

ALLEGHENY TECHNOLOGIES INC

Form 10-Q

August 03, 2012

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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 June 30, 2012

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)

**(412) 394-2800**  
**15222-5479**  
(Zip Code)

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer ☒ Accelerated filer ☐

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

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

At July 25, 2012, the registrant had outstanding 107,174,134 shares of its Common Stock.

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ALLEGHENY TECHNOLOGIES INCORPORATED

SEC FORM 10-Q

Quarter Ended June 30, 2012

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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)*

|                                                                                                                                                                                                                               | June 30,<br>2012  | December 31,<br>2011 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|----------------------|
| <b>ASSETS</b>                                                                                                                                                                                                                 |                   |                      |
| <b>Current Assets:</b>                                                                                                                                                                                                        |                   |                      |
| Cash and cash equivalents                                                                                                                                                                                                     | \$ 210.3          | \$ 380.6             |
| Accounts receivable, net of allowances for doubtful accounts of \$5.6 and \$5.9 as of June 30, 2012 and December 31, 2011                                                                                                     | 744.3             | 709.1                |
| Inventories, net                                                                                                                                                                                                              | 1,512.5           | 1,384.3              |
| Prepaid expenses and other current assets                                                                                                                                                                                     | 60.4              | 95.5                 |
| <b>Total Current Assets</b>                                                                                                                                                                                                   | <b>2,527.5</b>    | <b>2,569.5</b>       |
| Property, plant and equipment, net                                                                                                                                                                                            | 2,444.0           | 2,368.8              |
| Cost in excess of net assets acquired                                                                                                                                                                                         | 737.7             | 737.7                |
| Other assets                                                                                                                                                                                                                  | 370.8             | 370.9                |
| <b>Total Assets</b>                                                                                                                                                                                                           | <b>\$ 6,080.0</b> | <b>\$ 6,046.9</b>    |
| <b>LIABILITIES AND EQUITY</b>                                                                                                                                                                                                 |                   |                      |
| <b>Current Liabilities:</b>                                                                                                                                                                                                   |                   |                      |
| Accounts payable                                                                                                                                                                                                              | \$ 451.7          | \$ 490.7             |
| Accrued liabilities                                                                                                                                                                                                           | 327.9             | 320.3                |
| Deferred income taxes                                                                                                                                                                                                         | 16.6              | 23.5                 |
| Short term debt and current portion of long-term debt                                                                                                                                                                         | 27.3              | 27.3                 |
| <b>Total Current Liabilities</b>                                                                                                                                                                                              | <b>823.5</b>      | <b>861.8</b>         |
| Long-term debt                                                                                                                                                                                                                | 1,474.1           | 1,482.0              |
| Accrued postretirement benefits                                                                                                                                                                                               | 473.3             | 488.1                |
| Pension liabilities                                                                                                                                                                                                           | 496.1             | 508.9                |
| Deferred income taxes                                                                                                                                                                                                         | 20.0              | 9.8                  |
| Other long-term liabilities                                                                                                                                                                                                   | 117.5             | 124.7                |
| <b>Total Liabilities</b>                                                                                                                                                                                                      | <b>3,404.5</b>    | <b>3,475.3</b>       |
| <b>Equity:</b>                                                                                                                                                                                                                |                   |                      |
| <b>ATI Stockholders' Equity:</b>                                                                                                                                                                                              |                   |                      |
| Preferred stock, par value \$0.10: authorized-50,000,000 shares; issued-none                                                                                                                                                  |                   |                      |
| Common stock, par value \$0.10: authorized-500,000,000 shares; issued-109,695,171 shares at June 30, 2012 and December 31, 2011; outstanding- 107,163,790 shares at June 30, 2012 and 106,354,612 shares at December 31, 2011 | 11.0              | 11.0                 |

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|                                                                                             |                   |                   |
|---------------------------------------------------------------------------------------------|-------------------|-------------------|
| Additional paid-in capital                                                                  | 1,169.7           | 1,207.1           |
| Retained earnings                                                                           | 2,429.8           | 2,361.5           |
| Treasury stock: 2,531,381 shares at June 30, 2012 and 3,340,559 shares at December 31, 2011 | (122.6)           | (162.7)           |
| Accumulated other comprehensive loss, net of tax                                            | (912.4)           | (941.6)           |
| <b>Total ATI stockholders' equity</b>                                                       | <b>2,575.5</b>    | <b>2,475.3</b>    |
| <b>Noncontrolling interests</b>                                                             | 100.0             | 96.3              |
| <b>Total Equity</b>                                                                         | <b>2,675.5</b>    | <b>2,571.6</b>    |
| <b>Total Liabilities and Equity</b>                                                         | <b>\$ 6,080.0</b> | <b>\$ 6,046.9</b> |

The accompanying notes are an integral part of these statements.

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

|                                                           | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|-----------------------------------------------------------|----------------------------------------|-------------|--------------------------------------|-------------|
|                                                           | <b>2012</b>                            | <b>2011</b> | <b>2012</b>                          | <b>2011</b> |
| Sales                                                     | \$ 1,357.4                             | \$ 1,351.6  | \$ 2,709.9                           | \$ 2,579.0  |
| Costs and expenses:                                       |                                        |             |                                      |             |
| Cost of sales                                             | 1,158.5                                | 1,128.6     | 2,304.0                              | 2,150.6     |
| Selling and administrative expenses                       | 90.7                                   | 99.3        | 194.1                                | 188.0       |
| Income before interest, other income and income taxes     | 108.2                                  | 123.7       | 211.8                                | 240.4       |
| Interest expense, net                                     | (18.6)                                 | (23.7)      | (38.5)                               | (46.7)      |
| Other income, net                                         | 0.1                                    | 0.3         | 0.5                                  | 0.4         |
| Income before income tax provision                        | 89.7                                   | 100.3       | 173.8                                | 194.1       |
| Income tax provision                                      | 31.0                                   | 34.3        | 56.8                                 | 69.4        |
| Net income                                                | 58.7                                   | 66.0        | 117.0                                | 124.7       |
| Less: Net income attributable to noncontrolling interests | 2.3                                    | 2.0         | 4.4                                  | 4.4         |
| Net income attributable to ATI                            | \$ 56.4                                | \$ 64.0     | \$ 112.6                             | \$ 120.3    |
| Basic net income attributable to ATI per common share     | \$ 0.53                                | \$ 0.63     | \$ 1.06                              | \$ 1.20     |
| Diluted net income attributable to ATI per common share   | \$ 0.50                                | \$ 0.59     | \$ 1.00                              | \$ 1.13     |
| Dividends declared per common share                       | \$ 0.18                                | \$ 0.18     | \$ 0.36                              | \$ 0.36     |

The accompanying notes are an integral part of these statements.

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### Allegheny Technologies Incorporated and Subsidiaries

#### Consolidated Statements of Comprehensive Income

(In millions)

(Unaudited)

|                                                             | ATI<br>Three Months Ended<br>June 30, |                 | Noncontrolling<br>Interests<br>Three Months Ended<br>June 30, |               | Total<br>Three Months Ended<br>June 30, |                 |
|-------------------------------------------------------------|---------------------------------------|-----------------|---------------------------------------------------------------|---------------|-----------------------------------------|-----------------|
|                                                             | 2012                                  | 2011            | 2012                                                          | 2011          | 2012                                    | 2011            |
| <b>Net Income</b>                                           | <b>\$ 56.4</b>                        | <b>\$ 64.0</b>  | <b>\$ 2.3</b>                                                 | <b>\$ 2.0</b> | <b>\$ 58.7</b>                          | <b>\$ 66.0</b>  |
| Other comprehensive income (loss), net of tax:              |                                       |                 |                                                               |               |                                         |                 |
| Foreign currency translation adjustments                    | (13.4)                                | 1.3             | (1.2)                                                         | 1.6           | (14.6)                                  | 2.9             |
| Pension plans and other postretirement benefits             | 16.6                                  | 11.4            |                                                               |               | 16.6                                    | 11.4            |
| Change in unrealized gains on available-for-sale securities |                                       |                 |                                                               |               |                                         |                 |
| Unrecognized gains (losses) on derivatives                  | 10.1                                  | (3.3)           |                                                               |               | 10.1                                    | (3.3)           |
| Other comprehensive income (loss), net of tax               | 13.3                                  | 9.4             | (1.2)                                                         | 1.6           | 12.1                                    | 11.0            |
| <b>Comprehensive income</b>                                 | <b>\$ 69.7</b>                        | <b>\$ 73.4</b>  | <b>\$ 1.1</b>                                                 | <b>\$ 3.6</b> | <b>\$ 70.8</b>                          | <b>\$ 77.0</b>  |
|                                                             |                                       |                 |                                                               |               |                                         |                 |
|                                                             | Six Months Ended<br>June 30,          |                 | Six Months Ended<br>June 30,                                  |               | Six Months Ended<br>June 30,            |                 |
|                                                             | 2012                                  | 2011            | 2012                                                          | 2011          | 2012                                    | 2011            |
| <b>Net Income</b>                                           | <b>\$ 112.6</b>                       | <b>\$ 120.3</b> | <b>\$ 4.4</b>                                                 | <b>\$ 4.4</b> | <b>\$ 117.0</b>                         | <b>\$ 124.7</b> |
| Other comprehensive income (loss), net of tax:              |                                       |                 |                                                               |               |                                         |                 |
| Foreign currency translation adjustments                    | (4.6)                                 | 15.3            | (0.6)                                                         | 3.2           | (5.2)                                   | 18.5            |
| Pension plans and other postretirement benefits             | 33.3                                  | 22.8            |                                                               |               | 33.3                                    | 22.8            |
| Change in unrealized gains on available-for-sale securities | 0.1                                   |                 |                                                               |               | 0.1                                     |                 |
| Unrecognized gains (losses) on derivatives                  | 0.4                                   | (12.6)          |                                                               |               | 0.4                                     | (12.6)          |
| Other comprehensive income (loss), net of tax               | 29.2                                  | 25.5            | (0.6)                                                         | 3.2           | 28.6                                    | 28.7            |
| <b>Comprehensive income</b>                                 | <b>\$ 141.8</b>                       | <b>\$ 145.8</b> | <b>\$ 3.8</b>                                                 | <b>\$ 7.6</b> | <b>\$ 145.6</b>                         | <b>\$ 153.4</b> |

The accompanying notes are an integral part of these statements.

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

|                                                                                             | <b>Six Months Ended<br/>June 30,</b> |                 |
|---------------------------------------------------------------------------------------------|--------------------------------------|-----------------|
|                                                                                             | <b>2012</b>                          | <b>2011</b>     |
| <b>Operating Activities:</b>                                                                |                                      |                 |
| Net income                                                                                  | <b>\$ 117.0</b>                      | <b>\$ 124.7</b> |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                                      |                 |
| Depreciation and amortization                                                               | 96.2                                 | 80.6            |
| Deferred taxes                                                                              | (17.6)                               | (13.1)          |
| Changes in operating asset and liabilities:                                                 |                                      |                 |
| Inventories                                                                                 | (128.3)                              | (307.8)         |
| Accounts receivable                                                                         | (35.1)                               | (177.7)         |
| Accounts payable                                                                            | (39.0)                               | 62.5            |
| Retirement benefits                                                                         | 26.8                                 | 6.5             |
| Accrued income taxes                                                                        | 12.2                                 | 74.5            |
| Accrued liabilities and other                                                               | 27.6                                 | 77.8            |
| <b>Cash provided by (used in) operating activities</b>                                      | <b>59.8</b>                          | <b>(72.0)</b>   |
| <b>Investing Activities:</b>                                                                |                                      |                 |
| Purchases of property, plant and equipment                                                  | (165.7)                              | (97.7)          |
| Purchases of businesses and investments in ventures, net of cash acquired                   |                                      | (349.2)         |
| Asset disposals and other                                                                   | 0.9                                  | 2.6             |
| <b>Cash used in investing activities</b>                                                    | <b>(164.8)</b>                       | <b>(444.3)</b>  |
| <b>Financing Activities:</b>                                                                |                                      |                 |
| Issuances of long-term debt                                                                 |                                      | 500.0           |
| Payments on long-term debt and capital leases                                               | (5.8)                                | (11.0)          |
| Net borrowings under credit facilities                                                      | 0.3                                  | 2.3             |
| Debt issuance costs                                                                         |                                      | (5.0)           |
| Dividends paid to shareholders                                                              | (38.2)                               | (36.7)          |
| Purchase of subsidiary shares from noncontrolling interest                                  | (0.1)                                | (0.2)           |
| Taxes on share-based compensation                                                           | 1.0                                  | 2.6             |
| Exercises of stock options and other                                                        | 0.8                                  | 1.1             |
| Shares repurchased for income tax withholding on share-based compensation                   | (23.3)                               | (1.3)           |
| <b>Cash provided by (used in) financing activities</b>                                      | <b>(65.3)</b>                        | <b>451.8</b>    |
| <b>Decrease in cash and cash equivalents</b>                                                | <b>(170.3)</b>                       | <b>(64.5)</b>   |
| <b>Cash and cash equivalents at beginning of period</b>                                     | <b>380.6</b>                         | <b>432.3</b>    |
| <b>Cash and cash equivalents at end of period</b>                                           | <b>\$ 210.3</b>                      | <b>\$ 367.8</b> |

The accompanying notes are an integral part of these statements.



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

|                                                            | ATI Stockholders |                   |                   |                   | Accumulated       | Non-            | Total             |
|------------------------------------------------------------|------------------|-------------------|-------------------|-------------------|-------------------|-----------------|-------------------|
|                                                            | Common           | Additional        | Retained          | Treasury          | Other             | controlling     |                   |
|                                                            | Stock            | Paid-In           | Earnings          | Stock             | Comprehensive     | Interests       | Equity            |
|                                                            |                  | Capital           |                   |                   | Income            |                 |                   |
|                                                            |                  |                   |                   |                   | (Loss)            |                 |                   |
| Balance, December 31, 2010                                 | \$ 10.2          | \$ 658.9          | \$ 2,224.8        | \$ (188.0)        | \$ (665.1)        | \$ 88.6         | \$ 2,129.4        |
| <b>Net income</b>                                          |                  |                   | <b>120.3</b>      |                   |                   | <b>4.4</b>      | <b>124.7</b>      |
| Other comprehensive income                                 |                  |                   |                   |                   | 25.5              | 3.2             | 28.7              |
| Issuance of common stock                                   | 0.8              | 512.8             |                   |                   |                   |                 | 513.6             |
| Cash dividends on common stock (\$0.36 per share)          |                  |                   | (36.7)            |                   |                   |                 | (36.7)            |
| Noncontrolling interest acquired                           |                  |                   |                   |                   |                   | 0.6             | 0.6               |
| Purchase of subsidiary shares from noncontrolling interest |                  | 0.1               |                   |                   |                   | (0.3)           | (0.2)             |
| Dividends declared to noncontrolling interest              |                  |                   |                   |                   |                   | (7.2)           | (7.2)             |
| Employee stock plans                                       |                  | 4.4               | (1.1)             | 23.8              |                   |                 | 27.1              |
| <b>Balance, June 30, 2011</b>                              | <b>\$ 11.0</b>   | <b>\$ 1,176.2</b> | <b>\$ 2,307.3</b> | <b>\$ (164.2)</b> | <b>\$ (639.6)</b> | <b>\$ 89.3</b>  | <b>\$ 2,780.0</b> |
| Balance, December 31, 2011                                 | \$ 11.0          | \$ 1,207.1        | \$ 2,361.5        | \$ (162.7)        | \$ (941.6)        | \$ 96.3         | \$ 2,571.6        |
| <b>Net income</b>                                          |                  |                   | <b>112.6</b>      |                   |                   | <b>4.4</b>      | <b>117.0</b>      |
| Other comprehensive income                                 |                  |                   |                   |                   | 29.2              | (0.6)           | 28.6              |
| Cash dividends on common stock (\$0.36 per share)          |                  |                   | (38.2)            |                   |                   |                 | (38.2)            |
| Purchase of subsidiary shares from noncontrolling interest |                  |                   |                   |                   |                   | (0.1)           | (0.1)             |
| Employee stock plans                                       |                  | (37.4)            | (6.1)             | 40.1              |                   |                 | (3.4)             |
| <b>Balance, June 30, 2012</b>                              | <b>\$ 11.0</b>   | <b>\$ 1,169.7</b> | <b>\$ 2,429.8</b> | <b>\$ (122.6)</b> | <b>\$ (912.4)</b> | <b>\$ 100.0</b> | <b>\$ 2,675.5</b> |

The accompanying notes are an integral part of these statements.

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Unaudited

**Note 1. Accounting Policies**

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

These unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and note disclosures required by U.S. generally accepted accounting principles for complete financial statements. In management's opinion, all adjustments (which include only normal recurring adjustments) considered necessary for a fair presentation have been included. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2011 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, 2011 financial information has been derived from the Company's audited financial statements.

**New Accounting Pronouncements Adopted**

In June 2011, the Financial Accounting Standards Board (FASB) issued amendments to financial accounting standards related to the presentation of comprehensive income which requires entities to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, these amendments require an entity to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. In December 2011, the FASB deferred the requirement for presenting the reclassification adjustments from comprehensive income to net income by component within the face of the financial statements. Finally, no changes were made to the calculation and presentation of earnings per share. These amendments, with retrospective application, are effective for interim and annual periods in fiscal year 2012. A separate consolidated statement of comprehensive income is included in these consolidated financial statements. Other than the change in presentation, these changes did not have an impact on the consolidated financial statements.

**Note 2. Inventories**

Inventories at June 30, 2012 and December 31, 2011 were as follows (in millions):

|                                                             | June 30,<br>2012 | December 31,<br>2011 |
|-------------------------------------------------------------|------------------|----------------------|
| Raw materials and supplies                                  | \$ 274.7         | \$ 205.7             |
| Work-in-process                                             | 1,174.0          | 1,150.0              |
| Finished goods                                              | 226.6            | 199.9                |
| Total inventories at current cost                           | 1,675.3          | 1,555.6              |
| Less allowances to reduce current cost values to LIFO basis | (146.6)          | (153.7)              |
| Progress payments                                           | (16.2)           | (17.6)               |
| Total inventories, net                                      | \$ 1,512.5       | \$ 1,384.3           |

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 \$7.1 million for the first six months of 2012 compared to an increase of \$9.1 million for the first six months of 2011.



**Table of Contents****Note 3. Property, Plant and Equipment**

Property, plant and equipment at June 30, 2012 and December 31, 2011 was as follows (in millions):

|                                           | June 30,<br>2012 | December 31,<br>2011 |
|-------------------------------------------|------------------|----------------------|
| Land                                      | \$ 34.0          | \$ 34.0              |
| Buildings                                 | 830.4            | 757.0                |
| Equipment and leasehold improvements      | 3,222.9          | 3,146.2              |
|                                           | 4,087.3          | 3,937.2              |
| Accumulated depreciation and amortization | (1,643.3)        | (1,568.4)            |
| Total property, plant and equipment, net  | \$ 2,444.0       | \$ 2,368.8           |

The construction in progress portion of property, plant and equipment at June 30, 2012 was \$447.8 million.

**Note 4. Debt**

Debt at June 30, 2012 and December 31, 2011 was as follows (in millions):

|                                                             | June 30,<br>2012 | December 31,<br>2011 |
|-------------------------------------------------------------|------------------|----------------------|
| 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)                | 25.4             | 31.8                 |
| ATI Ladish Series C 6.41% Notes due 2015 (b)                | 43.5             | 44.6                 |
| Domestic Bank Group \$400 million unsecured credit facility |                  |                      |
| Foreign credit facilities                                   | 24.2             | 24.5                 |
| Industrial revenue bonds, due through 2020, and other       | 5.8              | 5.9                  |
| Total short-term and long-term debt                         | 1,501.4          | 1,509.3              |
| Short-term debt and current portion of long-term debt       | 27.3             | 27.3                 |
| Total long-term debt                                        | \$ 1,474.1       | \$ 1,482.0           |

(a) Includes fair value adjustments of \$2.5 million at June 30, 2012 and \$3.2 million at December 31, 2011.

(b) Includes fair value adjustments of \$3.5 million at June 30, 2012 and \$4.6 million at December 31, 2011.

The Company did not borrow funds under its \$400 million senior unsecured domestic credit facility during the first six months of 2012, although approximately \$7 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 June 30, 2012, the leverage ratio was 2.05, and the interest coverage ratio was 5.58.

The Company has an additional separate credit facility for the issuance of letters of credit. As of June 30, 2012, \$32 million in letters of credit were outstanding under this facility.

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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 \$32 million at June 30, 2012 exchange rates) revolving credit facility with a group of banks, which expires in August 2014. This credit facility is supported solely by STAL's financial capability without any guarantees from the joint venture partners. As of June 30, 2012, there were no borrowings under this credit facility.

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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 on the statement of income.

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

The majority of ATI's products are sold utilizing raw material surcharges and index mechanisms. However, as of June 30, 2012, the Company had entered into financial hedging arrangements primarily at the request of its customers, related to firm orders, representing approximately 13% of its annual nickel requirements. These nickel hedges extend to 2016.

At June 30, 2012, the outstanding financial derivatives used to hedge the Company's exposure to energy cost volatility included natural gas cost hedges for approximately 75% of its annual forecasted domestic requirements for 2012, approximately 50% for 2013, and approximately 30% for 2014, and electricity hedges for Western Pennsylvania operations of approximately 30% of its forecasted on-peak and off-peak requirements for 2012 and approximately 10% for 2014.

While the majority of the Company's direct export sales are transacted in U.S. dollars, foreign currency exchange contracts are used, from time-to-time, to limit transactional exposure to changes in currency exchange rates for those transactions denominated in a non-U.S. currency. The Company sometimes purchases foreign currency forward contracts that permit it to sell specified amounts of foreign currencies expected to be received from its export sales for pre-established U.S. dollar amounts at specified dates. The forward contracts are denominated in the same foreign currencies in which export sales are denominated. These contracts are designated as hedges of the variability in cash flows of a portion of the forecasted future export sales transactions which otherwise would expose the Company to foreign currency risk. The Company may also enter into foreign currency forward contracts that are not designated as hedges, which are denominated in the same foreign currency in which export sales are denominated. At June 30, 2012, 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 2014. 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.

The fair values of the Company's derivative financial instruments are presented below. 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):

| Asset derivatives                                         | Balance sheet location                    | June 30,<br>2012 | December 31,<br>2011 |
|-----------------------------------------------------------|-------------------------------------------|------------------|----------------------|
| <b>Derivatives designated as hedging instruments:</b>     |                                           |                  |                      |
| Foreign exchange contracts                                | Prepaid expenses and other current assets | \$ 11.6          | \$ 9.5               |
| Nickel and other raw material contracts                   | Prepaid expenses and other current assets |                  | 0.7                  |
| Natural gas contracts                                     | Prepaid expenses and other current assets | 0.2              |                      |
| Foreign exchange contracts                                | Other assets                              | 8.1              | 5.9                  |
| Nickel and other raw material contracts                   | Other assets                              | 0.1              | 1.1                  |
| Natural gas contracts                                     | Other assets                              | 0.3              |                      |
| Total derivatives designated as hedging instruments:      |                                           | 20.3             | 17.2                 |
| <b>Derivatives not designated as hedging instruments:</b> |                                           |                  |                      |
| Foreign exchange contracts                                | Prepaid expenses and other current assets | 4.1              | 3.5                  |
| Total derivatives not designated as hedging instruments:  |                                           | 4.1              | 3.5                  |
| Total asset derivatives                                   |                                           | \$ 24.4          | \$ 20.7              |
| <br>                                                      |                                           |                  |                      |
| Liability derivatives                                     | Balance sheet location                    |                  |                      |
| <b>Derivatives designated as hedging instruments:</b>     |                                           |                  |                      |
| Natural gas contracts                                     | Accrued liabilities                       | \$ 8.1           | \$ 10.1              |
| Nickel and other raw material contracts                   | Accrued liabilities                       | 4.9              | 1.6                  |
| Foreign exchange contracts                                | Accrued liabilities                       | 0.1              |                      |
| Electricity contracts                                     | Accrued liabilities                       | 1.6              | 2.0                  |
| Natural gas contracts                                     | Other long-term liabilities               | 2.9              | 3.3                  |
| Electricity contracts                                     | Other long-term liabilities               | 0.4              |                      |
| Nickel and other raw material contracts                   | Other long-term liabilities               | 1.5              | 0.1                  |
| Total liability derivatives                               |                                           | \$ 19.5          | \$ 17.1              |

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.

Activity with regard to derivatives designated as cash flow hedges for the three and six month periods ended June 30, 2012 and 2011 was as follows (in millions):

| Derivatives in Cash Flow                | Amount of Gain (Loss)<br>Recognized in OCI on<br>Derivatives<br>(Effective Portion)<br>Three months ended<br>June 30, |          | Amount of Gain (Loss)<br>Reclassified from<br>Accumulated OCI<br>into Income<br>(Effective Portion) (a)<br>Three months ended<br>June 30, |        | Amount of Gain (Loss)<br>Recognized in Income<br>on Derivatives<br>(Ineffective<br>Portion and Amount<br>Excluded from<br>Effectiveness Testing) (b)<br>Three months ended<br>June 30, |      |
|-----------------------------------------|-----------------------------------------------------------------------------------------------------------------------|----------|-------------------------------------------------------------------------------------------------------------------------------------------|--------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
|                                         | 2012                                                                                                                  | 2011     | 2012                                                                                                                                      | 2011   | 2012                                                                                                                                                                                   | 2011 |
| Hedging Relationships                   |                                                                                                                       |          |                                                                                                                                           |        |                                                                                                                                                                                        |      |
| Nickel and other raw material contracts | \$ (3.1)                                                                                                              | \$ (3.2) | \$ (0.7)                                                                                                                                  | \$ 0.2 | \$                                                                                                                                                                                     | \$   |
| Natural gas contracts                   | 1.2                                                                                                                   | (0.6)    | (2.4)                                                                                                                                     | (2.7)  |                                                                                                                                                                                        |      |

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|                            |        |          |          |          |    |
|----------------------------|--------|----------|----------|----------|----|
| Electricity contracts      | (0.1)  | 0.1      | (0.4)    |          |    |
| Foreign exchange contracts | 11.8   | (3.7)    | 3.2      | (1.6)    |    |
| Total                      | \$ 9.8 | \$ (7.4) | \$ (0.3) | \$ (4.1) | \$ |

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| Derivatives in Cash Flow                | Amount of Gain (Loss)<br>Recognized in OCI on<br>Derivatives<br>(Effective Portion)<br>Six Months Ended<br>June 30, |                  | Amount of Gain (Loss)<br>Reclassified from<br>Accumulated OCI<br>into Income<br>(Effective Portion)<br>(a)<br>Six Months Ended<br>June 30, |                 | Amount of Gain (Loss)<br>Recognized in Income<br>on Derivatives (Ineffective<br>Portion and Amount<br>Excluded from<br>Effectiveness Testing)<br>(b)<br>Six Months Ended<br>June 30, |           |
|-----------------------------------------|---------------------------------------------------------------------------------------------------------------------|------------------|--------------------------------------------------------------------------------------------------------------------------------------------|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
|                                         | 2012                                                                                                                | 2011             | 2012                                                                                                                                       | 2011            | 2012                                                                                                                                                                                 | 2011      |
| Hedging Relationships                   |                                                                                                                     |                  |                                                                                                                                            |                 |                                                                                                                                                                                      |           |
| Nickel and other raw material contracts | \$ (4.7)                                                                                                            | \$ (3.0)         | \$ (0.8)                                                                                                                                   | \$ 2.0          | \$                                                                                                                                                                                   | \$        |
| Natural gas contracts                   | (3.3)                                                                                                               | (1.4)            | (5.0)                                                                                                                                      | (6.2)           |                                                                                                                                                                                      |           |
| Electricity contracts                   | (1.1)                                                                                                               |                  | (1.1)                                                                                                                                      |                 |                                                                                                                                                                                      |           |
| Foreign exchange contracts              | 7.7                                                                                                                 | (13.5)           | 5.1                                                                                                                                        | (1.1)           |                                                                                                                                                                                      |           |
| <b>Total</b>                            | <b>\$ (1.4)</b>                                                                                                     | <b>\$ (17.9)</b> | <b>\$ (1.8)</b>                                                                                                                            | <b>\$ (5.3)</b> | <b>\$</b>                                                                                                                                                                            | <b>\$</b> |

(a) The gains (losses) reclassified from accumulated OCI into income related to the effective portion of the derivatives are presented in cost of sales.

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

Assuming market prices remain constant with those at June 30, 2012, a loss of \$1.9 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<br>as Hedging Instruments | Amount of Gain (Loss) Recognized<br>in Income on Derivatives |          |                              |          |
|------------------------------------------------------|--------------------------------------------------------------|----------|------------------------------|----------|
|                                                      | Three Months Ended<br>June 30,                               |          | Six Months Ended<br>June 30, |          |
|                                                      | 2012                                                         | 2011     | 2012                         | 2011     |
| Foreign exchange contracts                           | \$ 1.3                                                       | \$ (3.1) | \$ (0.1)                     | \$ (3.5) |

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

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 were 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.

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### Note 6. Fair Value of Financial Instruments

The estimated fair value of financial instruments at June 30, 2012 was as follows:

|                                   | Fair Value Measurements at Reporting Date Using |            |                    |             |
|-----------------------------------|-------------------------------------------------|------------|--------------------|-------------|
|                                   |                                                 |            | Quoted Prices      |             |
|                                   |                                                 |            | in                 | Significant |
|                                   | Total                                           | Total      | Active Markets for | Observable  |
|                                   | Carrying                                        | Estimated  | Identical Assets   | Inputs      |
| (In millions)                     | Amount                                          | Fair Value | (Level 1)          | (Level 2)   |
| Cash and cash equivalents         | \$ 210.3                                        | \$ 210.3   | \$ 210.3           | \$          |
| Derivative financial instruments: |                                                 |            |                    |             |
| Assets                            | 24.4                                            | 24.4       |                    | 24.4        |
| Liabilities                       | 19.5                                            | 19.5       |                    | 19.5        |
| Debt                              | 1,501.4                                         | 1,745.3    | 1,646.4            | 98.9        |

The estimated fair value of financial instruments at December 31, 2011 was as follows:

|                                   | Fair Value Measurements at Reporting Date Using |            |                    |             |
|-----------------------------------|-------------------------------------------------|------------|--------------------|-------------|
|                                   |                                                 |            | Quoted Prices      |             |
|                                   | Total                                           | Total      | in                 | Significant |
|                                   | Carrying                                        | Estimated  | Active Markets for | Observable  |
|                                   | Amount                                          | Fair Value | Identical Assets   | Inputs      |
| (In millions)                     |                                                 |            | (Level 1)          | (Level 2)   |
| Cash and cash equivalents         | \$ 380.6                                        | \$ 380.6   | \$ 380.6           | \$          |
| Derivative financial instruments: |                                                 |            |                    |             |
| Assets                            | 20.7                                            | 20.7       |                    | 20.7        |
| Liabilities                       | 17.1                                            | 17.1       |                    | 17.1        |
| Debt                              | 1,509.3                                         | 1,791.3    | 1,684.5            | 106.8       |

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.



**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 June 30, 2012 and 2011, 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<br>Three Months Ended<br>June 30, |         | Other Postretirement Benefits<br>Three Months Ended<br>June 30, |        |
|-------------------------------------------------|----------------------------------------------------|---------|-----------------------------------------------------------------|--------|
|                                                 | 2012                                               | 2011    | 2012                                                            | 2011   |
| Service cost - benefits earned during the year  | \$ 8.7                                             | \$ 7.6  | \$ 0.8                                                          | \$ 0.7 |
| Interest cost on benefits earned in prior years | 33.1                                               | 33.8    | 6.5                                                             | 7.1    |
| Expected return on plan assets                  | (45.3)                                             | (48.1)  | (0.2)                                                           | (0.3)  |
| Amortization of prior service cost (credit)     | 1.6                                                | 2.8     | (4.6)                                                           | (4.6)  |
| Amortization of net actuarial loss              | 26.3                                               | 17.9    | 3.7                                                             | 2.5    |
| Total retirement benefit expense                | \$ 24.4                                            | \$ 14.0 | \$ 6.2                                                          | \$ 5.4 |

For the six month periods ended June 30, 2012 and 2011, 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<br>Six Months Ended<br>June 30, |         | Other Postretirement Benefits<br>Six Months Ended<br>June 30, |         |
|-------------------------------------------------|--------------------------------------------------|---------|---------------------------------------------------------------|---------|
|                                                 | 2012                                             | 2011    | 2012                                                          | 2011    |
| Service cost - benefits earned during the year  | \$ 17.5                                          | \$ 14.9 | \$ 1.6                                                        | \$ 1.4  |
| Interest cost on benefits earned in prior years | 66.2                                             | 65.8    | 13.0                                                          | 13.9    |
| Expected return on plan assets                  | (90.7)                                           | (93.8)  | (0.4)                                                         | (0.6)   |
| Amortization of prior service cost (credit)     | 3.2                                              | 5.6     | (9.1)                                                         | (9.2)   |
| Amortization of net actuarial loss              | 52.6                                             | 35.7    | 7.3                                                           | 5.0     |
| Total retirement benefit expense                | \$ 48.8                                          | \$ 28.2 | \$ 12.4                                                       | \$ 10.5 |

**Note 8. Income Taxes**

Second quarter 2012 results included a provision for income taxes of \$31.0 million, or 34.6% of income before tax, compared to \$34.3 million, or 34.2% of income before tax, for the comparable period.

For the first half of 2012, the provision for income taxes was \$56.8 million or 32.7% of income before tax, compared to \$69.4 million or 35.8% of income before tax, for the first half of 2011. The first six months of 2012 included a discrete tax benefit of \$3.4 million primarily related to state income taxes. The first six months of 2011 included a discrete tax charge of \$2.7 million primarily related to foreign 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<br>June 30, |            | Six Months Ended<br>June 30, |            |
|-----------------------------------|--------------------------------|------------|------------------------------|------------|
|                                   | 2012                           | 2011       | 2012                         | 2011       |
| Total sales:                      |                                |            |                              |            |
| High Performance Metals           | \$ 587.6                       | \$ 524.6   | \$ 1,195.4                   | \$ 957.7   |
| Flat-Rolled Products              | 665.5                          | 735.8      | 1,308.8                      | 1,454.8    |
| Engineered Products               | 143.2                          | 137.9      | 287.0                        | 267.1      |
|                                   | 1,396.3                        | 1,398.3    | 2,791.2                      | 2,679.6    |
| Intersegment sales:               |                                |            |                              |            |
| High Performance Metals           | 21.4                           | 27.4       | 47.9                         | 61.1       |
| Flat-Rolled Products              | 8.1                            | 8.5        | 15.4                         | 16.9       |
| Engineered Products               | 9.4                            | 10.8       | 18.0                         | 22.6       |
|                                   | 38.9                           | 46.7       | 81.3                         | 100.6      |
| Sales to external customers:      |                                |            |                              |            |
| High Performance Metals           | 566.2                          | 497.2      | 1,147.5                      | 896.6      |
| Flat-Rolled Products              | 657.4                          | 727.3      | 1,293.4                      | 1,437.9    |
| Engineered Products               | 133.8                          | 127.1      | 269.0                        | 244.5      |
|                                   | \$ 1,357.4                     | \$ 1,351.6 | \$ 2,709.9                   | \$ 2,579.0 |
| Operating profit:                 |                                |            |                              |            |
| High Performance Metals           | \$ 102.2                       | \$ 92.9    | \$ 206.3                     | \$ 178.5   |
| Flat-Rolled Products              | 44.5                           | 73.7       | 91.3                         | 137.1      |
| Engineered Products               | 13.2                           | 6.8        | 25.5                         | 20.2       |
| Total operating profit            | 159.9                          | 173.4      | 323.1                        | 335.8      |
| Corporate expenses                | (15.8)                         | (25.8)     | (37.5)                       | (51.6)     |
| Interest expense, net             | (18.6)                         | (23.7)     | (38.5)                       | (46.7)     |
| Closed company and other expenses | (5.2)                          | (4.2)      | (12.1)                       | (4.7)      |
| Retirement benefit expense        | (30.6)                         | (19.4)     | (61.2)                       | (38.7)     |
| Income before income taxes        | \$ 89.7                        | \$ 100.3   | \$ 173.8                     | \$ 194.1   |

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. The increase in the current period, when compared to the prior year, was primarily due to the utilization of a lower discount rate to value the retirement benefit obligations and lower than expected returns on plan assets.

Corporate expenses for the three months ended June 30, 2012 were \$15.8 million compared to \$25.8 million for the three months ended June 30, 2011. The decrease in corporate expenses was primarily related to lower incentive compensation expenses associated with long-term performance plans, and Ladish transaction costs incurred in the prior year.

Closed company and other expenses primarily include 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 consolidated statement of operations. These items resulted in net charges of \$5.2 million for the three months ended June 30, 2012 and \$4.2 million for the three months ended June 30, 2011. The increase over the prior year quarter was primarily related to an increase in 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<br>June 30, |         | Six Months Ended<br>June 30, |          |
|-----------------------------------------------------------------------------------------------------------|--------------------------------|---------|------------------------------|----------|
|                                                                                                           | 2012                           | 2011    | 2012                         | 2011     |
| Numerator for basic net income per common share -                                                         |                                |         |                              |          |
| Net income attributable to ATI                                                                            | \$ 56.4                        | \$ 64.0 | \$ 112.6                     | \$ 120.3 |
| Effect of dilutive securities:                                                                            |                                |         |                              |          |
| 4.25% Convertible Notes due 2014                                                                          | 2.1                            | 2.5     | 4.4                          | 5.0      |
| Numerator for diluted net income per common share -                                                       |                                |         |                              |          |
| Net income available to ATI after assumed conversions                                                     | \$ 58.5                        | \$ 66.5 | \$ 117.0                     | \$ 125.3 |
| Denominator for basic net income per common share-weighted average shares                                 | 106.1                          | 102.1   | 106.0                        | 99.8     |
| Effect of dilutive securities:                                                                            |                                |         |                              |          |
| Share-based compensation                                                                                  | 0.9                            | 1.8     | 0.9                          | 1.8      |
| 4.25% Convertible Notes due 2014                                                                          | 9.6                            | 9.6     | 9.6                          | 9.6      |
| Denominator for diluted net income per common share adjusted weighted average shares assuming conversions | 116.6                          | 113.5   | 116.5                        | 111.2    |
| Basic net income attributable to ATI per common share                                                     | \$ 0.53                        | \$ 0.63 | \$ 1.06                      | \$ 1.20  |
| Diluted net income attributable to ATI per common share                                                   | \$ 0.50                        | \$ 0.59 | \$ 1.00                      | \$ 1.13  |

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. There were no anti-dilutive shares for the periods presented.

**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

June 30, 2012

| <i>(In millions)</i>                                  | Guarantor<br>Parent | Subsidiary | Non-guarantor<br>Subsidiaries | Eliminations | Consolidated |
|-------------------------------------------------------|---------------------|------------|-------------------------------|--------------|--------------|
| <b>Assets:</b>                                        |                     |            |                               |              |              |
| Cash and cash equivalents                             | \$ 4.5              | \$ 10.3    | \$ 195.5                      | \$           | \$ 210.3     |
| Accounts receivable, net                              | 0.1                 | 257.6      | 486.6                         |              | 744.3        |
| Inventories, net                                      |                     | 284.6      | 1,227.9                       |              | 1,512.5      |
| Prepaid expenses and other current assets             | 2.6                 | 13.1       | 44.7                          |              | 60.4         |
| Total current assets                                  | 7.2                 | 565.6      | 1,954.7                       |              | 2,527.5      |
| Property, plant and equipment, net                    | 2.6                 | 722.6      | 1,718.8                       |              | 2,444.0      |
| Cost in excess of net assets acquired                 |                     | 112.1      | 625.6                         |              | 737.7        |
| Investments in subsidiaries and other assets          | 5,497.1             | 210.0      | 762.9                         | (6,099.2)    | 370.8        |
| Total assets                                          | \$ 5,506.9          | \$ 1,610.3 | \$ 5,062.0                    | \$ (6,099.2) | \$ 6,080.0   |
| <b>Liabilities and stockholders' equity:</b>          |                     |            |                               |              |              |
| Accounts payable                                      | \$ 5.7              | \$ 213.0   | \$ 233.0                      | \$           | \$ 451.7     |
| Accrued liabilities                                   | 1,081.7             | 337.4      | 625.2                         | (1,716.4)    | 327.9        |
| Deferred income taxes                                 | 16.6                |            |                               |              | 16.6         |
| Short-term debt and current portion of long-term debt |                     | 0.1        | 27.2                          |              | 27.3         |
| Total current liabilities                             | 1,104.0             | 550.5      | 885.4                         | (1,716.4)    | 823.5        |
| Long-term debt                                        | 1,252.5             | 350.6      | 71.0                          | (200.0)      | 1,474.1      |
| Accrued postretirement benefits                       |                     | 204.3      | 269.0                         |              | 473.3        |
| Pension liabilities                                   | 430.1               | 5.4        | 60.6                          |              | 496.1        |
| Deferred income taxes                                 | 20.0                |            |                               |              | 20.0         |
| Other long-term liabilities                           | 24.8                | 19.2       | 73.5                          |              | 117.5        |
| Total liabilities                                     | 2,831.4             | 1,130.0    | 1,359.5                       | (1,916.4)    | 3,404.5      |
| Total stockholders' equity                            | 2,675.5             | 480.3      | 3,702.5                       | (4,182.8)    | 2,675.5      |
| Total liabilities and stockholders' equity            | \$ 5,506.9          | \$ 1,610.3 | \$ 5,062.0                    | \$ (6,099.2) | \$ 6,080.0   |

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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 June 30, 2012

| <i>(In millions)</i>                                                   | Guarantor<br>Parent | Subsidiary | Non-guarantor<br>Subsidiaries | Eliminations | Consolidated |
|------------------------------------------------------------------------|---------------------|------------|-------------------------------|--------------|--------------|
| Sales                                                                  | \$                  | \$ 573.6   | \$ 783.8                      | \$           | \$ 1,357.4   |
| Cost of sales                                                          | 13.4                | 526.4      | 618.7                         |              | 1,158.5      |
| Selling and administrative expenses                                    | 34.9                | 11.9       | 43.9                          |              | 90.7         |
| Income (loss) before interest, other income and income taxes           | (48.3)              | 35.3       | 121.2                         |              | 108.2        |
| Interest expense, net                                                  | (15.6)              | (2.6)      | (0.4)                         |              | (18.6)       |
| Other income including equity in income of unconsolidated subsidiaries | 153.6               | (12.5)     | 15.0                          | (156.0)      | 0.1          |
| Income before income tax provision                                     | 89.7                | 20.2       | 135.8                         | (156.0)      | 89.7         |
| Income tax provision                                                   | 31.0                | 8.3        | 48.3                          | (56.6)       | 31.0         |
| Net income                                                             | 58.7                | 11.9       | 87.5                          | (99.4)       | 58.7         |
| Less: Net income attributable to noncontrolling interests              | 2.3                 |            | 2.3                           | (2.3)        | 2.3          |
| Net income attributable to ATI                                         | \$ 56.4             | \$ 11.9    | \$ 85.2                       | \$ (97.1)    | \$ 56.4      |
| Comprehensive income attributable to ATI                               | \$ 69.7             | \$ 11.6    | \$ 72.3                       | \$ (83.9)    | \$ 69.7      |

Allegheny Technologies Incorporated

Financial Information for Subsidiary and Guarantor Parent

Statements of Income and Comprehensive Income

For the six months ended June 30, 2012

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

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|                                                           |          |         |          |            |          |
|-----------------------------------------------------------|----------|---------|----------|------------|----------|
| Net income                                                | 117.0    | 34.9    | 169.9    | (204.8)    | 117.0    |
| Less: Net income attributable to noncontrolling interests | 4.4      |         | 4.4      | (4.4)      | 4.4      |
| Net income attributable to ATI                            | \$ 112.6 | \$ 34.9 | \$ 165.5 | \$ (200.4) | \$ 112.6 |
| Comprehensive income attributable to ATI                  | \$ 141.8 | \$ 34.3 | \$ 161.9 | \$ (196.2) | \$ 141.8 |

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### Condensed Statements of Cash Flows For the six months ended June 30, 2012

| (In millions)                                         | Guarantor<br>Parent | Subsidiary | Non-guarantor<br>Subsidiaries | Eliminations | Consolidated |
|-------------------------------------------------------|---------------------|------------|-------------------------------|--------------|--------------|
| Cash flows provided by (used in) operating activities | \$ (25.9)           | \$ 2.6     | \$ 83.1                       | \$           | \$ 59.8      |
| Cash flows used in investing activities               | (0.8)               | (127.7)    | (36.3)                        |              | (164.8)      |
| Cash flows provided by (used in) financing activities | 30.4                | 5.7        | (101.4)                       |              | (65.3)       |
| Increase (decrease) in cash and cash equivalents      | \$ 3.7              | \$ (119.4) | \$ (54.6)                     | \$           | \$ (170.3)   |

### Allegheny Technologies Incorporated Financial Information for Subsidiary and Guarantor Parent Balance Sheets December 31, 2011

| (In millions)                                         | Guarantor<br>Parent | Subsidiary | Non-guarantor<br>Subsidiaries | Eliminations | Consolidated |
|-------------------------------------------------------|---------------------|------------|-------------------------------|--------------|--------------|
| <b>Assets:</b>                                        |                     |            |                               |              |              |
| Cash and cash equivalents                             | \$ 0.8              | \$ 129.7   | \$ 250.1                      | \$           | \$ 380.6     |
| Accounts receivable, net                              | 0.1                 | 220.6      | 488.4                         |              | 709.1        |
| Inventories, net                                      |                     | 299.0      | 1,085.3                       |              | 1,384.3      |
| Prepaid expenses and other current assets             | 10.5                | 20.0       | 65.0                          |              | 95.5         |
| Total current assets                                  | 11.4                | 669.3      | 1,888.8                       |              | 2,569.5      |
| Property, plant and equipment, net                    | 3.0                 | 614.9      | 1,750.9                       |              | 2,368.8      |
| Cost in excess of net assets acquired                 |                     | 112.1      | 625.6                         |              | 737.7        |
| Investments in subsidiaries and other assets          | 5,287.3             | 1,579.0    | 996.6                         | (7,492.0)    | 370.9        |
| Total assets                                          | \$ 5,301.7          | \$ 2,975.3 | \$ 5,261.9                    | \$ (7,492.0) | \$ 6,046.9   |
| <b>Liabilities and stockholders' equity:</b>          |                     |            |                               |              |              |
| Accounts payable                                      | \$ 4.1              | \$ 222.5   | \$ 264.1                      | \$           | \$ 490.7     |
| Accrued liabilities                                   | 961.8               | 66.7       | 736.2                         | (1,444.4)    | 320.3        |
| Deferred income taxes                                 | 23.5                |            |                               |              | 23.5         |
| Short-term debt and current portion of long-term debt |                     | 0.1        | 27.2                          |              | 27.3         |
| Total current liabilities                             | 989.4               | 289.3      | 1,027.5                       | (1,444.4)    | 861.8        |
| Long-term debt                                        | 1,252.5             | 350.7      | 78.8                          | (200.0)      | 1,482.0      |
| Accrued postretirement benefits                       |                     | 215.5      | 272.6                         |              | 488.1        |
| Pension liabilities                                   | 441.6               | 5.7        | 61.6                          |              | 508.9        |
| Deferred income taxes                                 | 9.8                 |            |                               |              | 9.8          |
| Other long-term liabilities                           | 36.8                | 17.2       | 70.7                          |              | 124.7        |
| Total liabilities                                     | 2,730.1             | 878.4      | 1,511.2                       | (1,644.4)    | 3,475.3      |
| Total stockholders' equity                            | 2,571.6             | 2,096.9    | 3,750.7                       | (5,847.6)    | 2,571.6      |
| Total liabilities and stockholders' equity            | \$ 5,301.7          | \$ 2,975.3 | \$ 5,261.9                    | \$ (7,492.0) | \$ 6,046.9   |

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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 June 30, 2011

| (In millions)                                                          | Guarantor<br>Parent | Subsidiary | Non-guarantor<br>Subsidiaries | Eliminations | Consolidated |
|------------------------------------------------------------------------|---------------------|------------|-------------------------------|--------------|--------------|
| Sales                                                                  | \$                  | \$ 635.9   | \$ 715.7                      | \$           | \$ 1,351.6   |
| Cost of sales                                                          | 6.8                 | 558.3      | 563.5                         |              | 1,128.6      |
| Selling and administrative expenses                                    | 47.4                | 11.1       | 40.8                          |              | 99.3         |
| Income (loss) before interest, other income and income taxes           | (54.2)              | 66.5       | 111.4                         |              | 123.7        |
| Interest income (expense), net                                         | (21.0)              | (2.9)      | 0.2                           |              | (23.7)       |
| Other income including equity in income of unconsolidated subsidiaries | 175.5               | 1.0        | (0.4)                         | (175.8)      | 0.3          |
| Income before income tax provision                                     | 100.3               | 64.6       | 111.2                         | (175.8)      | 100.3        |
| Income tax provision                                                   | 34.3                | 24.4       | 41.4                          | (65.8)       | 34.3         |
| Net income                                                             | 66.0                | 40.2       | 69.8                          | (110.0)      | 66.0         |
| Less: Net income attributable to noncontrolling interests              | 2.0                 |            | 2.0                           | (2.0)        | 2.0          |
| Net income attributable to ATI                                         | \$ 64.0             | \$ 40.2    | \$ 67.8                       | \$ (108.0)   | \$ 64.0      |
| Comprehensive income attributable to ATI                               | \$ 73.4             | \$ 39.4    | \$ 69.3                       | \$ (108.7)   | \$ 73.4      |

Allegheny Technologies Incorporated  
Financial Information for Subsidiary and Guarantor Parent  
Statements of Income and Comprehensive Income  
For the six months ended June 30, 2011

| (In millions)                                                          | Guarantor<br>Parent | Subsidiary | Non-guarantor<br>Subsidiaries | Eliminations | Consolidated |
|------------------------------------------------------------------------|---------------------|------------|-------------------------------|--------------|--------------|
| Sales                                                                  | \$                  | \$ 1,255.0 | \$ 1,324.0                    | \$           | \$ 2,579.0   |
| Cost of sales                                                          | 15.4                | 1,115.7    | 1,019.5                       |              | 2,150.6      |
| Selling and administrative expenses                                    | 90.3                | 19.6       | 78.1                          |              | 188.0        |
| Income (loss) before interest, other income and income taxes           | (105.7)             | 119.7      | 226.4                         |              | 240.4        |
| Interest expense, net                                                  | (41.5)              | (5.1)      | (0.1)                         |              | (46.7)       |
| Other income including equity in income of unconsolidated subsidiaries | 341.3               | 1.8        | 0.1                           | (342.8)      | 0.4          |
| Income before income tax provision                                     | 194.1               | 116.4      | 226.4                         | (342.8)      | 194.1        |
| Income tax provision                                                   | 69.4                | 44.1       | 81.5                          | (125.6)      | 69.4         |
| Net income                                                             | 124.7               | 72.3       | 144.9                         | (217.2)      | 124.7        |
| Less: Net income attributable to noncontrolling interests              | 4.4                 |            | 4.4                           | (4.4)        | 4.4          |
| Net income attributable to ATI                                         | \$ 120.3            | \$ 72.3    | \$ 140.5                      | \$ (212.8)   | \$ 120.3     |
| Comprehensive income attributable to ATI                               | \$ 145.8            | \$ 70.7    | \$ 156.1                      | \$ (226.8)   | \$ 145.8     |

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## Condensed Statements of Cash Flows

For the six months ended June 30, 2011

| <i>(In millions)</i>                                  | Guarantor<br>Parent | Subsidiary | Non-guarantor<br>Subsidiaries | Eliminations | Consolidated |
|-------------------------------------------------------|---------------------|------------|-------------------------------|--------------|--------------|
| Cash flows provided by (used in) operating activities | \$ 39.3             | \$ (75.2)  | \$ (25.7)                     | \$ (10.4)    | \$ (72.0)    |
| Cash flows used in investing activities               | (384.1)             | (48.0)     | (12.2)                        |              | (444.3)      |
| Cash flows provided by (used in) financing activities | 349.3               | 90.3       | 1.8                           | 10.4         | 451.8        |
| Increase in cash and cash equivalents                 | \$ 4.5              | \$ (32.9)  | \$ (36.1)                     | \$           | \$ (64.5)    |

**Note 12. Commitments and Contingencies**

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

Environmental liabilities are recorded when the Company's liability is probable and the costs are reasonably estimable. In many cases, however, the Company is not able to determine whether it is liable or, if liability is probable, to reasonably estimate the loss or range of loss. Estimates of the Company's liability remain subject to additional uncertainties, including the nature and extent of site contamination, available remediation alternatives, the extent of corrective actions that may be required, and the number, participation, and financial condition of other potentially responsible parties (PRPs). The Company 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 June 30, 2012, the Company's reserves for environmental remediation obligations totaled approximately \$16 million, of which \$9 million was included in other current liabilities. The reserve includes estimated probable future costs of \$6 million for federal Superfund and comparable state-managed sites; \$7 million for formerly owned or operated sites for which the Company has remediation or indemnification obligations; \$2 million for owned or controlled sites at which Company operations have been discontinued; and \$1 million for sites utilized by the Company in its ongoing operations. The Company continues to evaluate whether it may be able to recover a portion of past and future costs for environmental liabilities from third parties and to pursue such recoveries where appropriate.

Based on currently available information, it is reasonably possible that costs for active matters may exceed the Company's recorded reserves by as much as \$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 the impact on 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 17. 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, 2011 for a discussion of legal proceedings affecting the Company.

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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 contract work, employment, employee and retiree benefits, taxes, environmental, health and safety, occupational disease, and stockholder matters. While the outcome of litigation cannot be predicted with certainty, and some of these lawsuits, claims or proceedings may be determined adversely to the Company, management does not believe that the disposition of any such pending matters is likely to have a material adverse effect on the Company's financial condition or liquidity, although the resolution in any reporting period of one or more of these matters could have a material adverse effect on the Company's results of operations for that period.

## 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 raw material (for titanium) and melt (for other specialty alloy systems) through highly engineered finished components.

Sales for the second quarter 2012 were \$1.36 billion, compared to \$1.35 billion in the second quarter 2011. Compared to the second quarter 2011, sales increased 14% in the High Performance Metals segment, primarily as a result of aerospace demand and the acquisition of ATI Ladish in May 2011, which more than offset lower raw material surcharges primarily due to lower nickel and titanium scrap costs. Sales increased 5% in the Engineered Products segment due to continued growth in demand from the oil and gas, and construction and mining markets. In the Flat-Rolled Products segment, sales declined 10% as increased shipment volumes for standard sheet products were more than offset by lower raw material surcharges, lower base prices for standard stainless products, and reduced shipments of titanium products to the industrial markets due to project delays. For the first six months of 2012, total sales were \$2.71 billion, 5% higher than the comparable period of the prior year.

Demand from the global aerospace and defense, electrical energy, oil and gas, chemical process industry, and medical markets represented 67% of our sales for the first six months of 2012. Comparative information for our overall revenues (in millions) by market and their respective percentages of total revenues for the three and six month periods ended June 30, 2012 and 2011 were as follows:

| Market                              | Three Months Ended<br>June 30, 2012 |             | Three Months Ended<br>June 30, 2011 |             |
|-------------------------------------|-------------------------------------|-------------|-------------------------------------|-------------|
| Aerospace & Defense                 | \$ 414.3                            | 31%         | \$ 390.0                            | 29%         |
| Oil & Gas/Chemical Process Industry | 261.8                               | 19%         | 298.8                               | 22%         |
| Electrical Energy                   | 168.9                               | 12%         | 191.3                               | 14%         |
| Medical                             | 56.2                                | 4%          | 69.8                                | 5%          |
| <b>Subtotal - Key Markets</b>       | <b>901.2</b>                        | <b>66%</b>  | <b>949.9</b>                        | <b>70%</b>  |
| Automotive                          | 109.4                               | 8%          | 109.4                               | 8%          |
| Construction/Mining                 | 110.4                               | 8%          | 85.9                                | 6%          |
| Food Equipment & Appliances         | 58.0                                | 4%          | 51.0                                | 4%          |
| Transportation                      | 65.6                                | 5%          | 57.4                                | 4%          |
| Electronics/Computers/Communication | 40.7                                | 3%          | 41.2                                | 3%          |
| Machine & Cutting Tools             | 34.6                                | 3%          | 35.6                                | 3%          |
| Conversion Services & Other         | 37.6                                | 3%          | 21.2                                | 2%          |
| <b>Total</b>                        | <b>\$ 1,357.5</b>                   | <b>100%</b> | <b>\$ 1,351.6</b>                   | <b>100%</b> |

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| Market                              | Six Months Ended<br>June 30, 2012 |             | Six Months Ended<br>June 30, 2011 |             |
|-------------------------------------|-----------------------------------|-------------|-----------------------------------|-------------|
|                                     |                                   |             |                                   |             |
| Aerospace & Defense                 | \$ 850.8                          | 31%         | \$ 693.5                          | 27%         |
| Oil & Gas/Chemical Process Industry | 539.2                             | 20%         | 580.6                             | 23%         |
| Electrical Energy                   | 315.8                             | 12%         | 389.0                             | 15%         |
| Medical                             | 113.9                             | 4%          | 138.5                             | 5%          |
| <b>Subtotal - Key Markets</b>       | <b>1,819.7</b>                    | <b>67%</b>  | <b>1,801.6</b>                    | <b>70%</b>  |
| Automotive                          | 215.2                             | 8%          | 222.6                             | 9%          |
| Construction/Mining                 | 213.9                             | 8%          | 157.1                             | 6%          |
| Transportation                      | 119.7                             | 4%          | 103.2                             | 4%          |
| Food Equipment & Appliances         | 113.1                             | 4%          | 115.7                             | 4%          |
| Electronics/Computers/Communication | 85.9                              | 3%          | 78.2                              | 3%          |
| Machine & Cutting Tools             | 70.9                              | 3%          | 62.9                              | 3%          |
| Conversion Services & Other         | 71.5                              | 3%          | 37.7                              | 1%          |
| <b>Total</b>                        | <b>\$ 2,709.9</b>                 | <b>100%</b> | <b>\$ 2,579.0</b>                 | <b>100%</b> |

For the first six months of 2012, direct international sales increased \$126.3 million, or 15%, compared to the first six months of 2011, and represented nearly 36% of total sales. Sales of our high-value products (titanium and titanium alloys, nickel-based alloys and specialty alloys, exotic alloys, precision forgings and castings, grain-oriented electrical steel, precision and engineered strip, and tungsten materials) represented 78% of total sales.

Total titanium mill product shipments for the first half 2012, including ATI-produced products for our Uniti titanium joint venture, were 16.9 million pounds, a 19% decrease compared to the first half of 2011, due to timing delays in certain large projects, primarily affecting our Flat-Rolled Products business segment, and lower overall demand due to reduced global GDP growth.

Segment operating profit for the second quarter 2012 was \$159.9 million, or 11.8% of sales, compared to \$173.4 million, or 12.8% of sales for the second quarter 2011. Segment operating profit for the second quarter 2012 increased 10% to \$102.2 million in the High Performance Metals segment and increased 94% to \$13.2 million in the Engineered Products segment, but declined 40% to \$44.5 million in the Flat-Rolled Products segment compared to the same period of the prior year. High Performance Metals segment operating profit for the second quarter 2011 included \$13.2 million of purchase inventory accounting charges from the acquisition of ATI Ladish. Segment operating profit in the second quarter 2012 was impacted by lower base prices for certain products and by approximately \$11 million in higher raw material costs, primarily nickel, which did not align with raw material surcharges due to the rapid decline of nickel prices in the second quarter 2012. The second quarter 2012 included a LIFO inventory valuation reserve benefit of \$7.1 million due primarily to lower nickel costs. The second quarter 2011 included a LIFO inventory valuation reserve charge of \$5.2 million.

Segment operating profit for the six months ended June 30, 2012 was \$323.1 million, or 11.9% of sales, compared to \$335.8 million, or 13.0% of sales for the six months ended June 30, 2011.

Segment operating profit as a percentage of sales for the three and six month periods ended June 30, 2012 and 2011 was:

|                         | Three Months Ended<br>June 30, |       | Six Months Ended<br>June 30, |       |
|-------------------------|--------------------------------|-------|------------------------------|-------|
|                         | 2012                           | 2011  | 2012                         | 2011  |
| High Performance Metals | 18.1%                          | 18.7% | 18.0%                        | 19.9% |
| Flat-Rolled Products    | 6.8%                           | 10.1% | 7.1%                         | 9.5%  |
| Engineered Products     | 9.9%                           | 5.4%  | 9.5%                         | 8.2%  |

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 income or expense, retirement benefit expense,

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and closed company and other expenses. We believe segment operating profit, as defined, provides an appropriate measure of controllable operating results at the business segment level.

Income before tax for the second quarter 2012 was \$89.7 million, or 6.6% of sales, compared to \$100.3 million, or 7.4% of sales for the second quarter 2011. Higher retirement benefit expense, primarily due to the utilization of a lower discount rate to value retirement benefit obligations and lower than expected returns on plan assets, more than offset lower corporate expenses and lower interest expense. The second quarter 2011 also included Ladish acquisition costs of \$18.8 million, including inventory fair value adjustments and transaction costs. Income before tax for the first half 2012 was \$173.8 million, or 6.4% of sales, compared to \$194.1 million, or 7.5% of sales for the comparable 2011 period. Results for the first six months of 2011 included a charge of \$4.8 million related to the accelerated recognition of equity-based compensation due to executive retirements in addition to ATI Ladish acquisition costs.

Net income attributable to ATI for the second quarter 2012 was \$56.4 million, or \$0.50 per share, compared to \$64.0 million, or \$0.59 per share for the second quarter 2011. Results for the second quarter 2012 were impacted by higher retirement benefit expense of \$7.3 million, net of tax, or \$0.06 per share, compared to the same period of 2011. Results for the second quarter 2011 included \$12.7 million, net of tax, or \$0.11 per share of ATI Ladish acquisition-related expenses. For the six months ended June 30, 2012, net income attributable to ATI was \$112.6 million, or \$1.00 per share, compared \$120.3 million, or \$1.13 per share for the first six months of 2011. Results for 2012 included \$14.7 million, net of tax, or \$0.13 per share, of higher retirement benefit expense. The prior year-to-date period included non-recurring charges of \$18.5 million, or \$0.16 per share, primarily related to ATI Ladish acquisition-related items.

At June 30, 2012, we had cash on hand of \$210.3 million, a decrease of \$170.3 million from year-end 2011. Cash flow provided by operations for the first six months of 2012 was \$59.8 million and included an investment of \$205.4 million in managed working capital primarily due to increased business activity. Additionally, we invested \$165.7 million in capital expenditures, primarily related to the Flat-Rolled Products segment's Hot-Rolling and Processing Facility. Net debt to total capitalization was 33.4% and total debt to total capitalization was 36.8% at June 30, 2012. At December 31, 2011, net debt to total capitalization was 31.3% and total debt to total capitalization was 37.9%.

We remain focused on long-term value creation for our stockholders while delivering superior value for our customers. ATI's diversification and focus on high-value global markets with strong secular growth gives us continued expectation of long-term revenue growth and improved profitability. Our industry-leading specialty metals technologies, diversified alloy systems and product forms, global and diversified market focus, unsurpassed manufacturing capabilities, and integrated capabilities from alloy development, to raw materials (titanium sponge), to melting and hot-working, to finished value-added components and parts are unique in the world. This strategy has ATI well-positioned to achieve significant revenue and earnings growth over the next three to five years. We expect strong secular growth in our key global markets of aerospace, oil and gas/chemical process industry, electrical energy, and medical. We have identified and targeted nearly \$2 billion in potential new annual revenue growth within the next five years from our new manufacturing capabilities and innovative new products.

As we look at the second half of 2012, slower than expected economic growth in the U.S. and China, fiscal and economic uncertainties in Europe, fiscal and regulatory uncertainties in the U.S., and falling raw material costs create near-term headwinds for demand growth. Businesses and consumers are being cautious and inventories are being managed aggressively. In addition, we expect third quarter 2012 revenue and volume to be impacted by normal seasonal summer slowdowns in many supply chains. As a result, we expect sales and earnings to trough in the third quarter 2012.

While there is caution in the aerospace supply chain, the fundamentals of the build rate ramp and the need for energy- and cost-efficient airplanes remain in place. We expect our backlog of infrastructure project work to begin to grow again through third quarter orders for our titanium, nickel-based alloy, and specialty alloy flat-rolled products. We are well positioned to benefit from a number of large projects expected from the oil and gas market and chemical process industry, including desalination, with shipments expected to begin in the fourth quarter 2012.

As a result of the global economic environment and the market realities, we now expect 2012 sales to be approximately \$5.3 billion to \$5.4 billion, with segment operating profit as a percent of sales to be similar to that achieved in the first half 2012.

**Table of Contents****Business Segment Results**

We operate in three business segments: High Performance Metals, Flat-Rolled Products, and Engineered Products. These segments represented the following percentages of our total revenues and segment operating profit for the first six months of 2012 and 2011:

|                         | 2012    |                  | 2011    |                  |
|-------------------------|---------|------------------|---------|------------------|
|                         | Revenue | Operating Profit | Revenue | Operating Profit |
| High Performance Metals | 42%     | 64%              | 35%     | 53%              |
| Flat-Rolled Products    | 48%     | 28%              | 56%     | 41%              |
| Engineered Products     | 10%     | 8%               | 9%      | 6%               |

**High Performance Metals Segment**

Second quarter 2012 sales increased 14% to \$566.2 million compared to the second quarter 2011, primarily as a result of increased demand from the aerospace market and the acquisition of ATI Ladish in May 2011. Mill product shipments increased 12% for nickel-based and specialty alloys primarily due to increased demand from the commercial aerospace market. Shipments of titanium and titanium alloys mill products were 10% lower due primarily to reduced ingot sales. Exotic alloys shipments were flat. Average mill products selling prices decreased 3% for nickel-based and specialty alloys primarily as the benefits of an improved product mix were more than offset by lower raw material surcharges. Average selling prices increased 13% for titanium and titanium alloys due primarily to a favorable product mix, partially offset by lower raw material surcharges. Average selling prices increased 6% for exotic alloys primarily due to product mix.

Comparative information for our High Performance Metals segment revenues (in millions) by market and their respective percentages of the segment's overall revenues for the three month periods ended June 30, 2012 and 2011 is as follows:

| Market                              | Three Months Ended<br>June 30, 2012 |      | Three Months Ended<br>June 30, 2011 |      |
|-------------------------------------|-------------------------------------|------|-------------------------------------|------|
| Aerospace:                          |                                     |      |                                     |      |
| Jet Engines                         | \$ 182.7                            | 32%  | \$ 172.0                            | 35%  |
| Airframes                           | 97.7                                | 17%  | 79.8                                | 16%  |
| Government                          | 48.9                                | 9%   | 46.5                                | 9%   |
| Total Aerospace                     | 329.3                               | 58%  | 298.3                               | 60%  |
| Defense                             | 28.8                                | 5%   | 24.0                                | 5%   |
| Oil & Gas/Chemical Process Industry | 57.8                                | 10%  | 47.9                                | 10%  |
| Medical                             | 46.5                                | 8%   | 49.2                                | 10%  |
| Electrical Energy                   | 45.9                                | 8%   | 38.8                                | 8%   |
| Construction/Mining                 | 19.9                                | 4%   | 8.8                                 | 2%   |
| Other                               | 38.0                                | 7%   | 30.2                                | 5%   |
| Total                               | \$ 566.2                            | 100% | \$ 497.2                            | 100% |

Segment operating profit in the second quarter 2012 increased to \$102.2 million, or 18.1% of sales, compared to \$92.9 million, or 18.7% of sales, for the second quarter 2011. Compared to the prior year second quarter, the second quarter 2012 benefited from the absence of \$13.2 million of inventory purchase accounting charges recorded in the second quarter 2011 resulting from the May 2011 acquisition of ATI Ladish, higher shipments of nickel-based and specialty alloys, and the impact of gross cost reductions. These items were offset by \$3 million of higher raw material costs, primarily for nickel, nickel scrap and titanium scrap, resulting from the misalignment of raw materials surcharges with raw material costs due to the long manufacturing cycle of certain products. In addition, second quarter 2012 segment operating profit included approximately \$2 million of severance charges associated with a salaried workforce reduction in our exotic alloys operations as we aligned staffing needs with expected lower demand from nuclear markets. The second quarter 2012 segment operating profit included a LIFO inventory

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valuation reserve benefit of \$0.5 million. The second quarter 2011 segment operating profit included a LIFO inventory valuation reserve charge of \$4.2 million. Results benefited from \$18.8 million in gross cost reductions in

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the second quarter 2012.

Certain comparative information on the segment's mill products for the three months ended June 30, 2012 and 2011 is provided in the following table. Mill products volume and average price information includes shipments to ATI Ladish for all periods presented.

|                                           | Three Months Ended<br>June 30, |          |        |
|-------------------------------------------|--------------------------------|----------|--------|
|                                           | 2012                           | 2011     | Change |
| Mill Products Volume (000 s pounds):      |                                |          |        |
| Titanium                                  | 6,554                          | 7,304    | (10%)  |
| Nickel-based and specialty alloys         | 14,367                         | 12,789   | 12%    |
| Exotic alloys                             | 987                            | 991      | 0%     |
| Mill Products Average Prices (per pound): |                                |          |        |
| Titanium                                  | \$ 23.79                       | \$ 21.13 | 13%    |
| Nickel-based and specialty alloys         | \$ 15.17                       | \$ 15.67 | (3%)   |
| Exotic alloys                             | \$ 70.93                       | \$ 66.72 | 6%     |

For the six months ended June 30, 2012, segment sales increased 28% to \$1.15 billion, primarily as a result of increased demand from the commercial aerospace market and the acquisition of ATI Ladish. Mill products shipments increased 17% for nickel-based and specialty alloys primarily due to higher demand from the commercial aerospace market. Shipments for titanium and titanium alloys declined 3%, although product mix improved, and shipments of exotic alloys decreased 7% primarily due to the timing of projects for the chemical process industry. Average mill products selling prices decreased 1% for nickel-based and specialty alloys primarily due to lower raw material indices. Average selling prices increased 8% for titanium and titanium alloys and 10% for exotic alloys due to a favorable product mix.

Comparative information for our High Performance Metals revenues (in millions) by market and their respective percentages of the segment's overall revenues for the six month periods ended June 30, 2012 and 2011 is as follows:

| Market                              | Six Months Ended<br>June 30, 2012 |             | Six Months Ended<br>June 30, 2011 |             |
|-------------------------------------|-----------------------------------|-------------|-----------------------------------|-------------|
|                                     |                                   |             |                                   |             |
| <b>Aerospace:</b>                   |                                   |             |                                   |             |
| Jet Engines                         | \$ 384.6                          | 34%         | \$ 300.0                          | 33%         |
| Airframes                           | 203.6                             | 18%         | 148.2                             | 18%         |
| Government                          | 102.1                             | 9%          | 76.2                              | 8%          |
| <b>Total Aerospace</b>              | <b>690.3</b>                      | <b>61%</b>  | <b>524.4</b>                      | <b>59%</b>  |
| Defense                             | 50.0                              | 4%          | 47.3                              | 5%          |
| Oil & Gas/Chemical Process Industry | 112.2                             | 10%         | 95.1                              | 11%         |
| Medical                             | 96.1                              | 8%          | 93.9                              | 10%         |
| Electrical Energy                   | 82.8                              | 7%          | 75.2                              | 8%          |
| Construction/Mining                 | 39.7                              | 3%          | 9.1                               | 1%          |
| Other                               | 76.4                              | 7%          | 51.6                              | 6%          |
| <b>Total</b>                        | <b>\$ 1,147.5</b>                 | <b>100%</b> | <b>\$ 896.6</b>                   | <b>100%</b> |

Segment operating profit for the first six months of 2012 increased to \$206.3 million, or 18.0% of sales, compared to \$178.5 million, or 19.9% of sales, for the comparable 2011 period. The increase in operating profit primarily resulted from higher shipment volumes for nickel-based and specialty alloys, the absence of \$13.2 million of ATI Ladish acquisition-related inventory charges, and the benefits of gross cost reductions. Year to date 2012 segment results were unfavorably impacted by approximately \$9 million of higher cost raw materials, primarily nickel, that did not align with declining raw material indices due to the length of the production cycle for certain products, and \$2 million of workforce reduction charges. Operating profit for the first six months of 2012 included a LIFO inventory valuation reserve benefit of \$0.5 million, compared to an \$8.4 million LIFO inventory valuation reserve charge in the first six months of 2011.



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Certain comparative information on the segment's mill products for the six months ended June 30, 2012 and 2011 is provided in the following table. Mill products volume and average price information includes shipments to ATI Ladish for all periods presented.

|                                                  | Six Months Ended<br>June 30, |          | Change |
|--------------------------------------------------|------------------------------|----------|--------|
|                                                  | 2012                         | 2011     |        |
| <b>Mill Products Volume (000's pounds):</b>      |                              |          |        |
| Titanium                                         | 13,581                       | 14,057   | (3%)   |
| Nickel-based and specialty alloys                | 28,777                       | 24,613   | 17%    |
| Exotic alloys                                    | 1,916                        | 2,070    | (7%)   |
| <b>Mill Products Average Prices (per pound):</b> |                              |          |        |
| Titanium                                         | \$ 22.83                     | \$ 21.19 | 8%     |
| Nickel-based and specialty alloys                | \$ 15.18                     | \$ 15.28 | (1%)   |
| Exotic alloys                                    | \$ 70.49                     | \$ 63.83 | 10%    |

**Flat-Rolled Products Segment**

Second quarter 2012 sales decreased 10% compared to the second quarter 2011, to \$657.4 million, primarily due to lower raw material surcharges. Shipments of high-value products were comparable to the prior year as improved shipments of our nickel-based alloy and specialty alloy and Precision Rolled Strip® products were offset by reduced shipments of our grain-oriented electrical steel and titanium products. Shipments of standard stainless products (sheet and plate) increased 23%. Second quarter 2012 Flat-Rolled Products segment titanium shipments, including Uniti joint venture conversion, were 2.8 million pounds, a 6% decrease compared to the first quarter 2012 and a 43% decrease compared to the second quarter 2011, due to timing delays in certain large projects and lower overall demand due to reduced global GDP growth. Average selling prices, which include surcharges, declined 21% for standard products due to lower base prices and lower raw material surcharges. Average selling prices for high-value products decreased 13% due to product mix and lower material surcharges.

Comparative information for our Flat-Rolled Products revenues (in millions) by market and their respective percentages of the segment's overall revenues for the three month periods ended June 30, 2012 and 2011 is as follows:

| Market                              | Three Months Ended<br>June 30, 2012 |             | Three Months Ended<br>June 30, 2011 |             |
|-------------------------------------|-------------------------------------|-------------|-------------------------------------|-------------|
| Oil & Gas/Chemical Process Industry | \$ 163.9                            | 25%         | \$ 217.8                            | 30%         |
| Electrical Energy                   | 115.6                               | 18%         | 141.9                               | 20%         |
| Automotive                          | 99.7                                | 15%         | 97.4                                | 13%         |
| Construction/Mining                 | 67.8                                | 10%         | 59.7                                | 8%          |
| Food Equipment & Appliances         | 56.4                                | 8%          | 49.1                                | 7%          |
| Aerospace & Defense                 | 45.6                                | 7%          | 58.0                                | 8%          |
| Electronics/Computers/Communication | 38.6                                | 6%          | 39.2                                | 5%          |
| Transportation                      | 38.6                                | 6%          | 32.7                                | 4%          |
| Medical                             | 6.7                                 | 1%          | 18.4                                | 3%          |
| Other                               | 24.5                                | 4%          | 13.1                                | 2%          |
| <b>Total</b>                        | <b>\$ 657.4</b>                     | <b>100%</b> | <b>\$ 727.3</b>                     | <b>100%</b> |

Segment operating profit for the second quarter 2012 was \$44.5 million, or 6.8% of sales, compared to \$73.7 million, or 10.1% of sales, for the second quarter 2011 primarily due to lower base prices for standard stainless and grain-oriented electrical steel products, reduced shipments of titanium products due to project delays, and \$8 million in higher raw material costs, primarily nickel, which did not align with raw material surcharges due to the rapid decline of nickel prices in the second quarter 2012. This was partially offset by a LIFO inventory valuation reserve benefit of \$7.0 million in the second quarter 2012. In the second quarter 2011, a LIFO inventory

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valuation reserve benefit of \$3.2 million was recognized. The second quarter 2012 benefited from \$12.2 million in gross cost reductions.

Comparative information on the segment's products for the three months ended June 30, 2012 and 2011 is provided in the following table:

|                           | Three Months Ended<br>June 30, |         | Change |
|---------------------------|--------------------------------|---------|--------|
|                           | 2012                           | 2011    |        |
| Volume (000's pounds):    |                                |         |        |
| High value                | 128,793                        | 129,785 | (1%)   |
| Standard                  | 183,555                        | 149,726 | 23%    |
| Total                     | 312,348                        | 279,511 | 12%    |
| Average prices (per lb.): |                                |         |        |
| High value                | \$ 2.90                        | \$ 3.35 | (13%)  |
| Standard                  | \$ 1.52                        | \$ 1.93 | (21%)  |
| Combined Average          | \$ 2.09                        | \$ 2.59 | (19%)  |

For the six months ended June 30, 2012, sales were \$1.29 billion, a 10% decrease from the comparable 2011 period, primarily due to lower raw material surcharges and base prices. Shipments of standard stainless sheet products increased 7% while high-value products shipments were 1% lower. Average transaction prices for all products, which include surcharges, were 13% lower due to lower raw material surcharges and lower base prices primarily for standard stainless products.

Comparative information for our Flat-Rolled Products revenues (in millions) by market and their respective percentages of the segment's overall revenues for the six month periods ended June 30, 2012 and 2011 is as follows:

| Market                              | Six Months Ended<br>June 30, 2012 |      | Six Months Ended<br>June 30, 2011 |      |
|-------------------------------------|-----------------------------------|------|-----------------------------------|------|
|                                     |                                   |      |                                   |      |
| Oil & Gas/Chemical Process Industry | \$ 349.2                          | 27%  | \$ 417.8                          | 29%  |
| Electrical Energy                   | 217.6                             | 17%  | 293.1                             | 20%  |
| Automotive                          | 195.9                             | 15%  | 200.1                             | 14%  |
| Construction/Mining                 | 131.3                             | 10%  | 115.8                             | 8%   |
| Food Equipment & Appliances         | 111.0                             | 9%   | 111.6                             | 8%   |
| Aerospace & Defense                 | 87.9                              | 7%   | 103.5                             | 7%   |
| Electronics/Computers/Communication | 80.4                              | 6%   | 74.0                              | 5%   |
| Transportation                      | 61.9                              | 5%   | 57.3                              | 4%   |
| Medical                             | 12.1                              | 1%   | 39.9                              | 3%   |
| Other                               | 46.1                              | 3%   | 24.8                              | 2%   |
| Total                               | \$ 1,293.4                        | 100% | \$ 1,437.9                        | 100% |

Segment operating profit for the six months ended June 30, 2012 declined to \$91.3 million, or 7.1% of sales, compared to \$137.1 million, or 9.5% of sales, for the comparable 2011 period due to a higher mix of standard stainless products and higher raw material costs, primarily nickel, which did not align with declining raw material surcharges. Results for the first six months of 2012 included a \$7.0 million LIFO inventory valuation reserve benefit, compared to a LIFO inventory valuation reserve benefit of \$5.7 million in the comparable 2011 period. Results for the six months ended June 30, 2012 benefited from \$24.5 million of gross cost reductions.

Comparative information on the segment's products for the six months ended June 30, 2012 and 2011 is provided in the following table:

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|                           | Six Months Ended<br>June 30, |         | Change |
|---------------------------|------------------------------|---------|--------|
|                           | 2012                         | 2011    |        |
| Volume (000 s pounds):    |                              |         |        |
| High value                | 249,297                      | 251,812 | (1%)   |
| Standard                  | 340,875                      | 320,054 | 7%     |
| Total                     | 590,172                      | 571,866 | 3%     |
| Average prices (per lb.): |                              |         |        |
| High value                | \$ 3.05                      | \$ 3.27 | (7%)   |
| Standard                  | \$ 1.54                      | \$ 1.90 | (19%)  |
| Combined Average          | \$ 2.18                      | \$ 2.50 | (13%)  |

### Engineered Products Segment

Sales for the second quarter 2012 were \$133.8 million, a 5% increase compared to the second quarter 2011. Sales for the six months ended June 30, 2011 were \$269.0 million, an increase of 10% compared to the first half of 2011. Demand was good from the construction and mining, cutting tools, aerospace, transportation and oil and gas markets.

Comparative information for our Engineered Products revenues (in millions) by market and their respective percentages of the segment's overall revenues for the three and six month periods ended June 30, 2012 and 2011 is as follows:

| Market                              | Three Months Ended<br>June 30, 2012 |      | Three Months Ended<br>June 30, 2011 |      |
|-------------------------------------|-------------------------------------|------|-------------------------------------|------|
| Oil & Gas/Chemical Process Industry | \$ 40.1                             | 30%  | \$ 33.0                             | 26%  |
| Machine & Cutting Tools             | 21.3                                | 16%  | 22.0                                | 17%  |
| Transportation                      | 21.2                                | 16%  | 20.9                                | 16%  |
| Construction/Mining                 | 22.7                                | 17%  | 17.4                                | 14%  |
| Aerospace & Defense                 | 10.7                                | 8%   | 9.6                                 | 8%   |
| Electrical Energy                   | 7.4                                 | 5%   | 10.6                                | 8%   |
| Automotive                          | 6.4                                 | 5%   | 9.0                                 | 7%   |
| Medical                             | 3.0                                 | 2%   | 2.2                                 | 2%   |
| Other                               | 1.1                                 | 1%   | 2.4                                 | 2%   |
| Total                               | \$ 133.9                            | 100% | \$ 127.1                            | 100% |

| Market                              | Six Months Ended<br>June 30, 2012 |      | Six Months Ended<br>June 30, 2011 |      |
|-------------------------------------|-----------------------------------|------|-----------------------------------|------|
| Oil & Gas/Chemical Process Industry | \$ 77.8                           | 29%  | \$ 67.6                           | 28%  |
| Machine & Cutting Tools             | 44.5                              | 17%  | 39.3                              | 16%  |
| Transportation                      | 44.1                              | 16%  | 40.5                              | 17%  |
| Construction/Mining                 | 42.8                              | 16%  | 32.2                              | 13%  |
| Aerospace & Defense                 | 22.7                              | 8%   | 18.3                              | 7%   |
| Electrical Energy                   | 15.3                              | 6%   | 20.7                              | 8%   |
| Automotive                          | 13.8                              | 5%   | 16.5                              | 7%   |
| Medical                             | 5.7                               | 2%   | 4.7                               | 2%   |
| Other                               | 2.3                               | 1%   | 4.7                               | 2%   |
| Total                               | \$ 269.0                          | 100% | \$ 244.5                          | 100% |

Segment operating profit for the second quarter 2012 increased to \$13.2 million, compared to \$6.8 million in the second quarter 2011. Results included LIFO inventory valuation reserve charges of \$0.4 and \$4.2 million for the second quarter of 2012 and 2011, respectively. Segment operating profit benefited from \$1.8 million in gross cost reductions in the second quarter 2012. Segment operating profit for the six months ended June 30, 2012 was \$25.5



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million, compared to \$20.2 million for the 2011 period. LIFO inventory valuation reserve charges were \$0.4 million and \$6.4 million for the first half of 2012 and 2011, respectively.

### **Corporate Items**

Corporate expenses for the second quarter 2012 were \$15.8 million, compared to \$25.8 million in the second quarter 2011. For the six months ended June 30, 2012, corporate expenses were \$37.5 million, compared to \$51.6 million for the six months ended June 30, 2011. The decrease in corporate expenses in 2012 was primarily related to lower incentive compensation expenses associated with long-term performance plans, and the absence of ATI Ladish transaction costs incurred in the prior year, and the prior year's accelerated recognition of equity-based compensation expense due to executive retirements.

Interest expense, net of interest income, in the second quarter 2012 was \$18.6 million, compared to net interest expense of \$23.7 million in the second quarter 2011. On a year-to-date basis, first half 2012 net interest expense was \$38.5 million compared to \$46.7 million for the first half 2011. The decrease in interest expense was primarily due to lower debt levels and increased capitalized interest on major strategic capital projects. Interest expense benefited from the capitalization of interest costs on major strategic capital projects of \$5.6 million in the second quarter 2012 compared to \$2.8 million in the second quarter 2011. For the six months ended June 30, 2012 and 2011, capitalized interest was \$10.1 million and \$5.4 million, respectively.

Other expenses, which include charges incurred in connection with closed operations, and other non-operating income or expense, for the second quarter 2012 was \$5.2 million, compared to \$4.2 million for the second quarter 2011. For the six months ended June 30, 2012, other expenses were \$12.1 million compared to \$4.7 million for the comparable 2011 period. The increases over the prior year were primarily related to higher environmental and legal expenses associated with closed operations and unfavorable foreign currency exchange fluctuations. These items are presented primarily in selling and administrative expenses, and in other income (expense) in the consolidated statement of operations.

Retirement benefit expense, which includes pension expense and other postretirement expense, increased to \$30.6 million in the second quarter 2012, compared to \$19.4 million in the second quarter 2011. This increase was primarily due to the utilization of a lower discount rate to value retirement benefit obligations and lower than expected returns on plan assets, and represented additional expense of \$7.3 million, net of tax, or \$0.06 per share, compared to the second quarter 2011. For the second quarter 2012, retirement benefit expense of \$22.3 million was included in cost of sales and \$8.3 million was included in selling and administrative expenses. For the second quarter 2011, the amount of retirement benefit expense included in cost of sales was \$13.4 million, and the amount included in selling and administrative expenses was \$6.0 million. For the six months ended June 30, 2012, retirement benefit expense was \$61.2 million, compared to \$38.7 million for the six months ended June 30, 2011, a \$14.7 million increase net of tax, or \$0.13 per share. For the six months ended June 30, 2012, retirement benefit expense of \$44.3 million was included in cost of sales, and \$16.9 million was included in selling and administrative expenses. For the prior year to date period, retirement benefit expense of \$27.2 million was included in costs of sales and \$11.5 million was included in selling and administrative expenses.

### **Income Taxes**

The second quarter 2012 provision for income taxes was \$31.0 million, or 34.6% of income before tax, compared to the second quarter 2011 provision for income taxes of \$34.3 million, or 34.2% of income before tax. For the six months ended June 30, 2012, the income tax provision was \$56.8 million, or 32.7% of income before tax. The first half 2012 included discrete tax benefits of \$3.4 million primarily related to state income taxes. The income tax provision for the six months ended June 30, 2011 was \$69.4 million, or 35.8% of income before taxes, and included discrete tax charges of \$2.7 million primarily related to foreign income taxes.

### **Financial Condition and Liquidity**

We believe that internally generated funds, current cash on hand, and available borrowings under existing credit lines will be adequate to meet foreseeable liquidity needs, including a substantial expansion of our production capabilities over the next few years and scheduled debt maturities. We did not borrow funds under our senior unsecured domestic credit facility during the first six months of 2012. However, as of June 30, 2012, approximately \$7 million of this facility was utilized to support letters of credit.

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If we needed to obtain additional financing using the credit markets, the cost and the terms and conditions of such borrowings may be influenced by our credit rating. Changes in our credit rating do not impact our access to, or the cost of, our existing credit facilities.

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

**Cash Flow and Working Capital**

For the six months ended June 30, 2012, cash flow provided by operations for 2012 was \$59.8 million, resulting from an investment of \$205.4 million in managed working capital, primarily due to increased business activity. Cash used in investing activities was \$164.8 million in the first quarter 2012 and consisted primarily of capital expenditures. Cash used in financing activities was \$65.3 million in the first six months of 2012 and included dividend payments of \$38.2 million, \$22.4 million of tax payments on share-based compensation associated with performance-based plans, and \$5.5 million of net debt requirements. At June 30, 2012, cash and cash equivalents on hand totaled \$210.3 million, a decrease of \$170.3 million from year end 2011. As of June 30, 2012, \$111.8 million of cash and cash equivalents were held by our foreign subsidiaries.

As part of managing the liquidity of our business, we focus on controlling managed working capital, which is defined as gross accounts receivable and gross inventories, less accounts payable. In measuring performance in controlling managed working capital, we exclude the effects of LIFO inventory valuation reserves, excess and obsolete inventory reserves, and reserves for uncollectible accounts receivable which, due to their nature, are managed separately. At June 30, 2012, managed working capital decreased to 37.4% of annualized sales, compared to 37.8% of annualized sales at December 31, 2011. During the first six months of 2012, managed working capital increased by \$205.4 million, to \$2.0 billion. The growth in managed working capital from December 31, 2011 resulted from increased accounts receivable of \$34.9 million, increased inventory of \$127.3 million, and by a \$43.2 million decrease in accounts payable. While accounts receivable balances increased in the first quarter 2012, days sales outstanding, which measures actual collection timing for accounts receivable, remained essentially unchanged compared to year end 2011. Gross inventory turns, which exclude the effect of LIFO inventory valuation reserves, remained unchanged at June 30, 2012 compared to year end 2011.

The Components of managed working capital were as follows:

| (in millions)                                            | June 30,<br>2012 | December 31,<br>2011 |
|----------------------------------------------------------|------------------|----------------------|
| Accounts receivable                                      | \$ 744.3         | \$ 709.1             |
| Inventory                                                | 1,512.5          | 1,384.3              |
| Accounts payable                                         | (451.7)          | (490.7)              |
| Subtotal                                                 | 1,805.1          | 1,602.7              |
| Allowance for doubtful accounts                          | 5.6              | 5.9                  |
| LIFO reserve                                             | 146.6            | 153.7                |
| Corporate and other                                      | 71.3             | 60.9                 |
| Managed working capital                                  | 2,028.6          | 1,823.2              |
| Annualized prior 2 months sales                          | \$ 5,430.5       | \$ 4,820.6           |
| Managed working capital as a % of annualized sales       | 37.4%            | 37.8%                |
| Change in managed working capital from December 31, 2011 | \$ 205.4         |                      |

**Capital Expenditures**

We have significantly expanded, and continue to expand, our manufacturing capabilities to meet expected intermediate and long-term demand from the aerospace (engine and airframe), chemical process industry, oil and gas, electrical energy, and medical markets, especially for titanium and titanium-based alloys, nickel-based alloys and superalloys, specialty alloys, and exotic alloys. We continue to expect that capital expenditures for 2012 will be approximately \$485 million, all of which we expect to fund from operating cash flow and available cash on hand.

Capital expenditures were \$165.7 million for the first half of 2012.

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Our self-funded, on-going strategic capital investments include the new advanced specialty metals Hot-Rolling and Processing Facility (HRPF) at our existing Flat-Rolled Products segment Brackenridge, PA site for approximately \$1.1 billion. The facility construction is progressing on schedule and on budget, with construction expected to be completed by the end of 2013 and commissioning occurring during the first half of 2014. The HRPF is designed to be the most powerful mill in the world for production of specialty metals. It is designed to produce exceptional quality, thinner, and wider hot-rolled coils at reduced cost with shorter lead times, and require lower working capital requirements. When completed, we believe that the HRPF will provide unsurpassed manufacturing capability and versatility in the production of a wide range of flat-rolled specialty metals. We expect improved productivity, lower costs, and higher quality for our diversified product mix of flat-rolled specialty metals, including nickel-based and specialty alloys, titanium and titanium alloys, zirconium alloys, Precision Rolled Strip® products, and stainless sheet and coiled plate products. It is designed to roll and process exceptional quality hot bands of up to 78.62 inches, or 2 meters, wide.

**Debt**

At June 30, 2012, we had \$1,501.4 million in total outstanding debt, compared to \$1,509.3 million at December 31, 2011.

In managing our overall capital structure, some of the measures on which we focus are net debt to total capitalization, which is the percentage of our debt, net of cash that may be available to reduce borrowings, to our total invested and borrowed capital, and total debt to total capitalization, which excludes cash balances. Net debt as a percentage of total capitalization was 33.4% at June 30, 2012, compared to 31.3% at December 31, 2011. The net debt to total capitalization was determined as follows:

| (\$ in millions)               | June 30, 2012 | December 31, 2011 |
|--------------------------------|---------------|-------------------|
| Total debt                     | \$ 1,501.4    | \$ 1,509.3        |
| Less: Cash                     | (210.3)       | (380.6)           |
| Net debt                       | \$ 1,291.1    | \$ 1,128.7        |
| Net debt                       | \$ 1,291.1    | \$ 1,128.7        |
| Total ATI stockholders' equity | 2,575.5       | 2,475.3           |
| Net ATI total capital          | \$ 3,866.6    | \$ 3,604.0        |
| Net debt to ATI total capital  | 33.4%         | 31.3%             |

Total debt to total capitalization increased to 36.8% at June 30, 2012 from 37.9% December 31, 2011.

Total debt to total capitalization was determined as follows:

| (\$ in millions)                | June 30, 2012 | December 31, 2011 |
|---------------------------------|---------------|-------------------|
| Total debt                      | \$ 1,501.4    | \$ 1,509.3        |
| Total ATI stockholders' equity  | 2,575.5       | 2,475.3           |
| Total ATI capital               | \$ 4,076.9    | \$ 3,984.6        |
| Total debt to total ATI capital | 36.8%         | 37.9%             |

We did not borrow funds under our \$400 million senior unsecured domestic credit facility during the first six months of 2012, although approximately \$7 million has been utilized to support the issuance of letters of credit. The unsecured facility requires us 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 twelve months ended June 30, 2012, our leverage ratio was 2.05 and our interest coverage ratio was 5.58.



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We have an additional, separate credit facility for the issuance of letters of credit. As of June 30, 2012, \$32 million in letters of credit was outstanding under this facility.

In addition, STAL, the Company's Chinese joint venture company in which ATI has a 60% interest, has a 205 million renminbi (approximately \$32 million at June 30, 2012 exchange rates) revolving credit facility with a group of banks which expires in August 2014. This credit facility is supported solely by STAL's financial capability without any guarantees from the joint venture partners. As of June 30, 2012, there were no borrowings under this credit facility.

### **Retirement Benefits**

At December 31, 2011 our U.S. qualified defined benefit pension plan (U.S. Plan) was approximately 84% funded as calculated in accordance with generally accepted accounting principles.

On July 6, 2012, the Moving Ahead for Progress in the 21<sup>st</sup> Century Act (MAP-21 Act) was signed into law. The MAP-21 Act included certain pension-related provisions which included changes to the methodology used to determine discount rates for ERISA funding purposes for qualified defined benefit pension plans. Based on historical interest rates, the MAP-21 Act allows plan sponsors to utilize a higher discount rate to value pension liabilities, which results in lower required pension plan contributions under ERISA. Based upon current regulations and actuarial studies, we are not required to make a cash contribution to the U.S. Plan for 2012. However, we may elect, depending upon investment performance of the pension plan assets and other factors, to make voluntary cash contributions to this plan in the future.

### **Dividends**

A regular quarterly dividend of \$0.18 per share of common stock was paid on June 20, 2012 to stockholders of record at the close of business on May 30, 2012. The payment of dividends and the amount of such dividends depends upon matters deemed relevant by our Board of Directors, such as our results of operations, financial condition, cash requirements, future prospects, any limitations imposed by law, credit agreements or senior securities, and other factors deemed relevant and appropriate.

### **Critical Accounting Policies**

#### **Inventory**

At June 30, 2012, we had net inventory of \$1,512.5 million. Inventories are stated at the lower of cost (last-in, first-out (LIFO), first-in, first-out (FIFO) and average cost methods) or market, less progress payments. Costs include direct material, direct labor and applicable manufacturing and engineering overhead, and other direct costs. Most of our inventory is valued utilizing the LIFO costing methodology. Inventory of our non-U.S. operations is valued using average cost or FIFO methods. Under the LIFO inventory valuation method, changes in the cost of raw materials and production activities are recognized in cost of sales in the current period even though these material and other costs may have been incurred at significantly different values due to the length of time of our production cycle. The prices for many of the raw materials we use have been extremely volatile during the past four years. Since we value most of our inventory utilizing the LIFO inventory costing methodology, a rise in raw material costs has a negative effect on our operating results, while, conversely, a fall in material costs results in a benefit to operating results. For example, in 2011, the effect of falling raw material costs on our LIFO inventory valuation method resulted in cost of sales which were \$9.3 million lower than would have been recognized had we utilized the FIFO methodology to value our inventory. Conversely, in 2010, the effect of rising raw material costs on our LIFO inventory valuation reserve methodology resulted in cost of sales which were \$60.2 million higher than would have been recognized had we used the FIFO methodology to value our inventory. In a period of rising prices, cost of sales expense recognized under LIFO is generally higher than the cash costs incurred to acquire the inventory sold. Conversely, in a period of declining raw material prices, cost of sales recognized under LIFO is generally lower than cash costs incurred to acquire the inventory sold.

Since the LIFO inventory valuation methodology is designed for annual determination, interim estimates of the annual LIFO valuation are required. We recognize the effects of the LIFO inventory valuation method on an interim basis by projecting the expected annual LIFO cost and allocating that projection to the interim quarters equally. These projections of annual LIFO inventory valuation reserve changes are updated quarterly and are evaluated based upon material, labor and overhead costs and projections for such costs at the end of the year plus projections

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regarding year-end inventory levels. We recorded a \$7.1 million reduction to our LIFO inventory valuation reserve in the first six months of 2012.

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

We evaluate product lines on a quarterly basis to identify inventory values that exceed estimated net realizable value. The calculation of a resulting reserve, if any, is recognized as an expense in the period that the need for the reserve is identified. At June 30, 2012, no significant reserves were required. It is our general policy to write-down to scrap value any inventory that is identified as obsolete and any inventory that has aged or has not moved in more than twelve months. In some instances this criterion is up to twenty-four months due to the longer manufacturing and distribution process for such products.

### **Other Critical Accounting Policies**

A summary of other significant accounting policies is discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations and in Note 1 to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2011.

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

### **New Accounting Pronouncement Adopted**

In June 2011, the Financial Accounting Standards Board (FASB) issued amendments to financial accounting standards related to the presentation of comprehensive income which requires entities to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, these amendments require an entity to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. In December 2011, the FASB deferred the requirement for presenting the reclassification adjustments from comprehensive income to net income by component within the face of the financial statements. Finally, no changes were made to the calculation and presentation of earnings per share. These amendments, with retrospective application, are effective for interim and annual periods in fiscal year 2012. A separate consolidated statement of comprehensive income is included in these consolidated financial statements. Other than the change in presentation, these changes did not have an impact on the consolidated financial statements.

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

From time to time, we have made and may continue to make forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Certain statements in this report relate to future events and expectations and, as such, constitute forward-looking statements. Forward-looking statements include those containing such words as anticipates, believes, estimates, expects, would, should, will likely result, forecast, outlook, projects, and similar expressions. Forward-looking statements are based on management's current expectations and include known and unknown risks, uncertainties and other factors, many of which we are unable to predict or control, that may cause our actual results, performance or achievements to differ materially from those expressed or implied in the forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include: (a) material adverse changes in economic or industry conditions generally, including global supply and demand conditions and prices for our specialty metals; (b) material adverse changes in the markets we serve, including the aerospace and defense, electrical energy, chemical process industry, oil and gas, medical, automotive, construction and mining, and other markets; (c) our inability to achieve the level of cost savings, productivity improvements, synergies, growth or other benefits anticipated by management, from strategic investments and the integration of acquired businesses, whether



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due to significant increases in energy, raw materials or employee benefits costs, the possibility of project cost overruns or unanticipated costs and expenses, or other factors; (d) volatility of prices and availability of supply of the raw materials that are critical to the manufacture of our products; (e) declines in the value of our defined benefit pension plan assets or unfavorable changes in laws or regulations that govern pension plan funding; (f) significant legal proceedings or investigations adverse to us; and (g) other risk factors summarized in our Annual Report on Form 10-K for the year ended December 31, 2011, and in other reports filed with the Securities and Exchange Commission. We assume no duty to update our forward-looking statements

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

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

**Interest Rate Risk.** We attempt to maintain a reasonable balance between fixed- and floating-rate debt to keep financing costs as low as possible. At June 30, 2012, we had approximately \$24 million of floating rate debt outstanding with a weighted average interest rate of approximately 1.5%. Since the interest rate on floating rate debt changes with the short-term market rate of interest, we are exposed to the risk that these interest rates may increase, raising our interest expense in situations where the interest rate is not capped. For example, a hypothetical 1% increase in the rate of interest on the \$24 million of our outstanding floating rate debt not subjected to a cap would result in increased annual financing costs of approximately \$0.2 million.

**Volatility of Energy Prices.** Energy resources markets are subject to conditions that create uncertainty in the prices and availability of energy resources. The prices for and availability of electricity, natural gas, oil and other energy resources are subject to volatile market conditions. These market conditions often are affected by political and economic factors beyond our control. Increases in energy costs, or changes in costs relative to energy costs paid by competitors, have and may continue to adversely affect our profitability. To the extent that these uncertainties cause suppliers and customers to be more cost sensitive, increased energy prices may have an adverse effect on our results of operations and financial condition. We use approximately 8 to 10 million MMBtu's of natural gas annually, depending upon business conditions, in the manufacture of our products. These purchases of natural gas expose us to risk of higher gas prices. For example, a hypothetical \$1.00 per MMBtu increase in the price of natural gas would result in increased annual energy costs of approximately \$8 to \$10 million. We use several approaches to minimize any material adverse effect on our financial condition or results of operations from volatile energy prices. These approaches include incorporating an energy surcharge on many of our products and using financial derivatives to reduce exposure to energy price volatility.

At June 30, 2012, the outstanding financial derivatives used to hedge our exposure to energy cost volatility included both natural gas and electricity hedges. For natural gas, approximately 70% of our forecasted domestic requirements are hedged for 2012, approximately 50% for 2013, and about 30% for 2014. The net mark-to-market valuation of these outstanding natural gas hedges at June 30, 2012 was an unrealized pre-tax loss of \$10.5 million, comprised of \$0.2 million classified in prepaid expenses and other current assets, \$0.3 million was included in other long-term assets, \$8.1 million in accrued liabilities, and \$2.9 million in other long-term liabilities. For the three months ended June 30, 2012, the effects of natural gas hedging activity increased cost of sales by \$3.9 million. For electricity usage in our Western Pennsylvania operations, we have hedged approximately 30% of our on-peak and off-peak forecasted requirements for 2012 and approximately 10% for 2014. The net mark-to-market valuation of the electricity hedges was an unrealized pre-tax loss of \$2.0 million, comprised of \$1.6 million in accrued liabilities, and \$0.4 million in other long-term liabilities on the balance sheet. The effects of the hedging activity are recognized in income over the designated hedge periods.

**Volatility of Raw Material Prices.** We use raw materials surcharge and index mechanisms to offset the impact of increased raw material costs for a majority of our products; however, competitive factors in the marketplace can limit our ability to institute such mechanisms, and there can be a delay between the increase in the price of raw materials and the realization of the benefit of such mechanisms. For example, in 2011 we used approximately 95 million pounds of nickel; therefore, a hypothetical change of \$1.00 per pound in nickel prices would result in increased costs of approximately \$95 million. In addition, in 2011 we also used approximately 810 million pounds of ferrous scrap in the production of our flat-rolled products and a hypothetical change of \$0.01 per pound would result in increased costs of

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approximately \$8 million. While we enter into raw materials futures contracts from time-to-time to hedge exposure to price fluctuations, such as for nickel, we cannot be certain that our hedge position adequately reduces exposure. We believe that we have adequate controls to monitor these contracts, but we may not be able to accurately assess exposure to price volatility in the markets for critical raw materials.

As of June 30, 2012, we had entered into financial hedging arrangements primarily at the request of our customers related to firm orders for approximately 13% of our total annual nickel requirements. These nickel hedges extend to 2016. Any gain or loss associated with these hedging arrangements is included in cost of sales. At June 30, 2012, the net mark-to-market valuation of our outstanding raw material hedges was an unrealized pre-tax loss of \$6.3 million, comprised of \$0.1 million in other long-term assets, \$4.9 million in accrued liabilities, and \$1.5 million in long-term other liabilities on the balance sheet.

**Foreign Currency Risk.** Foreign currency exchange contracts are used, from time-to-time, to limit transactional exposure to changes in currency exchange rates. We sometimes purchase foreign currency forward contracts that permit us to sell specified amounts of foreign currencies expected to be received from our export sales for pre-established U.S. dollar amounts at specified dates. The forward contracts are denominated in the same foreign currencies in which export sales are denominated. These contracts are designated as hedges of the variability in cash flows of a portion of the forecasted future export sales transactions which otherwise would expose the Company to foreign currency risk. We may also enter into foreign currency forward contracts that are not designated as hedges, which are denominated in the same foreign currency in which export sales are denominated. At June 30, 2012, the outstanding financial derivatives, including both hedges and undesignated derivatives, that are used to manage our exposure to foreign currency, primarily euros, represented approximately 10% of our forecasted total international sales through 2014. In addition, we may also designate cash balances held in foreign currencies as hedges of forecasted foreign currency transactions. At June 30, 2012, the net mark-to-market valuation of the outstanding foreign currency forward contracts was a net asset of \$23.7 million, of which \$15.7 million is included in prepaid expenses and other current assets, \$8.1 million was included other long-term assets, and \$0.1 million in accrued liabilities on the balance sheet.

### **Item 4. Controls and Procedures**

#### **(a) Evaluation of Disclosure Controls and Procedures**

Our Chief Executive Officer and Chief Financial Officer have evaluated the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of June 30, 2012, and they concluded that these disclosure controls and procedures are effective.

#### **(b) Changes in Internal Controls**

There was no change in our internal control over financial reporting identified in connection with the evaluation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of June 30, 2012, conducted by our Chief Executive Officer and Chief Financial Officer, that occurred during the quarter ended June 30, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

A number of lawsuits, claims and proceedings have been or may be asserted against the Company relating to the conduct of its business, including those pertaining to product liability, patent infringement, commercial, government contract work, employment, employee and retiree benefits, taxes, environmental, health and safety, occupational disease, and stockholder matters. Certain of such lawsuits, claims and proceedings are described in our Annual Report on Form 10-K for the year ended December 31, 2011, and addressed in Note 12 to the unaudited interim financial statements included herein. While the outcome of litigation cannot be predicted with certainty, and some of these lawsuits, claims or proceedings may be determined adversely to the Company, management does not believe that the disposition of any such pending matters is likely to have a material adverse effect on the Company's financial condition or liquidity, although the resolution in any reporting period of one or more of these matters could have a material adverse effect on the Company's results of operations for that period.

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### **Item 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2011, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

### **Item 6. Exhibits**

#### (a) Exhibits

|         |                                                                                                                                       |
|---------|---------------------------------------------------------------------------------------------------------------------------------------|
| 12.1    | Computation of the Ratio of Earnings to Fixed Charges (filed herewith).                                                               |
| 31.1    | Certification of Chief Executive Officer required by Securities and Exchange Commission Rule 13a-14(a) or 15d-14(a) (filed herewith). |
| 31.2    | Certification of Chief Financial Officer required by Securities and Exchange Commission Rule 13a-14(a) or 15d-14(a) (filed herewith). |
| 32.1    | Certification pursuant to 18 U.S.C. Section 1350 (filed herewith).                                                                    |
| 101.INS | XBRL Instance Document                                                                                                                |
| 101.SCH | XBRL Taxonomy Extension Schema Document                                                                                               |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document                                                                                 |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document                                                                                  |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document                                                                                       |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document                                                                                |

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**SIGNATURES**

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

**ALLEGHENY TECHNOLOGIES INCORPORATED**

**(Registrant)**

Date: August 3, 2012

By /s/ Dale G. Reid  
Dale G. Reid  
Executive Vice President, Finance and  
Chief Financial Officer  
(Principal Financial Officer and Duly Authorized Officer)

Date: August 3, 2012

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

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EXHIBIT INDEX

|         |                                                                                                                      |
|---------|----------------------------------------------------------------------------------------------------------------------|
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| 31.2    | Certification of Chief Financial Officer required by Securities and Exchange Commission Rule 13a-14(a) or 15d-14(a). |
| 32.1    | Certification pursuant to 18 U.S.C. Section 1350.                                                                    |
| 101.INS | XBRL Instance Document                                                                                               |
| 101.SCH | XBRL Taxonomy Extension Schema Document                                                                              |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document                                                                |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document                                                                 |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document                                                                      |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document                                                               |