations attributable to ATI per common share	$—	$(0.27)	$(0.20)	$(0.14)
Discontinued operations attributable to ATI per common share	(0.01)	(0.05)	(0.03)	(0.04)
Diluted net loss attributable to ATI per common share	$(0.01)	$(0.32)	$(0.23)	$(0.18)
Dividends declared per common share	$0.18	$0.18	$0.54	$0.54
Amounts attributable to ATI common stockholders:				
Income (loss) from continuing operations, net of tax	$—	$(28.4)	$(21.9)	$(15.0)
Loss from discontinued operations, net of tax	(0.7)	(5.4)	(2.8)	(4.4)
Net loss	$(0.7)	$(33.8)	$(24.7)	$(19.4)

The accompanying notes are an integral part of these statements.

Table of Contents

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Net income (loss)	$2.9	$(32.2)	$(15.7)	$(14.0)
Currency translation adjustment				
Unrealized net change arising during the period	(16.6)	12.4	(12.2)	3.9
Unrealized holding gain on securities				
Net gain (loss) arising during the period	—	0.1	0.1	0.1
Derivatives				
Net derivatives gain (loss) on hedge transactions	28.0	(18.1)	50.1	(21.0)
Reclassification to net income of net realized loss (gain)	(2.6)	4.3	(1.0)	5.5
Income taxes on derivative transactions	9.8	(5.3)	18.9	(6.0)
Total	15.6	(8.5)	30.2	(9.5)
Postretirement benefit plans				
Amortization of net actuarial loss	22.1	33.5	66.1	100.5
Prior service cost				
Amortization to net income of net prior service credits	(0.2)	(3.8)	(0.5)	(11.4)
Income taxes on postretirement benefit plans	8.5	11.4	25.3	34.3
Total	13.4	18.3	40.3	54.8
Other comprehensive income, net of tax	12.4	22.3	58.4	49.3
Comprehensive income (loss)	15.3	(9.9)	42.7	35.3
Less: Comprehensive income attributable to noncontrolling interests	5.4	1.7	7.8	7.9
Comprehensive income (loss) attributable to ATI	$9.9	$(11.6)	$34.9	$27.4

The accompanying notes are an integral part of these statements.

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

	Nine months ended September 30,	
	2014	2013
Operating Activities:		
Net loss	$(15.7)	$(14.0)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	131.6	143.5
Deferred taxes	15.0	76.1
Changes in operating asset and liabilities:		
Inventories	(88.6)	126.7
Accounts receivable	(89.9)	(11.2)
Accounts payable	8.0	(77.4)
Retirement benefits	19.3	50.5
Accrued income taxes	(25.1)	(82.0)
Accrued liabilities and other	7.2	15.2
Cash provided by (used in) operating activities	(38.2)	227.4
Investing Activities:		
Purchases of property, plant and equipment	(157.5)	(395.5)
Purchases of businesses, net of cash acquired	(92.5)	—
Asset disposals and other	1.9	0.8
Cash used in investing activities	(248.1)	(394.7)
Financing Activities:		
Borrowings on long-term debt	—	500.0
Payments on long-term debt and capital leases	(414.7)	(17.0)
Net borrowings under credit facilities	—	(0.1)
Debt issuance costs	—	(5.2)
Dividends paid to stockholders	(57.8)	(57.7)
Dividends paid to noncontrolling interests	—	(18.0)
Taxes on share-based compensation	—	2.6
Exercises of stock options and other	0.1	0.4
Shares repurchased for income tax withholding on share-based compensation	(3.9)	(6.6)
Cash provided by (used in) financing activities	(476.3)	398.4
Increase (decrease) in cash and cash equivalents	(762.6)	231.1
Cash and cash equivalents at beginning of period	1,026.8	304.6
Cash and cash equivalents at end of period	$264.2	$535.7

The accompanying notes are an integral part of these statements.

Table of Contents

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

	ATI Stockholders						
	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests	Total Equity
Balance, December 31, 2012	$11.0	$1,181.7	$2,427.6	$(111.3)	$ (1,029.4)	$107.5	$2,587.1
Net income (loss)	—	—	(19.4)	—	—	5.4	(14.0)
Other comprehensive income	—	—	—	—	46.8	2.5	49.3
Cash dividends on common stock ($0.54 per share)	—	—	(57.7)	—	—	—	(57.7)
Dividends paid to noncontrolling interest	—	—	—	—	—	(18.0)	(18.0)
Employee stock plans	—	(0.5)	(14.6)	32.5	—	—	17.4
Balance, September 30, 2013	$11.0	$1,181.2	$2,335.9	$(78.8)	$ (982.6)	$97.4	$2,564.1
Balance, December 31, 2013	$11.0	$1,185.9	$2,490.1	$(79.6)	$ (713.2)	$100.5	$2,994.7
Net income (loss)	—	—	(24.7)	—	—	9.1	(15.6)
Other comprehensive income (loss)	—	—	—	—	59.6	(1.2)	58.4
Cash dividends on common stock ($0.54 per share)	—	—	(57.8)	—	—	—	(57.8)
Conversion of convertible notes	—	—	(0.5)	5.5	—	—	5.0
Employee stock plans	—	(24.0)	(10.7)	29.6	—	—	(5.1)
Balance, September 30, 2014	$11.0	$1,161.9	$2,396.4	$(44.5)	$ (653.6)	$108.4	$2,979.6

The accompanying notes are an integral part of these statements.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

Note 1. Accounting Policies

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

These unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and note disclosures required by U.S. generally accepted accounting principles for complete financial statements. In management’s opinion, all adjustments (which include only normal recurring adjustments) considered necessary for a fair presentation have been included. Certain prior year amounts have been reclassified in order to conform with the fiscal year 2014 presentation. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s 2013 Annual Report on Form 10-K. The results of operations for these interim periods are not necessarily indicative of the operating results for any future period. The December 31, 2013 financial information has been derived from the Company’s audited consolidated financial statements.

ATI’s strategic vision is to be an aligned and integrated specialty materials and components company. In connection with this initiative, in the first quarter of 2014, the High Performance Metals segment was renamed the High Performance Materials & Components segment. Individual business unit names within each segment were also changed to reflect their aligned and integrated product focus. There was no change to the business units that comprise each business segment or the manner in which resources are allocated and performance is assessed for the business units by management. Therefore, there was no change to business segment reporting as a result of this initiative.

New Accounting Pronouncements Adopted

In January 2014, the Company adopted changes issued by the Financial Accounting Standards Board (FASB) that require an entity to net its liability for unrecognized tax positions against a net operating loss carryforward, a similar tax loss or a tax credit carryforward when settlement in this manner is available under the tax law. The adoption of these changes had no impact on the consolidated financial statements.

In January 2014, the Company adopted changes issued by the FASB to the accounting for obligations resulting from joint and several liability arrangements. This guidance requires an entity that is joint and severally liable to measure the obligation as the sum of the amount the entity has agreed with co-obligors to pay and any additional amount it expects to pay on behalf of one or more co-obligors. Required disclosures include a description of the nature of the arrangement, how the liability arose, the relationship with co-obligors and the terms and conditions of the arrangement. The adoption of these changes had no impact on the consolidated financial statements.

In January 2014, the Company adopted changes issued by the FASB to a parent entity’s accounting for the cumulative translation adjustment (CTA) upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. The amendments specify that CTA should be released into earnings when an entity ceases to have a controlling financial interest in a subsidiary or group of assets within a consolidated foreign entity and the sale or transfer results in the complete or substantially complete liquidation of the foreign entity. For sales of an equity method investment that is a foreign entity, a pro rata portion of CTA attributable to the investment would be recognized in earnings when the investment is sold. When an entity sells either a part or all of its investment in a consolidated foreign entity, CTA would be recognized in earnings only if the sale results in the parent no longer having a controlling financial interest in the foreign entity. In addition, CTA should be recognized in earnings in a business combination achieved in stages (i.e., a step acquisition). The adoption of these changes had no impact on the consolidated financial statements.

Pending Accounting Pronouncements

In May 2014, the FASB issued changes to revenue recognition with customers. This update provides a five-step analysis of transactions to determine when and how revenue is recognized. An entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update will be effective for the Company beginning in fiscal year 2017. This update may be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of

Table of Contents

initially applying this update recognized at the date of initial application. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

In April 2014, the FASB issued changes to the criteria for reporting discontinued operations. Under the new criteria, a disposal of a component of an entity is required to be reported as discontinued operations only if the disposal represents a strategic shift that has, or will have, a major effect on an entity's operations and financial results. The current criteria that there be no significant continuing involvement in the operations of the component after the disposal transaction has been removed under the new guidance. The new guidance also requires the presentation of the assets and liabilities of a disposal group that includes a discontinued operation for each comparative period and requires additional disclosures about discontinued operations, including the major line items constituting the pretax profit or loss of the discontinued operation, certain cash flow information for the discontinued operation, expanded disclosures about an entity's significant continuing involvement in a discontinued operation, and disclosures about a disposal of an individually significant component of an entity that does not qualify for discontinued operations presentation. The provisions of the new guidance become effective for all disposals that occur for the Company beginning in fiscal year 2015. The Company does not anticipate a material impact to the consolidated financial statements upon adoption.

Note 2. Acquisition of Business

On February 7, 2014, the Company acquired 85% of Dynamic Flowform Corp. ("Dynamic Flowform") for $72.9 million of cash consideration, net of cash acquired. The Dynamic Flowform acquisition is treated as an asset purchase for tax purposes. The holders of the 15% noncontrolling interest have a put option requiring the Company to purchase their equity interest (see Note 12 for additional explanation). The Company also incurred $0.7 million of pre-tax costs related to the acquisition, consisting primarily of professional fees, which were recorded in selling and administrative expenses in the nine months ended September 30, 2014 consolidated statement of operations.

Based in Billerica, MA, Dynamic Flowform, which has been renamed ATI Flowform Products, uses precision flowforming process technologies to produce thin-walled components in net or near-net shapes across multiple alloy systems, including nickel-based alloys and superalloys, titanium and titanium alloys, zirconium alloys, and specialty and stainless alloys. Management expects this acquisition to expand the Company's capabilities to produce specialty materials parts and components, primarily in the aerospace and defense, and oil & gas/chemical process industry markets. ATI Flowform Products results are included in the High Performance Materials & Components segment from the date of the acquisition.

The purchase price allocation includes technology, trademarks and customer intangible assets of $21.4 million, which will be amortized over a 23 year weighted average life, and goodwill of $46.8 million, which is deductible for tax purposes. The final allocation of the purchase price was completed in the second quarter of 2014.

In addition, on June 12, 2014, the Company acquired Hanard Machine, Inc. ("Hanard") for $20.5 million of cash consideration, net of cash acquired, including $19.6 million paid in the first nine months of 2014 and $0.9 million that is expected to be paid within the next twelve months. Located in Salem, OR, Hanard performs precision machining on parts and components made from titanium alloys, nickel-based alloys and superalloys, aluminum, specialty steel, and other ferrous and non-ferrous metals. The business operates as ATI Cast Products, Salem Operations, and is reported as a part of the High Performance Materials & Components segment from the date of the acquisition. Management expects this acquisition to expand the Company's capabilities to produce finished specialty materials parts and components and reinforces the Company's important aerospace supply chain role. The purchase price allocation includes technology and customer intangible assets of $4.3 million, which will be amortized over a 20 year life, and goodwill of $8.3 million, which is deductible for tax purposes. The final allocation of the purchase price is expected to be completed by the end of the fourth quarter of 2014.

Pro forma financial information has not been included because these acquisitions did not meet certain significance thresholds individually or in the aggregate.

Note 3. Discontinued Operations

On November 4, 2013, the Company completed the sale of its tungsten materials business, which produced tungsten powder, tungsten heavy alloys, tungsten carbide materials, and carbide cutting tools. The operating results for this business have been included in discontinued operations in the Company's consolidated statement of operations for the three and nine months ended September 30, 2013.

Also, during the third quarter of 2013, the Company completed a strategic review of its iron castings and fabricated components businesses. Based on the then-current and forecasted results, these businesses were not projected to meet the Company's long-term profitable growth and return on capital employed expectations resulting in the closure of the fabricated

Table of Contents

components business and planned divestiture of the iron casting business in 2013. In April 2014, the Company announced plans to close its iron castings business, as the divestiture of this business through a sale process on commercially acceptable terms was unlikely to be successful. The orderly wind-down of operations was completed by the end of the third quarter 2014 and resulted in $1.7 million of cash exit costs in 2014, primarily related to severance benefits, of which $0.5 million was recorded in the third quarter and $1.2 million was recorded in the second quarter as part of the results of discontinued operations. Payment of cash exit costs is expected to be completed within the next twelve months. Results of discontinued operations for the third quarter of 2013 include $9.5 million pre-tax ($8.1 million after-tax) of charges, primarily non-cash asset impairment charges, associated with the iron castings and fabricated components divestitures. The operating results of these businesses have been included in discontinued operations in the Company's consolidated statements of operations for all periods presented.

The following table presents summarized operating results for these discontinued operations (in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Sales	$3.3	$77.6	$14.9	$236.7
Loss before income tax benefit	$(0.5)	$(7.1)	$(3.5)	$(5.4)

Note 4. Inventories

Inventories at September 30, 2014 and December 31, 2013 were as follows (in millions):

	September 30, 2014	December 31, 2013
Raw materials and supplies	$262.1	$277.6
Work-in-process	1,130.7	984.9
Finished goods	165.5	162.1
Total inventories at current cost	1,558.3	1,424.6
Adjustment from current cost to LIFO cost basis	(18.5)	29.4
Inventory valuation reserves	(54.5)	(84.3)
Progress payments	(67.6)	(47.6)
Total inventories, net	$1,417.7	$1,322.1

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 $47.9 million for the first nine months of 2014, which was offset by a $35.0 million reduction in net realizable value reserves on the carrying value of LIFO-based inventory. The first nine months of 2013 results included a $39.1 million decrease in cost of sales from using the LIFO costing methodology. The first nine months of 2014 results included $18.3 million in inventory valuation charges related to the market-based valuation of industrial titanium products in the Flat Rolled Products segment.

Note 5. Property, Plant and Equipment

Property, plant and equipment at September 30, 2014 and December 31, 2013 was as follows (in millions):

	September 30, 2014	December 31, 2013
Land	$30.0	$30.2
Buildings	1,035.4	1,019.1
Equipment and leasehold improvements	3,668.9	3,526.0
	4,734.3	4,575.3
Accumulated depreciation and amortization	(1,797.2)	(1,701.2)
Total property, plant and equipment, net	$2,937.1	$2,874.1

The construction in progress portion of property, plant and equipment at September 30, 2014 was $84.1 million.

8

Table of Contents

Note 6. Debt

Debt at September 30, 2014 and December 31, 2013 was as follows (in millions):

	September 30, 2014	December 31, 2013
Allegheny Technologies 5.875% Notes due 2023	$500.0	$500.0
Allegheny Technologies 5.95% Notes due 2021	500.0	500.0
Allegheny Technologies 4.25% Convertible Notes due 2014	—	402.5
Allegheny Technologies 9.375% Notes due 2019	350.0	350.0
Allegheny Ludlum 6.95% debentures due 2025	150.0	150.0
ATI Ladish Series B 6.14% Notes due 2016 (a)	12.0	18.2
ATI Ladish Series C 6.41% Notes due 2015 (b)	10.4	21.1
Domestic Bank Group $400 million unsecured credit facility	—	—
Foreign credit facilities	—	—
Industrial revenue bonds, due through 2020, and other	4.2	5.5
Total short-term and long-term debt	1,526.6	1,947.3
Short-term debt and current portion of long-term debt	17.5	419.9
Total long-term debt	$1,509.1	$1,527.4

(a) Includes fair value adjustments of $0.6 million at September 30, 2014 and $1.0 million at December 31, 2013.
(b) Includes fair value adjustments of $0.4 million at September 30, 2014 and $1.1 million at December 31, 2013.

On June 2, 2014, the Company repaid the remaining $397.5 million outstanding of the 4.25% Convertible Senior Notes (Convertible Notes). Holders of the Convertible Notes had the option to convert their notes into shares of ATI common stock at any time prior to the close of business on the second scheduled trading day immediately preceding the June 1, 2014 maturity date. Prior to the maturity date, $5.0 million of the Convertible Notes were converted into 120,476 shares of ATI common stock. The conversion rate for the Convertible Notes was 23.9263 shares of ATI common stock per $1,000 principal amount of Convertible Notes, equivalent to a conversion price of approximately $41.795 per share. Other than receiving cash in lieu of fractional shares, holders did not have the option to receive cash instead of shares of common stock upon conversion.

There were no outstanding borrowings made under the Company’s $400 million senior unsecured domestic credit facility ("credit facility") expiring May 31, 2018 as of September 30, 2014, although approximately $5.1 million has been utilized to support the issuance of letters of credit. The credit facility requires the Company to maintain a leverage ratio (consolidated total indebtedness net of cash on hand in excess of $50 million, divided by consolidated earnings before interest, taxes, depreciation and amortization, and non-cash pension expense for the four prior fiscal quarters) of not greater than 4.0. The credit facility also requires the Company to maintain an interest coverage ratio (consolidated earnings before interest, taxes and non-cash pension expense divided by interest expense) of not less than 2.0. At September 30, 2014, the leverage ratio was 2.13 and the interest coverage ratio was 4.62. The Company was in compliance with these required ratios during all applicable periods.

In October 2014, the Company amended the credit facility to modify the maximum leverage ratio and minimum interest coverage ratio permitted under the credit facility and to revise the calculation definitions for these two ratios. In addition, the Company amended the credit facility to provide for a springing lien on certain of the Company’s accounts receivable and inventory. This springing lien would become effective in the future if the Company’s credit ratings from both Standard & Poor’s and Moody’s are below investment grade, and would be subsequently released if the Company’s credit rating returns to investment grade from either rating agency, assuming no event of default condition existed. As amended, the credit facility requires the Company to maintain a leverage ratio (measured as consolidated total indebtedness net of cash on hand in excess of $50 million, divided by consolidated EBITDA, defined as earnings before interest, taxes, depreciation and amortization, and non-cash pension expense, with the definition of consolidated EBIT excluding any gain or loss attributable to sale or other dispositions of assets outside the ordinary course of business, for the four prior fiscal quarters) of not greater than 5.75 for the quarter ended December 31, 2014, 5.00 for the quarter ended March 31, 2015, 4.50 for the quarter ended June 30, 2015, 3.75 for the quarter ended September 30, 2015, and 3.50 for the quarter ended December 31, 2015 and for each fiscal quarter thereafter. The credit facility, as amended, also requires the Company to maintain an interest coverage ratio (consolidated EBITDA as calculated for the leverage ratio, divided by interest expense) of not less than 2.0 for the quarter ended December 31, 2014, 2.50 for the quarter ended March 31, 2015, 3.00 for the quarter ended June 30, 2015, 3.25 for the quarter ended September 30, 2015, and 3.50 for the quarter ended December 31, 2015 and for each fiscal quarter thereafter.

Table of Contents

The Company has an additional separate credit facility for the issuance of letters of credit. As of September 30, 2014, $32 million in letters of credit were outstanding under this facility.

In addition, Shanghai STAL Precision Stainless Steel Company Limited (STAL), the Company’s Chinese joint venture company in which ATI has a 60% interest, had a 205 million renminbi (approximately $33 million at September 30, 2014 exchange rates) revolving credit facility with a group of banks, which expired on August 8, 2014. Replacement of the credit facility is currently under management review.

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

Note 7. Derivative Financial Instruments and Hedging

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

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

The majority of ATI’s products are sold utilizing raw material surcharges and index mechanisms. However, as of September 30, 2014, the Company had entered into financial hedging arrangements primarily at the request of its customers, related to firm orders, for an aggregate notional amount of approximately 15% of its estimated annual nickel requirements. These nickel hedges extend to 2020.

At September 30, 2014, the outstanding financial derivatives used to hedge the Company’s exposure to energy cost volatility included natural gas cost hedges for approximately 80% of its annual forecasted domestic requirements for 2014, approximately 85% for 2015, approximately 65% for 2016, and approximately 20% for 2017, and electricity hedges for Western Pennsylvania operations of approximately 10% of its forecasted on-peak and off-peak requirements for 2014.

While the majority of the Company’s direct export sales are transacted in U.S. dollars, foreign currency exchange contracts are used, from time-to-time, to limit transactional exposure to changes in currency exchange rates for those transactions denominated in a non-U.S. currency. The Company sometimes purchases foreign currency forward contracts that permit it to sell specified amounts of foreign currencies expected to be received from its export sales for pre-established U.S. dollar amounts at specified dates. The forward contracts are denominated in the same foreign currencies in which export sales are denominated. These contracts are designated as hedges of the variability in cash flows of a portion of the forecasted future export sales transactions which otherwise would expose the Company to foreign currency risk. The Company may also enter into foreign currency forward contracts that are not designated as hedges, which are denominated in the same foreign currency in which export sales are denominated. At September 30, 2014, the outstanding financial derivatives, including both hedges and undesignated derivatives, that are used to manage the Company’s exposure to foreign currency, primarily euros, represented approximately 20% of its forecasted total international sales through 2018. In addition, the Company may also designate cash balances held in foreign currencies as hedges of forecasted foreign currency transactions.

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

There are no credit risk-related contingent features in the Company’s derivative contracts, and the contracts contained no provisions under which the Company has posted, or would be required to post, collateral. The counterparties to the

Company’s derivative contracts are substantial and creditworthy commercial banks that are recognized market makers. The Company controls its credit exposure by diversifying across multiple counterparties and by monitoring credit ratings and credit default swap spreads of its counterparties. The Company also enters into master netting agreements with counterparties when possible.

The fair values of the Company’s derivative financial instruments are presented below, representing the gross amounts recognized which are not offset by counterparty or by type of item hedged. All fair values for these derivatives were measured

Table of Contents

using Level 2 information as defined by the accounting standard hierarchy, which includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs derived principally from or corroborated by observable market data.

(In millions) Asset derivatives	Balance sheet location	September 30, 2014	December 31, 2013
Derivatives designated as hedging instruments:			
Foreign exchange contracts	Prepaid expenses and other current assets	$14.0	$0.3
Nickel and other raw material contracts	Prepaid expenses and other current assets	3.3	0.1
Natural gas contracts	Prepaid expenses and other current assets	0.3	2.5
Foreign exchange contracts	Other assets	20.5	—
Nickel and other raw material contracts	Other assets	2.4	0.4
Natural gas contracts	Other assets	0.4	1.0
Total derivatives designated as hedging instruments		40.9	4.3
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Prepaid expenses and other current assets	4.8	—
Total derivatives not designated as hedging instruments		4.8	—
Total asset derivatives		$45.7	$4.3
Liability derivatives	Balance sheet location		
Derivatives designated as hedging instruments:			
Natural gas contracts	Accrued liabilities	$2.1	$0.4
Nickel and other raw material contracts	Accrued liabilities	2.1	4.5
Foreign exchange contracts	Accrued liabilities	—	7.8
Electricity contracts	Accrued liabilities	0.1	0.5
Natural gas contracts	Other long-term liabilities	2.1	—
Foreign exchange contracts	Other long-term liabilities	—	5.4
Nickel and other raw material contracts	Other long-term liabilities	1.0	1.3
Total derivatives designated as hedging instruments		7.4	19.9
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Accrued liabilities	—	1.7
Total derivatives not designated as hedging instruments		—	1.7
Total liability derivatives		$7.4	$21.6

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

Table of Contents

Activity with regard to derivatives designated as cash flow hedges for the three and nine month periods ended September 30, 2014 and 2013 was as follows (in millions):

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) Three months ended September 30, 2014	2013	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (a) Three months ended September 30, 2014	2013	Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) (b) Three months ended September 30, 2014	2013
Nickel and other raw material contracts	$(4.7)	$0.2	$1.3	$(1.3)	$—	$—
Natural gas contracts	(3.0)	0.1	—	(0.6)	—	—
Electricity contracts	(0.2)	(0.1)	(0.1)	—	—	—
Foreign exchange contracts	25.1	(11.3)	0.4	(0.7)	—	—
Total	$17.2	$(11.1)	$1.6	$(2.6)	$—	$—

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) Nine months ended September 30, 2014	2013	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (a) Nine months ended September 30, 2014	2013	Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) (b) Nine months ended September 30, 2014	2013
Nickel and other raw material contracts	$5.4	$(8.6)	$0.5	$(2.3)	$—	$—
Natural gas contracts	(1.7)	(0.2)	2.4	(1.5)	—	—
Electricity contracts	0.6	(0.1)	0.4	(0.2)	—	—
Foreign exchange contracts	26.5	(4.0)	(2.7)	0.6	—	—
Total	$30.8	$(12.9)	$0.6	$(3.4)	$—	$—

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

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

Assuming market prices remain constant with those at September 30, 2014, a gain of $8.3 million is expected to be recognized over the next 12 months.

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

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

(In millions) Derivatives Not Designated	Amount of Gain (Loss) Recognized in Income on Derivatives Three months ended September 30,	Nine months ended September 30,

as Hedging Instruments	2014	2013	2014	2013
Foreign exchange contracts	$3.1	$(0.7)	$4.2	$(0.3)

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

Table of Contents

Note 8. Fair Value of Financial Instruments

The estimated fair value of financial instruments at September 30, 2014 was as follows:

			Fair Value Measurements at Reporting Date Using	
(In millions)	Total Carrying Amount	Total Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets(Level 1)	Significant Observable Inputs (Level 2)
Cash and cash equivalents	$264.2	$264.2	$264.2	$—
Derivative financial instruments:				
Assets	45.7	45.7	—	45.7
Liabilities	7.4	7.4	—	7.4
Debt	1,526.6	1,700.1	1,673.5	26.6

The estimated fair value of financial instruments at December 31, 2013 was as follows:

			Fair Value Measurements at Reporting Date Using	
(In millions)	Total Carrying Amount	Total Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)
Cash and cash equivalents	$1,026.8	$1,026.8	$1,026.8	$—
Derivative financial instruments:				
Assets	4.3	4.3	—	4.3
Liabilities	21.6	21.6	—	21.6
Debt	1,947.3	2,072.6	2,027.8	44.8

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

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

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

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

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

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

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

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

13

Table of Contents

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.

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

For the three month periods ended September 30, 2014 and 2013, the components of pension expense and components of other postretirement benefit expense for the Company's defined benefit plans included the following (in millions):

	Pension Benefits		Other Postretirement Benefits	
	Three months ended September 30,		Three months ended September 30,	
	2014	2013	2014	2013
Service cost - benefits earned during the year	$7.3	$10.0	$0.7	$0.8
Interest cost on benefits earned in prior years	33.4	30.3	6.0	5.6
Expected return on plan assets	(46.1)	(43.8)	(0.1)	(0.1)
Amortization of prior service cost (credit)	0.6	0.8	(0.8)	(4.6)
Amortization of net actuarial loss	18.5	29.2	3.6	4.3
Termination benefits	—	—	—	—
Total retirement benefit expense	$13.7	$26.5	$9.4	$6.0

For the nine month periods ended September 30, 2014 and 2013, the components of pension expense and components of other postretirement benefit expense for the Company's defined benefit plans included the following (in millions):

	Pension Benefits		Other Postretirement Benefits	
	Nine months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Service cost - benefits earned during the year	$22.0	$30.0	$2.1	$2.4
Interest cost on benefits earned in prior years	100.2	90.9	18.0	16.8
Expected return on plan assets	(138.2)	(131.4)	(0.2)	(0.3)
Amortization of prior service cost (credit)	1.8	2.3	(2.3)	(13.7)
Amortization of net actuarial loss	55.5	87.6	10.6	12.9
Termination benefits	0.3	—	—	—
Total retirement benefit expense	$41.6	$79.4	$28.2	$18.1

Other postretirement benefit costs for a defined contribution plan were $0.7 million and $2.0 million for the three months ended September 30, 2014 and 2013, respectively and $2.0 million for both nine month periods ended September 30, 2014 and 2013.

Note 10. Income Taxes

Third quarter 2014 results included a provision for income taxes of $0.5 million, or 12.2% of income from continuing operations before income tax, compared to a benefit of $8.5 million, or 24.1% of loss from continuing operations before income tax, for the 2013 comparable period. Income taxes in the third quarter 2014 and 2013 included discrete tax benefits of $3.4 million and $2.1 million, respectively, primarily associated with adjustments to prior years' and foreign taxes.

For the first nine months of 2014, the benefit for income taxes was $12.4 million, or 49.0% of loss from continuing operations before income tax, compared to a benefit of $4.4 million, or 31.4% of loss from continuing operations before income tax, for the comparable 2013 period. The first nine months of 2014 included a discrete tax benefit of $7.8 million, primarily associated with adjustments to prior years' and foreign taxes. Excluding the discrete tax benefits, the effective tax rate for the first nine months of 2014 was 18.4%. The first nine months of 2013 included a discrete tax benefit of $6.7 million, primarily associated with adjustments to prior years’ taxes and 2013 Federal tax law changes.

Table of Contents

Note 11. Business Segments

The Company operates in two business segments: High Performance Materials & Components and Flat Rolled Products. Our measure of segment operating profit, which is used to analyze the performance and results of the business segments, excludes income taxes, corporate expenses, net interest expense, retirement benefit expense, closed company expenses and restructuring costs, if any. Discontinued operations are also excluded. Management believes segment operating profit, as defined, provides an appropriate measure of controllable operating results at the business segment level. 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,	
	2014	2013	2014	2013
Total sales:				
High Performance Materials & Components	$527.1	$481.2	$1,562.6	$1,561.7
Flat Rolled Products	587.0	515.6	1,747.1	1,644.0
	1,114.1	996.8	3,309.7	3,205.7
Intersegment sales:				
High Performance Materials & Components	19.4	17.3	56.4	53.6
Flat Rolled Products	25.1	7.1	77.4	23.9
	44.5	24.4	133.8	77.5
Sales to external customers:				
High Performance Materials & Components	507.7	463.9	1,506.2	1,508.1
Flat Rolled Products	561.9	508.5	1,669.7	1,620.1
	$1,069.6	$972.4	$3,175.9	$3,128.2
Operating profit (loss):				
High Performance Materials & Components	$62.0	$48.0	$216.2	$192.0
Flat Rolled Products	8.6	(20.4)	(36.9)	(16.7)
Total operating profit	70.6	27.6	179.3	175.3
Corporate expenses	(10.0)	(8.1)	(33.2)	(32.3)
Interest expense, net	(25.2)	(18.2)	(82.8)	(46.5)
Closed company and other expenses	(7.5)	(2.1)	(16.8)	(11.0)
Retirement benefit expense	(23.8)	(34.5)	(71.8)	(99.5)
Income (loss) from continuing operations before income taxes	$4.1	$(35.3)	$(25.3)	$(14.0)

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

Interest expense, net of interest income, in the third quarter 2014 was $25.2 million, compared to net interest expense of $18.2 million in the third quarter 2013. The increase in interest expense was primarily due to reduced capitalized interest, partially offset by lower debt levels following the maturity of the $402.5 million convertible notes in June 2014. Interest expense benefited from the capitalization of interest costs of $0.9 million in the third quarter 2014 compared to $12.7 million in the third quarter 2013. The decrease in capitalized interest is due to a lower construction in progress balance, primarily related to the Flat Rolled Products segment Hot-Rolling and Processing Facility.

Closed company and other expenses primarily includes charges incurred in connection with closed operations and other non-operating income or expense. These items are presented primarily in selling and administrative expenses and in other income in the statements of operations. These items resulted in net charges of $7.5 million for the three months ended September 30, 2014 and $2.1 million for the three months ended September 30, 2013 largely due to an increase in environmental expenses and insurance costs associated with closed operations.

Table of Contents

Note 12. Redeemable Noncontrolling Interest

The holders of the 15% noncontrolling interest in ATI Flowform Products have a put option to require the Company to purchase their equity interest at a redemption value determinable from a specified formula based on a multiple of EBITDA (subject to a fixed minimum linked to the original acquisition date value). The put option is fully exercisable beginning in the second quarter of 2017, and is also exercisable under certain other circumstances. The put option cannot be separated from the noncontrolling interest, and the combination of a noncontrolling interest and the redemption feature requires classification as redeemable noncontrolling interest in the consolidated balance sheet, separate from Stockholders' Equity.

The carrying amount of the redeemable noncontrolling interest approximates its maximum redemption value. Any subsequent change in maximum redemption value is adjusted through retained earnings. The redeemable noncontrolling interest was $12.1 million as of September 30, 2014, which was unchanged from the acquisition date value.

Note 13. Per Share Information

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