ALLEGHENY TECHNOLOGIES INC
Form 10-Q
August 03, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period From to
Commission File Number 1-12001

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

Delaware	25-1792394
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1000 Six PPG Place	
Pittsburgh, Pennsylvania	15222-5479
(Address of Principal Executive Offices)	(Zip Code)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ý No ¨
Indicate by check mark whether the Registrant submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

At July 22, 2016, the registrant had outstanding 108,933,448 shares of its Common Stock.

ALLEGHENY TECHNOLOGIES INCORPORATED
SEC FORM 10-Q
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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
Allegheny Technologies Incorporated and Subsidiaries
Consolidated Balance Sheets
(In millions, except share and per share amounts)
(Current period unaudited)

	June 30, 2016	December 31, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$322.3	$ 149.8
Accounts receivable, net	492.5	400.3
Inventories, net	1,094.3	1,271.6
Prepaid expenses and other current assets	43.3	45.9
Total Current Assets	1,952.4	1,867.6
Property, plant and equipment, net	2,958.9	2,928.2
Goodwill	646.9	651.4
Other assets	302.8	304.5
Total Assets	$5,861.0	$ 5,751.7
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable	$308.2	$ 380.8
Accrued liabilities	290.8	301.8
Short term debt and current portion of long-term debt	6.7	3.9
Total Current Liabilities	605.7	686.5
Long-term debt	1,870.1	1,491.8
Accrued postretirement benefits	316.5	359.2
Pension liabilities	826.7	833.8
Deferred income taxes	52.8	75.6
Other long-term liabilities	89.9	108.3
Total Liabilities	3,761.7	3,555.2
Redeemable noncontrolling interest	—	12.1
Equity:		
ATI Stockholders' Equity:		
Preferred stock, par value $0.10: authorized-50,000,000 shares; issued-none	—	—
Common stock, par value $0.10: authorized-500,000,000 shares; issued-109,695,171 shares at June 30, 2016 and December 31, 2015; outstanding-108,933,446 shares at June 30, 2016 and 109,174,882 shares at December 31, 2015	11.0	11.0
Additional paid-in capital	1,178.1	1,161.7
Retained earnings	1,806.7	1,945.9
Treasury stock: 761,725 shares at June 30, 2016 and 520,289 shares at December 31, 2015	(27.7)	(21.3)
Accumulated other comprehensive loss, net of tax	(973.7)	(1,014.5)
Total ATI stockholders' equity	1,994.4	2,082.8
Noncontrolling interests	104.9	101.6
Total Equity	2,099.3	2,184.4
Total Liabilities and Equity	$5,861.0	$ 5,751.7

The accompanying notes are an integral part of these statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Sales	$810.5	$1,022.5	$1,568.0	$2,148.0
Cost of sales	762.3	945.5	1,553.0	1,961.5
Gross profit	48.2	77.0	15.0	186.5
Selling and administrative expenses	59.3	72.4	121.9	135.5
Restructuring charges	1.0	—	10.0	—
Operating income (loss)	(12.1)	4.6	(116.9)	51.0
Interest expense, net	(30.3)	(26.8)	(58.6)	(53.5)
Other income, net	1.0	0.6	1.8	1.5
Loss before income taxes	(41.4)	(21.6)	(173.7)	(1.0)
Income tax provision (benefit)	(25.9)	(7.7)	(60.1)	0.3
Net loss	(15.5)	(13.9)	(113.6)	(1.3)
Less: Net income attributable to noncontrolling interests	3.3	2.5	6.4	5.1
Net loss attributable to ATI	$(18.8)	$(16.4)	$(120.0)	$(6.4)
Basic net loss attributable to ATI per common share	$(0.18)	$(0.15)	$(1.12)	$(0.06)
Diluted net loss attributable to ATI per common share	$(0.18)	$(0.15)	$(1.12)	$(0.06)
Dividends declared per common share	$0.08	$0.18	$0.16	$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 (Loss)
(In millions)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net loss	$(15.5)	$(13.9)	$(113.6)	$(1.3)
Currency translation adjustment				
Unrealized net change arising during the period	(9.8)	19.3	(15.2)	(2.5)
Unrealized holding gain on securities				
Net loss arising during the period	—	(0.1)	—	(0.1)
Derivatives				
Net derivatives gain (loss) on hedge transactions	26.3	(10.4)	17.1	8.1
Reclassification to net income (loss) of net realized loss (gain)	2.9	(2.1)	7.9	(4.8)
Income taxes on derivative transactions	11.1	(4.8)	9.5	1.3
Total	18.1	(7.7)	15.5	2.0
Postretirement benefit plans				
Actuarial loss				
Amortization of net actuarial loss	18.8	18.7	37.5	37.4
Net gain arising during the period	—	—	22.5	—
Prior service cost				
Amortization to net income (loss) of net prior service cost (credit)	(0.5)	1.5	0.4	3.0
Income taxes on postretirement benefit plans	6.9	7.7	22.9	15.4
Total	11.4	12.5	37.5	25.0
Other comprehensive income, net of tax	19.7	24.0	37.8	24.4
Comprehensive income (loss)	4.2	10.1	(75.8)	23.1
Less: Comprehensive income attributable to noncontrolling interests	1.8	3.0	3.4	5.4
Comprehensive income (loss) attributable to ATI	$2.4	$7.1	$(79.2)	$17.7

The accompanying notes are an integral part of these statements.

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

	Six months ended June 30,	
	2016	2015
Operating Activities:		
Net loss	$(113.6)	$(1.3)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	87.8	93.6
Deferred taxes	(62.4)	(9.6)
Changes in operating assets and liabilities:		
Inventories	177.3	(0.1)
Accounts receivable	(92.2)	10.2
Accounts payable	(37.3)	(69.3)
Retirement benefits	10.3	5.0
Accrued income taxes	0.1	60.2
Accrued liabilities and other	(3.6)	2.8
Cash provided by (used in) operating activities	(33.6)	91.5
Investing Activities:		
Purchases of property, plant and equipment	(145.3)	(63.3)
Purchases of businesses, net of cash acquired	—	(0.5)
Asset disposals and other	1.8	—
Cash used in investing activities	(143.5)	(63.8)
Financing Activities:		
Borrowings on long-term debt	387.5	—
Payments on long-term debt and capital leases	(0.6)	(6.3)
Net borrowings under credit facilities	2.5	—
Debt issuance costs	(10.4)	—
Dividends paid to stockholders	(17.2)	(38.6)
Acquisition of noncontrolling interests	(12.2)	—
Shares repurchased for income tax withholding on share-based compensation	—	(1.4)
Cash provided by (used in) financing activities	349.6	(46.3)
Increase (decrease) in cash and cash equivalents	172.5	(18.6)
Cash and cash equivalents at beginning of period	149.8	269.5
Cash and cash equivalents at end of period	$322.3	$250.9

The accompanying notes are an integral part of these statements.

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

	ATI Stockholders						
	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests	Total Equity
Balance, December 31, 2014	$11.0	$1,164.2	$2,398.9	$(44.3)	$(931.4)	$110.9	$2,709.3
Net income (loss)	—	—	(6.4)	—	—	5.1	(1.3)
Other comprehensive income	—	—	—	—	24.1	0.3	24.4
Cash dividends on common stock ($0.36 per share)	—	—	(38.6)	—	—	—	(38.6)
Redeemable noncontrolling interest	—	—	(0.1)	—	—	0.1	—
Employee stock plans	—	(9.3)	(7.5)	23.7	—	—	6.9
Balance, June 30, 2015	$11.0	$1,154.9	$2,346.3	$(20.6)	$(907.3)	$116.4	$2,700.7
Balance, December 31, 2015	$11.0	$1,161.7	$1,945.9	$(21.3)	$(1,014.5)	$101.6	$2,184.4
Net income (loss)	—	—	(120.0)	—	—	6.4	(113.6)
Other comprehensive income (loss)	—	—	—	—	40.8	(3.0)	37.8
Cash dividends on common stock ($0.16 per share)	—	—	(17.2)	—	—	—	(17.2)
Purchase of subsidiary shares from noncontrolling interest	—	—	—	—	—	(0.1)	(0.1)
Employee stock plans	—	16.4	(2.0)	(6.4)	—	—	8.0
Balance, June 30, 2016	$11.0	$1,178.1	$1,806.7	$(27.7)	$(973.7)	$104.9	$2,099.3

The accompanying notes are an integral part of these statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Unaudited
Note 1. Accounting Policies
The interim consolidated financial statements include the accounts of Allegheny Technologies Incorporated and its subsidiaries. Unless the context requires otherwise, “Allegheny Technologies”, “ATI” and “the Company” refer to Allegheny Technologies Incorporated and its subsidiaries.
These unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and note disclosures required by U.S. generally accepted accounting principles for complete financial statements. In management’s opinion, all adjustments (which include only normal recurring adjustments) considered necessary for a fair presentation have been included. Certain prior year amounts have been reclassified in order to conform with the fiscal year 2016 presentation. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s 2015 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, 2015 financial information has been derived from the Company’s audited consolidated financial statements.
Pending Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (FASB) issued new guidance to simplify employee share-based payment accounting. The areas for simplification in this guidance involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This new guidance is effective for the Company’s 2017 fiscal year with early adoption permitted. The Company is currently evaluating the possible impact of this new guidance, but does not anticipate that it will have a material impact on its consolidated financial statements.

In February 2016, the FASB issued new guidance on the accounting for leases. This new guidance will require that a lessee recognize assets and liabilities on the balance sheet for all leases with a lease term of more than twelve months, with the result being the recognition of a right of use asset and a lease liability. The new lease accounting requirements are effective for the Company’s 2019 fiscal year with a modified retrospective transition approach required, with early adoption permitted. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

In July 2015, the FASB issued changes to simplify the measurement of inventory valuation at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The new inventory measurement requirements are effective for the Company’s 2017 fiscal year, and will replace the current inventory valuation guidance that requires the use of a lower of cost or market framework. This change in the measurement of inventory does not apply to inventory valued on a LIFO basis, which is the accounting basis used for most of the Company’s inventory. The adoption of these changes is not expected to have a material impact on the Company’s consolidated financial statements.

In May 2014, the FASB issued changes to revenue recognition with customers. This update provides a five-step analysis of transactions to determine when and how revenue is recognized. An entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In July 2015, the FASB approved a one-year deferral of the effective date of this new guidance resulting in it now being effective for the Company beginning in fiscal year 2018. The Company plans to adopt this accounting standard update using the modified retrospective method, with the cumulative effect of initially applying this update recognized in the first reporting period of 2018. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

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Note 2. Inventories

Inventories at June 30, 2016 and December 31, 2015 were as follows (in millions):

	June 30, 2016	December 31, 2015
Raw materials and supplies	$194.4	$ 216.0
Work-in-process	851.6	990.3
Finished goods	164.7	184.1
Total inventories at current cost	1,210.7	1,390.4
Adjustment from current cost to LIFO cost basis	131.8	136.4
Inventory valuation reserves	(204.1)	(206.3)
Progress payments	(44.1)	(48.9)
Total inventories, net	$1,094.3	$ 1,271.6

Inventories are stated at the lower of cost (last-in, first-out (LIFO), first-in, first-out (FIFO), and average cost methods) or market, less progress payments. Most of the Company’s inventory is valued utilizing the LIFO costing methodology. Inventory of the Company’s non-U.S. operations is valued using average cost or FIFO methods. Due to deflationary impacts primarily related to raw materials, the carrying value of the Company’s inventory as valued on LIFO exceeds current replacement cost, and based on a lower of cost or market value analysis, a net realizable value (NRV) inventory reserve is required. Impacts to cost of sales for changes in the LIFO costing methodology and associated NRV inventory reserves were as follows (in millions):

	Six months ended June 30,	
	2016	2015
LIFO benefit (charge)	$(4.6)	$4.5
NRV benefit (charge)	5.0	(4.3)
Net cost of sales impact	$0.4	$0.2

The first six months of 2016 and 2015 results included $17.7 million and $11.4 million, respectively, in inventory valuation charges related to the market-based valuation of titanium products.

Note 3. Property, Plant and Equipment

Property, plant and equipment at June 30, 2016 and December 31, 2015 was as follows (in millions):

	June 30, 2016	December 31, 2015
Land	$30.7	$ 31.0
Buildings	1,070.7	1,048.2
Equipment and leasehold improvements	3,924.9	3,858.1
	5,026.3	4,937.3
Accumulated depreciation and amortization	(2,067.4)	(2,009.1)
Total property, plant and equipment, net	$2,958.9	$ 2,928.2

The construction in progress portion of property, plant and equipment at June 30, 2016 was $116.5 million.

Note 4. Debt

Debt at June 30, 2016 and December 31, 2015 was as follows (in millions):

	June 30, 2016	December 31, 2015
Allegheny Technologies 5.875% Notes due 2023 (a)	$500.0	$ 500.0
Allegheny Technologies 5.95% Notes due 2021	500.0	500.0
Allegheny Technologies 9.375% Notes due 2019	350.0	350.0
Allegheny Technologies 4.75% Convertible Senior Notes due 2022	287.5	—
Allegheny Ludlum 6.95% debentures due 2025	150.0	150.0
Term Loan due 2017	100.0	—
U.S. revolving credit facility	—	—
Foreign credit facilities	3.9	1.4
Industrial revenue bonds, due through 2020, and other	4.2	3.8
Debt issuance costs	(18.8)	(9.5)
Total short-term and long-term debt	1,876.8	1,495.7
Short-term debt and current portion of long-term debt	6.7	3.9
Total long-term debt	$1,870.1	$ 1,491.8

(a) Bearing interest at 7.875% effective February 15, 2016.

The stated interest rate payable on the Senior Notes due 2023 (2023 Notes) is subject to adjustment in the event of changes in the credit ratings on the 2023 Notes by either Moody’s or Standard & Poor’s (S&P). During the first quarter of 2016, S&P downgraded the Company’s credit rating one notch to B+ from BB-. This downgrade resulted in an increase of the interest rate on the 2023 Notes from 7.625% as of December 31, 2015 to 7.875% effective with the interest period beginning February 15, 2016 and represents an additional $1.3 million of interest expense measured on an annual basis. Any further credit rating downgrades will not affect the interest rate of the 2023 Notes.

Revolving Credit Facility

The Company has an Asset Based Lending (ABL) Revolving Credit Facility, which matures in September 2020 and is collateralized by the accounts receivable and inventory of the Company’s domestic operations. The revolving credit portion of the ABL facility is $400 million, which includes a letter of credit sub-facility of up to $200 million.

In May 2016, the ABL facility was amended to add an eighteen month term loan (Term Loan) in the amount of $100.0 million, to support the Company’s restructuring actions and operational needs, and to amend certain of the ABL covenants and related defined terms. The interest rate on this Term Loan is 3.5% plus a LIBOR spread. Costs associated with amending the ABL facility were $0.9 million, and are being amortized to interest expense over the term of the facility. Proceeds of the Term Loan were used to pay down outstanding borrowings under the revolving credit portion of the ABL facility. The Term Loan is due on November 13, 2017 and can be prepaid in its entirety on a one-time basis on or after May 13, 2017 if certain minimum liquidity conditions are satisfied. The underwriting fees and other third-party expenses for the issuance of the Term Loan were $1.0 million and are being amortized to interest expense over the eighteen month term of the loan.

As amended, the applicable interest rate for borrowings under the ABL facility includes interest rate spreads based on available borrowing capacity that range between 2.0% and 2.5% for LIBOR-based borrowings and between 1.0% and 1.5% for base rate borrowings. As amended, the ABL facility contains a financial covenant whereby the Company must maintain a fixed charge coverage ratio of not less than 1.00:1.00 after an event of default has occurred and is continuing or if the undrawn availability under the ABL facility is less than the greater of (i) 12.5% of the then applicable maximum borrowing amount or (ii) $40.0 million. The Company does not meet this required fixed charge coverage ratio at June 30, 2016. As a result, the Company is not able to access this remaining 12.5% or $62.5 million of the ABL facility until it meets the required ratio. Additionally, the Company must demonstrate liquidity, as calculated in accordance with the terms of the agreement, of at least $500 million on the date that is 91 days prior to June 1, 2019, the maturity date of the 9.375% Senior Notes due 2019, and that such liquidity is available at all times thereafter until the 9.375% Senior Notes due 2019 are paid in full or refinanced. There were no outstanding revolving credit borrowings under the ABL facility as of June 30, 2016, and $10.8 million was utilized to support the issuance of letters of credit. Average revolving credit borrowings under the ABL facility for the first six months of 2016 were $164 million, bearing an average annual interest rate of 1.757%.

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The Company has an additional separate credit facility for the issuance of letters of credit. As of June 30, 2016, $32 million in letters of credit were outstanding under this facility.

Convertible Notes

In May 2016, the Company issued and sold $250 million aggregate principal amount of 4.75% Convertible Senior Notes due 2022 (the Convertible Notes). The Company granted the underwriters a 30-day option to purchase up to an additional $37.5 million aggregate principal amount of Convertible Notes on the same terms and conditions to cover over-allotments, if any. On June 1, 2016, the Company announced that the underwriters exercised this option in full and on June 2, 2016, the Company completed the offering and sale of the additional $37.5 million aggregate principal amount of Convertible Notes. Interest on the Convertible Notes is payable in cash semi-annually in arrears on each January 1 and July 1, commencing January 1, 2017. The Company used a portion of the proceeds from the Convertible Notes to make a $115 million contribution in July 2016 to the Company's U.S. defined benefit pension plan, and expects to use additional Convertible Note proceeds to meet future pension funding requirements. The underwriting fees, discount and other third-party expense for the issuance of the Convertible Notes were $9.4 million and are being amortized to interest expense over the 6-year term of the Convertible Notes.

The Company does not have the right to redeem the Convertible Notes prior to their stated maturity date. Holders of the Convertible Notes have the option to convert their notes into shares of the Company's common stock, at any time prior to the close of business on the business day immediately preceding the stated maturity date (July 1, 2022). The initial conversion rate for the Convertible Notes is 69.2042 shares of ATI common stock per $1,000 (in whole dollars) principal amount of Notes (19,896,194 shares), equivalent to conversion price of $14.45 per share, subject to adjustment in certain events. Other than receiving cash in lieu of fractional shares, holders do not have the option to receive cash instead of shares of common stock upon conversion. Accrued and unpaid interest that exists upon conversion of a note will be deemed paid by the delivery of shares of ATI common stock and no cash payment or additional shares will be given to the holders.

If the Company undergoes a fundamental change, holders of the Convertible Notes may require the Company to repurchase the notes in whole or in part for cash at a price equal to 100% of the principal amount of the notes to be purchased plus any accrued and unpaid interest to, but excluding, the repurchase date. Such a repurchase is to be made in cash.

Note 5. Derivative Financial Instruments and Hedging

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

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

The majority of ATI's products are sold utilizing raw material surcharges and index mechanisms. However, as of June 30, 2016, the Company had entered into financial hedging arrangements, primarily at the request of its customers, related to firm orders, for an aggregate notional amount of approximately 31 million pounds of nickel with hedge dates through 2020. The aggregate notional amount hedged is approximately 30% of a single year's estimated nickel raw material purchase requirements.

At June 30, 2016, the outstanding financial derivatives used to hedge the Company's exposure to energy cost volatility included natural gas cost hedges. In the first six months of 2016, due to changes in expected operating levels primarily within the Flat Rolled Products segment operations, the Company concluded that additional portions of these natural gas hedges for 2016 and the first quarter of 2017 were ineffective based on forecast changes in underlying natural gas usage. The Company recognized a $0.2 million and $1.3 million pre-tax loss for the three and six months ended June 30, 2016, respectively, for natural gas cash flow hedge ineffectiveness, which is reported in selling and administrative expenses on the consolidated statement of operations. Approximately 80% of the Company’s annual forecasted domestic requirements for natural gas for 2017 and approximately 25% for 2018 are hedged.

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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, primarily euros. In addition, the Company may also designate cash balances held in foreign currencies as hedges of forecasted foreign currency transactions.

In 2015, the Company net settled substantially all of its foreign currency forward contracts designated as cash flow hedges with 2016 and 2017 maturity dates. The portion of the deferred gains on these settled cash flow hedges determined to be effective is currently recognized in accumulated other comprehensive income and is reclassified to earnings when the underlying transactions occur. As of June 30, 2016, the Company held 91.2 million euro notional value of foreign currency forward contracts designated as fair value hedges with maturity dates through 2017. The Company recorded a $3.1 million benefit and a $2.5 million charge in the three and six months ended June 30, 2016, respectively, and a $1.9 million and $7.4 million benefit in the three and six months ended June 30, 2015, respectively, in costs of sales on the consolidated statement of operations for maturities and mark-to-market changes on these fair value hedges.

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

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

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

(In millions) Asset derivatives	Balance sheet location	June 30, 2016	December 31, 2015
Derivatives designated as hedging instruments:			
Foreign exchange contracts	Prepaid expenses and other current assets	$ 0.3	$ 1.6
Nickel and other raw material contracts	Prepaid expenses and other current assets	1.6	—
Foreign exchange contracts	Other assets	0.2	0.4
Nickel and other raw material contracts	Other assets	4.0	—
Total derivatives designated as hedging instruments		6.1	2.0
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Prepaid expenses and other current assets	0.3	0.4
Total derivatives not designated as hedging instruments		0.3	0.4
Total asset derivatives		$ 6.4	$ 2.4
Liability derivatives	Balance sheet location		
Derivatives designated as hedging instruments:			
Natural gas contracts	Accrued liabilities	$ 8.9	$ 17.3
Nickel and other raw material contracts	Accrued liabilities	12.4	22.2
Foreign exchange contracts	Accrued liabilities	1.2	0.1
Natural gas contracts	Other long-term liabilities	1.6	8.5
Nickel and other raw material contracts	Other long-term liabilities	11.7	23.0
Foreign exchange contracts	Other long-term liabilities	0.5	0.1
Total derivatives designated as hedging instruments		36.3	71.2
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Accrued liabilities	—	0.1
Total derivatives not designated as hedging instruments		—	0.1
Total liability derivatives		$ 36.3	$ 71.3

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. For derivative financial instruments that are designated as fair value hedges, changes in the fair value of these derivatives are recognized in current period results. The Company did not use net investment hedges for the periods presented. The effects of derivative instruments in the tables below are presented net of related income taxes.

Assuming market prices remain constant with those at June 30, 2016, a loss of $12.7 million is expected to be recognized over the next 12 months.

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Activity with regard to derivatives designated as cash flow hedges for the three and six month periods ended June 30, 2016 and 2015 was as follows (in millions):

	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)		Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (a)		Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) (b)	
Derivatives in Cash Flow	Three months ended June 30,		Three months ended June 30,		Three months ended June 30,	
Hedging Relationships	2016	2015	2016	2015	2016	2015
Nickel and other raw material contracts	$ 12.2	$ (3.5)	$ (3.8)	$ (2.4)	$ —	$ —
Natural gas contracts	4.3	0.2	(2.7)	(2.4)	(0.2)	—
Electricity contracts	—	—	—	—	—	—
Foreign exchange contracts	(0.2)	(3.1)	4.9	6.1	—	—
Total	$ 16.3	$ (6.4)	$ (1.6)	$ 1.3	$ (0.2)	$ —

	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)		Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (a)		Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) (b)	
Derivatives in Cash Flow	Six months ended June 30,		Six months ended June 30,		Six months ended June 30,	
Hedging Relationships	2016	2015	2016	2015	2016	2015
Nickel and other raw material contracts	$ 8.8	$ (13.1)	$ (7.7)	$ (4.6)	$ —	$ —
Natural gas contracts	2.3	(5.8)	(5.9)	(4.8)	(0.9)	—
Electricity contracts	—	—	—	(0.1)	—	—
Foreign exchange contracts	(0.5)	23.9	9.6	12.5	—	—
Total	$ 10.6	$ 5.0	$ (4.0)	$ 3.0	$ (0.9)	$ —

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

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

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.

The Company has 14 million euro notional value outstanding as of June 30, 2016 of foreign currency forward contracts not designated as hedges, with maturity dates into the second quarter of 2017. These derivatives that are not designated as hedging instruments were as follows:

(In millions)	Amount of Gain (Loss) Recognized in Income on Derivatives			
Derivatives Not Designated	Three months ended June 30,		Six months ended June 30,	
as Hedging Instruments	2016	2015	2016	2015

Foreign exchange contracts	$0.7	$(0.5)	$0.1	$3.0

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

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Note 6. Fair Value of Financial Instruments

The estimated fair value of financial instruments at June 30, 2016 was as follows:

		Fair Value Measurements at Reporting Date Using		
(In millions)	Total Carrying Amount	Total Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets(Level 1)	Significant Observable Inputs (Level 2)
Cash and cash equivalents	$ 322.3	$ 322.3	$ 322.3	$ —
Derivative financial instruments:				
Assets	6.4	6.4	—	6.4
Liabilities	36.3	36.3	—	36.3
Debt (a)	1,895.6	1,725.3	1,617.2	108.1

The estimated fair value of financial instruments at December 31, 2015 was as follows:

		Fair Value Measurements at Reporting Date Using		
(In millions)	Total Carrying Amount	Total Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)
Cash and cash equivalents	$ 149.8	$ 149.8	$ 149.8	$ —
Derivative financial instruments:				
Assets	2.4	2.4	—	2.4
Liabilities	71.3	71.3	—	71.3
Debt (a)	1,505.2	969.7	964.5	5.2

(a) The total carrying amount for debt excludes debt issuance costs related to the recognized debt liability which is presented in the consolidated balance sheet as a direct reduction from the carrying amount of the debt liability.

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 availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. No transfers between levels were reported in 2016 or 2015.

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

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

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

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

Note 7. Pension Plans and Other Postretirement Benefits

The Company has defined benefit pension plans or defined contribution retirement 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 retiree health care 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, 2016 and 2015, the components of pension and other postretirement benefit expense for the Company's defined benefit plans included the following (in millions):

	Pension Benefits		Other Postretirement Benefits	
	Three months ended June 30,		Three months ended June 30,	
	2016	2015	2016	2015
Service cost - benefits earned during the year	$5.1	$5.7	$ 0.7	$ 0.7
Interest cost on benefits earned in prior years	31.3	30.2	3.9	4.5
Expected return on plan assets	(37.1)	(42.0)	—	—
Amortization of prior service cost (credit)	0.3	0.3	(0.8)	1.2
Amortization of net actuarial loss	16.4	15.1	2.4	3.6
Total retirement benefit expense	$16.0	$9.3	$ 6.2	$ 10.0

For the six month periods ended June 30, 2016 and 2015, the components of pension and other postretirement benefit expense for the Company's defined benefit plans included the following (in millions):

	Pension Benefits		Other Postretirement Benefits	
	Six months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Service cost - benefits earned during the year	$10.3	$11.4	$ 1.3	$ 1.4
Interest cost on benefits earned in prior years	62.7	60.5	8.0	9.0
Expected return on plan assets	(74.3)	(84.1)	—	—
Amortization of prior service cost (credit)	0.6	0.6	(0.2)	2.4
Amortization of net actuarial loss	32.7	30.2	4.8	7.2
Total retirement benefit expen				