

ALLEGHENY TECHNOLOGIES INC

Form 10-Q

May 06, 2013

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2013

OR

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

For the Transition Period From _____ to _____

Commission File Number 1-12001

ALLEGHENY TECHNOLOGIES INCORPORATED

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

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

1000 Six PPG Place

Pittsburgh, Pennsylvania
(Address of Principal Executive Offices)

15222-5479
(Zip Code)

(412) 394-2800
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

At April 30, 2013, the registrant had outstanding 107,954,571 shares of its Common Stock.

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ALLEGHENY TECHNOLOGIES INCORPORATED

SEC FORM 10-Q

Quarter Ended March 31, 2013

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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)*

	March 31, 2013	December 31, 2012
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 138.0	\$ 304.6
Accounts receivable, net of allowances for doubtful accounts of \$5.3 and \$5.5 as of March 31, 2013 and December 31, 2012	681.5	613.3
Inventories, net	1,537.5	1,536.6
Prepaid expenses and other current assets	89.4	56.1
Total Current Assets	2,446.4	2,510.6
Property, plant and equipment, net	2,597.2	2,559.9
Cost in excess of net assets acquired	736.3	740.1
Deferred income taxes	31.3	71.5
Other assets	363.1	365.7
Total Assets	\$ 6,174.3	\$ 6,247.8
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable	\$ 479.4	\$ 499.9
Accrued liabilities	280.0	330.5
Deferred income taxes	36.6	24.0
Short term debt and current portion of long-term debt	17.1	17.1
Total Current Liabilities	813.1	871.5
Long-term debt	1,462.0	1,463.0
Accrued postretirement benefits	487.8	495.2
Pension liabilities	713.7	721.1
Other long-term liabilities	101.0	109.9
Total Liabilities	3,577.6	3,660.7
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 March 31, 2013 and December 31, 2012; outstanding- 107,957,803 shares at March 31, 2013 and 107,398,963 shares at December 31, 2012	11.0	11.0
Additional paid-in capital	1,168.5	1,181.7
Retained earnings	2,404.9	2,427.6

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Treasury stock: 1,737,368 shares at March 31, 2013 and 2,296,208 shares at December 31, 2012	(81.1)	(111.3)
Accumulated other comprehensive loss, net of tax	(1,016.2)	(1,029.4)
Total ATI stockholders equity	2,487.1	2,479.6
Noncontrolling interests	109.6	107.5
Total Equity	2,596.7	2,587.1
Total Liabilities and Equity	\$ 6,174.3	\$ 6,247.8

The accompanying notes are an integral part of these statements.

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

	Three Months Ended March 31,	
	2013	2012
Sales	\$ 1,179.4	\$ 1,352.5
Costs and expenses:		
Cost of sales	1,065.1	1,145.5
Selling and administrative expenses	85.7	103.4
Income before interest, other income and income taxes	28.6	103.6
Interest expense, net	(14.4)	(19.9)
Other income, net	1.1	0.4
Income before income tax provision	15.3	84.1
Income tax provision	3.7	25.8
Net income	11.6	58.3
Less: Net income attributable to noncontrolling interests	1.6	2.1
Net income attributable to ATI	\$ 10.0	\$ 56.2
Basic net income attributable to ATI per common share	\$ 0.09	\$ 0.53
Diluted net income attributable to ATI per common share	\$ 0.09	\$ 0.50
Dividends declared per common share	\$ 0.18	\$ 0.18

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 March 31,	
	2013	2012
Net income	\$ 11.6	\$ 58.3
Currency translation adjustment		
Unrealized net change arising during the period	(13.0)	9.4
Unrealized holding gain on securities		
Net gain arising during the period	0.1	0.1
Derivatives		
Net derivatives gain (loss) on hedge transactions	13.1	(18.2)
Reclassification to net income of net realized gain	0.7	2.5
Income taxes on derivative transactions	5.4	(6.0)
Total	8.4	(9.7)
Postretirement benefit plans		
Amortization of net actuarial loss	33.5	29.9
Prior service cost		
Amortization to net income of net prior service cost (credits)	(3.8)	(2.9)
Income taxes on postretirement benefit plans	11.5	10.3
Total	18.2	16.7
Other comprehensive income, net of tax	13.7	16.5
Comprehensive income	25.3	74.8
Less: Comprehensive income attributable to noncontrolling interests	2.1	2.7
Comprehensive income attributable to ATI	\$ 23.2	\$ 72.1

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

	Three Months Ended March 31,	
	2013	2012
Operating Activities:		
Net income	\$ 11.6	\$ 58.3
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	48.5	48.0
Deferred taxes	36.0	(12.0)
Changes in operating asset and liabilities:		
Inventories	(0.9)	(127.1)
Accounts receivable	(68.2)	(44.0)
Accounts payable	(20.4)	15.2
Retirement benefits	16.6	11.5
Accrued income taxes	(31.9)	26.8
Accrued liabilities and other	(48.7)	5.1
Cash used in operating activities	(57.4)	(18.2)
Investing Activities:		
Purchases of property, plant and equipment	(86.9)	(69.9)
Asset disposals and other	0.7	0.9
Cash used in investing activities	(86.2)	(69.0)
Financing Activities:		
Payments on long-term debt and capital leases	(0.1)	
Net repayments under credit facilities		(1.4)
Dividends paid to shareholders	(19.2)	(19.1)
Taxes on share-based compensation	2.6	0.5
Exercises of stock options and other	0.4	0.2
Shares repurchased for income tax withholding on share-based compensation	(6.7)	(23.3)
Cash used in financing activities	(23.0)	(43.1)
Decrease in cash and cash equivalents	(166.6)	(130.3)
Cash and cash equivalents at beginning of period	304.6	380.6
Cash and cash equivalents at end of period	\$ 138.0	\$ 250.3

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						Total Equity
	Common	Additional Paid-In	Retained	Treasury	Accumulated Other Comprehensive Income (Loss)	Non- controlling Interests	
	Stock	Capital	Earnings	Stock			
Balance, December 31, 2011	\$ 11.0	\$ 1,207.1	\$ 2,361.5	\$ (162.7)	\$ (941.6)	\$ 96.3	\$ 2,571.6
Net income			56.2			2.1	58.3
Other comprehensive income					15.9	0.6	16.5
Cash dividends on common stock (\$0.18 per share)			(19.1)				(19.1)
Dividends declared to noncontrolling interest						(0.1)	(0.1)
Employee stock plans		(45.7)	(3.7)	36.1			(13.3)
Balance, March 31, 2012	\$ 11.0	\$ 1,161.4	\$ 2,394.9	\$ (126.6)	\$ (925.7)	\$ 98.9	\$ 2,613.9
Balance, December 31, 2012	\$ 11.0	\$ 1,181.7	\$ 2,427.6	\$ (111.3)	\$ (1,029.4)	\$ 107.5	\$ 2,587.1
Net income			10.0			1.6	11.6
Other comprehensive income					13.2	0.5	13.7
Cash dividends on common stock (\$0.18 per share)			(19.2)				(19.2)
Employee stock plans		(13.2)	(13.5)	30.2			3.5
Balance, March 31, 2013	\$ 11.0	\$ 1,168.5	\$ 2,404.9	\$ (81.1)	\$ (1,016.2)	\$ 109.6	\$ 2,596.7

The accompanying notes are an integral part of these statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

Note 1. Accounting Policies

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

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

New Accounting Pronouncements Adopted

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

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

Pending Accounting Pronouncements

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

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

Table of Contents**Note 2. Inventories**

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

	March 31, 2013	December 31, 2012
Raw materials and supplies	\$ 367.6	\$ 351.6
Work-in-process	1,064.8	1,063.9
Finished goods	196.6	209.0
Total inventories at current cost	1,629.0	1,624.5
Less allowances to reduce current cost values to LIFO basis	(76.4)	(76.9)
Progress payments	(15.1)	(11.0)
Total inventories, net	\$ 1,537.5	\$ 1,536.6

Inventories are stated at the lower of cost (last-in, first-out (LIFO), first-in, first-out (FIFO), and average cost methods) or market, less progress payments. Most of the Company's inventory is valued utilizing the LIFO costing methodology. Inventory of the Company's non-U.S. operations is valued using average cost or FIFO methods. The effect of using the LIFO methodology to value inventory, rather than FIFO, decreased cost of sales by \$0.5 million for the first three months of 2013. The effect of using the LIFO methodology to value inventory, rather than FIFO, had no impact on cost of sales for the three months ended March 31, 2012.

Note 3. Property, Plant and Equipment

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

	March 31, 2013	December 31, 2012
Land	\$ 34.0	\$ 34.4
Buildings	934.5	921.0
Equipment and leasehold improvements	3,377.7	3,344.4
	4,346.2	4,299.8
Accumulated depreciation and amortization	(1,749.0)	(1,739.9)
Total property, plant and equipment, net	\$ 2,597.2	\$ 2,559.9

The construction in progress portion of property, plant and equipment at March 31, 2013 was \$666.3 million.

Table of Contents**Note 4. Debt**

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

	March 31, 2013	December 31, 2012
Allegheny Technologies 5.95% Notes due 2021	\$ 500.0	\$ 500.0
Allegheny Technologies 4.25% Convertible Notes due 2014	402.5	402.5
Allegheny Technologies 9.375% Notes due 2019	350.0	350.0
Allegheny Ludlum 6.95% debentures due 2025	150.0	150.0
ATI Ladish Series B 6.14% Notes due 2016 (a)	24.6	24.8
ATI Ladish Series C 6.41% Notes due 2015 (b)	32.1	32.5
Domestic Bank Group \$400 million unsecured credit facility		
Foreign credit facilities	13.8	14.2
Industrial revenue bonds, due through 2020, and other	6.1	6.1
Total short-term and long-term debt	1,479.1	1,480.1
Short-term debt and current portion of long-term debt	17.1	17.1
Total long-term debt	\$ 1,462.0	\$ 1,463.0

(a) Includes fair value adjustments of \$1.7 million at March 31, 2013 and \$1.9 million at December 31, 2012.

(b) Includes fair value adjustments of \$2.1 million at March 31, 2013 and \$2.5 million at December 31, 2012.

The Company did not borrow funds under its \$400 million senior unsecured domestic credit facility during the first three months of 2013, although approximately \$4 million has been utilized to support the issuance of letters of credit. This 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) of not greater than 3.25, and 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. For the three months ended March 31, 2013, the leverage ratio was 2.65, and the interest coverage ratio was 5.06.

The Company has an additional separate credit facility for the issuance of letters of credit. As of March 31, 2013, \$32 million in letters of credit were outstanding under this facility.

In addition, Shanghai STAL Precision Stainless Steel Company Limited (STAL), the Company's Chinese joint venture company in which ATI has a 60% interest, has a 205 million renminbi (approximately \$33 million at March 31, 2013 exchange rates) revolving credit facility with a group of banks, which expires in August 2014. This credit facility is supported solely by STAL's financial capability without any guarantees from the joint venture partners. As of March 31, 2013, there were no borrowings under this credit facility.

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

Note 5. Derivative Financial Instruments and Hedging

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

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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.

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The majority of ATI's products are sold utilizing raw material surcharges and index mechanisms. However, as of March 31, 2013, the Company had entered into financial hedging arrangements primarily at the request of its customers, related to firm orders, for an aggregate notional amount of approximately 10% of its estimated annual nickel requirements. These nickel hedges extend to 2016.

At March 31, 2013, the outstanding financial derivatives used to hedge the Company's exposure to energy cost volatility included natural gas cost hedges for approximately 70% of its annual forecasted domestic requirements for 2013, approximately 40% for 2014, and approximately 5% for 2015, and electricity hedges for Western Pennsylvania operations of approximately 10% of its forecasted on-peak and off-peak requirements for 2014.

While the majority of the Company's direct export sales are transacted in U.S. dollars, foreign currency exchange contracts are used, from time-to-time, to limit transactional exposure to changes in currency exchange rates for those transactions denominated in a non-U.S. currency. The Company sometimes purchases foreign currency forward contracts that permit it to sell specified amounts of foreign currencies expected to be received from its export sales for pre-established U.S. dollar amounts at specified dates. The forward contracts are denominated in the same foreign currencies in which export sales are denominated. These contracts are designated as hedges of the variability in cash flows of a portion of the forecasted future export sales transactions which otherwise would expose the Company to foreign currency risk. The Company may also enter into foreign currency forward contracts that are not designated as hedges, which are denominated in the same foreign currency in which export sales are denominated. At March 31, 2013, the outstanding financial derivatives, including both hedges and undesignated derivatives, that are used to manage the Company's exposure to foreign currency, primarily euros, represented approximately 10% of its forecasted total international sales through 2015. In addition, the Company may also designate cash balances held in foreign currencies as hedges of forecasted foreign currency transactions.

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

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

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

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(in millions):		March 31,	December 31,
Asset derivatives	Balance sheet location	2013	2012
Derivatives designated as hedging instruments:			
Foreign exchange contracts	Prepaid expenses and other current assets	\$ 7.5	\$ 2.9
Nickel and other raw material contracts	Prepaid expenses and other current assets	0.1	0.6
Natural gas contracts	Prepaid expenses and other current assets	1.8	0.4
Foreign exchange contracts	Other assets	4.6	0.9
Nickel and other raw material contracts	Other assets	0.1	0.3
Natural gas contracts	Other assets	0.7	0.7
Total derivatives designated as hedging instruments:		14.8	5.8
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Prepaid expenses and other current assets	0.6	0.4
Total derivatives not designated as hedging instruments:		0.6	0.4
Total asset derivatives		\$ 15.4	\$ 6.2
Liability derivatives			
	Balance sheet location		
Derivatives designated as hedging instruments:			
Natural gas contracts	Accrued liabilities	\$ 1.8	\$ 4.4
Nickel and other raw material contracts	Accrued liabilities	2.6	1.1
Foreign exchange contracts	Accrued liabilities		1.7
Electricity contracts	Accrued liabilities		0.3
Natural gas contracts	Other long-term liabilities	0.4	0.6
Electricity contracts	Other long-term liabilities	0.3	0.4
Foreign exchange contracts	Other long-term liabilities		1.4
Nickel and other raw material contracts	Other long-term liabilities	0.4	0.3
Total derivatives designated as hedging instruments:		5.5	10.2
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Accrued liabilities	0.5	1.6
Total derivatives not designated as hedging instruments:		0.5	1.6
Total liability derivatives		\$ 6.0	\$ 11.8

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

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Activity with regard to derivatives designated as cash flow hedges for the three month periods ended March 31, 2013 and 2012 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 March 31,		Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (a) Three months ended March 31,		Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) (b) Three months ended March 31,	
	2013	2012	2013	2012	2013	2012
Nickel and other raw material contracts	\$ (1.4)	\$ (1.6)	\$ 0.1	\$ (0.1)	\$	\$
Natural gas contracts	1.6	(4.5)	(1.0)	(2.6)		
Electricity contracts	0.1	(1.0)	(0.2)	(0.7)		
Foreign exchange contracts	7.7	(4.1)	0.7	1.9		
Total	\$ 8.0	\$ (11.2)	\$ (0.4)	\$ (1.5)	\$	\$

- (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 March 31, 2013, a gain of \$3.1 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:

<i>In millions</i>	Amount of Gain (Loss) Recognized in Income on Derivatives	
	Three Months Ended March 31,	
Derivatives Not Designated as Hedging Instruments	2013	2012
Foreign exchange contracts	\$ 0.8	\$ (1.4)

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

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

<i>(In millions)</i>	Total Carrying Amount	Total Estimated Fair Value	Fair Value Measurements at Reporting Date Using	
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)
Cash and cash equivalents	\$ 138.0	\$ 138.0	\$ 138.0	\$
Derivative financial instruments:				
Assets	15.4	15.4		15.4
Liabilities	6.0	6.0		6.0
Debt	1,479.1	1,700.7	1,624.2	76.5

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

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

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

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

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

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.

Table of Contents**Note 7. Pension Plans and Other Postretirement Benefits**

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

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

For the three month periods ended March 31, 2013 and 2012, the components of pension expense and components of other postretirement benefit expense for the Company's defined benefit plans included the following (in millions):

	Pension Benefits		Other Postretirement Benefits	
	Three Months Ended		Three Months Ended	
	March 31,		March 31,	
	2013	2012	2013	2012
Service cost - benefits earned during the year	\$ 10.0	\$ 8.8	\$ 0.8	\$ 0.8
Interest cost on benefits earned in prior years	30.3	33.1	5.6	6.5
Expected return on plan assets	(43.8)	(45.4)	(0.1)	(0.2)
Amortization of prior service cost (credit)	0.8	1.6	(4.6)	(4.5)
Amortization of net actuarial loss	29.2	26.3	4.3	3.6
Total retirement benefit expense	\$ 26.5	\$ 24.4	\$ 6.0	\$ 6.2

Note 8. Income Taxes

First quarter 2013 results included a provision for income taxes of \$3.7 million, or 24.2% of income before tax, compared to \$25.8 million, or 30.7% of income before tax, for the comparable prior year period. The first quarter 2013 included a discrete tax benefit of \$2.0 million, primarily related to 2013 Federal tax law changes. Excluding the discrete tax benefit, the effective tax rate was 37.6%. The first quarter 2012 included a discrete tax benefit of \$3.7 million primarily related to state income taxes.

Table of Contents**Note 9. Business Segments**

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

	Three Months Ended March 31,	
	2013	2012
Total sales:		
High Performance Metals	\$ 538.3	\$ 607.7
Flat-Rolled Products	562.6	643.2
Engineered Products	113.8	143.8
	1,214.7	1,394.7
Intersegment sales:		
High Performance Metals	19.9	26.4
Flat-Rolled Products	4.5	7.2
Engineered Products	10.9	8.6
	35.3	42.2
Sales to external customers:		
High Performance Metals	518.4	581.3
Flat-Rolled Products	558.1	636.0
Engineered Products	102.9	135.2
	\$ 1,179.4	\$ 1,352.5
Operating profit:		
High Performance Metals	\$ 75.3	\$ 104.1
Flat-Rolled Products	2.4	46.8
Engineered Products	0.6	12.3
Total operating profit	78.3	163.2
Corporate expenses	(12.4)	(21.7)
Interest expense, net	(14.4)	(19.9)
Closed company and other expenses	(3.7)	(6.9)
Retirement benefit expense	(32.5)	(30.6)
Income before income taxes	\$ 15.3	\$ 84.1

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.

Corporate expenses for the three months ended March 31, 2013 were \$12.4 million compared to \$21.7 million for the three months ended March 31, 2012. The decrease in corporate expenses was primarily related to lower incentive compensation expenses associated with annual and long-term performance plans.

Closed company and other expenses primarily includes charges incurred in connection with closed operations and other non-operating income or expense. These items are presented primarily in selling and administrative expenses and in other expense in the statement of operations. These items resulted in net charges of \$3.7 million for the three months ended March 31, 2013 and \$6.9 million for the three months ended March 31, 2012. The decrease over the prior year quarter was primarily related to a decrease in environmental and legal expenses associated with closed operations.

Table of Contents**Note 10. Per Share Information**

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

(in millions, except per share amounts):	Three Months Ended March 31,	
	2013	2012
Numerator for basic net income per common share -		
Net income attributable to ATI	\$ 10.0	\$ 56.2
Effect of dilutive securities:		
4.25% Convertible Notes due 2014		2.3
Numerator for diluted net income per common share -		
Net income available to ATI after assumed conversions	\$ 10.0	\$ 58.5
Denominator for basic net income per common share-weighted average shares	106.6	105.9
Effect of dilutive securities:		
Share-based compensation	0.5	0.9
4.25% Convertible Notes due 2014		9.6
Denominator for diluted net income per common share adjusted weighted average shares assuming conversions	107.1	116.4
Basic net income attributable to ATI per common share	\$ 0.09	\$ 0.53
Diluted net income attributable to ATI per common share	\$ 0.09	\$ 0.50

Common stock that would be issuable upon the assumed conversion of the 2014 Convertible Notes and other option equivalents and contingently issuable shares are excluded from the computation of contingently issuable shares, and therefore, from the denominator for diluted earnings per share, if the effect of inclusion is anti-dilutive. Excluded shares for the three month period ended March 31, 2013 were 9.6 million shares. There were no anti-dilutive shares for the period ended March 31, 2012.

Note 11. Financial Information for Subsidiary and Guarantor Parent

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

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

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

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Allegheny Technologies Incorporated

Financial Information for Subsidiary and Guarantor Parent

Balance Sheets

March 31, 2013

<i>(In millions)</i>	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Assets:					
Cash and cash equivalents	\$ 4.3	\$ 8.5	\$ 125.2	\$	\$ 138.0
Accounts receivable, net	0.2	217.5	463.8		681.5
Inventories, net		333.5	1,204.0		1,537.5
Prepaid expenses and other current assets	33.1	13.9	42.4		89.4
Total current assets	37.6	573.4	1,835.4		2,446.4
Property, plant and equipment, net	3.7	946.9	1,646.6		2,597.2
Cost in excess of net assets acquired		112.1	624.2		736.3
Deferred income taxes	31.3				31.3
Investments in subsidiaries and other assets	5,508.3	205.4	795.3	(6,145.9)	363.1
Total assets	\$ 5,580.9	\$ 1,837.8	\$ 4,901.5	\$ (6,145.9)	\$ 6,174.3
Liabilities and stockholders' equity:					
Accounts payable	\$ 3.3	\$ 264.5	\$ 211.6	\$	\$ 479.4
Accrued liabilities	1,026.9	554.2	314.9	(1,616.0)	280.0
Deferred income taxes	36.6				36.6
Short-term debt and current portion of long-term debt	0.3	0.1	16.7		17.1
Total current liabilities	1,067.1	818.8	543.2	(1,616.0)	813.1
Long-term debt	1,253.5	350.5	58.0	(200.0)	1,462.0
Accrued postretirement benefits		193.6	294.2		487.8
Pension liabilities	647.2	5.0	61.5		713.7
Other long-term liabilities	16.4	18.8	65.8		101.0
Total liabilities	2,984.2	1,386.7	1,022.7	(1,816.0)	3,577.6
Total stockholders' equity	2,596.7	451.1	3,878.8	(4,329.9)	2,596.7
Total liabilities and stockholders' equity	\$ 5,580.9	\$ 1,837.8	\$ 4,901.5	\$ (6,145.9)	\$ 6,174.3

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Allegheny Technologies Incorporated

Financial Information for Subsidiary and Guarantor Parent

Statements of Income and Comprehensive Income

For the three months ended March 31, 2013

<i>(In millions)</i>	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Sales	\$	\$ 477.1	\$ 702.3	\$	\$ 1,179.4
Cost of sales	17.5	466.7	580.9		1,065.1
Selling and administrative expenses	29.1	10.4	46.2		85.7
Income (loss) before interest, other income and income taxes	(46.6)		75.2		28.6
Interest expense, net	(11.7)	(2.6)	(0.1)		(14.4)
Other income (loss) including equity in income of unconsolidated subsidiaries	73.6	(5.4)	9.2	(76.3)	1.1
Income before income tax provision	15.3	(8.0)	84.3	(76.3)	15.3
Income tax provision (benefit)	3.7	(2.5)	29.8	(27.3)	3.7
Net income (loss)	11.6	(5.5)	54.5	(49.0)	11.6
Less: Net income (loss) attributable to noncontrolling interests			1.6		1.6
Net income (loss) attributable to ATI	\$ 11.6	\$ (5.5)	\$ 52.9	\$ (49.0)	\$ 10.0
Comprehensive income (loss) attributable to ATI	\$ 23.2	\$ (5.4)	\$ 40.0	\$ (34.6)	\$ 23.2

Condensed Statements of Cash Flows

For the three months ended March 31, 2013

<i>(In millions)</i>	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Cash flows provided by (used in) operating activities	\$ (25.9)	\$ 20.1	\$ (51.6)	\$	\$ (57.4)
Cash flows used in investing activities		(74.9)	(11.3)		(86.2)
Cash flows provided by (used in) financing activities	24.6	50.2	(97.8)		(23.0)
Increase (decrease) in cash and cash equivalents	\$ (1.3)	\$ (4.6)	\$ (160.7)	\$	\$ (166.6)

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Allegheny Technologies Incorporated

Financial Information for Subsidiary and Guarantor Parent

Balance Sheets

December 31, 2012

<i>(In millions)</i>	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Assets:					
Cash and cash equivalents	\$ 5.5	\$ 13.1	\$ 286.0	\$	\$ 304.6
Accounts receivable, net	0.4	190.1	422.8		613.3
Inventories, net		311.1	1,225.5		1,536.6
Prepaid expenses and other current assets	1.1	10.2	44.8		56.1
Total current assets	7.0	524.5	1,979.1		2,510.6
Property, plant and equipment, net	3.9	882.2	1,673.8		2,559.9
Cost in excess of net assets acquired		112.1	628.0		740.1
Deferred income taxes	71.5				71.5
Investments in subsidiaries and other assets	5,595.9	210.3	657.0	(6,097.5)	365.7
Total assets	\$ 5,678.3	\$ 1,729.1	\$ 4,937.9	\$ (6,097.5)	\$ 6,247.8
Liabilities and stockholders' equity:					
Accounts payable	\$ 5.3	\$ 262.6	\$ 232.0	\$	\$ 499.9
Accrued liabilities	1,137.4	419.8	401.1	(1,627.8)	330.5
Deferred income taxes	24.0				24.0
Short-term debt and current portion of long-term debt	0.3	0.1	16.7		17.1
Total current liabilities	1,167.0	682.5	649.8	(1,627.8)	871.5
Long-term debt	1,253.4	350.6	59.1	(200.1)	1,463.0
Accrued postretirement benefits		198.2	297.0		495.2
Pension liabilities	651.7	5.1	64.3		721.1
Other long-term liabilities	19.1	20.8	70.0		109.9
Total liabilities	3,091.2	1,257.2	1,140.2	(1,827.9)	3,660.7
Total stockholders' equity	2,587.1	471.9	3,797.7	(4,269.6)	2,587.1
Total liabilities and stockholders' equity	\$ 5,678.3	\$ 1,729.1	\$ 4,937.9	\$ (6,097.5)	\$ 6,247.8

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Allegheny Technologies Incorporated

Financial Information for Subsidiary and Guarantor Parent

Statements of Income and Comprehensive Income

For the three months ended March 31, 2012

<i>(In millions)</i>	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Sales	\$	\$ 557.0	\$ 795.5	\$	\$ 1,352.5
Cost of sales	13.3	508.5	623.7		1,145.5
Selling and administrative expenses	43.1	10.5	49.8		103.4
Income (loss) before interest, other income and income taxes	(56.4)	38.0	122.0		103.6
Interest income (expense), net	(17.0)	(2.6)	(0.3)		(19.9)
Other income including equity in income of unconsolidated subsidiaries	157.5	1.6	1.5	(160.2)	0.4
Income before income tax provision	84.1	37.0	123.2	(160.2)	84.1
Income tax provision	25.8	14.0	40.8	(54.8)	25.8
Net income	58.3	23.0	82.4	(105.4)	58.3
Less: Net income attributable to noncontrolling interests			2.1		2.1
Net income attributable to ATI	\$ 58.3	\$ 23.0	\$ 80.3	\$ (105.4)	\$ 56.2
Comprehensive income (loss) attributable to ATI	\$ 72.1	\$ 22.7	\$ 89.6	\$ (112.3)	\$ 72.1

Condensed Statements of Cash Flows

For the three months ended March 31, 2012

<i>(In millions)</i>	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Cash flows provided by (used in) operating activities	\$ (12.5)	\$ 3.1	\$ (1.0)	\$ (7.8)	\$ (18.2)
Cash flows used in investing activities	(0.1)	(51.6)	(17.3)		(69.0)
Cash flows provided by (used in) financing activities	13.8	5.5	(70.2)	7.8	(43.1)
Increase (decrease) in cash and cash equivalents	\$ 1.2	\$ (43.0)	\$ (88.5)	\$	\$ (130.3)

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

The changes in the accumulated other comprehensive income (loss) (AOCI) by component, net of tax, for the quarter ended March 31, 2013 were as follows:

	Post- retirement benefit plans	Currency translation adjustment	Unrealized holding gains on securities	Derivatives	Total
Attributable to ATI:					
Balance, December 31, 2012	\$ (1,030.0)	\$ 3.4	\$ (0.1)	\$ (2.7)	\$ (1,029.4)
OCI before reclassifications		(13.5)	0.1	8.0	(5.4)
Amounts reclassified from AOCI	(a) 18.2	(b)	(b)	(c) 0.4	18.6
Net current-period OCI	18.2	(13.5)	0.1	8.4	13.2
Balance, March 31, 2013	\$ (1,011.8)	\$ (10.1)	\$	\$ 5.7	\$ (1,016.2)
Attributable to noncontrolling interests:					
Balance, December 31, 2012	\$	\$ 23.7	\$	\$	\$ 23.7
OCI before reclassifications		0.5			0.5
Amounts reclassified from AOCI		(b)			
Net current-period OCI		0.5			0.5
Balance, March 31, 2013	\$	\$ 24.2	\$	\$	\$ 24.2

(a) Amounts were included in net periodic benefit cost for pension and other postretirement benefit plans (see Note 7).

(b) No amounts were reclassified to earnings.

(c) Amounts were included in cost of goods sold in the period or periods the hedged item affects earnings (see Note 5).

Reclassifications out of AOCI for the quarter ended March 31, 2013 were as follows:

Details about AOCI Components (<i>in millions</i>)	Amount reclassified from AOCI (c)	Affected line item in the income statement
Postretirement benefit plans	\$	
Prior service (cost) credit	3.8 (a)	
Actuarial losses	(33.5) (a)	
	(29.7) (c)	Total before tax
	(11.5)	Tax provision (benefit)
	\$ (18.2)	Net of tax
Derivatives		
Nickel and other raw material contracts	\$ 0.1 (b)	
Natural gas contracts	(1.7) (b)	
Electricity contracts	(0.3) (b)	
Foreign exchange contracts	1.2 (b)	

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	(0.7) (c)	Total before tax
	(0.3)	Tax provision (benefit)
\$	(0.4)	Net of tax

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

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Note 13. Commitments and Contingencies

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

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

At March 31, 2013, the Company's reserves for environmental remediation obligations totaled approximately \$14 million, of which \$7 million was included in other current liabilities. The reserve includes estimated probable future costs of \$5 million for federal Superfund and comparable state-managed sites; \$6 million for formerly owned or operated sites for which the Company has remediation or indemnification obligations; \$2 million for owned or controlled sites at which Company operations have been discontinued; and \$1 million for sites utilized by the Company in its ongoing operations. The Company continues to evaluate whether it may be able to recover a portion of past and future costs for environmental liabilities from third parties and to pursue such recoveries where appropriate.

Based on currently available information, it is reasonably possible that costs for active matters may exceed the Company's recorded reserves by as much as \$2 million. However, future investigation or remediation activities may result in the discovery of additional hazardous materials, potentially higher levels of contamination than discovered during prior investigation, and may impact costs of the success or lack thereof in remedial solutions. Therefore, future developments, administrative actions or liabilities relating to environmental matters could have a material adverse effect on the Company's financial condition or results of operations.

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

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

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

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

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

Sales for the first quarter 2013 decreased 12.8% to \$1.18 billion, compared to \$1.35 billion in the first quarter 2012 as revenues were impacted by lower base prices for many of our products, falling raw material indices/ surcharges, and decreased demand from the oil and gas, jet engine aftermarket, electrical energy, and construction and mining markets. Compared to the first quarter 2012, sales decreased 11% in the High Performance Metals segment, 12% in the Flat-Rolled Products segment, and 24% in the Engineered Products segment. Compared to the fourth quarter 2012, sales increased 3% in the High Performance Metals segment, 13% in the Flat-Rolled Products segment, and 1% in the Engineered Products segment.

Demand from the global aerospace and defense, oil and gas/chemical process industry, electrical energy, and medical markets represented 68% of our sales for the first three months of 2013 and 2012. Comparative information for our overall revenues (in millions) by market and their respective percentages of total revenues for the three month periods ended March 31, 2013 and 2012 were as follows:

Market	Three Months Ended March 31, 2013		Three Months Ended March 31, 2012	
	\$	%	\$	%
Aerospace & Defense	401.8	34%	436.5	32%
Oil & Gas/Chemical Process Industry	217.8	18%	277.4	21%
Electrical Energy	129.0	11%	146.9	11%
Medical	59.2	5%	57.8	4%
Subtotal Key Markets	807.8	68%	918.6	68%
Automotive	91.6	8%	105.9	8%
Construction/Mining	79.5	7%	103.4	8%
Food Equipment & Appliances	65.4	6%	55.2	4%
Transportation	51.9	4%	54.1	4%
Electronics/Computers/Communication	36.3	3%	45.3	3%
Machine & Cutting Tools	26.0	2%	36.2	3%
Conversion Services & Other	20.9	2%	33.8	2%
Total	\$ 1,179.4	100%	\$ 1,352.5	100%

For the first quarter 2013, direct international sales were \$450.5 million and represented over 38% of total sales. Sales of our high-value products (titanium and titanium alloys, nickel-based alloys and specialty alloys, zirconium and related alloys, precision forgings and castings, grain-oriented electrical steel, precision and engineered strip, and tungsten materials) represented 78% of total sales. Comparative information for our major high-value and standard products based on their percentages of our total sales is as follows:

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	Three Months Ended	
	March 31,	
	2013	2012
High-Value Products		
Nickel-based alloys and specialty alloys	24%	27%
Titanium and titanium alloys	16%	13%
Precision forgings and castings	12%	13%
Precision and engineered strip	11%	11%
Tungsten-based materials	7%	7%
Zirconium and related alloys	5%	5%
Grain-oriented electrical steel	3%	4%
Total High-Value Products	78%	80%
Standard Products		
Specialty stainless sheet	9%	9%
Stainless steel sheet	9%	7%
Stainless steel plate	2%	2%
Iron castings and other	2%	2%
Total Standard Products	22%	20%
Grand Total	100%	100%

Total titanium mill product shipments for the first three months of 2013, including ATI-produced products for our Uniti titanium joint venture, were 10.3 million pounds, a 15% increase compared to the fourth quarter 2012 and a 3% increase compared to the first quarter 2012, reflecting increased demand from the commercial aerospace market in the High Performance Metals segment and ongoing shipments for certain large projects, primarily affecting our Flat-Rolled Products business segment.

Segment operating profit for the first quarter 2013 was \$78.3 million, or 6.6% of sales, compared to \$163.2 million, or 12.1% of sales for the first quarter 2012. Higher inventory costs resulting from higher unit conversion costs due to lower operating rates in the fourth quarter 2012, combined with the impact of higher raw material costs for products with longer manufacturing cycle times not aligned with falling raw material indices/surcharges, reduced operating profit, especially in the High Performance Metals segment. Segment operating profit for the first quarter 2013 in the High Performance Metals segment was \$75.3 million or 14.5% of sales and was also impacted by low demand from the jet engine aftermarket, weak demand for zirconium alloys, reduced demand for forgings from the construction and mining market, and pricing pressures on transaction, or spot, business. Flat-Rolled Products segment operating profit was \$2.4 million, or 0.4% of sales, reflecting a weaker high-value product mix as well as record-low base-selling prices for standard stainless sheet. Operating profit in our Engineered Products segment was essentially break-even, as lower operating rates affected profit margins.

Segment operating profit as a percentage of sales for the three month periods ended March 31, 2013 and 2012 was:

	Three Months Ended	
	March 31,	
	2013	2012
High Performance Metals	14.5%	17.9%
Flat-Rolled Products	0.4%	7.4%
Engineered Products	0.6%	9.1%

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

Income before tax for the first quarter 2013 was \$15.3 million, or 1.3% of sales, compared to \$84.1 million, or 6.2% of sales for the first quarter 2012. The first quarter 2013 benefited from lower corporate expenses, primarily the result of reduced annual and long-term performance-based incentive compensation expenses, and lower interest expense.

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Net income attributable to ATI for the first quarter 2013 was \$10.0 million, or \$0.09 per share, compared to \$56.2 million, or \$0.53 per share for the first quarter 2012.

At March 31, 2013, we had cash on hand of \$138.0 million, a decrease of \$166.6 million from year-end 2012. Cash flow used in operations for the first quarter 2013 was \$57.4 million and included an investment of \$84.4 million in managed working capital. Additionally, we invested \$86.9 million in capital expenditures, primarily related to the Flat-Rolled Products segment's Hot-Rolling and Processing Facility (HRPF). Net debt to total capitalization was 35.0% and total debt to total capitalization was 37.3% at March 31, 2013. At December 31, 2012, net debt to total capitalization was 32.2% and total debt to total capitalization was 37.4%.

While we see some signs of improvement as we enter the second quarter and it appears the fourth quarter 2012 may have been the trough in demand, we expect challenging conditions to continue to impact many of our end markets throughout the second quarter. We believe our customers will continue to remain cautious as near-term global economic uncertainties remain, lead times remain short, and raw materials prices, especially for nickel and titanium scrap, remain under pressure. We remain cautiously optimistic that business conditions will gradually improve as we move through 2013. We expect some improvement in demand from our key global markets and moderate recovery in domestic economic growth from the expected improvement in the housing construction market.

While the short-term is challenging, we continue to focus on taking actions to improve ATI's financial performance while we continue to strengthen our position for long-term profitable growth. We are accelerating cost reduction actions, aggressively identifying and acting on market opportunities that provide important short-term business volume opportunities, and implementing actions to reduce managed working capital.

Looking beyond the short-term challenges, we believe ATI remains well-positioned for profitable growth over the long-term as a result of our unmatched diversification in specialty metals products, technology leadership, and unsurpassed manufacturing capabilities. We continue to believe that market conditions remain favorable for long-term secular growth from our key markets of aerospace, oil and gas/chemical process industry, electrical energy, and medical.

Business Segment Results

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

	2013		2012	
	Revenue	Operating Profit	Revenue	Operating Profit
High Performance Metals	44%	96%	43%	64%
Flat-Rolled Products	47%	3%	47%	29%
Engineered Products	9%	1%	10%	7%

High Performance Metals Segment

First quarter 2013 sales decreased 11% to \$518.4 million compared to the first quarter 2012, primarily as a result of lower mill product shipments of nickel-based and specialty alloys and zirconium and related alloys, and a decrease in sales of precision forged and cast components due to lower demand from the jet engine, construction and mining, nuclear energy, and oil and gas markets. In addition, lower raw material indices and lower base-selling prices negatively affected sales.

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Comparative information for our High Performance Metals segment revenues (in millions) by market and their respective percentages of the segment's overall revenues for the three month periods ended March 31, 2013 and 2012 is as follows:

Market	Three Months Ended March 31, 2013		Three Months Ended March 31, 2012	
Aerospace:				
Jet Engines	\$ 170.5	33%	\$ 201.9	35%
Airframes	103.4	20%	105.9	18%
Government	52.4	10%	53.2	9%
Total Aerospace	326.3	63%	361.0	62%
Medical	49.4	10%	49.7	9%
Oil & Gas/Chemical Process Industry	44.2	9%	54.4	9%
Electrical Energy	38.4	7%	36.9	6%
Defense	23.0	4%	21.2	4%
Construction/Mining	7.7	1%	19.8	3%
Other	29.4	6%	38.3	7%
Total	\$ 518.4	100%	\$ 581.3	100%

Direct international sales represented nearly 46% of total segment sales. Comparative information for the High Performance Metals segments major product categories, based on their percentages of sales for the three months ended March 31, 2013 and 2012, is as follows:

	Three Months Ended March 31,	
	2013	2012
High-Value Products		
Nickel-based alloys and specialty alloys	32%	37%
Titanium and titanium alloys	31%	26%
Precision forgings and castings	25%	25%
Zirconium and related alloys	12%	12%
Total High-Value Products	100%	100%

Segment operating profit in the first quarter 2013 decreased to \$75.3 million, or 14.5% of total sales, including surcharges, compared to \$104.1 million, or 17.9% of total sales, for the first quarter 2012. The decrease in operating profit primarily resulted from lower shipment volumes for most products, the impact of higher raw material costs for products with longer manufacturing cycle times not aligned with falling raw material indices, and lower base-selling prices for some products. Results benefited from \$26.5 million in gross cost reductions in the first quarter 2013.

Flat-Rolled Products Segment

First quarter 2013 sales decreased 12% compared to the first quarter 2012, to \$558.1 million, primarily due to lower base-selling prices, lower raw material surcharges, and a product mix that had a higher percentage of standard stainless products and a lower percentage of high-value products. Shipments of standard stainless products (sheet and plate) increased 10%, to 173.8 million pounds. High-value products shipments declined 6% compared to the first quarter 2012, to 113 million pounds, as higher shipments of our Precision Rolled Strip® and titanium products were more than offset by reduced shipments of our nickel-based and specialty steel alloys and grain-oriented electrical steel products. First quarter 2013 Flat-Rolled Products segment titanium shipments, including Uniti joint venture conversion, were 3.1 million pounds, a 3% decrease compared to the fourth quarter 2012 but a 3% increase compared to the first quarter. Titanium shipments on projects in the chemical process industry are expected to favorably impact the second and third quarters of 2013. Average selling prices for all products, which include surcharges, declined 15%. Average base selling prices remain at historically low levels for standard stainless products.

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Comparative information for our Flat-Rolled Products revenues (in millions) by market and their respective percentages of the segment's overall revenues for the three month periods ended March 31, 2013 and 2012 is as follows:

Market	Three Months Ended		Three Months Ended	
	March 31, 2013		March 31, 2012	
Oil & Gas/Chemical Process Industry	\$ 145.1	26%	\$ 185.3	29%
Electrical Energy	84.4	15%	102.0	16%
Automotive	83.4	15%	96.2	15%
Food Equipment & Appliances	64.9	12%	54.6	8%
Construction/Mining	57.0	10%	63.5	10%
Aerospace & Defense	41.9	8%	42.3	7%
Electronics/Computers/Communication	36.0	6%	41.8	7%
Transportation	29.7	5%	23.2	4%
Medical	7.1	1%	5.4	1%
Other	8.6	2%	21.7	3%
Total	\$ 558.1	100%	\$ 636.0	100%

Direct international sales represented 34% of total segment sales for the first quarter 2013. Comparative information for the Flat-Rolled Products segments' major product categories, based on their percentages of sales for the three months ended March 31, 2013 and 2012, is as follows:

	Three Months Ended	
	March 31,	
	2013	2012
High-Value Products		
Precision and engineered strip	24%	22%
Nickel-based alloys and specialty alloys	21%	26%
Grain-oriented electrical steel	7%	9%
Titanium and titanium alloys	5%	4%
Total High-Value Products	57%	61%
Standard Products		
Specialty stainless sheet	20%	19%
Stainless steel sheet	19%	16%
Stainless steel plate	4%	4%
Total Standard Products	43%	39%
Grand Total	100%	