ALLEGHENY TECHNOLOGIES INC
Form 10-Q
May 05, 2011

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

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

For the Quarterly Period Ended March 31, 2011

OR

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

For the Transition Period From _____ to _____

Commission File Number 1-12001

ALLEGHENY TECHNOLOGIES INCORPORATED

(Exact name of registrant as specified in its charter)

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

(412) 394-2800

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the Registrant 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 þ No o

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

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

At April 25, 2011, the registrant had outstanding 98,969,856 shares of its Common Stock.

ALLEGHENY TECHNOLOGIES INCORPORATED
SEC FORM 10-Q
Quarter Ended March 31, 2011
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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)

	March 31, 2011	December 31, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 816.3	$ 432.3
Accounts receivable, net of allowances for doubtful accounts of $5.6 both March 31, 2011 and December 31, 2010	694.0	545.4
Inventories, net	1,231.9	1,024.5
Deferred income taxes	2.2	
Prepaid expenses and other current assets	42.7	112.9
Total Current Assets	**2,787.1**	**2,115.1**
Property, plant and equipment, net	1,999.2	1,989.3
Cost in excess of net assets acquired	209.1	206.8
Other assets	197.1	182.4
Total Assets	$ **5,192.5**	$ **4,493.6**
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable	$ 505.2	$ 394.1
Accrued liabilities	270.8	249.9
Deferred income taxes		5.6
Short term debt and current portion of long-term debt	139.4	141.4
Total Current Liabilities	**915.4**	**791.0**
Long-term debt	1,422.5	921.9
Accrued postretirement benefits	417.6	423.8
Pension liabilities	58.4	58.3
Deferred income taxes	75.0	68.6
Other long-term liabilities	100.5	100.6
Total Liabilities	**2,989.4**	**2,364.2**
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-102,404,256 shares at March 31, 2011 and December 31, 2010; outstanding-98,943,595 shares at March 31, 2011 and 98,542,291 shares at December 31, 2010	10.2	10.2
Additional paid-in capital	653.6	658.9
Retained earnings	2,264.4	2,224.8
Treasury stock: 3,460,661 shares at March 31, 2011 and 3,861,965 shares at December 31, 2010	(168.7)	(188.0)
Accumulated other comprehensive loss, net of tax	(649.0)	(665.1)
Total ATI stockholders equity	**2,110.5**	**2,040.8**
Noncontrolling interests	92.6	88.6
Total Equity	**2,203.1**	**2,129.4**
Total Liabilities and Equity	$ **5,192.5**	$ **4,493.6**

The accompanying notes are an integral part of these statements.

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

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Sales	$ 1,227.4	$ 899.4
Costs and expenses:		
Cost of sales	1,022.0	778.0
Selling and administrative expenses	88.7	74.2
Income before interest, other income and income taxes	116.7	47.2
Interest expense, net	(23.0)	(14.6)
Other income, net	0.1	0.4
Income before income tax provision	93.8	33.0
Income tax provision	35.1	13.2
Net income	58.7	19.8
Less: Net income attributable to noncontrolling interests	2.4	1.6
Net income attributable to ATI	$ 56.3	$ 18.2
Basic net income attributable to ATI per common share	$ 0.58	$ 0.19
Diluted net income attributable to ATI per common share	$ 0.54	$ 0.18
Dividends declared per common share	$ 0.18	$ 0.18

The accompanying notes are an integral part of these statements.

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

	Three Months Ended March 31, 2011	2010
Operating Activities:		
Net income	$ **58.7**	$ **19.8**
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	37.4	34.6
Deferred taxes	(2.4)	24.8
Changes in operating asset and liabilities:		
Inventories	(207.4)	(145.6)
Accounts receivable	(148.6)	(80.5)
Accounts payable	111.1	88.1
Retirement benefits	3.8	5.6
Accrued income taxes	45.5	2.0
Accrued liabilities and other	51.6	(20.8)
Cash used in operating activities	**(50.3)**	**(72.0)**
Investing Activities:		
Purchases of property, plant and equipment	(42.2)	(51.2)
Asset disposals and other	0.5	0.6
Cash used in investing activities	**(41.7)**	**(50.6)**
Financing Activities:		
Issuances of long-term debt	500.0	
Payments on long-term debt and capital leases	(5.2)	(5.2)
Net borrowings (payments) under credit facilities	3.2	(1.0)
Debt issuance costs	(5.0)	
Dividends paid to shareholders	(17.6)	(17.7)
Taxes on share-based compensation	1.5	1.1
Exercises of stock options	0.4	0.8
Shares repurchased for income tax withholding on share-based compensation	(1.3)	(0.7)
Cash provided by (used in) financing activities	**476.0**	**(22.7)**
Increase (decrease) in cash and cash equivalents	**384.0**	**(145.3)**
Cash and cash equivalents at beginning of period	**432.3**	**708.8**
Cash and cash equivalents at end of period	**$ 816.3**	**$ 563.5**

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)	Comprehensive Income (Loss)	Non-controlling Interests	Total Equity
Balance, December 31, 2009	$10.2	$653.6	$2,230.5	$(208.6)	$(673.5)	$	$77.4	$2,089.6
Net income			**18.2**			**18.2**	**1.6**	**19.8**
Other comprehensive income (loss) net of tax:								
Pension plans and other postretirement benefits					13.1	13.1		13.1
Foreign currency translation losses					(20.0)	(20.0)		(20.0)
Unrealized gains on derivatives					7.0	7.0		7.0
Comprehensive income			**18.2**		**0.1**	**$ 18.3**	**1.6**	**19.9**
Cash dividends on common stock ($0.18 per share)			(17.7)					(17.7)
Employee stock plans		(12.9)	(3.8)	23.4				6.7
Balance, March 31, 2010	**$10.2**	**$640.7**	**$2,227.2**	**$(185.2)**	**$(673.4)**		**$79.0**	**$2,098.5**
Balance, December 31, 2010	$10.2	$658.9	$2,224.8	$(188.0)	$(665.1)	$	$88.6	$2,129.4
Net income			**56.3**			**56.3**	**2.4**	**58.7**
Other comprehensive income (loss) net of tax:								
					11.4	11.4		11.4

Pension plans and other postretirement benefits								
Foreign currency translation gains					14.0	14.0	1.6	15.6
Unrealized losses on derivatives					(9.3)	(9.3)		(9.3)
Comprehensive income			**56.3**		**16.1**	$ **72.4**	**4.0**	**76.4**
Cash dividends on common stock ($0.18 per share)			(17.6)					(17.6)
Employee stock plans		(5.3)	0.9	19.3				14.9
Balance, March 31, 2011	$ **10.2**	$ **653.6**	$ **2,264.4**	$ **(168.7)**	$ **(649.0)**		$ **92.6**	$ **2,203.1**

The accompanying notes are an integral part of these statements.

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 2010 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, 2010 financial information has been derived from the Company s audited financial statements.

New Accounting Pronouncements Adopted

On January 1, 2011, the Company prospectively adopted changes issued by the Financial Accounting Standards Board (FASB) to revenue recognition for multiple-deliverable arrangements. These changes affect the accounting and reporting of revenues related to bundled sales arrangements with customers to provide multiple products and services at different points in time or over different time periods. The adoption of these changes had no impact on the consolidated financial statements.

On January 1, 2011, the Company adopted changes issued by the FASB to disclosure requirements for disaggregated disclosure of fair value measurements using significant unobservable inputs, which are categorized as Level 3 in the fair value hierarchy. These changes had no impact on the March 31, 2011 consolidated financial statements, but will further enhance the fair value disclosures within the December 31, 2011 consolidated financial statements.

Note 2. Inventories

Inventories at March 31, 2011 and December 31, 2010 were as follows (in millions):

	March 31, 2011	December 31, 2010
Raw materials and supplies	$ 191.4	$ 169.3
Work-in-process	1,064.4	892.8
Finished goods	143.3	126.5
Total inventories at current cost	1,399.1	1,188.6
Less allowances to reduce current cost values to LIFO basis	(166.9)	(163.0)
Progress payments	(0.3)	(1.1)
Total inventories, net	$ 1,231.9	$ 1,024.5

Inventories are stated at the lower of cost (last-in, first-out (LIFO), first-in, first-out (FIFO), and average cost methods) or market, less progress payments. Most of the Company s inventory is valued utilizing the LIFO costing methodology. Inventory of the Company s non-U.S. operations is valued using average cost or FIFO methods. The effect of using the LIFO methodology to value inventory, rather than FIFO, increased cost of sales by $3.9 million for the first three months of 2011. There was no effect of using the LIFO methodology to value inventory, rather than FIFO for the first three months of 2010.

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Note 3. Property, Plant and Equipment

Property, plant and equipment at March 31, 2011 and December 31, 2010 was as follows (in millions):

	March 31, 2011	December 31, 2010
Land	$ 26.0	$ 25.8
Buildings	667.0	638.2
Equipment and leasehold improvements	2,766.4	2,750.8
	3,459.4	3,414.8
Accumulated depreciation and amortization	(1,460.2)	(1,425.5)
Total property, plant and equipment, net	$ 1,999.2	$ 1,989.3

Note 4. Debt

Debt at March 31, 2011 and December 31, 2010 was as follows (in millions):

	March 31, 2011	December 31, 2010
Allegheny Technologies 5.95% Notes due 2021	$ 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 Technologies 8.375% Notes due 2011, net (a)	117.2	117.3
Allegheny Ludlum 6.95% debentures due 2025	150.0	150.0
Domestic Bank Group $400 million unsecured credit facility		
Promissory note for J&L asset acquisition	5.1	10.2
Foreign credit facilities	30.2	26.3
Industrial revenue bonds, due through 2020, and other	6.9	7.0
Total short-term and long-term debt	1,561.9	1,063.3
Short-term debt and current portion of long-term debt	139.4	141.4
Total long-term debt	$ 1,422.5	$ 921.9

(a) Includes fair value adjustments for settled interest rate swap contracts of $0.7 million at March 31, 2011 and $0.9 million at December 31, 2010.

On January 7, 2011, ATI issued $500 million of 5.95% Senior Notes due January 15, 2021 (2021 Notes). Interest is payable semi-annually on January 15 and July 15 of each year. The 2021 Notes were issued under ATI s shelf registration statement and are not listed on any national securities exchange. Net proceeds of $495.0 million from the sale of the 2021 Notes are intended to be used for the cash portion of the merger consideration to be paid in the planned acquisition of Ladish Co., Inc. (Ladish), with any additional proceeds used for general corporate purposes. The underwriting fees, discount, and other third-party expenses for the issuance of the 2021 Notes were $5.0 million and will be amortized to interest expense over the 10-year term of the 2021 Notes. The 2021 Notes are unsecured and unsubordinated obligations of the Company and equally ranked with all of its existing and future senior unsecured debt. The 2021 Notes restrict the Company s ability to create certain liens, to enter into sale leaseback transactions, and to consolidate, merge or transfer all, or substantially all, of its assets. The 2021 Notes contain a special mandatory redemption feature requiring redemption of 50% of the outstanding principal amount if the proposed acquisition of Ladish is not consummated on or prior to June 30, 2011. The Company has the option to redeem the 2021 Notes, as a whole or in part, at any time or from time to time, on at least 30 days prior notice to the holders of the 2021 Notes at a redemption price specified in the 2021 Notes. On or after October 15, 2020, the Company may redeem the 2021 Notes at its option, at any time in whole or from time to time in part, at a redemption price equal to 100% of the principal amount of the 2021 Notes to be redeemed, plus accrued and unpaid interest. The 2021 Notes are subject to repurchase upon the occurrence of a change in control repurchase event (as defined in the 2021 Notes) at a repurchase price in cash equal to 101% of the aggregate principal amount of the 2021 Notes repurchased, plus any accrued and unpaid interest.

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The Company did not borrow funds under its $400 million senior unsecured domestic credit facility during the first three months of 2011, although approximately $7 million has been utilized to support the issuance of letters of credit. The unsecured 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 twelve months ended March 31, 2011, the leverage ratio was 1.84, and the interest coverage ratio was 4.35.

The Company has an additional separate credit facility for the issuance of letters of credit. As of March 31, 2011, $30 million in letters of credit were 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 $31 million at March 31, 2011 exchange rates) revolving credit facility with a group of banks. This credit facility is supported solely by STAL s financial capability without any guarantees from the joint venture partners. As of March 31, 2011, there were no borrowings under this credit facility.

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 March 31, 2011, the Company had entered into financial hedging arrangements primarily at the request of its customers, related to firm orders, representing approximately 5% of its annual nickel usage, primarily with settlements in 2011. A minor amount of nickel hedges extend into 2014.

At March 31, 2011, 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 through 2011 and approximately 30% for 2012, and electricity hedges for Western Pennsylvania operations of approximately 45% of its forecasted on-peak and off-peak requirements for 2011 and approximately 30% for 2012.

While the majority of the Company s direct export sales are transacted in U.S. dollars, foreign currency exchange contracts are used, from time-to-time, to limit transactional exposure to changes in currency exchange rates for those transactions denominated in a non-U.S. currency. The Company sometimes purchases foreign currency forward contracts that permit it to sell specified amounts of foreign currencies expected to be received from its export sales for pre-established U.S. dollar amounts at specified dates. The forward contracts are denominated in the same foreign currencies in which export sales are denominated. These contracts are designated as hedges of the variability in cash flows of a portion of the forecasted future export sales transactions which otherwise would expose the Company to foreign currency risk. The Company may also enter into foreign currency forward contracts that are not designated as hedges, which are denominated in the same foreign currency in which export sales are denominated. At March 31, 2011, 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 15% of its forecasted total international sales through 2012. In addition, the Company may also designate cash balances held in foreign currencies as hedges of forecasted foreign currency transactions.

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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, although previously settled contracts remain a component of the recorded value of debt. See Note 4. Debt, for further information.

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.

(in millions): Asset derivatives	Balance sheet location	March 31, 2011	December 31, 2010
Derivatives designated as hedging instruments:			
Foreign exchange contracts	Prepaid expenses and other current assets	$ 0.9	$ 10.0
Nickel and other raw material contracts	Prepaid expenses and other current assets	2.2	3.7
Natural gas contracts	Prepaid expenses and other current assets	0.1	
Electricity contracts	Prepaid expenses and other current assets	0.2	0.4
Foreign exchange contracts	Other assets		0.5
Nickel and other raw material contracts	Other assets	0.8	0.8
Electricity contracts	Other assets	0.2	0.2
Natural gas contracts	Other assets	0.1	0.3
Total derivatives designated as hedging instruments:		4.5	15.9
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Prepaid expenses and other current assets	1.0	4.2
Total derivatives not designated as hedging instruments:		1.0	4.2
Total asset derivatives		$ 5.5	$ 20.1
Liability derivatives	Balance sheet location		
Derivatives designated as hedging instruments:			
Natural gas contracts	Accrued liabilities	$ 12.3	$ 16.7
Nickel and other raw material contracts	Accrued liabilities	1.2	
Foreign exchange contracts	Accrued liabilities	6.7	2.0
Electricity contracts	Accrued liabilities	0.8	0.8
Natural gas contracts	Other long-term liabilities	0.7	0.8
Electricity contracts	Other long-term liabilities	0.3	0.5
Foreign exchange contracts	Other long-term liabilities	3.7	1.1
Total derivatives designated as hedging instruments:		25.7	21.9

Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Accrued liabilities	0.4	
Total derivatives not designated as hedging instruments:		0.4	
Total liability derivatives		$ 26.1	$ 21.9

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 month periods ended March 31, 2011 and 2010 was as follows (in millions):

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Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) Quarter ended March 31, 2011	2010	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (a) Quarter ended March 31, 2011	2010	Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) (b) Quarter ended March 31, 2011	2010
Nickel and other raw material contracts	$ 0.2	$ 8.7	$ 1.8	$ 2.2	$	$
Natural gas contracts	(0.8)	(5.9)	(3.5)	(2.1)		
Electricity contracts	(0.1)	(1.3)				
Foreign exchange contracts	(9.8)	6.7	0.5	1.1		
Total	$ (10.5)	$ 8.2	$ (1.2)	$ 1.2	$	$

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

Assuming market prices remain constant with those at March 31, 2011, a loss of $10.7 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 as Hedging Instruments	Amount of Gain (Loss) Recognized in Income on Derivatives Three Months Ended March 31, 2011	2010
Foreign exchange contracts	$ (0.4)	$ 2.5

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 March 31, 2011 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	$ 816.3	$ 816.3	$ 816.3	$
Derivative financial instruments:				
Assets	5.5	5.5		5.5
Liabilities	26.1	26.1		26.1
Debt (a)	1,561.9	2,006.5	1,964.3	42.2

The estimated fair value of financial instruments at December 31, 2010 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	$ 432.3	$ 432.3	$ 432.3	$
Derivative financial instruments:				
Assets	20.1	20.1		20.1
Liabilities	21.9	21.9		21.9
Debt (a)	1,063.3	1,328.4	1,284.9	43.5

(a) Includes fair value adjustments for settled interest rate swap contracts of $0.7 million at March 31, 2011, and $0.9 million at December 31, 2010.

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.

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Note 7. Pension Plans and Other Postretirement Benefits

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

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

For the three month periods ended March 31, 2011 and 2010, 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 Three Months Ended March 31,		Other Postretirement Benefits Three Months Ended March 31,	
	2011	2010	2011	2010
Service cost benefits earned during the year	$ 7.3	$ 7.6	$ 0.7	$ 0.8
Interest cost on benefits earned in prior years	32.0	33.0	6.8	7.2
Expected return on plan assets	(45.7)	(45.4)	(0.3)	(0.4)
Amortization of prior service cost (credit)	2.8	3.4	(4.6)	(4.5)
Amortization of net actuarial loss	17.8	19.3	2.5	1.5
Total retirement benefit expense	$ 14.2	$ 17.9	$ 5.1	$ 4.6

Note 8. Income Taxes

First quarter 2011 results included a provision for income taxes of $35.1 million, compared to $13.2 million for the comparable 2010 period. The first quarter 2011 included a discrete tax charge of $2.7 million primarily related to foreign income taxes. Excluding the tax charge, the first quarter 2011 effective tax rate was 34.5% of income before tax. The first quarter 2010 included a non-recurring tax charge of $5.3 million associated with the impact of the Patient Protection and Affordable Care Act. The first quarter 2010 tax charge was partially offset by discrete net tax benefits of $3.7 million associated with the adjustment of taxes paid in prior years, the settlement of uncertain income tax positions, and other charges.

Note 9. Business Segments

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

	Three Months Ended March 31,	
	2011	2010
Total sales:		
High Performance Metals	$ 433.1	$ 315.7
Flat-Rolled Products	719.0	520.9
Engineered Products	129.2	89.9
	1,281.3	926.5
Intersegment sales:		
High Performance Metals	33.7	13.4
Flat-Rolled Products	8.4	4.3
Engineered Products	11.8	9.4
	53.9	27.1
Sales to external customers:		
High Performance Metals	399.4	302.3
Flat-Rolled Products	710.6	516.6
Engineered Products	117.4	80.5
	$ 1,227.4	$ 899.4
Operating profit:		
High Performance Metals	$ 85.6	$ 55.0
Flat-Rolled Products	63.4	31.4
Engineered Products	13.4	1.8
Total operating profit	162.4	88.2
Corporate expenses	(25.8)	(12.3)
Interest expense, net	(23.0)	(14.6)
Other expense, net of gains on asset sales	(0.5)	(5.8)
Retirement benefit expense	(19.3)	(22.5)
Income before income taxes	$ 93.8	$ 33.0

Retirement benefit expense represents defined benefit plan pension expense, and other postretirement benefit expense for both defined benefit and defined contribution plans. Operating profit with respect to the Company s business segments excludes any retirement benefit expense.

Corporate expenses for the three months ended March 31, 2011 were $25.8 million, compared to $12.3 million for the three months ended March 31, 2010. The increase in corporate expenses was primarily related to accelerated recognition of equity-based compensation expenses associated with previously announced executive retirements, higher incentive compensation expenses associated with long-term performance plans, costs related to the planned acquisition of Ladish, and corporate-funded research and development costs.

Other expense, net of gains on asset sales, primarily includes charges incurred in connection with closed operations and other non-operating income or expense. These items are presented primarily in selling and administrative expenses and in other expense in the statement of operations. These items resulted in net charges of $0.5 million for the three months ended March 31, 2011 and $5.8 million for the three months ended March 31, 2010. This decrease was primarily related to lower expenses at closed operations, and foreign currency remeasurement gains.

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Note 10. Per Share Information

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

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Numerator for basic net income per common share Net income attributable to ATI	$ 56.3	$ 18.2
Effect of dilutive securities:		
4.25% Convertible Notes due 2014	2.5	
Numerator for diluted net income per common share Net income available to ATI after assumed conversions	$ 58.8	$ 18.2
Denominator for basic net income per common share weighted average shares	97.6	97.4
Effect of dilutive securities:		
Share-based compensation	1.8	1.3
4.25% Convertible Notes due 2014	9.6	
Denominator for diluted net income per common share adjusted weighted average shares assuming conversions	109.0	98.7
Basic net income attributable to ATI per common share	$ 0.58	$ 0.19
Diluted net income attributable to ATI per common share	$ 0.54	$ 0.18

Common stock that would be issuable upon the assumed conversion of the 2014 Convertible Notes and other option equivalents and contingently issuable shares were excluded from the computation of contingently issuable shares, and therefore, from the denominator for diluted earnings per share, if the effect of inclusion would have been anti-dilutive. Excluded shares for the three month period ended March 31, 2010 were 9.6 million.

Note 11. Financial Information for Subsidiary and Guarantor Parent

The payment obligations under the $150 million 6.95% debentures due 2025 issued by Allegheny Ludlum Corporation (the Subsidiary) are fully and unconditionally guaranteed by Allegheny Technologies Incorporated (the Guarantor Parent). In accordance with positions established by the Securities and Exchange Commission, the 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 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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Note 11. CONTINUED
Allegheny Technologies Incorporated
Financial Information for Subsidiary and Guarantor Parent
Balance Sheets
March 31, 2011

(In millions)	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Assets:					
Cash and cash equivalents	$ 8.0	$ 278.0	$ 530.3	$	$ 816.3
Accounts receivable, net	0.1	313.7	380.2		694.0
Inventories, net		332.9	899.0		1,231.9
Deferred income taxes	2.2				2.2
Prepaid expenses and other current assets	3.4	13.7	25.6		42.7
Total current assets	13.7	938.3	1,835.1		2,787.1
Property, plant and equipment, net	2.7	491.9	1,504.6		1,999.2
Cost in excess of net assets acquired		112.2	96.9		209.1
Investments in subsidiaries and other assets	4,316.6	1,339.0	773.7	(6,232.2)	197.1
Total assets	$ 4,333.0	$ 2,881.4	$ 4,210.3	$ (6,232.2)	$ 5,192.5
Liabilities and stockholders equity:					
Accounts payable	$ 4.2	$ 246.5	$ 254.5	$	$ 505.2
Accrued liabilities	634.3	59.3	719.9	(1,142.7)	270.8
Short-term debt and current portion of long-term debt	117.2	5.3	16.9		139.4
Total current liabilities	755.7	311.1	991.3	(1,142.7)	915.4
Long-term debt	1,252.5	350.8	19.2	(200.0)	1,422.5
Accrued postretirement benefits		229.7	187.9		417.6
Pension liabilities	12.9	6.1	39.4		58.4
Deferred income taxes	75.0				75.0
Other long-term liabilities	33.8	17.1	49.6		100.5
Total liabilities	2,129.9	914.8	1,287.4	(1,342.7)	2,989.4
Total stockholders equity	2,203.1	1,966.6	2,922.9	(4,889.5)	2,203.1
Total liabilities and stockholders equity	$ 4,333.0	$ 2,881.4	$ 4,210.3	$ (6,232.2)	$ 5,192.5

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Note 11. CONTINUED
Allegheny Technologies Incorporated
Financial Information for Subsidiary and Guarantor Parent
Statements of Income
For the three months ended March 31, 2011

(In millions)	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Sales	$	$ 619.1	$ 608.3	$	$ 1,227.4
Cost of sales	8.6	557.4	456.0		1,022.0
Selling and administrative expenses	42.9	8.5	37.3		88.7
Income (loss) before interest, other income and income taxes	(51.5)	53.2	115.0		116.7
Interest expense, net	(20.5)	(2.2)	(0.3)		(23.0)
Other income including equity in income of unconsolidated subsidiaries	165.8	0.8	0.5	(167.0)	0.1
Income before income tax provision	93.8	51.8	115.2	(167.0)	93.8
Income tax provision	35.1	19.7	40.1	(59.8)	35.1
Net income	58.7	32.1	75.1	(107.2)	58.7
Less: Net income attributable to noncontrolling interest	2.4		2.4	(2.4)	2.4
Net income attributable to ATI	$ 56.3	$ 32.1	$ 72.7	$ (104.8)	$ 56.3

Condensed Statements of Cash Flows
For the three months ended March 31, 2011

(In millions)	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Cash flows provided by (used in) operating activities	$ 27.8	$ (104.9)	$ 26.3	$ 0.5	$ (50.3)
Cash flows used in investing activities		(18.3)	(23.4)	-	(41.7)
Cash flows provided by financing activities	(21.7)	242.1	256.1	(0.5)	476.0
Increase in cash and cash equivalents	$ 6.1	$ 118.9	$ 259.0	$ -	$ 384.0

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Note 11. CONTINUED
Allegheny Technologies Incorporated
Financial Information for Subsidiary and Guarantor Parent
Balance Sheets
December 31, 2010

(In millions)	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Assets:					
Cash and cash equivalents	$ 1.9	$ 159.1	$ 271.3	$	$ 432.3
Accounts receivable, net	0.1	233.3	312.0		545.4
Inventories, net		232.6	791.9		1,024.5
Prepaid expenses and other current assets	48.6	19.2	45.1		112.9
Total current assets	50.6	644.2	1,420.3		2,115.1
Property, plant and equipment, net	2.8	483.5	1,503.0		1,989.3
Cost in excess of net assets acquired		112.2	94.6		206.8
Investments in subsidiaries and other assets	4,249.2	1,554.2	1,001.0	(6,622.0)	182.4
Total assets	$ 4,302.6	$ 2,794.1	$ 4,018.9	$ (6,622.0)	$ 4,493.6
Liabilities and stockholders equity:					
Accounts payable	$ 5.5	$ 173.3	$ 215.3	$	$ 394.1
Accrued liabilities	1,179.3	62.9	704.8	(1,697.1)	249.9
Deferred income taxes	5.6				5.6
Short-term debt and current portion of long-term debt	117.3	10.4	13.7		141.4
Total current liabilities	1,307.7	246.6	933.8	(1,697.1)	791.0
Long-term debt	752.5	350.8	18.6	(200.0)	921.9
Accrued postretirement benefits		236.6	187.2		423.8
Pension liabilities	12.9	6.2	39.2		58.3
Deferred income taxes	68.6				68.6
Other long-term liabilities	31.5	20.0	49.1		100.6
Total liabilities	2,173.2	860.2	1,227.9	(1,897.1)	2,364.2
Total stockholders equity	2,129.4	1,933.9	2,791.0	(4,724.9)	2,129.4
Total liabilities and stockholders equity	$ 4,302.6	$ 2,794.1	$ 4,018.9	$ (6,622.0)	$ 4,493.6

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Note 11. CONTINUED