

ALLEGHENY TECHNOLOGIES INC

Form 10-Q

May 09, 2008

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

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**  
**For the Quarterly Period Ended March 31, 2008**

**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 ☒ 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting  
company ☐

(Do not check if a smaller reporting company)

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

At April 30, 2008, the registrant had outstanding 101,104,036 shares of its Common Stock.



ALLEGHENY TECHNOLOGIES INCORPORATED  
SEC FORM 10-Q  
QUARTER ENDED MARCH 31, 2008  
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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)

	March 31, 2008 (Unaudited)	December 31, 2007 (Audited)
<b>ASSETS</b>		
Cash and cash equivalents	\$ 468.0	\$ 623.3
Accounts receivable, net	716.0	652.2
Inventories, net	1,085.5	916.1
Deferred income taxes		18.8
Prepaid expenses and other current assets	48.2	38.3
Total Current Assets	2,317.7	2,248.7
Property, plant and equipment, net	1,329.9	1,239.5
Prepaid pension asset	244.7	230.3
Cost in excess of net assets acquired	210.2	209.8
Deferred income taxes	49.2	42.1
Other assets	124.7	125.2
<b>Total Assets</b>	<b>\$ 4,276.4</b>	<b>\$ 4,095.6</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts payable	\$ 469.2	\$ 388.4
Accrued liabilities	246.6	277.3
Accrued income taxes	71.2	17.4
Deferred income taxes	22.9	
Short-term debt and current portion of long-term debt	20.9	20.9
Total Current Liabilities	830.8	704.0
Long-term debt	503.5	507.3
Retirement benefits	472.7	469.6
Other long-term liabilities	183.1	191.2
<b>Total Liabilities</b>	<b>1,990.1</b>	<b>1,872.1</b>
<b>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-102,404,256 shares at March 31, 2008 and December 31, 2007; outstanding-101,102,261 shares at March 31, 2008 and 101,586,334 shares at December 31, 2007	10.2	10.2
Additional paid-in capital	639.2	693.7

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Retained earnings	1,954.5	1,830.7
Treasury stock: 1,301,995 shares at March 31, 2008 and 817,922 shares at December 31, 2007	(102.0)	(75.4)
Accumulated other comprehensive loss, net of tax	(215.6)	(235.7)
<b>Total Stockholders' Equity</b>	<b>2,286.3</b>	<b>2,223.5</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 4,276.4</b>	<b>\$ 4,095.6</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)

	Three Months Ended March 31,	
	2008	2007
Sales	\$ 1,343.4	\$ 1,372.6
Costs and expenses:		
Cost of sales	1,052.8	986.1
Selling and administrative expenses	70.2	78.1
Income before interest, other income (expense), and income taxes	220.4	308.4
Interest income (expense), net	0.2	(4.3)
Other income (expense)	(0.7)	0.5
Income before income tax provision	219.9	304.6
Income tax provision	77.9	106.8
Net income	\$ 142.0	\$ 197.8
Basic net income per common share	\$ 1.41	\$ 1.95
Diluted net income per common share	\$ 1.40	\$ 1.92
Dividends declared per common share	\$ 0.18	\$ 0.13

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)

	Three Months Ended March 31,	
	2008	2007*
<b>Operating Activities:</b>		
Net income	\$ 142.0	\$ 197.8
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	27.3	23.6
Deferred income taxes	25.3	14.2
Change in operating assets and liabilities:		
Inventories	(169.3)	(156.0)
Accounts payable	80.9	87.0
Accounts receivable	(63.8)	(75.9)
Accrued income taxes, net of tax benefits on share-based compensation	53.8	64.0
Retirement benefits	(6.3)	0.1
Accrued liabilities and other	(23.9)	(30.5)
<b>Cash provided by operating activities</b>	<b>66.0</b>	<b>124.3</b>
<b>Investing Activities:</b>		
Purchases of property, plant and equipment	(112.0)	(57.7)
Asset disposals and other	0.3	
<b>Cash used in investing activities</b>	<b>(111.7)</b>	<b>(57.7)</b>
<b>Financing Activities:</b>		
Payments on long-term debt and capital leases	(5.3)	(5.7)
Net repayments under credit facilities	(0.3)	(5.3)
Net decrease in debt	(5.6)	(11.0)
Purchase of treasury stock	(62.3)	
Taxes on share-based compensation, net	(24.6)	(30.4)
Dividends paid	(18.2)	(13.2)
Exercises of stock options	1.1	3.7
<b>Cash used in financing activities</b>	<b>(109.6)</b>	<b>(50.9)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(155.3)</b>	<b>15.7</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>623.3</b>	<b>502.3</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 468.0</b>	<b>\$ 518.0</b>

\* Certain amounts  
have been



adjusted. See  
Note 3.

The accompanying notes are an integral part of these statements.

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**ALLEGHENY TECHNOLOGIES INCORPORATED AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Unaudited

**Note 1. Accounting Policies**

**Basis of Presentation**

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 2007 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, 2007 financial information has been derived for our audited financial statements.

**New Accounting Pronouncements Adopted**

In the first quarter 2008, as required, ATI began the adoption process for the change in measurement date provisions of FASB Statement No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans (FAS 158), which amended the standards for defined benefit pension and other postretirement benefit plans accounting. These provisions require assets and benefits to be measured at the date of the employer's statement of financial position, which is December 31 for ATI, rather than the Company's measurement date of November 30, as was previously permitted. The adoption of these provisions did not have a material effect on ATI's financial statements.

In September 2006, the FASB issued FAS 157, Fair Value Measurements (FAS 157). This Standard defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements, but does not require any new fair value measurements. The Standard covers financial assets and liabilities, as well as for any other assets and liabilities that are carried at fair value on a recurring basis in financial statements. FAS 157 is effective for fiscal years beginning after November 15, 2007 for financial assets and liabilities, and for fiscal years beginning after November 15, 2008 for other nonfinancial assets and liabilities. The adoption of FAS 157 for financial assets and liabilities did not have a material impact on ATI's financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 (FAS 159), The Fair Value Option for Financial Assets and Liabilities. FAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. If the fair value option is elected, unrealized gains and losses will be recognized in earnings at each subsequent reporting date. FAS 159 is effective for fiscal years beginning after November 15, 2007. The adoption of FAS 159 did not have an impact on ATI's financial statements.

**Pending New Accounting Pronouncements**

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160 (FAS 160), Noncontrolling Interests in Consolidated Financial Statements. FAS 160 changes the classification of noncontrolling (minority) interests on the balance sheet and the accounting for and reporting of transactions between the reporting entity and holders of such noncontrolling interests. Under the new standard, noncontrolling interests are considered equity and are to be reported as an element of stockholders' equity rather than within the mezzanine or liability sections of the balance sheet. In addition, the current practice of reporting minority interest expense or benefit also will change. Under the new standard, net income will encompass the total income before minority interest expense. The income statement will include separate disclosure of the attribution of income between the controlling and noncontrolling interests. Increases and decreases in the noncontrolling ownership interest amount are to be accounted for as equity transactions. FAS 160 is effective for fiscal years beginning after December 15, 2008, and earlier

application is prohibited. Upon adoption, the balance sheet and the income statement will be recast

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retrospectively for the presentation of noncontrolling interests. The other accounting provisions of the statement are required to be adopted prospectively. The Company is currently evaluating the impact of adopting FAS 160, including the reporting of the minority interest in the STAL joint venture, on ATI's financial statements. As of March 31, 2008, other long-term liabilities included \$60 million for minority interest in the STAL joint venture.

**Note 2. Inventories**

Inventories at March 31, 2008 and December 31, 2007 were as follows (in millions):

	March 31, 2008	December 31, 2007
Raw materials and supplies	\$ 203.2	\$ 179.6
Work-in-process	1,097.1	962.1
Finished goods	162.3	153.1
Total inventories at current cost	1,462.6	1,294.8
Less allowances to reduce current cost values to LIFO basis	(375.9)	(374.6)
Progress payments	(1.2)	(4.1)
Total inventories, net	\$ 1,085.5	\$ 916.1

Inventories are stated at the lower of cost (last-in, first-out ( LIFO ), first-in, first-out ( FIFO ), and average cost methods) or market, less progress payments. Most of the Company's inventory is valued utilizing the LIFO costing methodology. Inventory of the Company's non-U.S. operations is valued using average cost or FIFO methods. The effect of using the LIFO methodology to value inventory, rather than FIFO, increased cost of sales by \$1.3 million for the first three months of 2008 compared to \$20.9 million for the first three months of 2007.

**Note 3. Supplemental Financial Statement Information**

Property, plant and equipment at March 31, 2008 and December 31, 2007 were as follows (in millions):

	March 31, 2008	December 31, 2007
Land	\$ 29.2	\$ 25.5
Buildings	264.8	261.6
Equipment and leasehold improvements	2,207.1	2,102.3
	2,501.1	2,389.4
Accumulated depreciation and amortization	(1,171.2)	(1,149.9)
Total property, plant and equipment, net	\$ 1,329.9	\$ 1,239.5

The consolidated statement of cash flows for the three months ended March 31, 2007 includes a presentation adjustment of \$49.6 million pertaining to taxes on share-based compensation. Consistent with the Company's presentation utilized in the 2007 Annual Report on Form 10-K, cash usage related to the repurchase of shares to satisfy employee-owed taxes on stock-based compensation is presented as a financing activity rather than an operating activity. As a result, cash flow from operating activities for the three months ended March 31, 2007 increased from \$74.7 million to \$124.3 million, and cash used in financing activities increased from \$(1.3) million to \$(50.9) million.

Fair values of financial instruments included \$10.9 million of assets and \$14.9 million of liabilities associated with derivative financial instruments accounted for as cash flow hedges for nickel, natural gas and foreign currencies. All fair values for these derivatives were measured using Level 1 information as defined by FAS 157.

**Table of Contents****Note 4. Debt**

Debt at March 31, 2008 and December 31, 2007 was as follows (in millions):

	March 31, 2008	December 31, 2007
Allegheny Technologies \$300 million 8.375% Notes due 2011, net (a)	\$ 305.1	\$ 305.4
Allegheny Ludlum 6.95% debentures, due 2025	150.0	150.0
Domestic Bank Group \$400 million unsecured credit agreement		
Promissory note for J&L asset acquisition	35.9	41.0
Foreign credit agreements	19.4	17.7
Industrial revenue bonds, due through 2020	9.9	9.9
Capitalized leases and other	4.1	4.2
Total short-term and long-term debt	524.4	528.2
Short-term debt and current portion of long-term debt	(20.9)	(20.9)
Total long-term debt	\$ 503.5	\$ 507.3

(a) Includes fair value adjustments for settled interest rate swap contracts of \$8.2 million at March 31, 2008 and \$8.7 million at December 31, 2007.

The Company has a \$400 million senior unsecured domestic revolving credit facility (the facility), which includes a \$200 million sublimit for the issuance of letters of credit. As of March 31, 2008, there had been no borrowings made under the facility, although a portion of the facility was used to support approximately \$44 million in letters of credit.

In addition, STAL, the Company's Chinese joint venture company in which ATI has a 60% interest, has approximately \$24 million in letters of credit outstanding as of March 31, 2008, related to the expansion of its operations in Shanghai, China. These letters of credit are supported solely by STAL's financial capability without any guarantees from the joint venture partners.

**Note 5. 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, 2008	2007
Numerator for basic and diluted net income per common share — net income	\$ 142.0	\$ 197.8
Denominator:		
Denominator for basic net income per common share-weighted average shares	100.8	101.4
Effect of dilutive securities:		
Option equivalents	0.5	0.7
Contingently issuable shares	0.3	0.7
Denominator for diluted net income per common share — adjusted weighted average shares and assumed conversions	101.6	102.8

Basic net income per common share	\$ 1.41	\$ 1.95
Diluted net income per common share	\$ 1.40	\$ 1.92

**Table of Contents****Note 6. Comprehensive Income**

The components of comprehensive income, net of tax, were as follows (in millions):

	Three Months Ended March 31,	
	2008	2007
Net income	\$ 142.0	\$ 197.8
Foreign currency translation gains	6.7	8.0
Unrealized gains on energy, raw material and currency hedges	10.2	11.6
Retirement benefits	2.0	12.6
Unrealized gains on securities		0.4
	18.9	32.6
Comprehensive income	\$ 160.9	\$ 230.4

**Note 7. Income Taxes**

Results for the first quarter 2008 included a provision for income taxes of \$77.9 million, or 35.4% of income before tax, compared to an income tax provision of \$106.8 million, or 35.1% of income before tax, for the comparable 2007 quarter. The first quarter 2008 included a discrete benefit of \$2.6 million related to foreign taxes. The first quarter 2007 benefited from a lower income tax provision due to a \$4.2 million reduction in the valuation allowances associated with state deferred tax assets.

As required, the Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, on January 1, 2007. For the quarter ended March 31, 2008, the Company's liability for unrecognized tax benefits increased \$4.2 million related to uncertain tax positions taken in prior periods, including interest expense of \$0.4 million, which increased the long-term liability to \$42.3 million.

**Note 8. 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 months ended March 31, 2008 and 2007, the components of pension (income) expense for the Company's defined benefit plans and components of other postretirement benefit expense included the following (in millions):

	Three Months Ended March 31,	
	2008	2007
Pension Benefits:		
Service cost — benefits earned during the year	\$ 7.0	\$ 6.9
Interest cost on benefits earned in prior years	32.6	31.9
Expected return on plan assets	(50.2)	(46.7)
Amortization of prior service cost	4.1	4.4



Amortization of net actuarial loss	3.2	7.8
Total pension (income) expense	\$ (3.3)	\$ 4.3

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	Three Months Ended March 31,	
	2008	2007
Other Postretirement Benefits:		
Service cost — benefits earned during the year	\$ 0.8	\$ 0.8
Interest cost on benefits earned in prior years	7.9	7.7
Expected return on plan assets	(1.4)	(1.8)
Amortization of prior service cost (credit)	(5.3)	(6.2)
Amortization of net actuarial loss	1.3	2.8
Total other postretirement benefit expense	\$ 3.3	\$ 3.3
Total retirement benefit expense	\$	\$ 7.6

In April 2008, the Company entered into a new five-year labor agreement with United Steelworkers represented employees at the ATI Wah Chang operation. As a result, retirement benefit expense is expected to be \$8 million for the full year 2008 due to the establishment of a Voluntary Employee Benefit Association (VEBA) trust for certain post-retirement benefits, and will be recognized ratably over the remaining three quarters of 2008.

**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,	
	2008	2007
Total sales:		
High Performance Metals	\$ 525.1	\$ 518.7
Flat-Rolled Products	760.6	810.7
Engineered Products	128.5	117.8
	1,414.2	1,447.2
Intersegment sales:		
High Performance Metals	44.1	41.3
Flat-Rolled Products	13.7	27.0
Engineered Products	13.0	6.3
	70.8	74.6
Sales to external customers:		
High Performance Metals	481.0	477.4
Flat-Rolled Products	746.9	783.7
Engineered Products	115.5	111.5
	\$ 1,343.4	\$ 1,372.6
Operating profit:		
High Performance Metals	\$ 131.4	\$ 167.5
Flat-Rolled Products	101.2	160.2

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Engineered Products	5.7	12.6
Total operating profit	238.3	340.3
Corporate expenses	(17.7)	(21.0)
Interest income (expense), net	0.2	(4.3)
Other expense, net of gains on asset sales	(0.9)	(2.8)
Retirement benefit expense		(7.6)
Income before income taxes	\$ 219.9	\$ 304.6

Retirement benefit expense represents pension expense and other postretirement benefit expense. Operating profit with respect to the Company's business segments excludes any retirement benefit expense.

In March 2007, the Company reached early resolution on new labor agreements for ATI Allegheny Ludlum and ATI's Allvac Albany, OR employees. Operating profit for the High Performance Metals and Flat-Rolled Products

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segments for the first quarter 2007 was negatively impacted by \$0.7 million and \$5.9 million, respectively, of pre-tax, one-time costs related to the new labor agreements.

Corporate expenses for the first three months of 2008 were \$17.7 million, compared to \$21.0 million for the first three months of 2007. This decrease is due primarily to lower expenses associated with annual and long-term performance-based incentive compensation programs.

Other expense, net of gains on asset sales, includes charges incurred in connection with closed operations, pretax gains and losses on the sale of surplus real estate and other assets, 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 income. These items resulted in net charges of \$0.9 million for the first three months of 2008 and \$2.8 million for the first three months of 2007.

**Note 10. 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.

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Allegheny Technologies Incorporated  
Financial Information for Subsidiary and Guarantor Parent  
Balance Sheets  
March 31, 2008

<i>(In millions)</i>	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Assets:					
Cash and cash equivalents	\$	\$ 32.9	\$ 435.1	\$	\$ 468.0
Accounts receivable, net	0.5	325.3	390.2		716.0
Inventories, net		337.4	748.1		1,085.5
Prepaid expenses and other current assets	0.3	8.0	39.9		48.2
Total current assets	0.8	703.6	1,613.3		2,317.7
Property, plant and equipment, net	1.2	374.2	954.5		1,329.9
Prepaid pension asset	244.7				244.7
Cost in excess of net assets acquired		112.1	98.1		210.2
Deferred income taxes	49.2				49.2
Investments in subsidiaries and other assets	3,969.1	1,361.8	1,364.7	(6,570.9)	124.7
Total assets	\$4,265.0	\$2,551.7	\$4,030.6	\$(6,570.9)	\$4,276.4
Liabilities and stockholders equity:					
Accounts payable	\$ 4.3	\$ 232.1	\$ 232.8	\$	\$ 469.2
Accrued liabilities	1,502.0	66.5	809.9	(2,131.8)	246.6
Accrued income taxes	71.2				71.2
Deferred income taxes	22.9				22.9
Short-term debt and current portion of long-term debt		10.5	10.4		20.9
Total current liabilities	1,600.4	309.1	1,053.1	(2,131.8)	830.8
Long-term debt	305.1	377.0	21.4	(200.0)	503.5
Retirement benefits	10.3	273.9	188.5		472.7
Other long-term liabilities	62.9	16.4	103.8		183.1
Total liabilities	1,978.7	976.4	1,366.8	(2,331.8)	1,990.1
Total stockholders' equity	2,286.3	1,575.3	2,663.8	(4,239.1)	2,286.3
Total liabilities and stockholders equity	\$4,265.0	\$2,551.7	\$4,030.6	\$(6,570.9)	\$4,276.4



**Table of Contents****Note 10. CONTINUED**

Allegheny Technologies Incorporated

Financial Information for Subsidiary and Guarantor Parent

Statements of Income

For the three months ended March 31, 2008

<i>(In millions)</i>	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Sales	\$	\$695.0	\$ 648.4	\$	\$1,343.4
Cost of sales	10.2	572.6	470.0		1,052.8
Selling and administrative expenses	27.1	9.8	33.3		70.2
Interest income (expense), net	(0.7)	(2.1)	3.0		0.2
Other income (expense) including equity in income of unconsolidated subsidiaries	257.9	9.2	(3.7)	(264.1)	(0.7)
Income before income tax provision	219.9	119.7	144.4	(264.1)	219.9
Income tax provision	77.9	44.1	52.2	(96.3)	77.9
Net income	\$142.0	\$ 75.6	\$ 92.2	\$(167.8)	\$ 142.0

## Condensed Statements of Cash Flows

For the three months ended March 31, 2008

<i>(In millions)</i>	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Cash flows provided by operating activities	\$ 104.1	\$(138.1)	\$ 100.0	\$	\$ 66.0
Cash flows used in investing activities	(0.1)	(12.0)	(99.6)		(111.7)
Cash flows provided by (used in) financing activities	(104.0)	(5.1)	(0.5)		(109.6)
Increase (decrease) in cash and cash equivalents	\$	\$(155.2)	\$ (0.1)	\$	\$(155.3)

**Table of Contents****Note 10. CONTINUED**

Allegheny Technologies Incorporated

Financial Information for Subsidiary and Guarantor Parent

Balance Sheets

December 31, 2007

<i>(In millions)</i>	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Assets:					
Cash and cash equivalents	\$	\$ 188.1	\$ 435.2	\$	\$ 623.3
Accounts receivable, net	0.4	258.3	393.5		652.2
Inventories, net		210.4	705.7		916.1
Deferred income taxes	18.8				18.8
Prepaid expenses, and other current assets	0.1	6.0	32.2		38.3
Total current assets	19.3	662.8	1,566.6		2,248.7
Property, plant and equipment, net	1.3	371.2	867.0		1,239.5
Prepaid pension asset	230.3				230.3
Cost in excess of net assets acquired		112.1	97.7		209.8
Deferred income taxes	42.1				42.1
Investment in subsidiaries and other assets	4,143.4	1,266.0	1,411.6	(6,695.8)	125.2
Total assets	\$4,436.4	\$2,412.1	\$3,942.9	\$(6,695.8)	\$4,095.6
Liabilities and stockholders equity:					
Accounts payable	\$ 3.4	\$ 165.4	\$ 219.6	\$	\$ 388.4
Accrued liabilities	1,854.0	76.7	841.5	(2,477.5)	294.7
Short-term debt and current portion of long-term debt		10.5	10.4		20.9
Total current liabilities	1,857.4	252.6	1,071.5	(2,477.5)	704.0
Long-term debt	305.4	382.1	19.8	(200.0)	507.3
Retirement benefits	10.4	274.6	184.6		469.6
Other long-term liabilities	39.7	17.5	134.0		191.2
Total liabilities	2,212.9	926.8	1,409.9	(2,677.5)	1,872.1
Total stockholders' equity	2,223.5	1,485.3	2,533.0	(4,018.3)	2,223.5
Total liabilities and stockholders equity	\$4,436.4	\$2,412.1	\$3,942.9	\$(6,695.8)	\$4,095.6





**Table of Contents****Note 10. CONTINUED**

Allegheny Technologies Incorporated  
 Financial Information for Subsidiary and Guarantor Parent  
 Statements of Income  
 For the three months ended March 31, 2007

<i>(In millions)</i>	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Sales	\$	\$734.5	\$ 638.1	\$	\$1,372.6
Cost of sales	6.6	568.9	410.6		986.1
Selling and administrative expenses	31.7	10.3	36.1		78.1
Interest income (expense), net	(5.0)	(1.6)	2.3		(4.3)
Other income (expense) including equity in income of unconsolidated subsidiaries	347.9	6.8	(1.0)	(353.2)	0.5
Income before income tax provision	304.6	160.5	192.7	(353.2)	304.6
Income tax provision	106.8	60.3	71.0	(131.3)	106.8
Net income	\$197.8	\$100.2	\$ 121.7	\$(221.9)	\$ 197.8

Condensed Statements of Cash Flows  
 For the three months ended March 31, 2007

<i>(In millions)</i>	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Cash flows provided by operating activities	\$ 40.0	\$ 27.7	\$ 56.6	\$	\$124.3
Cash flows used in investing activities	(0.1)	(12.6)	(45.0)		(57.7)
Cash flows used in financing activities	(39.9)	(5.2)	(5.8)		(50.9)
Increase in cash and cash equivalents	\$	\$ 9.9	\$ 5.8	\$	\$ 15.7

**Note 11. 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 expects that it will adjust 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.

Based on currently available information, the Company does not believe that there is a reasonable possibility that a loss exceeding the amount already accrued for any of the sites with which the Company is currently associated

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(either individually or in the aggregate) will be an amount that would be material to a decision to buy or sell the Company's securities. Future developments, administrative actions or liabilities relating to environmental matters, however, could have a material adverse effect on the Company's financial condition or results of operations.

At March 31, 2008, the Company's reserves for environmental remediation obligations totaled approximately \$18 million, of which approximately \$7.5 million were 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; \$4 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 future costs for environmental liabilities from third parties.

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 13. 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, 2007 for a discussion of legal proceedings affecting the Company.

A number of other lawsuits, claims and proceedings have been or may be asserted against the Company relating to the conduct of its currently and formerly owned businesses, including those pertaining to product liability, patent infringement, commercial, government contracting work, employment, employee benefits, taxes, environmental and health and safety, 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 Incorporated (ATI) is a Delaware corporation with its principal executive offices located at 1000 Six PPG Place, Pittsburgh, Pennsylvania 15222-5479, telephone number (412) 394-2800. References to

Allegheny Technologies, ATI, the Company, the Registrant, we, our and us and similar terms mean Allegheny Technologies Incorporated and its subsidiaries, unless the context otherwise requires.

Allegheny Technologies is one of the largest and most diversified specialty metals producers in the world. We use innovative technologies to offer growing global markets a wide range of specialty metals solutions. Our products include titanium and titanium alloys, nickel-based alloys and superalloys, grain-oriented electrical steel, zirconium, hafnium and niobium, stainless and specialty alloys, tungsten-based materials, and forgings and castings. Our specialty metals are produced in a wide range of alloys and product forms and are selected for use in environments that demand metals having exceptional hardness, toughness, strength, resistance to heat, corrosion or abrasion, or a combination of these characteristics.

**Table of Contents****Results of Operations**

We operate in three business segments: High Performance Metals, Flat-Rolled Products, and Engineered Products. These segments represented the following percentages of our total revenues and segment operating profit for the first three months of 2008 and 2007:

	<b>2008</b>		<b>2007</b>	
	Revenue	Operating Profit	Revenue	Operating Profit
High Performance Metals	36%	55%	35%	49%
Flat-Rolled Products	55%	43%	57%	47%
Engineered Products	9%	2%	8%	4%

Sales for the first quarter 2008 were \$1.34 billion, a decrease of 2% compared to the first quarter 2007. Compared to the 2007 first quarter, sales for the 2008 first quarter increased 1% in the High Performance Metals segment and 4% in the Engineered Products segment, and decreased 5% in the Flat-Rolled Products segment. Our key growth markets were solid in the first quarter. Demand from the global aerospace and defense, chemical process industry, oil and gas, electrical energy and medical markets accounted for nearly 70% of our first quarter 2008 sales. Aerospace and defense was the largest of our markets at 28% of first quarter 2008 sales. For the first quarter 2008, direct international sales were \$370.6 million, or approximately 28% of total sales. We believe that more than 50% of our sales are driven by demand from global markets when we consider exports of our customers. ATI titanium product shipments, including ATI-produced products for our Uniti Titanium joint venture, reached 12.2 million pounds in the first quarter 2008, a 26% increase over the same period of last year, as we leverage our manufacturing capabilities across both our High Performance Metals and Flat-Rolled Products segments and demonstrate our ability to supply diversified global markets with both long and flat-rolled products.

Segment operating profit for the first quarter 2008 decreased 30%, compared to the first quarter 2007, to \$238.3 million, or 17.7% of sales. First quarter 2008 results were negatively impacted by certain raw material costs being higher than the raw material indices/surcharges included in our selling prices for certain products. Segment operating profit as a percentage of sales for the three month periods ended March 31, 2008 and 2007 were:

	Three Months Ended March 31,	
	2008	2007
High Performance Metals	27.3%	35.1%
Flat-Rolled Products	13.5%	20.4%
Engineered Products	4.9%	11.3%

Results for the first quarter 2008 included a LIFO inventory valuation reserve charge of \$1.3 million. For the same 2007 period, the LIFO inventory valuation reserve charge was \$20.9 million, due primarily to higher nickel and nickel-bearing scrap raw material costs. First quarter 2008 gross cost reductions, before the effects of inflation, totaled \$32 million.

In the first quarter 2007, we entered into four-year labor agreements with United Steelworkers represented employees at ATI Allegheny Ludlum and at ATI's Albany, OR titanium operations. As a result of these labor agreements, we recognized a non-recurring charge of \$7.0 million, or \$4.4 million after-tax, in the first quarter 2007, which was primarily reflected in the operating results of the High Performance Metals and Flat-Rolled Products business segments.

Income before tax for the first quarter 2008 was \$219.9 million, a decrease of \$84.7 million compared to the first quarter 2007. Net income for the first quarter 2008 was \$142.0 million, or \$1.40 per share, compared to the first

quarter 2007 of \$197.8 million, or \$1.92 per share. First quarter 2008 results include an income tax provision of \$77.9 million, or 35.4% of income before tax, compared to an income tax provision of \$106.8 million, or 35.1% of income before tax, for the comparable 2007 quarter. The 2008 first quarter included a discrete benefit of \$2.6 million related to foreign taxes. The 2007 first quarter benefited from a lower income tax provision due to a \$4.2 million reduction in the valuation allowances associated with state deferred tax assets.

Our business continues to be driven by long-term growth in the global aerospace, defense and infrastructure markets. Overall demand from these markets remains at a high level. For example, first quarter orders from our

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Asian markets significantly exceeded last year's rate, which was a record year. Our airframe and jet engine customers report record backlogs and good order rates so far in 2008, resulting in improving build rates for existing models. Boeing's recently revised schedule for its 787 Dreamliner brings near-term uncertainty to the supply chain. Boeing has told us that they intend to honor our supply agreement, and as production increases so will our supply to this breakthrough aircraft. In the meantime, we intend to continue to navigate through this period and focus our mill products capabilities on the diversified global markets that we serve.

ATI is well positioned to continue to benefit from the current and long-term global growth opportunities of our major end markets. We continue our investments to give us unsurpassed manufacturing capabilities, which enable profitable growth. We are not only focused on product diversification but also on global market diversification. We are committed to maintaining a strong balance sheet. Although the condition of the U.S. economy, the impact of Boeing's 787 schedule delay, and continuing raw material cost volatility create near-term impacts, we believe the first quarter 2008 earnings represent the bottom. Generally, base selling prices are flat to higher; volumes continue to improve; and raw material indices/surcharges are in better balance. As a result, we expect second quarter earnings to be somewhat higher than first quarter results.

**High Performance Metals Segment**

Sales increased 1% to \$481.0 million, compared to the first quarter 2007. Demand for our titanium alloys was at a high level from the aerospace and defense market. Demand for our nickel-based alloys was good from our OEM customers but was lower from some of our distributor customers as they rebalanced their inventory. Demand for our exotic alloys was strong from the chemical process industry, and is growing from the nuclear energy market. Segment operating profit in the quarter was \$131.4 million, or 27.3% of sales, a \$21.6 million decrease compared to the first quarter 2007. The decrease in operating profit primarily resulted from lower titanium selling prices and the negative impact of raw material costs, primarily titanium scrap, being higher than the raw material indices included in our titanium products selling prices due to long manufacturing cycle times. These negative impacts were partially offset by increased shipments of titanium and zirconium products and the benefits of gross cost reductions. Raw material cost inflation in our exotic alloys business resulted in a LIFO inventory valuation reserve charge of \$1.3 million in the first quarter 2008, compared to a LIFO inventory valuation reserve charge of \$6.6 million for the segment in the comparable 2007 period. Results for the 2008 first quarter benefited from \$14.3 million of gross cost reductions.

Certain comparative information on the segment's major products for the three months ended March 31, 2008 and 2007 is provided in the following table:

	Three Months Ended March 31,		%
	2008	2007	Change
Volume (000's pounds):			
Titanium mill products	8,770	7,068	24%
Nickel-based and specialty alloys	9,537	10,352	(8)%
Exotic alloys	1,364	985	38%
Average prices (per pound):			
Titanium mill products	\$25.54	\$ 32.89	(22)%
Nickel-based and specialty alloys	\$18.56	\$ 17.90	4%
Exotic alloys	\$44.61	\$ 43.52	3%

Shipments of titanium mill products increased primarily due to higher aerospace airframe volume. Shipments of nickel-based and specialty alloys declined primarily due to product mix and inventory management actions at distributors. Shipments of exotic alloys increased primarily due to strong demand for zirconium from the chemical process industry and growing demand from the nuclear energy market.

In April 2008, we entered into a new labor agreement with the United Steelworkers represented employees at ATI's Wah Chang operations. The new agreement expires on March 31, 2013. The new agreement provides for profit

sharing above specified minimum pre-tax profit for ATI's Wah Chang operations and is capped to provide for no more than \$9 million of profit sharing payments under this provision over the five-year life of the contract. Any profit sharing payments under this provision are contributed to an independently administered VEBA (Voluntary



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Employee Benefit Association) trust. As a result of this new agreement, we will recognize additional retirement benefit expense of approximately \$8 million in 2008 ratably over the remaining three quarters of the year.

**Flat-Rolled Products Segment**

First quarter 2008 sales were \$746.9 million, 4.7% lower than the first quarter 2007, due primarily to lower average base selling prices for standard stainless products. Demand was strong for CP (commercially pure) titanium sheet products from the chemical process industry and oil and gas markets. Demand was also strong for grain-oriented electrical steel products from the electrical energy market. Demand for standard stainless products improved primarily due to better inventory balance at our U.S. service center customers and improved international shipments. Although total high-value products shipments were 6% lower compared to first quarter 2007, shipments of titanium sheet, and grain-oriented electrical steel continued to improve, significantly exceeding year-ago levels and offsetting lower shipments of engineered strip and Precision-Rolled Strip® products. Shipments of standard products increased 6% compared to the first quarter 2007 and 28% compared to the fourth quarter 2007. Total first quarter shipments increased by 14% compared to the fourth quarter 2007.

Segment operating profit decreased to \$101.2 million, or 13.5% of sales, a decrease of \$59.0 million compared to the first quarter 2007, primarily as a result of lower average base selling prices for standard stainless products, a less favorable mix of high-value products, and the negative impact of raw material costs, primarily nickel and nickel-based scrap, being higher than the raw material surcharges included in our selling prices due to longer manufacturing cycle times for some of our high-value products. These negative impacts were partially offset by increased shipments and higher selling prices for our grain-oriented electrical steel, increased shipments of flat-rolled titanium products, and the benefits of gross cost reductions. First quarter 2008 results had no LIFO inventory valuation reserve charge, compared to a LIFO charge of \$14.0 million in the first quarter 2007. Additionally, 2007 results were negatively impacted by \$5.9 million of pre-tax, non-recurring costs related to early resolution of the labor agreement for our ATI Allegheny Ludlum business. Results for the 2008 first quarter benefited from \$16.2 million in gross cost reductions. Comparative information on the segment's products for the three months ended March 31, 2008 and 2007 is provided in the following table:

	Three Months Ended March 31,		%
	2008	2007	Change
Volume (000's pounds):			
High value	119,792	127,808	(6)%
Standard	170,620	161,680	6%
Total	290,412	289,488	%
Average prices (per lb.):			
High value	\$ 3.22	\$ 3.22	%
Standard	\$ 2.07	\$ 2.30	(10)%
Combined Average	\$ 2.54	\$ 2.70	(6)%

**Engineered Products Segment**

Sales for the first quarter 2008 of \$115.5 million were 4% higher than the first quarter 2007. Demand for our tungsten and tungsten carbide products improved from the aerospace and defense and mining markets. Demand was stable for our forged products from the construction and mining, and oil and gas markets. Demand for our cast products was strong from the electrical energy market, particularly for wind and gas turbine components. Demand from the aerospace market remained very strong for our titanium precision metal processing conversion services. Segment operating profit in the first quarter 2008 was \$5.7 million, or 4.9% of sales, compared to \$12.6 million, or 11.3% of sales, for the comparable 2007 period. The decline in operating profit was primarily due to higher raw material costs, operational execution issues, and start-up expenses associated with our Alpena, MI casting operation.

First quarter 2008 results had no LIFO inventory valuation reserve charge, compared to a \$0.3 million charge in the first quarter 2007. Results benefited from \$1.8 million of gross cost reductions.

**Corporate Items**

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Corporate expenses decreased to \$17.7 million for the first quarter of 2008, compared to \$21.0 million in the year-ago period. This decrease is due primarily to lower expenses associated with annual performance-based cash incentive compensation programs and long-term performance-based equity and cash incentive compensation programs.

First quarter 2008 interest income, net of interest expense, was \$0.2 million compared to net interest expense of \$4.3 million for the same period last year. The decline in net interest expense was primarily due to interest capitalization on capital projects. Interest expense was reduced by \$5.7 million in 2008 first quarter and \$1.6 million in the 2007 first quarter related to interest capitalization on capital projects.

Other expense, net of gains on asset sales, includes charges incurred in connection with closed operations, pretax gains and losses on the sale of surplus real estate and other assets, and other non-operating income or expense. These items are presented primarily in selling and administration expenses, and in other income (expense) in the statement of income and resulted in other expense of \$0.9 million for the first quarter of 2008 and \$2.8 million for the first quarter of 2007.

Retirement benefit expense decreased to zero in the first quarter 2008, compared to \$7.6 million in the first quarter 2007, primarily as a result of higher than expected returns on plan assets in 2007 and the positive benefits of voluntary pension contributions made over the last several years. For the first quarter 2008, the amount of retirement benefit income included in cost of sales was \$0.3 million, and the amount of retirement benefit expense included in selling and administrative expenses was \$0.3 million. For the first quarter 2007, the amount of retirement benefit expense included in cost of sales was \$5.0 million, and the amount included in selling and administrative expenses was \$2.6 million. In April 2008, we entered into a new five-year labor agreement with USW represented employees at our ATI Wah Chang operation. As a result, we now expect retirement benefit expense will be approximately \$8 million for the full year 2008 due to the establishment of a VEBA for certain post-retirement benefits. This expense will be recorded ratably over the last three quarters of 2008.

### **Income Taxes**

Results for the first quarter 2008 include a provision for income taxes of \$77.9 million, or 35.4% of income before tax, compared to an income tax provision of \$106.8 million, or 35.1% of income before tax, for the comparable 2007 quarter. The 2008 first quarter included a discrete benefit of \$2.6 million related to foreign taxes. The 2007 first quarter benefited from a lower income tax provision due to a \$4.2 million reduction in the valuation allowances associated with state deferred tax assets as a result of the increased profitability of the Flat-Rolled Products segment.

### **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. We did not borrow funds under our domestic senior unsecured credit facility during the first three months of 2008. However, a portion of this facility is utilized to support letters of credit.

Our ability to access the credit markets in the future to obtain additional financing, if needed, may be influenced by our credit rating. As of March 31, 2008, Moody's Investor Service's senior unsecured debt rating for our Company was Baa3 with a stable outlook. On February 11, 2008, Standard & Poor's Ratings Services raised our corporate credit and senior unsecured debt ratings to BBB- with a stable outlook. 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 financing relationships with variable interest or structured finance entities.

**Table of Contents****Cash Flow and Working Capital**

For the three months ended March 31, 2008, cash provided by operating activities was \$66.0 million, as operating earnings were offset by a \$148.9 million increase in managed working capital, primarily as a result of higher operating volumes in our Flat-Rolled Products segment. Investing activities included capital expenditures of \$112.0 million. Cash used in financing activities was \$109.6 million in the first quarter 2008, and included purchases of \$62.3 million of the Company's common stock, dividend payments of \$18.2 million, cash usage related to the repurchase of shares to satisfy employee-owed taxes on share-based compensation and reductions in estimated federal and state income tax benefits from share-based compensation of \$24.6 million, and a reduction in borrowings of \$5.6 million. At March 31, 2008, cash and cash equivalents totaled \$468.0 million, a decrease of \$155.3 million from year end 2007.

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 this 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 March 31, 2008, managed working capital was 31.1% of annualized sales, compared to 32.2% of annualized sales at December 31, 2007. During the first three months of 2008, managed working capital increased by \$148.9 million, to \$1,775.4 million. The increase in managed working capital from December 31, 2007, was due to increased accounts receivable of \$63.9 million, which reflects the timing of sales in the first quarter 2008 compared to the fourth quarter 2007, and increased inventory of \$164.6 million, mostly as a result of higher raw material quantities, which was partially offset by increased accounts payable of \$79.6 million. While accounts receivable and inventory balances have increased during first quarter 2008, days sales outstanding, which measures actual collection timing for accounts receivable, have stayed relatively constant. Gross inventory turns, which excludes the effect of LIFO inventory valuation reserves, declined compared to year-end 2007, due primarily to a shift in mix to more value-added products.

The components of managed working capital were as follows:

(in millions)	March 31, 2008	December 31, 2007
Accounts receivable	\$ 716.0	\$ 652.2
Inventories	1,085.5	916.1
Accounts payable	(469.2)	(388.4)
Subtotal	1,332.3	1,179.9
Allowance for doubtful accounts	6.4	6.3
LIFO reserves	375.9	374.6
Corporate and other	60.8	65.7
Managed working capital	\$ 1,775.4	\$ 1,626.5
Annualized prior two months sales	\$ 5,702.8	\$ 5,058.5
Managed working capital as a % of annualized sales	31.1%	32.2%
Change in managed working capital from December 31, 2007	\$ 148.9	

**Capital Expenditures**

We currently expect capital expenditures for 2008 will be approximately \$500 million, of which approximately \$112 million was expended in the first three months of 2008. We are significantly expanding our manufacturing capabilities to meet current and expected demand growth from the aerospace (engine and airframe) and defense, 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. These self-funded capital investments remain on track to be completed as planned and include:

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The expansion of ATI's aerospace quality titanium sponge production capabilities, including our titanium sponge facility in Albany, OR, and our greenfield premium-grade titanium sponge facility in Rowley, UT. The last reduction furnace at our Albany facility went into operation at the end of the first quarter, which is ahead of schedule. This facility is now producing at an annualized rate of 22 million pounds of aerospace quality titanium sponge and represents a total capital investment of approximately \$100 million. The Rowley, UT sponge facility remains on schedule and will represent a total capital investment of approximately \$460 million. We expect to begin producing premium-grade titanium sponge at the Utah facility by the end of 2008. At full production, this facility is expected to produce 24 million pounds of premium-grade titanium sponge annually. Upon completion of these titanium sponge expansion projects, our annual sponge production capacity is projected to be 46 million pounds. In addition, the Utah facility will have the infrastructure in place to further expand annual capacity by approximately 18 million pounds, bringing the total annual capacity at that facility to 42 million pounds, if needed. We expect to supplement our requirements with titanium sponge and titanium scrap purchases from external sources.

The expansion of ATI's melting capabilities for titanium and titanium-based alloys, nickel-based alloys and superalloys, and specialty alloys. For titanium melting, four new vacuum-arc remelt (VAR) furnaces are on line, and we plan to have one more titanium VAR furnace customer qualified by the end of the second quarter 2008. VAR melting is a consumable electrode re-melting process that improves the cleanliness and chemical homogeneity of the alloys. Our third Plasma Arc Melt (PAM) premium titanium melt furnace is in production and has completed initial customer qualifications. We expect to have this PAM furnace qualified for all products, including premium grade jet engine rotating quality products, during the second quarter 2008. A fourth PAM furnace to support premium titanium alloy growth requirements is expected to begin production in the second half of 2009. Plasma arc melting is a superior cold-hearth melting process for making alloyed titanium products for jet engine rotating parts, medical applications, and other critical applications. One new VAR furnace for nickel-based alloys and superalloys was qualified and began commercial production in the first quarter of 2008, and we expect up to three more VARs to be added through 2009 based on production requirements to support titanium and titanium-based alloys and premium nickel-based alloys and superalloys growth.

The expansion of ATI's mill products processing and finishing capabilities for titanium and titanium-based alloys, nickel-based alloys and superalloys, and specialty alloys. Announced projects include a \$260 million expansion of our titanium and superalloy forging capacity at our Bakers, NC facility through the addition of an integrated 10,000 ton press forge, 700mm rotary forge, and conditioning, finishing and inspection facilities to support increased forged product requirements, which is expected to be operational by the third quarter 2009. Forging is a hot-forming process that produces wrought forging billet and forged machining bar from an ingot. We also are investing \$60 million to expand our titanium and specialty plate facility located in Washington, PA, which is expected to begin production in the second quarter 2008. In addition to titanium and titanium alloys, ATI's specialty plate products include duplex alloys, superaustenitic alloys, nickel-based alloys, zirconium alloys, armor plate, and specialty and standard stainless grades. This project includes increasing reheat furnace, annealing, and flattening capacity at the existing plate mill, expanding plate size capabilities, and implementing productivity improvements.

We are increasing our zirconium sponge production capacity by approximately 20%. In addition, we have diverted two new VAR furnaces to zirconium melting. These two VARs were originally planned for titanium melting. This new zirconium sponge and melting capacity better positions ATI for the strong nuclear electrical energy and chemical process industry markets.

Additionally, STAL, our Chinese joint venture company in which ATI has a 60% interest, commenced an expansion of its operations in Shanghai, China in late 2006. This expansion, which is expected to more than triple STAL's rolling and slitting capacity to produce Precision Rolled Strip® products, is estimated to cost approximately \$110 million. The expansion is expected to be fully operational in the 2009 first quarter and is expected to be funded through capital contributions from the joint venture partners made in prior years, bank credit lines of the joint venture,

and cash on hand and internal cash flow of the joint venture. The financial results of STAL are consolidated into our financial statements with the 40% interest of our minority partner recognized as other income or expense in the consolidated statements of income and as a liability in the consolidated statements of financial position.

**Table of Contents****Debt**

At March 31, 2008, we had \$524.4 million in total outstanding debt, compared to \$528.2 million at December 31, 2007, a decrease of \$3.8 million. The decrease in debt was primarily due to scheduled debt maturity payments.

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 capitalization was 2.4% at March 31, 2008, compared to a negative 4.5% at December 31, 2007, as cash on hand exceeded total debt at the end of last year. The net debt to capitalization was determined as follows:

(in millions)	March 31, 2008	December 31, 2007
Total debt	\$ 524.4	\$ 528.2
Less: cash	(468.0)	(623.3)
Net debt (cash)	\$ 56.4	\$ (95.1)
Net debt (cash)	\$ 56.4	\$ (95.1)
Stockholders' equity	2,286.3	2,223.5
Total capital	\$ 2,342.7	\$ 2,128.4
Net debt (cash) to capital ratio	2.4%	(4.5)%

Total debt to total capitalization improved to 18.7% at March 31, 2008 from 19.2% at December 31, 2007. Total debt to total capitalization was determined as follows:

(in millions)	March 31, 2008	December 31, 2007
Total debt	\$ 524.4	\$ 528.2
Stockholders' equity	2,286.3	2,223.5
Total capital	\$ 2,810.7	\$ 2,751.7
Total debt to total capital ratio	18.7%	19.2%

We did not borrow funds under our \$400 million senior unsecured domestic credit facility during the first three months of 2008, although a portion of the facility has been utilized to support the issuance of letters of credit. Outstanding letters of credit issued under the facility at March 31, 2008, were approximately \$44 million.

STAL, our Chinese joint venture company in which ATI has a 60% interest, has a 741 million renminbi (approximately \$106 million at March 31, 2008 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, and is intended to be utilized in the future for the expansion of STAL's operations, which are located in Shanghai, China. As of March 31, 2008, there were no borrowings under this credit facility although STAL had approximately \$24 million in letters of credit outstanding related to the expansion of its operations.

The ratio of earnings to fixed charges for the three months ended March 31, 2008 was 20.1.

**Dividends**



A regular quarterly dividend of \$0.18 per share of common stock was declared on February 22, 2008, payable on March 28, 2008 to stockholders of record at the close of business on March 14, 2008. On May 9, 2008, a regular quarterly dividend of \$0.18 per share of common stock was declared, payable on June 16, 2008 to stockholders of record at the close of business on May 29, 2008. 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.

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### **Share Repurchase Program**

On November 1, 2007, our Board of Directors approved a share repurchase program of \$500 million. Repurchases of Company common stock have been, and are expected to be made on the open market or in unsolicited or privately negotiated transactions. Share repurchases have been, and are expected to be funded from internal cash flow and cash on hand. The number of shares to be purchased, and the timing of the purchases, will be based on several factors, including other investment opportunities, the level of cash balances, and general business conditions. During the first quarter 2008, 887,200 shares of common stock were purchased at a cost of \$62.3 million under this program. As of March 31, 2008, 1,562,000 shares of common stock had been purchased under this program at a cost of \$123.5 million.

### **Critical Accounting Policies**

#### **Inventory**

At March 31, 2008, we had net inventory of \$1,085.5 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 volatile. 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 2007, the effect of falling raw material costs on our LIFO inventory valuation method resulted in cost of sales which was \$92.1 million lower than would have been recognized if we utilized 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 regarding year-end inventory levels. For the first quarter 2008, there was no significant expense or benefit associated with utilizing the LIFO inventory valuation methodology.

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 March 31, 2008, no such 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, 2007.

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

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accounting for derivatives, retirement plans, income taxes, environmental and other contingencies as well as asset impairment, inventory valuation and collectibility 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 Pronouncements Adopted**

In the first quarter 2008, as required, we began the adoption process for the change in measurement date provisions of FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* ( FAS 158 ), which amended the standards for defined benefit pension and other postretirement benefit plans accounting. These provisions require assets and benefits to be measured at the date of the employer's statement of financial position, which is December 31 in our case, rather than our measurement date of November 30, as was previously permitted. The adoption of these provisions did not have a material effect on our financial statements.

In September 2006, the FASB issued FAS 157, *Fair Value Measurements* ( FAS 157 ). This Standard defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements, but does not require any new fair value measurements. The Standard covers financial assets and liabilities, as well as for any other assets and liabilities that are carried at fair value on a recurring basis in financial statements. FAS 157 is effective for fiscal years beginning after November 15, 2007 for financial assets and liabilities, and for fiscal years beginning after November 15, 2008 for other nonfinancial assets and liabilities. The adoption of FAS 157 for financial assets and liabilities did not have a material impact on our financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 ( FAS 159 ), *The Fair Value Option for Financial Assets and Liabilities*. FAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. If the fair value option is elected, unrealized gains and losses will be recognized in earnings at each subsequent reporting date. FAS 159 is effective for fiscal years beginning after November 15, 2007. The adoption of FAS 159 did not have an impact on our financial statements.

### **Pending New Accounting Pronouncements**

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160 ( FAS 160 ), *Noncontrolling Interests in Consolidated Financial Statements*. FAS 160 changes the classification of noncontrolling (minority) interests on the balance sheet and the accounting for and reporting of transactions between the reporting entity and holders of such noncontrolling interests. Under the new standard, noncontrolling interests are considered equity and are to be reported as an element of stockholders' equity rather than within the mezzanine or liability sections of the balance sheet. In addition, the current practice of reporting minority interest expense or benefit also will change. Under the new standard, net income will encompass the total income before minority interest expense. The income statement will include separate disclosure of the attribution of income between the controlling and noncontrolling interests. Increases and decreases in the noncontrolling ownership interest amount are to be accounted for as equity transactions. FAS 160 is effective for fiscal years beginning after December 15, 2008, and earlier application is prohibited. Upon adoption, the balance sheet and the income statement will be recast retrospectively for the presentation of noncontrolling interests. The other accounting provisions of the statement are required to be adopted prospectively. We are currently evaluating the impact of adopting FAS 160, including the reporting of the minority interest in our STAL joint venture, on our financial statements. As of March 31, 2008, other long-term liabilities included \$60 million for minority interest in our STAL joint venture.

### **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, will likely result, 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 materially differ 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

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our specialty metals; (b) material adverse changes in the markets we serve, including the aerospace and defense, construction and mining, automotive, electrical energy, chemical process industry, oil and gas, medical and other markets; (c) our inability to achieve the level of cost savings, productivity improvements, synergies, growth or other benefits anticipated by management, including those anticipated from strategic investments and the integration of acquired businesses, whether 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) the other risk factors summarized in our Annual Report on Form 10-K for the year ended December 31, 2007, and 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**

Market risks associated with our business are discussed in Item 7A in our Annual Report on Form 10-K for the year ended December 31, 2007. There were no material changes in these market risks during the first quarter 2008.

### **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 of March 31, 2008, and they concluded that these 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 of March 31, 2008, conducted by our Chief Executive Officer and Chief Financial Officer, that occurred during the quarter ended March 31, 2008 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 benefits, environmental and health and safety, 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, 2007, and addressed in Note 11 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.

### **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, 2007, 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.

**Table of Contents****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Period	Total Number of Shares (or Units) Purchased (1)	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
January 1-31, 2008	1,091,796	\$ 69.60	862,200	\$ 378,241,242
February 1-29, 2008	25,000	71.80	25,000	376,479,144
March 1-31, 2008				376,479,144
Total	1,116,796	\$ 69.65	887,200	\$ 376,479,144

(1) Includes shares repurchased by ATI to satisfy employee-owned taxes on share-based payments.

**Item 6. Exhibits**

(a) Exhibits

- 10.1 Key Executive Performance Plan, as amended February 21, 2008 (filed herewith)\*.
- 10.2 Form of Total Shareholder Return Incentive Compensation Program Award Agreement effective as of January 1, 2008 (filed herewith)\*.
- 10.3 Form of Performance/Restricted Stock Agreement dated February 21, 2008 (filed herewith)\*.
- 10.4 2008 Annual Incentive Plan (filed herewith)\*.
- 12.1 Computation of Ratio of Earnings to Fixed Charges.
- 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).

\* *Management  
contract or  
compensatory  
plan or  
arrangement  
required to be  
filed as an  
Exhibit to this  
Report.*



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**SIGNATURES**

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

**ALLEGHENY TECHNOLOGIES INCORPORATED**  
**(Registrant)**

Date: May 9, 2008

By /s/ Richard J. Harshman  
Richard J. Harshman  
Executive Vice President, Finance and  
Chief Financial Officer  
(Principal Financial Officer and  
Duly Authorized Officer)

Date: May 9, 2008

By /s/ Dale G. Reid  
Dale G. Reid  
Vice President, Controller and  
Chief Accounting Officer and Treasurer  
(Principal Accounting Officer)

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EXHIBIT INDEX

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- 10.2 Form of Total Shareholder Return Incentive Compensation Program Award Agreement effective as of January 1, 2008.
- 10.3 Form of Performance/Restricted Stock Agreement dated February 21, 2008.
- 10.4 2008 Annual Incentive Plan.
- 12.1 Computation of Ratio of Earnings to Fixed Charges.
- 31.1 Certification of Chief Executive Officer required by Securities and Exchange Commission Rule 13a 14(a) or 15d 14(a).
- 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.