

ALLEGHENY TECHNOLOGIES INC  
Form 10-Q  
August 02, 2017  
Table of Contents

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 June 30, 2017

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes " No ý

At July 21, 2017, the registrant had outstanding 108,879,684 shares of its Common Stock.

---

Table of Contents

ALLEGHENY TECHNOLOGIES INCORPORATED  
SEC FORM 10-Q  
Quarter Ended June 30, 2017  
INDEX

	Page No.
PART I. - FINANCIAL INFORMATION	
Item 1. Financial Statements	
Consolidated Balance Sheets	<u>1</u>
Consolidated Statements of Operations	<u>2</u>
Consolidated Statements of Comprehensive Income (Loss)	<u>3</u>
Consolidated Statements of Cash Flows	<u>4</u>
Statements of Changes in Consolidated Equity	<u>5</u>
Notes to Consolidated Financial Statements	<u>6</u>
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>26</u>
Item 3. Quantitative and Qualitative Disclosures About Market Risk	<u>41</u>
Item 4. Controls and Procedures	<u>42</u>
PART II. - OTHER INFORMATION	
Item 1. Legal Proceedings	<u>43</u>
Item 1A. Risk Factors	<u>43</u>
Item 6. Exhibits	<u>44</u>
SIGNATURES	<u>45</u>
EXHIBIT INDEX	<u>46</u>

---

Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

Allegheny Technologies Incorporated and Subsidiaries

Consolidated Balance Sheets

(In millions, except share and per share amounts)

(Current period unaudited)

	June 30, 2017	December 31, 2016
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$154.6	\$ 229.6
Accounts receivable, net	538.6	452.1
Inventories, net	1,076.2	1,037.0
Prepaid expenses and other current assets	30.7	47.8
Total Current Assets	1,800.1	1,766.5
Property, plant and equipment, net	2,492.3	2,498.9
Goodwill	643.5	641.9
Other assets	250.4	262.7
Total Assets	\$5,186.3	\$ 5,170.0
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities:		
Accounts payable	\$355.5	\$ 294.3
Accrued liabilities	278.0	309.3
Short term debt and current portion of long-term debt	67.5	105.1
Total Current Liabilities	701.0	708.7
Long-term debt	1,876.6	1,771.9
Accrued postretirement benefits	308.0	317.7
Pension liabilities	682.9	827.9
Deferred income taxes	20.1	15.6
Other long-term liabilities	83.3	83.4
Total Liabilities	3,671.9	3,725.2
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-109,695,171 shares at June 30, 2017 and December 31, 2016; outstanding-108,879,682 shares at June 30, 2017 and 108,925,254 shares at December 31, 2016	11.0	11.0
Additional paid-in capital	1,191.3	1,188.8
Retained earnings	1,303.8	1,277.1
Treasury stock: 815,489 shares at June 30, 2017 and 769,917 shares at December 31, 2016	(25.4 )	(28.0 )
Accumulated other comprehensive loss, net of tax	(1,067.2 )	(1,093.7 )
Total ATI stockholders' equity	1,413.5	1,355.2
Noncontrolling interests	100.9	89.6
Total Equity	1,514.4	1,444.8
Total Liabilities and Equity	\$5,186.3	\$ 5,170.0

The accompanying notes are an integral part of these statements.



Table of Contents

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Sales	\$880.2	\$810.5	\$1,746.1	\$1,568.0
Cost of sales	767.9	762.3	1,521.0	1,553.0
Gross profit	112.3	48.2	225.1	15.0
Selling and administrative expenses	66.7	59.3	126.2	121.9
Restructuring charges	—	1.0	—	10.0
Operating income (loss)	45.6	(12.1 )	98.9	(116.9 )
Interest expense, net	(34.5 )	(30.3 )	(68.0 )	(58.6 )
Other income, net	0.2	1.0	3.5	1.8
Income (loss) before income taxes	11.3	(41.4 )	34.4	(173.7 )
Income tax benefit	(2.1 )	(25.9 )	(0.1 )	(60.1 )
Net income (loss)	13.4	(15.5 )	34.5	(113.6 )
Less: Net income attributable to noncontrolling interests	3.3	3.3	6.9	6.4
Net income (loss) attributable to ATI	\$10.1	\$(18.8 )	\$27.6	\$(120.0 )
Basic net income (loss) attributable to ATI per common share	\$0.09	\$(0.18 )	\$0.26	\$(1.12 )
Diluted net income (loss) attributable to ATI per common share	\$0.09	\$(0.18 )	\$0.25	\$(1.12 )
Dividends declared per common share	\$—	\$0.08	\$—	\$0.16

The accompanying notes are an integral part of these statements.

Table of Contents

Allegheny Technologies Incorporated and Subsidiaries  
 Consolidated Statements of Comprehensive Income (Loss)  
 (In millions)  
 (Unaudited)

	Three months ended June 30, 2017		Six months ended June 30, 2016	
Net income (loss)	\$13.4	\$(15.5)	\$34.5	\$(113.6)
Currency translation adjustment				
Unrealized net change arising during the period	4.4	(9.8 )	14.8	(15.2 )
Derivatives				
Net derivatives gain (loss) on hedge transactions	(8.2 )	26.3	(10.8 )	17.1
Reclassification to net income (loss) of net realized loss (gain)	(1.4 )	2.9	(2.3 )	7.9
Income taxes on derivative transactions	(5.0 )	11.1	(5.0 )	9.5
Total	(4.6 )	18.1	(8.1 )	15.5
Postretirement benefit plans				
Actuarial loss				
Amortization of net actuarial loss	18.0	18.8	35.8	37.5
Net gain arising during the period	—	—	—	22.5
Prior service cost				
Amortization to net income (loss) of net prior service cost (credits)	(0.4 )	(0.5 )	(0.8 )	0.4
Income taxes on postretirement benefit plans	13.0	6.9	13.0	22.9
Total	4.6	11.4	22.0	37.5
Other comprehensive income, net of tax	4.4	19.7	28.7	37.8
Comprehensive income (loss)	17.8	4.2	63.2	(75.8 )
Less: Comprehensive income attributable to noncontrolling interests	3.5	1.8	9.1	3.4
Comprehensive income (loss) attributable to ATI	\$14.3	\$2.4	\$54.1	\$(79.2 )

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)

	Six months ended June 30,	
	2017	2016
Operating Activities:		
Net income (loss)	\$34.5	\$(113.6)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	80.6	87.8
Deferred taxes	7.6	(62.4 )
Changes in operating assets and liabilities:		
Inventories	(39.2 )	177.3
Accounts receivable	(86.5 )	(92.2 )
Accounts payable	58.2	(37.3 )
Retirement benefits (a)	(135.0 )	10.3
Accrued income taxes	0.9	0.1
Accrued liabilities and other	(6.6 )	(3.6 )
Cash used in operating activities	(85.5 )	(33.6 )
Investing Activities:		
Purchases of property, plant and equipment	(55.3 )	(145.3 )
Asset disposals and other	3.3	1.8
Cash used in investing activities	(52.0 )	(143.5 )
Financing Activities:		
Borrowings on long-term debt	7.3	387.5
Payments on long-term debt and capital leases	(0.8 )	(0.6 )
Net borrowings under credit facilities	59.4	2.5
Debt issuance costs	(0.8 )	(10.4 )
Dividends paid to stockholders	—	(17.2 )
Acquisition of noncontrolling interests	—	(12.2 )
Sale to noncontrolling interests	2.2	—
Shares repurchased for income tax withholding on share-based compensation	(4.8 )	—
Cash provided by financing activities	62.5	349.6
Increase (decrease) in cash and cash equivalents	(75.0 )	172.5
Cash and cash equivalents at beginning of period	229.6	149.8
Cash and cash equivalents at end of period	\$154.6	\$322.3

(a) Includes a \$(135) million contribution to the U.S. defined benefit pension plan in 2017.

The accompanying notes are an integral part of these statements.



Table of Contents

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

	ATI Stockholders						
	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non- controlling Interests	Total Equity
Balance, December 31, 2015	\$ 11.0	\$ 1,161.7	\$ 1,945.9	\$ (21.3 )	\$ (1,014.5 )	\$ 101.6	\$ 2,184.4
Net income (loss)	—	—	(120.0 )	—	—	6.4	(113.6 )
Other comprehensive income (loss)	—	—	—	—	40.8	(3.0 )	37.8
Cash dividends on common stock (\$0.16 per share)	—	—	(17.2 )	—	—	—	(17.2 )
Purchase of subsidiary shares from noncontrolling interest	—	—	—	—	—	(0.1 )	(0.1 )
Employee stock plans	—	16.4	(2.0 )	(6.4 )	—	—	8.0
Balance, June 30, 2016	\$ 11.0	\$ 1,178.1	\$ 1,806.7	\$ (27.7 )	\$ (973.7 )	\$ 104.9	\$ 2,099.3
Balance, December 31, 2016	\$ 11.0	\$ 1,188.8	\$ 1,277.1	\$ (28.0 )	\$ (1,093.7 )	\$ 89.6	\$ 1,444.8
Net income	—	—	27.6	—	—	6.9	34.5
Other comprehensive income	—	—	—	—	26.5	2.2	28.7
Sales of subsidiary shares to noncontrolling interest	—	—	—	—	—	2.2	2.2
Employee stock plans	—	2.5	(0.9 )	2.6	—	—	4.2
Balance, June 30, 2017	\$ 11.0	\$ 1,191.3	\$ 1,303.8	\$ (25.4 )	\$ (1,067.2 )	\$ 100.9	\$ 1,514.4

The accompanying notes are an integral part of these statements.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

Note 1. Accounting Policies

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

These unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and note disclosures required by U.S. generally accepted accounting principles for complete financial statements. In management’s opinion, all adjustments (which include only normal recurring adjustments) considered necessary for a fair presentation have been included. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s 2016 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, 2016 financial information has been derived from the Company’s audited consolidated financial statements.

New Accounting Pronouncements Adopted

In January 2017, the Company early adopted changes issued by the Financial Accounting Standards Board (FASB) to simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill, which is currently required if a reporting unit with goodwill fails a Step 1 test comparing the fair value of the reporting unit to its carrying value including goodwill. Under this new guidance, an entity should perform its annual, or interim, goodwill impairment test using just the Step 1 test of comparing the fair value of a reporting unit with its carrying amount. Any goodwill impairment, representing the amount by which the carrying amount exceeds the reporting unit’s fair value, is determined using this Step 1 test. Any goodwill impairment loss recognized would not exceed the total carrying amount of goodwill allocated to that reporting unit. The adoption of these changes did not have a material impact on the Company’s financial statements.

In January 2017, the Company adopted changes issued by the FASB to simplify employee share-based payment accounting. The areas for simplification in this guidance involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows, which will be prospectively adopted. The adoption of these changes did not have a material impact on the Company’s financial statements.

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

Pending Accounting Pronouncement

In March 2017, the FASB issued changes to the accounting for defined benefit pension and other postretirement benefit expenses. This new guidance requires the disaggregation of the service cost component from the other components of net benefit cost. The service cost component of net benefit cost is to be reported in the same line item on the consolidated statement of operations as other compensation costs arising from services rendered by the

pertinent employees, while the other components of net benefit cost are to be presented in the consolidated statement of operations separately, outside a subtotal of operating income. The amendments also provide explicit guidance to allow only the service cost component of net benefit cost to be eligible for capitalization. This new guidance is effective for the Company's 2018 fiscal year, with the adoption of the change in presentation of net benefit cost in the consolidated statement of operations to be applied retrospectively, and the change in capitalization for only service cost applied prospectively. The guidance allows a practical expedient that permits the use of the amounts disclosed in the retirement benefits footnote for the prior comparative periods as the estimation basis for

Table of Contents

applying the retrospective presentation requirements. The Company will adopt this new guidance in the first quarter of fiscal year 2018 using this practical expedient.

The Company expects such adoption to have a material impact to reported operating income due to the change in presentation of non-service cost expense components. For example, applying the practical expedient to fiscal year 2016 results, operating income for 2016 would be \$70.6 million higher, with the reclassification of this amount representing the other components of net benefit cost to a newly-created non-operating retirement benefit expense category, with no net impact to the reported 2016 loss before income taxes. The Company expects to have a one-time, unfavorable impact to pre-tax reported results in the first quarter of 2018 upon adoption due to the change limiting only the service cost component of net benefit cost to be capitalizable into inventory. Using expected fiscal year 2017 defined benefit retirement expense and current inventory levels, this impact in the first quarter of 2018 is projected to be approximately \$5 million, pre-tax.

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

In May 2014, the FASB issued changes to revenue recognition with customers, which is required to be adopted by the Company in fiscal year 2018. This update provides a five-step analysis of transactions to determine when and how revenue is recognized, along with expanded disclosure requirements. An entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company plans to adopt this accounting standard update using the modified retrospective method, with the cumulative effect of initially applying this update recognized in the first reporting period of 2018. Although the Company is currently evaluating the impact of this standard on individual customer contracts, the Company has evaluated the impact of this standard on the broad categories of its customer contracts, and anticipates the adoption of this guidance will not have a material impact on the consolidated statement of operations but does expect an impact to the consolidated balance sheet for reclassifications to contract assets and liabilities, the magnitude of which is still being determined. The Company also expects an increase to financial statement footnote disclosures regarding revenues, contract assets and contract liabilities as a result of this accounting standard update.

## Note 2. Inventories

Inventories at June 30, 2017 and December 31, 2016 were as follows (in millions):

	June 30, 2017	December 31, 2016
Raw materials and supplies	\$ 141.6	\$ 149.6
Work-in-process	886.7	837.9
Finished goods	159.4	161.7
Total inventories at current cost	1,187.7	1,149.2
Adjustment from current cost to LIFO cost basis	79.1	97.3
Inventory valuation reserves	(150.2 )	(169.0 )
Progress payments	(40.4 )	(40.5 )
Total inventories, net	\$1,076.2	\$ 1,037.0

Table of Contents

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

	Six months ended June 30,	
	2017	2016
LIFO benefit (charge)	\$(18.2)	\$(4.6)
NRV benefit (charge)	18.1	5.0
Net cost of sales impact	\$(0.1 )	\$0.4

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

## Note 3. Property, Plant and Equipment

Property, plant and equipment at June 30, 2017 and December 31, 2016 was as follows (in millions):

	June 30, 2017	December 31, 2016
Land	\$31.5	\$ 31.4
Buildings	840.3	829.6
Equipment and leasehold improvements	3,527.0	3,497.2
	4,398.8	4,358.2
Accumulated depreciation and amortization	(1,906.5 )	(1,859.3 )
Total property, plant and equipment, net	\$2,492.3	\$ 2,498.9

The construction in progress portion of property, plant and equipment at June 30, 2017 was \$77.1 million.

## Note 4. Debt

Debt at June 30, 2017 and December 31, 2016 was as follows (in millions):

	June 30, 2017	December 31, 2016
Allegheny Technologies 5.875% Notes due 2023 (a)	\$500.0	\$ 500.0
Allegheny Technologies 5.95% Notes due 2021	500.0	500.0
Allegheny Technologies 9.375% Notes due 2019	350.0	350.0
Allegheny Technologies 4.75% Convertible Senior Notes due 2022	287.5	287.5
Allegheny Ludlum 6.95% debentures due 2025	150.0	150.0
Term Loan due 2022	100.0	100.0
U.S. revolving credit facility	60.0	—
Foreign credit facilities	4.0	4.4
Other	8.6	2.2
Debt issuance costs	(16.0 )	(17.1 )
Total debt	1,944.1	1,877.0
Short term debt and current portion of long-term debt	67.5	105.1
Total long-term debt	\$1,876.6	\$ 1,771.9

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

## Table of Contents

### Revolving Credit Facility

The Company has an Asset Based Lending (ABL) Credit Facility, which is collateralized by the accounts receivable and inventory of the Company's domestic operations. The revolving credit portion of the ABL facility is \$400 million, which includes a letter of credit sub-facility of up to \$200 million. The ABL facility includes a term loan (Term Loan) in the amount of \$100.0 million.

In June 2017, the ABL facility was amended to, among other things, extend the duration of the facility from September 2020 to February 2022. As amended, the applicable interest rate for revolving credit borrowings under the ABL facility includes interest rate spreads based on available borrowing capacity that range between 1.75% and 2.25% for LIBOR-based borrowings and between 1.0% and 1.5% for base rate borrowings. The ABL facility contains a financial covenant whereby the Company must maintain a fixed charge coverage ratio of not less than 1.00:1.00 after an event of default has occurred and is continuing or if the undrawn availability under the ABL revolving credit portion of the facility is less than the greater of (i) 10%, as amended, of the then applicable maximum borrowing amount under the revolving credit portion of the ABL and any outstanding Term Loan balance, or (ii) \$40.0 million. The Company does not meet this required fixed charge coverage ratio at June 30, 2017. As a result, the Company is not able to access \$50.0 million of the revolving credit portion of the ABL facility until it meets the required ratio. Additionally, the Company must demonstrate liquidity, as calculated in accordance with the terms of the ABL facility, of at least \$500 million on the date that is 91 days prior to June 1, 2019, the maturity date of the 9.375% Senior Notes due 2019 and at least \$700 million on the date that is 91 days prior to January 15, 2021, the maturity date of the 5.95% Senior Notes due 2021, and that such liquidity is available at all times thereafter until the 9.375% Senior Notes due 2019 and the 5.95% Senior Notes due 2021 are paid in full or refinanced. Costs associated with entering into the ABL amendment were \$1.0 million, and are being amortized, along with any previous unamortized deferred costs, to interest expense over the extended term of the facility ending February 2022.

Also in June 2017, the \$100.0 million Term Loan was amended to extend the maturity date from November 2017 to February 2022 and to reduce the interest rate to 3.0% plus a LIBOR spread. The amended Term Loan can be prepaid in minimum increments of \$50.0 million on or after the earlier of December 2018 or upon refinancing or retirement of the 9.375% Senior Notes due 2019 if certain minimum liquidity conditions are satisfied. The underwriting costs associated with amending the Term Loan were \$0.8 million, and are being amortized, along with any previous unamortized deferred costs, to interest expense over the extended term of the loan ending February 2022.

As of June 30, 2017, there were \$60.0 million of outstanding borrowings under the ABL facility, and \$45.1 million was utilized to support the issuance of letters of credit. Average revolving credit borrowings under the ABL facility for the first six months of 2017 and 2016 were \$36 million and \$164 million, respectively, bearing an average annual interest rate of 3.376% and 1.757%, respectively.

### Note 5. Derivative Financial Instruments and Hedging

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

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

The majority of ATI's products are sold utilizing raw material surcharges and index mechanisms. However, as of June 30, 2017, the Company had entered into financial hedging arrangements, primarily at the request of its customers, related to firm orders, for an aggregate notional amount of approximately 27 million pounds of nickel with

hedge dates through 2021. The aggregate notional amount hedged is approximately 35% of a single year's estimated nickel raw material purchase requirements.

Table of Contents

At June 30, 2017, the outstanding financial derivatives used to hedge the Company's exposure to energy cost volatility included natural gas cost hedges. In the first six months of 2016, due to changes in expected operating levels within Flat Rolled Products segment operations, the Company concluded that additional portions of these natural gas cash flow hedges for 2016 and the first quarter of 2017 were ineffective based on forecast changes in underlying natural gas usage. The Company recognized \$0.2 million and \$1.3 million of pre-tax losses for the three and six months ended June 30, 2016, respectively, for natural gas cash flow hedge ineffectiveness, which is reported in selling and administrative expenses on the consolidated statement of operations. At June 30, 2017 the Company hedged approximately 70% of the Company's forecasted domestic requirements for natural gas for the remainder of 2017, approximately 35% for 2018, and approximately 25% for 2019.

While the majority of the Company's direct export sales are transacted in U.S. dollars, foreign currency exchange contracts are used, from time-to-time, to limit transactional exposure to changes in currency exchange rates for those transactions denominated in a non-U.S. currency. The Company sometimes purchases foreign currency forward contracts that permit it to sell specified amounts of foreign currencies expected to be received from its export sales for pre-established U.S. dollar amounts at specified dates. The forward contracts are denominated in the same foreign currencies in which export sales are denominated. These contracts are designated as hedges of the variability in cash flows of a portion of the forecasted future export sales transactions which otherwise would expose the Company to foreign currency risk, primarily euros. In addition, the Company may also designate cash balances held in foreign currencies as hedges of forecasted foreign currency transactions.

In 2015, the Company net settled substantially all of its foreign currency forward contracts designated as cash flow hedges with 2016 and 2017 maturity dates. The portion of the deferred gains on these settled cash flow hedges determined to be effective is currently recognized in accumulated other comprehensive income and is reclassified to earnings when the underlying transactions occur. As of June 30, 2017, the Company held 21.6 million euro notional value of foreign currency forward contracts designated as fair value hedges with maturity dates through 2017. The Company recorded \$1.9 million and \$2.2 million of charges in the three and six months ended June 30, 2017, respectively, and a \$3.1 million benefit and a \$2.5 million charge in the three and six months ended June 30, 2016, respectively, in costs of sales on the consolidated statement of operations for maturities and mark-to-market changes on these fair value hedges.

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

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

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



Table of Contents

(In millions)	Balance sheet location	June 30, 2017	December 31, 2016
Asset derivatives			
Derivatives designated as hedging instruments:			
Foreign exchange contracts	Prepaid expenses and other current assets	\$ 0.2	\$ 2.4
Natural gas contracts	Prepaid expenses and other current assets	0.1	0.2
Nickel and other raw material contracts	Prepaid expenses and other current assets	1.3	2.2
Foreign exchange contracts	Other assets	—	0.2
Natural gas contracts	Other assets	0.2	0.2
Nickel and other raw material contracts	Other assets	1.2	3.3
Total derivatives designated as hedging instruments		3.0	8.5
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Prepaid expenses and other current assets	—	0.6
Total derivatives not designated as hedging instruments		—	0.6
Total asset derivatives		\$ 3.0	\$ 9.1
Liability derivatives			
Derivatives designated as hedging instruments:			
Natural gas contracts	Accrued liabilities	\$ 1.9	\$ 2.5
Nickel and other raw material contracts	Accrued liabilities	8.1	6.7
Foreign exchange contracts	Accrued liabilities	0.7	—
Natural gas contracts	Other long-term liabilities	0.2	—
Nickel and other raw material contracts	Other long-term liabilities	9.6	9.4
Foreign exchange contracts	Other long-term liabilities	—	0.1
Total derivatives designated as hedging instruments		20.5	18.7
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Accrued Liabilities	0.3	—
Total derivatives not designated as hedging instruments		0.3	—
Total liability derivatives		\$ 20.8	\$ 18.7

For derivative financial instruments that are designated as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income (OCI) and reclassified into earnings in the same period or periods during which the hedged item affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current period results. For derivative financial instruments that are designated as fair value hedges, changes in the fair value of these derivatives are recognized in current period results and are reported as changes within accrued liabilities and other on the consolidated statements of cash flows. The Company did not use net investment hedges for the periods presented. The effects of derivative instruments in the tables below are presented net of related income taxes, excluding any impacts of changes to income tax valuation allowances effecting results of operations or other comprehensive income, when applicable (see Note 12 for further explanation).

Assuming market prices remain constant with those at June 30, 2017, a loss of \$5.7 million, net of tax and excluding income tax valuation allowance changes, is expected to be recognized over the next 12 months.

Table of Contents

Activity with regard to derivatives designated as cash flow hedges for the three and six month periods ended June 30, 2017 and 2016 was as follows (in millions):

Derivatives in Cash Flow	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)		Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (a)		Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) (b)	
	Three months ended June 30,		Three months ended June 30,		Three months ended June 30,	
Hedging Relationships	2017	2016	2017	2016	2017	2016
Nickel and other raw material contracts	\$ (4.6 )	\$ 12.2	\$ (1.0 )	\$ (3.8 )	\$ —	\$ —
Natural gas contracts	(0.5 )	4.3	(0.7 )	(2.7 )	—	(0.2 )
Foreign exchange contracts	(0.1 )	(0.2 )	2.5	4.9	—	—
Total	\$ (5.2 )	\$ 16.3	\$ 0.8	\$ (1.6 )	\$ —	\$ (0.2 )

  

Derivatives in Cash Flow	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)		Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (a)		Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) (b)	
	Six months ended June 30,		Six months ended June 30,		Six months ended June 30,	
Hedging Relationships	2017	2016	2017	2016	2017	2016
Nickel and other raw material contracts	\$ (4.4 )	\$ 8.8	\$ (1.6 )	\$ (7.7 )	\$ —	\$ —
Natural gas contracts	(2.1 )	2.3	(2.1 )	(5.9 )	—	(0.9 )
Foreign exchange contracts	(0.2 )	(0.5 )	5.1	9.6	—	—
Total	\$ (6.7 )	\$ 10.6	\$ 1.4	\$ (4.0 )	\$ —	\$ (0.9 )

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

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

The disclosures of gains or losses presented above for nickel and other raw material contracts and foreign currency contracts do not take into account the anticipated underlying transactions. Since these derivative contracts represent hedges, the net effect of any gain or loss on results of operations may be fully or partially offset.

The Company has 8 million euro notional value outstanding as of June 30, 2017 of foreign currency forward contracts not designated as hedges, with maturity dates into the fourth quarter of 2017. These derivatives that are not designated as hedging instruments were as follows:

(In millions)	Amount of Gain (Loss) Recognized on Derivatives			
	Three months ended June 30,		Six months ended June 30,	
Derivatives Not Designated as Hedging Instruments	2017	2016	2017	2016
Foreign exchange contracts	\$ (0.5)	\$ 0.7	\$ (0.6)	\$ 0.1

Changes in the fair value of foreign exchange contract derivatives not designated as hedging instruments are recorded in cost of sales and are reported as changes within accrued liabilities and other on the consolidated statements of cash

flows.

12

---

Table of Contents

## Note 6. Fair Value of Financial Instruments

The estimated fair value of financial instruments at June 30, 2017 was as follows:

(In millions)	Fair Value Measurements at Reporting Date Using			
	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	\$ 154.6	\$ 154.6	\$ 154.6	\$ —
Derivative financial instruments:				
Assets	3.0	3.0	—	3.0
Liabilities	20.8	20.8	—	20.8
Debt (a)	1,960.1	2,122.1	1,949.5	172.6

The estimated fair value of financial instruments at December 31, 2016 was as follows:

(In millions)	Fair Value Measurements at Reporting Date Using			
	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	\$ 229.6	\$ 229.6	\$ 229.6	\$ —
Derivative financial instruments:				
Assets	9.1	9.1	—	9.1
Liabilities	18.7	18.7	—	18.7
Debt (a)	1,894.1	1,975.0	1,868.4	106.6

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

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

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

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

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. No transfers between levels were reported in 2017 or 2016.

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.

Table of Contents

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

## Note 7. Retirement Benefits

The Company has defined contribution retirement plans or defined benefit pension plans covering substantially all employees. Company contributions to defined contribution retirement plans are generally based on a percentage of eligible pay or based on hours worked. 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 collectively-bargained salaried and hourly employees. The plans provide health care and life insurance benefits for eligible retirees. In most retiree health care plans, Company contributions towards premiums are capped based on the cost as of a certain date, thereby creating a defined contribution.

For the three month periods ended June 30, 2017 and 2016, the components of pension and other postretirement benefit expense for the Company's defined benefit plans included the following (in millions):

	Pension Benefits		Other Postretirement Benefits	
	Three months ended June 30,		Three months ended June 30,	
	2017	2016	2017	2016
Service cost - benefits earned during the year	\$3.5	\$5.1	\$ 0.6	\$ 0.7
Interest cost on benefits earned in prior years	29.2	31.3	3.6	3.9
Expected return on plan assets	(36.7 )	(37.1 )	—	—
Amortization of prior service cost (credit)	0.3	0.3	(0.7 )	(0.8 )
Amortization of net actuarial loss	15.7	16.4	2.3	2.4
Total retirement benefit expense	\$12.0	\$16.0	\$ 5.8	\$ 6.2

For the six month periods ended June 30, 2017 and 2016, the components of pension and other postretirement benefit expense for the Company's defined benefit plans included the following (in millions):

	Pension Benefits		Other Postretirement Benefits	
	Six months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Service cost - benefits earned during the year	\$7.0	\$10.3	\$1.2	\$1.3
Interest cost on benefits earned in prior years	58.4	62.7	7.3	8.0
Expected return on plan assets	(73.4 )	(74.3 )	—	—
Amortization of prior service cost (credit)	0.6	0.6	(1.4 )	(0.2 )
Amortization of net actuarial loss	31.3	32.7	4.5	4.8
Total retirement benefit expense	\$23.9	\$32.0	\$11.6	\$13.9

Effective January 31, 2017, closure of the U.K. defined benefit pension plan to future accruals for service and pay (hard freeze) occurred. In March 2017, the Company made a \$135 million cash contribution to the ATI Pension Plan, its U.S. qualified defined benefit pension plan, completing the Company's funding requirements for 2017.

## Note 8. Income Taxes

The Company maintains income tax valuation allowances on its U.S. Federal and state deferred tax assets due to a three year cumulative loss condition which limits the ability to consider other positive subjective evidence, such as projections of future results, to assess the realizability of deferred tax assets. Results in both 2017 and 2016 include impacts from income taxes which differ from a standard 35% tax rate, primarily related to income tax valuation allowance changes. Second quarter 2017 results included a benefit for income taxes of \$2.1 million, which includes

\$5.4 million of discrete tax benefits recognized in the quarter largely for the effects of amending tax returns for prior periods in certain domestic jurisdictions. The second quarter 2016 benefit for income taxes was \$25.9 million, which includes \$2.8 million of discrete tax benefits.

Table of Contents

For the first six months of 2017, the benefit for income taxes was \$0.1 million, compared to a benefit for income taxes of \$60.1 million, or 34.6% of the loss before income taxes, for the comparable 2016 period. The first six months of 2017 and 2016 included discrete tax benefits of \$6.7 million and \$3.6 million, respectively.

## Note 9. Business Segments

The Company operates in two business segments: High Performance Materials & Components (HPMC) and Flat Rolled Products (FRP). The measure of segment operating profit, which is used to analyze the performance and results of the business segments, excludes all effects of LIFO inventory accounting and any related changes in net realizable value inventory reserves which offset the Company's aggregate net debit LIFO valuation balance, income taxes, corporate expenses, net interest expense, closed operations expenses and restructuring costs, if any. Management believes segment operating profit, as defined, provides an appropriate measure of controllable operating results at the business segment level. Following is certain financial information with respect to the Company's business segments for the periods indicated (in millions):

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Total sales:				
High Performance Materials & Components	\$543.3	\$511.1	\$1,067.0	\$1,019.0
Flat Rolled Products	373.2	324.3	746.2	605.5
	916.5	835.4	1,813.2	1,624.5
Intersegment sales:				
High Performance Materials & Components	16.9	12.7	30.2	27.6
Flat Rolled Products	19.4	12.2	36.9	28.9
	36.3	24.9	67.1	56.5
Sales to external customers:				
High Performance Materials & Components	526.4	498.4	1,036.8	991.4
Flat Rolled Products	353.8	312.1	709.3	576.6
	\$880.2	\$810.5	\$1,746.1	\$1,568.0
Operating profit (loss):				
High Performance Materials & Components	\$68.0	\$38.8	\$118.9	\$67.9
Flat Rolled Products	2.9	(31.8 )	21.9	(141.4 )
Total operating profit (loss)	70.9	7.0	140.8	(73.5 )
LIFO and net realizable value reserves	(0.1 )	0.4	(0.1 )	0.4
Corporate expenses	(11.8 )	(11.8 )	(22.1 )	(22.8 )
Closed operations and other expenses	(13.2 )	(5.7 )	(16.2 )	(9.2 )
Restructuring and other charges	—	(1.0 )	—	(10.0 )
Interest expense, net	(34.5 )	(30.3 )	(68.0 )	(58.6 )
Income (loss) before income taxes	\$11.3	\$(41.4 )	\$34.4	\$(173.7 )

Closed operations and other expenses in 2017 reflect higher costs due to the additions of the Rowley, UT, Midland, PA and Bagdad, PA facilities as a result of closure actions in 2016. Closed operations and other expenses in 2017 also reflect more significant foreign currency impacts, primarily from the Company's European Treasury Center operation.

The first six months of 2016 include \$10.0 million of restructuring charges for severance obligations. During the first quarter of 2016, a \$9.0 million charge was recorded for severance obligations in the FRP operations, with the reduction of approximately one-third of FRP's salaried workforce, which was largely completed by the end of 2016. During the second quarter of 2016, an additional \$1.0 million charge was recorded for severance obligations in the HPMC segment. These severance charges were excluded from segment operating results. Reserves for restructuring charges at June 30, 2017 were \$13.4 million, of which \$6.6 million relates to severance and employee benefit costs and \$6.8 million to closure costs. The decline in these reserves compared to \$33.1 million at December 31, 2016 is



due to payments. These restructuring reserves are expected to be substantially paid in 2017.

15

---

Table of Contents

## Note 10. Per Share Information

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

(In millions, except per share amounts)	Three Months		Six months	
	Ended June 30, 2017	2016	ended June 30, 2017	2016
Numerator:				
Numerator for basic income (loss) per common share –				
Net income (loss) attributable to ATI	\$10.1	\$(18.8)	\$27.6	\$(120.0)
Effect of dilutive securities:				
4.75% Convertible Senior Notes due 2022	1.8	—	4.8	—
Numerator for diluted income (loss) per common share –				
Net income (loss) attributable to ATI after assumed conversions	\$11.9	\$(18.8)	\$32.4	\$(120.0)
Denominator:				
Denominator for basic net income (loss) per common share – weighted average shares	107.7	107.3	107.6	107.3
Effect of dilutive securities:				
Share-based compensation	0.7	—	0.8	—
4.75% Convertible Senior Notes due 2022	19.9	—	19.9	—
Denominator for diluted net income (loss) per common share – adjusted weighted average shares and assumed conversions	128.3	107.3	128.3	107.3
Basic net income (loss) attributable to ATI per common share	\$0.09	\$(0.18)	\$0.26	\$(1.12 )
Diluted net income (loss) attributable to ATI per common share	\$0.09	\$(0.18)	\$0.25	\$(1.12 )

Common stock that would be issuable upon the assumed conversion of the 2022 Convertible Notes and other option equivalents and contingently issuable shares are excluded from the computation of contingently issuable shares, and therefore, from the denominator for diluted earnings per share, if the effect of inclusion is anti-dilutive. There were no anti-dilutive shares for the three and six month period ended June 30, 2017. There were 9.3 million and 5.0 million anti-dilutive shares for the three and six month period ended June 30, 2016, respectively.

## Note 11. Financial Information for Subsidiary and Guarantor Parent

The payment obligations under the \$150 million 6.95% debentures due 2025 issued by Allegheny Ludlum, LLC (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.

ATI is the plan sponsor for the ATI Pension Plan, the Company’s 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 and valuation allowances. 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.

Table of Contents

Allegheny Technologies Incorporated  
 Financial Information for Subsidiary and Guarantor Parent  
 Balance Sheets  
 June 30, 2017

(In millions)	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
<b>Assets:</b>					
Cash and cash equivalents	\$ 2.5	\$ 2.6	\$ 149.5	\$ —	\$ 154.6
Accounts receivable, net	0.1	136.8	401.7	—	538.6
Intercompany notes receivable	—	—	3,282.0	(3,282.0 )	—
Inventories, net	—	160.2	916.0	—	1,076.2
Prepaid expenses and other current assets	5.3	4.1	21.3	—	30.7
Total current assets	7.9	303.7	4,770.5	(3,282.0 )	1,800.1
Property, plant and equipment, net	1.1	1,585.6	905.6	—	2,492.3
Goodwill	—	—	643.5	—	643.5
Intercompany notes receivable	—	—	200.0	(200.0 )	—
Investment in subsidiaries	5,498.2	37.7	—	(5,535.9 )	—
Other assets	26.8	19.3	204.3	—	250.4
Total assets	\$ 5,534.0	\$ 1,946.3	\$ 6,723.9	\$ (9,017.9 )	\$ 5,186.3
<b>Liabilities and stockholders' equity:</b>					
Accounts payable	\$ 3.1	\$ 161.2	\$ 191.2	\$ —	\$ 355.5
Accrued liabilities	51.8	75.9	150.3	—	278.0
Intercompany notes payable	1,670.6	1,611.4	—	(3,282.0 )	—
Short term debt and current portion of long-term debt	0.3	0.3	66.9	—	67.5
Total current liabilities	1,725.8	1,848.8	408.4	(3,282.0 )	701.0
Long-term debt	1,623.1	149.8	103.7	—	1,876.6
Intercompany notes payable	—	200.0	—	(200.0 )	—
Accrued postretirement benefits	—	238.4	69.6	—	308.0
Pension liabilities	634.8	4.9	43.2	—	682.9
Deferred income taxes	20.1	—	—	—	20.1
Other long-term liabilities	15.8	18.6	48.9	—	83.3
Total liabilities	4,019.6	2,460.5	673.8	(3,482.0 )	3,671.9
Total stockholders' equity (deficit)	1,514.4	(514.2 )	6,050.1	(5,535.9 )	1,514.4
Total liabilities and stockholders' equity	\$ 5,534.0	\$ 1,946.3	\$ 6,723.9	\$ (9,017.9 )	\$ 5,186.3

Table of Contents

Allegheny Technologies Incorporated  
 Financial Information for Subsidiary and Guarantor Parent  
 Statements of Operations and Comprehensive Income  
 For the three months ended June 30, 2017

(In millions)	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Sales	\$ —	\$ 291.2	\$ 589.0	\$ —	\$ 880.2
Cost of sales	12.0	278.6	477.3	—	767.9
Gross profit (loss)	(12.0 )	12.6	111.7	—	112.3
Selling and administrative expenses	23.1	8.7	34.9	—	66.7
Operating income (loss)	(35.1 )	3.9	76.8	—	45.6
Interest income (expense), net	(39.7 )	(22.5 )	27.7	—	(34.5 )
Other income (loss) including equity in income of unconsolidated subsidiaries	86.1	0.3	(0.1 )	(86.1 )	0.2
Income (loss) before income tax provision (benefit)	11.3	(18.3 )	104.4	(86.1 )	11.3
Income tax provision (benefit)	(2.1 )	(6.6 )	33.6	(27.0 )	(2.1 )
Net income (loss)	13.4	(11.7 )	70.8	(59.1 )	13.4
Less: Net income attributable to noncontrolling interests	—	—	3.3	—	3.3
Net income (loss) attributable to ATI	\$ 13.4	\$ (11.7 )	\$ 67.5	\$ (59.1 )	\$ 10.1
Comprehensive income (loss) attributable to ATI	\$ 17.8	\$ (11.3 )	\$ 92.5	\$ (84.7 )	\$ 14.3

Allegheny Technologies Incorporated  
 Financial Information for Subsidiary and Guarantor Parent  
 Statements of Operations and Comprehensive Income  
 For the six months ended June 30, 2017

(In millions)	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Sales	\$ —	\$ 578.4	\$ 1,167.7	\$ —	\$ 1,746.1
Cost of sales	23.0	538.7	959.3	—	1,521.0
Gross profit (loss)	(23.0 )	39.7	208.4	—	225.1
Selling and administrative expenses	44.3	18.4	63.5	—	126.2
Operating income (loss)	(67.3 )	21.3	144.9	—	98.9
Interest income (expense), net	(78.3 )	(43.7 )	54.0	—	(68.0 )
Other income (loss) including equity in income of unconsolidated subsidiaries	180.0	0.8	2.7	(180.0 )	3.5
Income (loss) before income tax provision (benefit)	34.4	(21.6 )	201.6	(180.0 )	34.4
Income tax provision (benefit)	(0.1 )	(7.7 )	69.1	(61.4 )	(0.1 )
Net income (loss)	34.5	(13.9 )	132.5	(118.6 )	34.5
Less: Net income attributable to noncontrolling interests	—	—	6.9	—	6.9
Net income (loss) attributable to ATI	\$ 34.5	\$ (13.9 )	\$ 125.6	\$ (118.6 )	\$ 27.6
Comprehensive income (loss) attributable to ATI	\$ 63.2	\$ (11.6 )	\$ 138.4	\$ (135.9 )	\$ 54.1

Table of ContentsCondensed Statements of Cash Flows  
For the six months ended June 30, 2017

(In millions)	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Cash flows provided by (used in) operating activities	\$ (54.6 )	\$ (55.4 )	\$ 24.5	\$ —	\$ (85.5 )
Investing Activities:					
Purchases of property, plant and equipment	—	(19.9 )	(35.4 )	—	(55.3 )
Net receipts/(payments) on intercompany activity	—	—	(135.3 )	135.3	—
Asset disposals and other	—	0.1	3.2	—	3.3
Cash flows provided by (used in) investing activities	—	(19.8 )	(167.5 )	135.3	(52.0 )
Financing Activities:					
Borrowings on long-term debt	—	—	7.3	—	7.3
Payments on long-term debt and capital leases	(0.2 )	(0.2 )	(0.4 )	—	(0.8 )
Net borrowings under credit facilities	—	—	59.4	—	59.4
Debt issuance costs	—	—	(0.8 )	—	(0.8 )
Net receipts/(payments) on intercompany activity	59.8	75.5	—	(135.3)	—
Sale to noncontrolling interests	—	—	2.2	—	2.2
Shares repurchased for income tax withholding on share-based compensation	(4.8 )	—	—	—	(4.8 )
Cash flows provided by (used in) financing activities	54.8	75.3	67.7	(135.3)	62.5
Increase (decrease) in cash and cash equivalents	\$ 0.2	\$ 0.1	\$ (75.3 )	\$ —	\$ (75.0 )

Table of Contents

Allegheny Technologies Incorporated  
 Financial Information for Subsidiary and Guarantor Parent  
 Balance Sheets  
 December 31, 2016

(In millions)	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
<b>Assets:</b>					
Cash and cash equivalents	\$ 2.3	\$ 2.5	\$ 224.8	\$ —	\$ 229.6
Accounts receivable, net	0.1	107.8	344.2	—	452.1
Intercompany notes receivable	—	—	2,892.9	(2,892.9 )	—
Inventories, net	—	106.7	930.3	—	1,037.0
Prepaid expenses and other current assets	6.6	5.2	36.0	—	47.8
Total current assets	9.0	222.2	4,428.2	(2,892.9 )	1,766.5
Property, plant and equipment, net	1.3	1,583.6	914.0	—	2,498.9
Goodwill	—	—	641.9	—	641.9
Intercompany notes receivable	—	—	200.0	(200.0 )	—
Investment in subsidiaries	5,241.2	37.7	—	(5,278.9 )	—
Other assets	23.0	25.5	214.2	—	262.7
Total assets	\$ 5,274.5	\$ 1,869.0	\$ 6,398.3	\$ (8,371.8 )	\$ 5,170.0
<b>Liabilities and stockholders' equity:</b>					
Accounts payable	\$ 3.1	\$ 97.4	\$ 193.8	\$ —	\$ 294.3
Accrued liabilities	54.6	83.3	171.4	—	309.3
Intercompany notes payable	1,341.1	1,551.8	—	(2,892.9 )	—
Short term debt and current portion of long-term debt	0.4	0.3	104.4	—	105.1
Total current liabilities	1,399.2	1,732.8	469.6	(2,892.9 )	708.7
Long-term debt	1,621.7	150.0	0.2	—	1,771.9
Intercompany notes payable	—	200.0	—	(200.0 )	—
Accrued postretirement benefits	—	244.0	73.7	—	317.7
Pension liabilities	778.5	5.2	44.2	—	827.9
Deferred income taxes	15.6	—	—	—	15.6
Other long-term liabilities	14.7	18.1	50.6	—	83.4
Total liabilities	3,829.7	2,350.1	638.3	(3,092.9 )	3,725.2
Total stockholders' equity (deficit)	1,444.8	(481.1 )	5,760.0	(5,278.9 )	1,444.8
Total liabilities and stockholders' equity	\$ 5,274.5	\$ 1,869.0	\$ 6,398.3	\$ (8,371.8 )	\$ 5,170.0



Table of Contents

Allegheny Technologies Incorporated  
 Financial Information for Subsidiary and Guarantor Parent  
 Statements of Operations and Comprehensive Income  
 For the three months ended June 30, 2016

(In millions)	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Sales	\$ —	\$ 260.9	\$ 549.6	\$ —	\$ 810.5
Cost of sales	9.6	286.9	465.8	—	762.3
Gross profit (loss)	(9.6 )	(26.0 )	83.8	—	48.2
Selling and administrative expenses	20.6	4.9	33.8	—	59.3
Restructuring charges	—	—	1.0	—	1.0
Operating income (loss)	(30.2 )	(30.9 )	49.0	—	(12.1 )
Interest income (expense), net	(33.7 )	(17.6 )	21.0	—	(30.3 )
Other income (loss) including equity in income of unconsolidated subsidiaries	22.5	0.3	0.9	(22.7 )	1.0
Income (loss) before income tax provision (benefit)	(41.4 )	(48.2 )	70.9	(22.7 )	(41.4 )
Income tax provision (benefit)	(25.9 )	(17.6 )	25.8	(8.2 )	(25.9 )
Net income (loss)	(15.5 )	(30.6 )	45.1	(14.5 )	(15.5 )
Less: Net income attributable to noncontrolling interests	—	—	3.3	—	3.3
Net income (loss) attributable to ATI	\$ (15.5 )	\$ (30.6 )	\$ 41.8	\$ (14.5 )	\$ (18.8 )
Comprehensive income (loss) attributable to ATI	\$ 4.2	\$ (29.3 )	\$ 33.7	\$ (6.2 )	\$ 2.4

Allegheny Technologies Incorporated  
 Financial Information for Subsidiary and Guarantor Parent  
 Statements of Operations and Comprehensive Income  
 For the six months ended June 30, 2016

(In millions)	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Sales	\$ —	\$ 474.7	\$ 1,093.3	\$ —	\$ 1,568.0
Cost of sales	29.0	585.4	938.6	—	1,553.0
Gross profit (loss)	(29.0 )	(110.7 )	154.7	—	15.0
Selling and administrative expenses	42.5	14.6	64.8	—	121.9
Restructuring charges	—	9.0	1.0	—	10.0
Operating income (loss)	(71.5 )	(134.3 )	88.9	—	(116.9 )
Interest income (expense), net	(64.9 )	(31.7 )	38.0	—	(58.6 )
Other income (loss) including equity in income of unconsolidated subsidiaries	(37.3 )	0.4	1.7	37.0	1.8
Income (loss) before income tax provision (benefit)	(173.7 )	(165.6 )	128.6	37.0	(173.7 )
Income tax provision (benefit)	(60.1 )	(61.0 )	49.5	11.5	(60.1 )
Net income (loss)	(113.6 )	(104.6 )	79.1	25.5	(113.6 )
Less: Net income attributable to noncontrolling interests	—	—	6.4	—	6.4
Net income (loss) attributable to ATI	\$ (113.6 )	\$ (104.6 )	\$ 72.7	\$ 25.5	\$ (120.0 )
Comprehensive income (loss) attributable to ATI	\$ (75.8 )	\$ (87.2 )	\$ 61.0	\$ 22.8	\$ (79.2 )





Table of ContentsCondensed Statements of Cash Flows  
For the six months ended June 30, 2016

(In millions)	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Cash flows provided by (used in) operating activities	\$ (50.5 )	\$ (166.8 )	\$ 183.7	\$ —	\$ (33.6 )
Investing Activities:					
Purchases of property, plant and equipment	(0.3 )	(85.3 )	(59.7 )	—	(145.3 )
Net receipts/(payments) on intercompany activity	—	—	(43.5 )	43.5	—
Asset disposals and other	—	—	1.8	—	1.8
Cash flows provided by (used in) investing activities	(0.3 )	(85.3 )	(101.4 )	43.5	(143.5 )
Financing Activities:					
Borrowings on long-term debt	287.5	—	100.0	—	387.5
Payments on long-term debt and capital leases	(0.3 )	(0.1 )	(0.2 )	—	(0.6 )
Net borrowings under credit facilities	—	—	2.5	—	2.5
Debt issuance costs	(9.4 )	—	(1.0 )	—	(10.4 )
Net receipts/(payments) on intercompany activity	(209.8 )	253.3	—	(43.5 )	—
Dividends paid to stockholders	(17.2 )	—	—	—	(17.2 )
Acquisition of noncontrolling interests	—	—	(12.2 )	—	(12.2 )
Cash flows provided by (used in) financing activities	50.8	253.2	89.1	(43.5 )	349.6
Increase (decrease) in cash and cash equivalents	\$ —	\$ 1.1	\$ 171.4	\$ —	\$ 172.5

## Note 12. Accumulated Other Comprehensive Income (Loss)

The changes in accumulated other comprehensive income (loss) (AOCI) by component, net of tax, for the three month period ended June 30, 2017 were as follows (in millions):

	Post- retirement benefit plans	Currency translation adjustment	Unrealized holding gains on securities	Derivatives	Deferred Tax Asset Valuation Allowance	Total
Attributable to ATI:						
Balance, March 31, 2017	\$ (954.7 )	\$ (76.6 )	\$ —	\$ 0.3	\$ (40.4 )	\$ (1,071.4)
OCI before reclassifications	—	4.2	—	(5.2 )	1.1	0.1
Amounts reclassified from AOCI	(a) 11.2	(b) —	(b) —	—(c) (0.8 )	(6.3 )	4.1
Net current-period OCI	11.2	4.2	—	(6.0 )	(5.2 )	4.2
Balance, June 30, 2017	\$ (943.5 )	\$ (72.4 )	\$ —	\$ (5.7 )	\$ (45.6 )	\$ (1,067.2)
Attributable to noncontrolling interests:						
Balance, March 31, 2017	\$ —	\$ 11.7	\$ —	\$ —	\$ —	\$ 11.7
OCI before reclassifications	—	0.2	—	—	—	0.2
Amounts reclassified from AOCI	—	(b) —	—	—	—	—
Net current-period OCI	—	0.2	—	—	—	0.2
Balance, June 30, 2017	\$ —	\$ 11.9	\$ —	\$ —	\$ —	\$ 11.9

Table of Contents

The changes in AOCI by component, net of tax, for the six month period ended June 30, 2017 were as follows (in millions):

	Post- retirement benefit plans	Currency translation adjustment	Unrealized holding gains on securities	Derivatives	Deferred Tax Asset Valuation Allowance	Total
Attributable to ATI:						
Balance, December 31, 2016	\$ (965.5 )	\$ (85.0 )	\$	—\$ 2.4	\$ (45.6 )	\$(1,093.7)
OCI before reclassifications	—	12.6		— (6.7 )	—	5.9
Amounts reclassified from AOCI	(a) 22.0	(b) —	(b)	—(c) (1.4 )	—	20.6
Net current-period OCI	22.0	12.6		— (8.1 )	—	26.5
Balance, June 30, 2017	\$ (943.5 )	\$ (72.4 )	\$	—\$ (5.7 )	\$ (45.6 )	\$(1,067.2)
Attributable to noncontrolling interests:						
Balance, December 31, 2016	\$ —	\$ 9.7	\$	—\$ —	\$ —	\$9.7
OCI before reclassifications	—	2.2		— —	—	2.2
Amounts reclassified from AOCI	—	(b) —		— —	—	—
Net current-period OCI	—	2.2		— —	—	2.2
Balance, June 30, 2017	\$ —	\$ 11.9	\$	—\$ —	\$ —	\$11.9

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

(b) No amounts were reclassified to earnings.

Amounts related to the effective portion of the derivatives are included in cost of goods sold in the period or (c) periods the hedged item affects earnings. Amounts related to the ineffective portion of the derivatives are presented in selling and administrative expenses on the consolidated statement of operations (see Note 5).

The changes in AOCI by component, net of tax, for the three month period ended June 30, 2016 were as follows (in millions):

	Post- retirement benefit plans	Currency translation adjustment	Unrealized holding gains on securities	Derivatives	Deferred Tax Asset Valuation Allowance	Total
Attributable to ATI:						
Balance, March 31, 2016	\$ (925.1 )	\$ (51.5 )	\$	—\$ (18.3 )	\$	—\$(994.9)
OCI before reclassifications	—	(8.3 )		— 16.3		—8.0
Amounts reclassified from AOCI	(a) 11.4	(b) —	(b)	—(c) 1.8		—13.2
Net current-period OCI	11.4	(8.3 )		— 18.1		—21.2
Balance, June 30, 2016	\$ (913.7 )	\$ (59.8 )	\$	—\$ (0.2 )	\$	—\$(973.7)
Attributable to noncontrolling interests:						
Balance, March 31, 2016	\$ —	\$ 17.9	\$	—\$ —	\$	—\$17.9
OCI before reclassifications	—	(1.5 )		— —		—(1.5 )
Amounts reclassified from AOCI	—	(b) —		— —		—
Net current-period OCI	—	(1.5 )		— —		—\$(1.5 )
Balance, June 30, 2016	\$ —	\$ 16.4	\$	—\$ —	\$	—\$16.4

Table of Contents

The changes in AOCI by component, net of tax, for the six month period ended June 30, 2016 were as follows (in millions):

	Post-retirement benefit plans	Currency translation adjustment	Unrealized holding gains on securities	Derivatives	Deferred Tax Asset Valuation Allowance	Total
Attributable to ATI:						
Balance, December 31, 2015	\$ (951.2 )	\$ (47.6 )	\$ —	—\$ (15.7 )	\$ —	—\$(1,014.5)
OCI before reclassifications	13.9	(12.2 )	—	10.6	—	—12.3
Amounts reclassified from AOCI	(a) 23.6	(b) —	(b)	—(c) 4.9	—	—28.5
Net current-period OCI	37.5	(12.2 )	—	15.5	—	—40.8
Balance, June 30, 2016	\$ (913.7 )	\$ (59.8 )	\$ —	—\$ (0.2 )	\$ —	—\$(973.7 )
Attributable to noncontrolling interests:						
Balance, December 31, 2015	\$ —	\$ 19.4	\$ —	—\$ —	\$ —	—\$19.4
OCI before reclassifications	—	(3.0 )	—	—	—	—(3.0 )
Amounts reclassified from AOCI	—	(b) —	—	—	—	—
Net current-period OCI	—	(3.0 )	—	—	—	—\$(3.0 )
Balance, June 30, 2016	\$ —	\$ 16.4	\$ —	—\$ —	\$ —	—\$16.4

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

(b) No amounts were reclassified to earnings.

Amounts related to the effective portion of the derivatives are included in cost of goods sold in the period or (c) periods the hedged item affects earnings. Amounts related to the ineffective portion of the derivatives are presented in selling and administrative expenses on the consolidated statement of operations (see Note 5).

Other comprehensive income (loss) amounts (OCI) reported above by category are net of applicable income tax expense (benefit) for each year presented. Income tax expense (benefit) on OCI items is recorded as a change in a deferred tax asset or liability. Amounts recognized in OCI in 2017 include the impact of any deferred tax asset valuation allowances, when applicable, resulting from the Company's three year cumulative loss position. Foreign currency translation adjustments, including those pertaining to noncontrolling interests, are generally not adjusted for income taxes as they relate to indefinite investments in non-U.S. subsidiaries.

Reclassifications out of AOCI for the three and six month periods ended June 30, 2017 and 2016 were as follows:

Details about AOCI Components (In millions)	Amount reclassified from AOCI				Affected line item in the statements of operations
	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016	
Postretirement benefit plans					
Prior service (cost) credit	\$0.4	\$0.5	(a) \$0.8	\$(0.4 )	(a)
Actuarial losses	(18.0 )	(18.8 )	(a) (35.8 )	(37.5 )	(a)
	(17.6 )	(18.3 )	(c) (35.0 )	(37.9 )	(c)
	(6.4 )	(6.9 )	(13.0 )	(14.3 )	Total before tax
	\$(11.2)	\$(11.4)	\$(22.0)	\$(23.6)	Tax provision (benefit) (d)
					Net of tax
Derivatives					
Nickel and other raw material contracts	\$(1.6 )	\$(6.1 )	(b) \$(2.5 )	\$(12.4)	(b)
Natural gas contracts	(1.1 )	(4.7 )	(b) (3.4 )	(11.0 )	(b)
Foreign exchange contracts	4.1	7.9	(b) 8.2	15.5	(b)

Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 10-Q

1.4	(2.9 )	(c) 2.3	(7.9 )	(c) Total before tax
0.6	(1.1 )	0.9	(3.0 )	Tax provision (benefit) (d)
\$0.8	\$(1.8 )	\$1.4	\$(4.9 )	Net of tax

Table of Contents

(a) Amounts are included in the computation of pension and other postretirement benefit expense, which is reported in both cost of goods sold and selling and administrative expenses. For additional information, see Note 7.

Amounts related to the effective portion of the derivatives are included in cost of goods sold in the period or (b) periods the hedged item affects earnings. Amounts related to the ineffective portion of the derivatives are presented in selling and administrative expenses on the consolidated statement of operations (see Note 5).

For pretax items, positive amounts are income and negative amounts are expense in terms of the impact to net (c) income. Tax effects are presented in conformity with ATI's presentation in the consolidated statements of operations.

(d) These amounts exclude the impact of any deferred tax asset valuation allowance, when applicable.

Note 13. Commitments and Contingencies

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

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

At June 30, 2017, the Company's reserves for environmental remediation obligations totaled approximately \$14 million, of which \$7 million was included in other current liabilities. The reserve includes estimated probable future costs of \$2 million for federal Superfund and comparable state-managed sites; \$10 million for formerly owned or operated sites for which the Company has remediation or indemnification obligations; \$1 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 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. The Company continues to evaluate whether it may be able to recover a portion of past and future costs for environmental liabilities from third parties and to pursue such recoveries where appropriate.

Based on currently available information, it is reasonably possible that costs for recorded matters may exceed the Company's recorded reserves by as much as \$19 million. Future investigation or remediation activities may result in the discovery of additional hazardous materials, potentially higher levels of contamination than discovered during prior investigation, and may impact costs of the success or lack thereof in remedial solutions. Therefore, future developments, administrative actions or liabilities relating to environmental matters could have a material adverse effect on the Company's consolidated financial condition or results of operations.

See Note 21. 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, 2016 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, construction, employment, employee and retiree benefits, taxes, environmental, health and safety and occupational disease, and stockholder and corporate governance matters. While the outcome of litigation cannot be predicted with certainty, and some of these lawsuits, claims or proceedings may be

determined adversely to the Company, management does not believe that the disposition of any such pending matters is likely to have a material adverse effect on the Company's financial condition or liquidity, although the resolution in any reporting period of one or more of these matters could have a material adverse effect on the Company's consolidated results of operations for that period.

25

---

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

ATI is a global manufacturer of technically advanced specialty materials and complex components. Our largest market is aerospace & defense, representing approximately 50% of total sales and led by jet engines. Additionally, we have a strong presence in the oil & gas, electrical energy, medical, and automotive markets. In aggregate, these key markets represent about 80% of our revenue. ATI is a market leader in manufacturing differentiated products that require our unique manufacturing and precision machining capabilities as well as our innovative new product development competence. Our capabilities range from alloy development through final production of highly engineered finished components. We are a leader in producing powders for use in next-generation jet engine forgings and 3D-printed aerospace products.

Our second quarter 2017 results were sales of \$880.2 million and income before tax of \$11.3 million, compared to sales of \$810.5 million and a loss before tax of \$41.4 million for the second quarter 2016. Our gross profit was \$112.3 million, or 12.8% of sales, a \$64.1 million improvement compared to the second quarter 2016, reflecting the benefits of our growing position on next-generation commercial aerospace programs and the significant restructuring actions taken in 2016 to improve our operating efficiencies and cost structure. Results for the second quarter 2016 include \$22 million of costs associated with the work stoppage and return to work of USW-represented employees in March 2016 and a \$1.0 million severance charge to streamline our High Performance Materials & Components operations. Net income attributable to ATI was \$10.1 million, or \$0.09 per share, in the second quarter 2017 compared to a net loss attributable to ATI of \$18.8 million, or \$(0.18) per share, for the second quarter 2016. Second quarter 2017 results include a \$2.1 million net tax benefit primarily related to the effects of amending tax returns for prior periods in certain domestic jurisdictions. Results in both periods include impacts from income taxes which differ from a standard 35% tax rate, primarily related to income tax valuation allowance changes.

We operate in two business segments, High Performance Materials & Components (HPMC) and Flat Rolled Products (FRP). Compared to the second quarter 2016, sales increased 6% in the HPMC segment and 13% in the FRP segment. In our HPMC segment, sales to the commercial aerospace market, which represented 63% of second quarter 2017 HPMC sales, were 7% higher than the second quarter 2016, with strong growth in the commercial jet engine market partially offset by lower airframe sales. In addition, HPMC second quarter 2017 sales included higher demand from the oil & gas industry, which improved for the second consecutive quarter, increasing over 57% from prior year levels. The increase in sales in the FRP segment were due to higher shipment volume for standard stainless products following a new labor agreement and higher selling prices for both standard stainless products and high-value products.

Results for the first six months of 2017 were sales of \$1.75 billion and income before tax of \$34.4 million, compared to sales of \$1.57 billion and a loss before tax of \$173.7 million, for the first six months of 2016. Our gross profit was \$225.1 million, or 12.9% of sales, a \$210.1 million improvement compared to the first six months of 2016. Results for the first six months of 2016 include \$48 million of costs associated with the work stoppage and return to work of USW-represented employees in March 2016 and a \$9.0 million charge for the reduction of approximately one-third of FRP's salaried workforce and \$1.0 for the HPMC segment as discussed above. Net income attributable to ATI was \$27.6 million, or \$0.25 per diluted share, in the first six months of 2017 compared to a net loss attributable to ATI of \$120.0 million, or \$(1.12) per share, for the first six months of 2016.

Compared to the first six months of 2016, sales increased 23% in the FRP business segment and 5% in the HPMC business segment. HPMC sales reflect stronger demand for nickel-based and specialty alloys mill products, and forged components. FRP sales compared to the prior year period include stronger shipments of both high-value and standard products due to higher operating levels following a new labor agreement.

ATI's sales to the aerospace & defense market increased 7%, to \$435.6 million in the second quarter 2017, compared to the second quarter of 2016. HPMC jet engine sales increased \$33 million, or 15%, compared to the second quarter 2016. Our HPMC segment saw continued growth in product sales for next-generation jet engines in the second quarter of 2017, reaching 40% of HPMC jet engine sales.





Table of Contents

Demand from the global aerospace and defense, oil & gas, electrical energy, automotive and medical markets represented 79% of our sales for the three and six months ended June 30, 2017. Comparative information for our overall revenues (in millions) by market and their respective percentages of total revenues for the three and six month periods ended June 30, 2017 and 2016 were as follows:

Market	Three months ended		Three months ended	
	June 30, 2017		June 30, 2016	
Aerospace & Defense	\$435.6	49 %	\$407.3	50 %
Oil & Gas	98.5	11 %	72.4	9 %
Automotive	68.8	8 %	57.7	7 %
Medical	48.0	6 %	54.7	7 %
Electrical Energy	44.1	5 %	64.8	8 %
Subtotal - Key Markets	695.0	79 %	656.9	81 %
Food Equipment & Appliances	55.4	6 %	45.6	6 %
Construction/Mining	46.3	5 %	42.2	5 %
Electronics/Computers/Communication	31.5	4 %	22.6	3 %
Transportation	22.5	3 %	21.9	3 %
Other	29.5	3 %	21.3	2 %
Total	\$880.2	100 %	\$810.5	100 %
Market	Six months ended		Six months ended	
	June 30, 2017		June 30, 2016	
Aerospace & Defense	\$852.8	49 %	\$804.7	51 %
Oil & Gas	191.4	11 %	131.4	8 %
Automotive	144.7	8 %	109.2	7 %
Medical	98.2	6 %	104.4	7 %
Electrical Energy	95.7	5 %	138.2	9 %
Subtotal - Key Markets	1,382.8	79 %	1,287.9	82 %
Food Equipment & Appliances	114.4	7 %	76.3	5 %
Construction/Mining	96.3	6 %	73.7	5 %
Electronics/Computers/Communication	66.0	4 %	46.5	3 %
Transportation	41.2	2 %	40.1	2 %
Other	45.4	2 %	43.5	3 %
Total	\$1,746.1	100 %	\$1,568.0	100 %

Table of Contents

For the second quarter 2017, international sales increased 8% to \$356 million and represented 40% of total sales, compared to \$330 million, or 41% of total sales, for the second quarter 2016. ATI's international sales are mostly to the aerospace, oil & gas, electrical energy, automotive and medical markets. Sales of our high-value products represented 82% of total sales, the majority of which were consumed by our aerospace and defense customers, for the three months ended June 30, 2017. Comparative information for our major high-value and standard products based on their percentages of our total sales is as follows:

	Three months ended June 30, 2017		2016	
<b>High-Value Products</b>				
Nickel-based alloys and specialty alloys	27	%	27	%
Precision forgings, castings and components	19	%	17	%
Titanium and titanium-based alloys	16	%	19	%
Precision and engineered strip	13	%	13	%
Zirconium and related alloys	7	%	8	%
Total High-Value Products, excluding GOES	82	%	84	%
GOES (grain-oriented electrical steel)	—	%	1	%
Total High-Value Products, including GOES	82	%	85	%
<b>Standard Products</b>				
Stainless steel sheet	9	%	7	%
Specialty stainless sheet	5	%	4	%
Stainless steel plate and other	4	%	4	%
Total Standard Products	18	%	15	%
Grand Total	100	%	100	%

For the first six months of 2017, international sales increased 10% to \$697 million and represented 40% of total sales, compared to \$634 million, or 40% of total sales, for the first six months of 2016. Sales of our high-value products represented 82% of total sales for the six months ended June 30, 2017. Comparative information for our major high-value and standard products based on their percentages of our total sales is as follows:

	Six months ended June 30, 2017		2016	
<b>High-Value Products</b>				
Nickel-based alloys and specialty alloys	26	%	28	%
Precision forgings, castings and components	18	%	17	%
Titanium and titanium-based alloys	17	%	20	%
Precision and engineered strip	14	%	12	%
Zirconium and related alloys	7	%	8	%
Total High-Value Products, excluding GOES	82	%	85	%
GOES (grain-oriented electrical steel)	—	%	2	%
Total High-Value Products, including GOES	82	%	87	%
<b>Standard Products</b>				
Stainless steel sheet	9	%	6	%
Specialty stainless sheet	5	%	4	%
Stainless steel plate and other	4	%	3	%
Total Standard Products	18	%	13	%
Grand Total	100	%	100	%

Total titanium mill product shipments, including Uniti joint venture conversion, were 8.2 million pounds in the second quarter 2017, bringing the first six months 2017 to a total of 16.9 million pounds. These volumes represent a 2% decrease compared to the second quarter of 2016 and a 2% increase compared to the first six months of 2016, with generally stronger demand for sheet and plate products for global industrial markets offset by lower sales of titanium long products primarily due to the timing of orders.

Table of Contents

Segment operating profit for the second quarter 2017 was \$70.9 million, or 8.1% of sales, compared to a segment operating profit of \$7.0 million, or 0.9% of sales, for the second quarter 2016. For the first six months of 2017, segment operating profit was \$140.8 million, or 8.1% of sales, compared to segment operating loss of \$73.5 million, or (4.7)% of sales, for the first six months of 2016. Segment operating profit as a percentage of sales for the three and six month periods ended June 30, 2017 and 2016 was:

	Three months ended June 30, 2017		Six months ended June 30, 2016	
High Performance Materials & Components	12.9%	7.8 %	11.5%	6.8 %
Flat Rolled Products	0.8 %	(10.2)%	3.1 %	(24.5)%

Segment operating profit for the second quarter 2017 in the HPMC segment was \$68.0 million, or 12.9% of sales, compared to \$38.8 million, or 7.8% of sales, for the second quarter 2016. The improvement in HPMC segment operating profit reflects higher productivity from increasing aerospace & defense sales, an improved product mix of next-generation nickel alloys and forgings for the aero engine market, and the benefits of the 2016 titanium operations restructuring activities, including the Rowley, UT titanium sponge operations idling. HPMC results for the second quarter 2017 include \$2 million of start-up costs for our Bakers Powder Operations, our new nickel-based powder alloys facility in North Carolina, as we continued our commercial qualification process. Segment operating profit for the first six months of 2017 in the HPMC segment was \$118.9 million, or 11.5% of sales, compared to \$67.9 million, or 6.8% of sales for the first six months of 2016.

The FRP segment operating profit for the second quarter 2017 was \$2.9 million, or 0.8% of sales, compared to a segment operating loss of \$31.8 million, or (10.2)% of sales, for the second quarter 2016. FRP reported a profit in 2017 despite declines in raw material prices in the second quarter of 2017 which negatively impacted product profit margins for standard stainless sheet products, which are about 20% of segment sales, due to timing of raw material surcharges included in selling prices. The increase in FRP results compared to the prior year second quarter reflects improved profitability due to higher operating levels and the benefits of cost reductions and restructuring actions. Segment operating results in 2016 also included \$22.4 million of costs associated with the prior work stoppage as operations returned to more normal activity levels. Segment operating profit for the first six months of 2017 in the FRP segment was \$21.9 million, or 3.1% of sales, compared to a loss of \$141.4 million, or (24.5)% of sales for the first six months of 2016.

We expect our second half 2017 HPMC segment results to sustain strong performance in commercial aerospace and to continue a low-double-digit operating profit level as a percentage of sales, noting that quarterly results during the legacy to next-generation jet engine transition could be uneven due to the timing of customer demand pulls and product mix. We continue to enhance ATI's leading position in next-generation jet engines as demonstrated in our recent announcements about our joint venture with GE Aviation and our long-term agreement with Pratt & Whitney for powder and forgings. Based on discussions at the Paris airshow and our interactions with strategic customers, we remain confident about increased demand for mill products, forgings, castings, and components from increasing next-generation and legacy jet engine build rates over the next several years.

We expect the FRP segment to deliver an improved product mix and to continue to realize operational improvements in the third quarter. However, we expect the quarter to be negatively impacted by the recent fall in raw material prices, especially ferrochrome and nickel. This is expected to significantly reduce profit margins as a result of out-of-phase raw material surcharges. This condition is likely to continue until raw materials prices stabilize. As a result, we expect the FRP segment to operate at a loss in the third quarter 2017. For the full year 2017, we continue to expect that the FRP segment will be modestly profitable.

Looking beyond 2017, we plan to maintain our continuing focus on enhancing ATI's technology leadership in differentiated specialty materials; generating healthy cash flow from operations; improving our competitive cost position; and strengthening our balance sheet. We continue to expect capital expenditures to average no more than

\$100 million annually for the next several years.

29

---

Table of Contents

## Business Segment Results

## High Performance Materials &amp; Components (HPMC) Segment

Second quarter 2017 sales increased 5.6% to \$526.4 million compared to the second quarter 2016, primarily as a result of higher sales of nickel-based and specialty stainless alloys, and forged and cast components.

Demand from the aerospace and defense market continues to drive HPMC results as sales to this market represented 76% of second quarter segment sales: 45% commercial jet engine, 18% commercial airframe, and 13% government aero/defense. Sales to the commercial aerospace market, which represented 63% of second quarter 2017 sales, were 7% higher than the second quarter 2016, with strong growth in the commercial jet engine market partially offset by lower airframe sales. HPMC jet engine sales increased \$33 million, or 15%, compared to the second quarter 2016, highlighted by a 25% increase of forged products sales. HPMC saw continued growth in product sales for next-generation jet engines in the second quarter 2017, representing 40% of HPMC jet engine sales.

Sales to the oil & gas market improved for the second consecutive quarter, increasing over 57% from prior year levels. Sales to the electrical energy market decreased 33%.

Comparative information for our HPMC segment revenues (in millions) by market and their respective percentages of the segment's overall revenues for the three month periods ended June 30, 2017 and 2016 is as follows:

Market	Three months ended June 30, 2017	Three months ended June 30, 2016
Aerospace & Defense:		
Commercial Jet Engines	\$236.7 45 %	\$208.4 42 %
Commercial Airframes	93.0 18 %	101.1 20 %
Government Aerospace & Defense	69.1 13 %	57.0 12 %
Total Aerospace & Defense	398.8 76 %	366.5 74 %
Medical	45.4 9 %	51.4 10 %
Electrical Energy	24.1 5 %	36.0 7 %
Oil & Gas	18.9 4 %	12.0 3 %
Construction/Mining	12.5 2 %	10.1 2 %
Transportation	6.9 1 %	6.1 1 %
Other	19.8 3 %	16.3 3 %
Total	\$526.4 100%	\$498.4 100%

International sales represented 48% of total segment sales for the second quarter of 2017. Comparative information for the HPMC segment's major product categories, based on their percentages of sales for the three months ended June 30, 2017 and 2016, is as follows:

	Three months ended June 30, 2017	2016
High-Value Products		
Precision forgings, castings and components	33 %	28 %
Nickel-based alloys and specialty alloys	31 %	29 %
Titanium and titanium-based alloys	25 %	30 %
Zirconium and related alloys	11 %	13 %
Total High-Value Products	100%	100%

Segment operating profit in the second quarter of 2017 increased to \$68.0 million, or 12.9% of total sales, compared to \$38.8 million, or 7.8% of total sales, for the second quarter of 2016, reflecting higher productivity from increasing aerospace & defense sales, an improved product mix of next-generation nickel alloys and forgings for the aero engine market, and the benefits of the 2016 titanium operations restructuring activities, including the Rowley, UT titanium

sponge operations idling. Bakers Powder Operations, our new nickel-based powder alloys facility in North Carolina, began operations in the first quarter of 2017 and these results include \$2 million of start-up costs for this facility as we continued our commercial qualification process.



Table of Contents

For the six months ended June 30, 2017, segment sales increased 4.6% to \$1.04 billion compared to the first six months of 2016, primarily as a result of higher sales of nickel-based and specialty stainless alloys, and forged and cast components. Sales to the aerospace and defense market were 8% higher than the prior year to date period. This increase was led by jet engine sales which were 11% higher, highlighted by a 27% increase of forged products sales. Sales to the oil & gas market increased 34% from prior year levels while sales to the electrical energy market decreased 24%.

Comparative information for our HPMC segment revenues (in millions) by market and their respective percentages of the segment's overall revenues for the six month periods ended June 30, 2017 and 2016 is as follows:

Market	Six months ended June 30, 2017		Six months ended June 30, 2016	
Aerospace & Defense:				
Commercial Jet Engines	\$453.7	44 %	\$409.8	41 %
Commercial Airframes	197.4	19 %	198.4	20 %
Government Aerospace & Defense	129.1	12 %	116.3	12 %
Total Aerospace & Defense	780.2	75 %	724.5	73 %
Medical	92.4	9 %	98.9	10 %
Electrical Energy	53.7	5 %	70.6	7 %
Oil & Gas	35.4	3 %	26.5	3 %
Construction/Mining	24.1	2 %	20.7	2 %
Transportation	14.9	2 %	14.0	1 %
Other	36.1	4 %	36.2	4 %
Total	\$1,036.8	100 %	\$991.4	100 %

International sales represented 47% of total segment sales for the first six months of 2017. Comparative information for the HPMC segment's major product categories, based on their percentages of sales for the six months ended June 30, 2017 and 2016, is as follows:

	Six months ended June 30, 2017		2016	
High-Value Products				
Precision forgings, castings and components	32 %		28 %	
Nickel-based alloys and specialty alloys	31 %		29 %	
Titanium and titanium-based alloys	26 %		30 %	
Zirconium and related alloys	11 %		13 %	
Total High-Value Products	100 %		100 %	

Segment operating profit in the first six months of 2017 increased to \$118.9 million, or 11.5% of total sales, compared to \$67.9 million, or 6.8% of total sales, for the first six months of 2016, reflecting higher productivity from increasing aerospace & defense sales and the benefits of the 2016 titanium operations restructuring activities, including the Rowley, UT titanium sponge operations idling. The first half of 2017 includes \$4 million of start-up costs for the Bakers Powder Operations, our new nickel-based powder alloys facility in North Carolina. The first half of 2016 results included \$5.3 million of non-recurring work stoppage and return to work costs for represented employees at two HPMC facilities.

**Flat Rolled Products (FRP) Segment**

Second quarter 2017 sales increased 13.4% compared to the second quarter 2016, to \$353.8 million, due to higher shipment volume for standard stainless products, and higher selling prices for most standard stainless products and high-value products, as well as improved operating and delivery performance compared to the prior year's results, which included effects from the work stoppage and additional disruption to operations during the return of

USW-represented employees in March 2016. Sales to the automotive market were 19% higher, and sales to the oil & gas market were 32% higher primarily due to project-based demand for chemical and hydrocarbon processing. Prior year results also include sales of unprofitable grain-oriented electrical steel (GOES) products and certain commodity standard stainless steel sheet products prior to the permanent idling of the Bagdad, PA and Midland, PA operations. Second quarter 2017 FRP segment titanium shipments, including Uniti joint venture conversion, were 1.5 million pounds, a 41% increase compared to the second quarter 2016, reflecting stronger project-based demand from industrial titanium markets.

Table of Contents

Comparative information for our FRP segment revenues (in millions) by market and their respective percentages of the segment's overall revenues for the three month periods ended June 30, 2017 and 2016 is as follows:

Market	Three months ended		Three months ended	
	June 30, 2017		June 30, 2016	
Oil & Gas	\$79.7	22 %	\$60.4	19 %
Automotive	66.8	19 %	56.2	18 %
Food Equipment & Appliances	54.9	15 %	45.5	15 %
Aerospace & Defense	36.7	10 %	40.8	13 %
Construction/Mining	33.7	10 %	32.1	10 %
Electronics/Computers/Communication	30.3	9 %	21.9	7 %
Electrical Energy	20.0	6 %	28.7	9 %
Transportation	15.6	4 %	15.8	5 %
Other	16.1	5 %	10.7	4 %
Total	\$353.8	100%	\$312.1	100%

International sales represented 29% of total segment sales for the second quarter of 2017. Comparative information for the FRP products segment's major product categories, based on their percentages of sales for the three months ended June 30, 2017 and 2016, is as follows:

	Three months ended June 30,	
	2017	2016
High-Value Products		
Precision and engineered strip	33 %	34 %
Nickel-based alloys and specialty alloys	22 %	26 %
Titanium and titanium-based alloys	5 %	3 %
Total High-Value Products, excluding GOES	60 %	63 %
GOES (grain-oriented electrical steel)	— %	3 %
Total High-Value Products, including GOES	60 %	66 %
Standard Products		
Stainless steel sheet	22 %	19 %
Specialty stainless sheet	13 %	10 %
Stainless steel plate	5 %	5 %
Total Standard Products	40 %	34 %
Grand Total	100%	100%

Segment operating profit was \$2.9 million, or 0.8% of sales, for the second quarter of 2017, compared to a segment operating loss of \$31.8 million, or (10.2)% of sales, for the second quarter of 2016. FRP reported a profit in 2017 despite declines in raw material prices in the second quarter of 2017 which negatively impacted product profit margins for standard stainless sheet products, which are about 20% of segment sales, due to timing of raw material surcharges included in selling prices. The increase in operating profit compared to the prior year second quarter reflects improved profitability due to higher operating levels and the benefits of cost reductions and restructuring actions, including the exit from the GOES market and the de-emphasis of certain commodity standard stainless sheet products, as discussed above. Segment operating results in 2016 were primarily driven by lower shipment volumes and selling prices, and also included \$22.4 million of costs associated with the work stoppage and return-to-work of represented employees.



Table of Contents

Comparative shipment volume and average selling price information of the segment's products, excluding GOES, for the three months ended June 30, 2017 and 2016 is provided in the following table:

	Three months ended June 30,		%
	2017	2016	
Volume (000's pounds):			
High-Value	74,089,777,757	(5)	%
Standard	114,677,035,558	11	%
Total	188,766,813,315	4	%
Average prices (per lb.):			
High-Value	\$2.84	\$ 2.52	13 %
Standard	\$1.23	\$ 1.01	22 %
Combined Average	\$1.86	\$ 1.66	12 %

For the first six months of 2017, sales increased 23.0% compared to the first six months of 2016, to \$709.3 million, primarily due to higher shipment volume and selling prices for both standard stainless products and high-value products. Sales to the automotive market were 34% higher, and sales to the oil & gas market were 49% higher primarily due to project-based demand for chemical and hydrocarbon processing. Sales to the electrical energy market declined 38%. Prior year results also include sales of unprofitable GOES products and certain commodity standard stainless steel sheet products prior to the permanent idling of the Bagdad, PA and Midland, PA operations. The first six months of 2017 FRP segment titanium shipments, including Uniti joint venture conversion, were 2.9 million pounds, a 50% increase compared to the first six months of 2016, reflecting stronger project-based demand from industrial titanium markets.

Comparative information for our FRP segment revenues (in millions) by market and their respective percentages of the segment's overall revenues for the six month periods ended June 30, 2017 and 2016 is as follows:

Market	Six months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Oil & Gas	\$156.0	22 %	\$104.9	18 %
Automotive	140.7	20 %	105.2	18 %
Food Equipment & Appliances	113.6	16 %	75.6	13 %
Aerospace & Defense	72.6	10 %	80.3	14 %
Construction/Mining	72.2	10 %	53.0	9 %
Electronics/Computers/Communication	63.5	9 %	44.9	8 %
Electrical Energy	42.0	6 %	67.6	12 %
Transportation	26.3	4 %	26.1	5 %
Other	22.4	3 %	19.0	3 %
Total	\$709.3	100%	\$576.6	100%

Table of Contents

International sales represented 29% of total segment sales for the first six months of 2017. Comparative information for the FRP products segment's major product categories, based on their percentages of sales for the six months ended June 30, 2017 and 2016, is as follows:

	Six months ended June 30,			
	2017	2016		
High-Value Products				
Precision and engineered strip	34 %	34 %		
Nickel-based alloys and specialty alloys	21 %	28 %		
Titanium and titanium-based alloys	5 %	4 %		
Total High-Value Products, excluding GOES	60 %	66 %		
GOES (grain-oriented electrical steel)	— %	5 %		
Total High-Value Products, including GOES	60 %	71 %		
Standard Products				
Stainless steel sheet	23 %	15 %		
Specialty stainless sheet	12 %	10 %		
Stainless steel plate	5 %	4 %		
Total Standard Products	40 %	29 %		
Grand Total	100 %	100 %		

Segment operating profit was \$21.9 million, or 3.1% of sales, for the first six months of 2017, compared to a segment operating loss of \$141.4 million, or (24.5)% of sales, for the first six months of 2016, reflecting improved profitability due to higher operating levels, a \$6 million benefit from the change to the ferrochrome surcharge calculation, and the benefits of cost reductions and restructuring actions, including the exit from the GOES market and the de-emphasis of certain commodity standard stainless sheet products, as discussed above. Segment operating results in 2016 were primarily driven by lower shipment volumes and selling prices, and also included \$43.5 million of costs associated with the work stoppage and return-to-work of represented employees.

Comparative shipment volume and average selling price information of the segment's products, excluding GOES, for the six months ended June 30, 2017 and 2016 is provided in the following table:

	Six months ended June 30,		%	
	2017	2016	Change	
Volume (000's pounds):				
High-Value	149,421	144,400	3	%
Standard	229,661	170,594	35	%
Total	379,082	14,994	20	%
Average prices (per lb.):				
High-Value	\$2.81	\$2.59	8	%
Standard	\$1.24	\$1.00	24	%
Combined Average	\$1.86	\$1.73	8	%
Corporate Items				

For the second quarter and first six months of 2017, LIFO inventory valuation reserve charges of \$10.1 million and \$18.2 million, respectively, were offset by \$10.0 million and \$18.1 million, respectively, in reductions in NRV inventory reserves, which are required to offset the Company's aggregate net debit LIFO inventory balance that exceeds current inventory replacement cost. For the second quarter and first six months of 2016, LIFO inventory valuation reserve charges of \$4.3 million and \$4.6 million, respectively, were offset by \$4.7 million and \$5.0 million, respectively, in reductions in NRV inventory reserves.

Corporate expenses for the second quarter 2017 and 2016 were \$11.8 million. For the six months ended June 30, 2017, corporate expenses were \$22.1 million, decreasing from \$22.8 million for the six months ended June 30, 2016 due to a benefit in 2017 related to company-owned life insurance policies.

Table of Contents

Closed operations and other expenses for the second quarter 2017 were \$13.2 million, compared to \$5.7 million for the second quarter 2016. For the six months ended June 30, 2017, closed company and other expenses were \$16.2 million, compared to \$9.2 million for the comparable period. Closed operations costs in 2017 are higher than 2016 due to the additions of the Rowley, UT, Midland, PA and Bagdad, PA facilities as a result of prior year closure actions. The increase is also due to more significant foreign currency impacts, primarily from our European Treasury Center operation.

Second quarter 2016 results include a \$1.0 million restructuring charge for severance obligations in the HPMC segment. Results for the first six months of 2016 include a \$10.0 million restructuring charge for severance obligations reflecting the \$1.0 million charge for HPMC in the second quarter and a \$9.0 million charge in the first quarter in the FRP business, with the reduction of approximately one-third of FRP's salaried workforce. The severance charge was reported in restructuring charges.

Interest expense, net of interest income, in the second quarter 2017 was \$34.5 million, compared to net interest expense of \$30.3 million in the second quarter 2016. On a year-to-date basis, the first six months of 2017 net interest expense was \$68.0 million compared to \$58.6 million for the first six months of 2016. The increase in interest expense was primarily due to interest on the \$287.5 million 4.75% Convertible Senior Notes due 2022 (the Convertible Notes) and the \$100.0 million term loan (Term Loan) issued during the second quarter of 2016, partially offset by lower average borrowings on our Asset Based Lending (ABL) Revolving Credit Facility. Capitalized interest reduced interest expense by \$0.8 million in the second quarter of 2017 and \$1.2 million in the second quarter of 2016. For the six months ended June 30, 2017 and 2016, capitalized interest was \$1.5 million and \$2.0 million, respectively.

**Income Taxes**

ATI maintains income tax valuation allowances on its U.S. Federal and state deferred tax assets due to a three year cumulative loss condition which limits the ability to consider other positive subjective evidence, such as projections of future results, to assess the realizability of deferred tax assets. Results in both 2017 and 2016 include impacts from income taxes which differ from a standard 35% tax rate, primarily related to income tax valuation allowance changes. Second quarter 2017 results included a benefit for income taxes of \$2.1 million, which includes \$5.4 million of discrete tax benefits recognized in the quarter largely for the effects of amending tax returns for prior periods in certain domestic jurisdictions. The second quarter 2016 benefit for income taxes was \$25.9 million, which includes \$2.8 million of discrete tax benefits.

For the first six months of 2017, the benefit for income taxes was \$0.1 million, compared to a benefit for income taxes of \$60.1 million, or 34.6% of the loss before income taxes, for the comparable 2016 period. The first six months of 2017 and 2016 included discrete tax benefits of \$6.7 million and \$3.6 million, respectively.

**Financial Condition and Liquidity**

We have an ABL Credit Facility, which is collateralized by the accounts receivable and inventory of our domestic operations. The revolving credit portion of the ABL facility is \$400 million, which includes a letter of credit sub-facility of up to \$200 million. The ABL facility includes a term loan (Term Loan) in the amount of \$100 million. In June 2017, the ABL facility was amended to, among other things, extend the duration of the facility from September 2020 to February 2022. As amended, the applicable interest rate for revolving credit borrowings under the ABL facility includes interest rate spreads based on available borrowing capacity that range between 1.75% and 2.25% for LIBOR-based borrowings and between 1.0% and 1.5% for base rate borrowings. The ABL facility contains a financial covenant whereby we must maintain a fixed charge coverage ratio of not less than 1.00:1.00 after an event of default has occurred and is continuing or if the undrawn availability under the ABL revolving credit portion of the facility is less than the greater of (i) 10%, as amended, of the then applicable maximum borrowing amount under the revolving credit portion of the ABL and any outstanding Term Loan balance, or (ii) \$40 million. We do not meet this required fixed charge coverage ratio at June 30, 2017. As a result, we are not able to access \$50 million of the revolving credit portion of the ABL facility until we meet the required ratio. Additionally, we must demonstrate liquidity, as calculated in accordance with the terms of the ABL facility, of at least \$500 million on the date that is 91 days prior to June 1, 2019, the maturity date of the 9.375% Senior Notes due 2019 and at least \$700 million on the date that is 91 days prior to January 15, 2021, the maturity date of the 5.95% Senior Notes due 2021, and that such liquidity is available at all times thereafter until the 9.375% Senior Notes due 2019 and the 5.95% Senior Notes due



2021 are paid in full or refinanced. Costs associated with entering into the ABL amendment were \$1.0 million, and are being amortized, along with any previous unamortized deferred costs, to interest expense over the extended term of the facility ending February 2022.

Also in June 2017, the \$100 million Term Loan was amended to extend the maturity date from November 2017 to February 2022 and to reduce the interest rate to 3.0% plus a LIBOR spread. The amended Term Loan can be prepaid in minimum increments of \$50 million on or after the earlier of December 2018 or upon refinancing or retirement of the 9.375% Senior

Table of Contents

Notes due 2019 if certain minimum liquidity conditions are satisfied. The underwriting costs associated with amending the Term Loan were \$0.8 million, and are being amortized, along with any previous unamortized deferred costs, to interest expense over the extended term of the loan ending February 2022.

As of June 30, 2017, there were \$60.0 million of outstanding borrowings under the ABL facility, and \$45.1 million was utilized to support the issuance of letters of credit. Average revolving credit borrowings under the ABL facility for the first six months of 2017 and 2016 were \$36 million and \$164 million, respectively, bearing an average annual interest rate of 3.376% and 1.757%, respectively.

At June 30, 2017, we had \$155 million of cash and cash equivalents, and available additional liquidity under the ABL facility of approximately \$250 million. We do not expect to pay any significant U.S. federal income taxes in 2017 due to net operating loss carryforwards. We believe that internally generated funds, current cash on hand and available borrowings under the ABL facility will be adequate to meet our liquidity needs, including currently projected required contributions to the ATI Pension Plan, our U.S. qualified defined benefit pension plan. In March 2017, we made a \$135 million cash contribution to the ATI Pension Plan, which completes our funding requirements for 2017. We currently expect to continue to have average annual funding requirements of approximately \$135 million to the ATI Pension Plan for the next few years, using the expected rate of return on plan assets. However these pension funding estimates are subject to significant uncertainty, including potential changes to mortality tables with revised longevity estimates, and the performance of our pension trust assets. If we needed to obtain additional financing using the credit markets, the cost and the terms and conditions of such borrowings may be influenced by our credit rating.

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

Cash Flow and Working Capital

For the six months ended June 30, 2017, cash used in operations was \$85.5 million, and included a \$135.0 million contribution to the ATI Pension Plan in March 2017. Managed working capital balances increased \$51.4 million in the second quarter 2017 and \$62.6 million for the first six months of 2017 as we ramp to higher production levels to support business growth. As part of managing the liquidity of our business, we focus on controlling managed working capital, which is defined as gross accounts receivable and gross inventories, less accounts payable. In measuring performance in controlling managed working capital, we exclude the effects of LIFO and other inventory valuation reserves, and reserves for uncollectible accounts receivable which, due to their nature, are managed separately. At June 30, 2017, managed working capital decreased to 38.0% of annualized total ATI sales, compared to 40.0% of annualized sales at December 31, 2016. The increase in managed working capital at June 30, 2017 from December 31, 2016 resulted from an \$85.2 million increase in accounts receivable and a \$38.6 million increase in inventory, partially offset by a \$61.2 million increase in accounts payable. Days sales outstanding, which measures actual collection timing for accounts receivable, improved by 5% as of June 30, 2017 compared to year end 2016. Gross inventory turns, which exclude the effect of LIFO and any applicable offsetting NRV inventory valuation reserves, remained fairly consistent at June 30, 2017 compared to year end 2016.

The components of managed working capital at June 30, 2017 and December 31, 2016 were as follows:

(In millions)	June 30, 2017	December 31, 2016
Accounts receivable	\$ 538.6	\$ 452.1
Inventory	1,076.2	1,037.0
Accounts payable	(355.5 )	(294.3 )
Subtotal	1,259.3	1,194.8
Allowance for doubtful accounts	6.0	7.3
Adjustment from current cost to LIFO cost basis	(79.1 )	(97.3 )
Inventory valuation reserves	150.2	169.0
Managed working capital	\$1,336.4	\$ 1,273.8
Annualized prior 3 months sales	\$3,520.9	\$ 3,184.2
Managed working capital as a % of annualized sales	38.0	% 40.0 %
Change in managed working capital from December 31, 2016	\$62.6	

Cash used in investing activities was \$52.0 million in the first six months of 2017, with \$55.3 million for capital expenditures partially offset by cash proceeds from sales of assets. Our capital expansion project at our STAL joint venture in China is ongoing and will be fully funded by STAL's operations. The HPMC segment capital expansion project for our new nickel-based powder alloys facility in North Carolina began operations in the first quarter 2017 and we continued our commercial

Table of Contents

qualification process in the second quarter. We continue to estimate that 2017 capital expenditures will be \$125 million. We expect to fund our capital expenditures with cash on hand and cash flow generated from our operations and, if needed, by using a portion of the ABL facility.

Cash provided by financing activities was \$62.5 million and consisted primarily of \$60.0 million of borrowings on the ABL credit facility. At June 30, 2017, cash and cash equivalents on hand totaled \$154.6 million, a decrease of \$75.0 million from year end 2016. Cash and cash equivalents held by our foreign subsidiaries was \$69.4 million at June 30, 2017, of which \$40.0 million was held by STAL, the Company's Chinese joint venture in which ATI has a 60% interest.

**Debt**

Total debt outstanding increased \$66.0 million to \$1,960.1 million at June 30, 2017 compared to December 31, 2016. This increase was primarily due to \$60.0 million of borrowings on the ABL credit facility in 2017.

In managing our overall capital structure, some of the measures on which we focus are net debt to total capitalization, which is the percentage of our debt, net of cash that may be available to reduce borrowings, to our total invested and borrowed capital, and total debt to total capitalization, which excludes cash balances. Net debt as a percentage of total capitalization was 56.1% at June 30, 2017, compared to 55.1% at December 31, 2016. The net debt to total capitalization was determined as follows:

(In millions)	June 30, 2017	December 31, 2016
Total debt (a)	\$1,960.1	\$1,894.1
Less: Cash	(154.6 )	(229.6 )
Net debt	\$1,805.5	\$1,664.5
Total ATI stockholders' equity	1,413.5	1,355.2
Net ATI total capital	\$3,219.0	\$3,019.7
Net debt to ATI total capital	56.1 %	55.1 %

Total debt to total capitalization of 58.1% at June 30, 2017 decreased from 58.3% at December 31, 2016.

Total debt to total capitalization was determined as follows:

(In millions)	June 30, 2017	December 31, 2016
Total debt (a)	\$1,960.1	\$1,894.1
Total ATI stockholders' equity	1,413.5	1,355.2
Total ATI capital	\$3,373.6	\$3,249.3
Total debt to total ATI capital	58.1 %	58.3 %

(a) Excludes debt issuance costs.

**Dividends**

Effective with the fourth quarter of 2016, our Board of Directors decided to suspend the quarterly dividend. The payment of dividends and the amount of such dividends depends upon matters deemed relevant by our Board of Directors on a quarterly basis, 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. Under the ABL facility, there is no limit on dividend declarations or payments provided that the undrawn availability, after giving effect to a particular dividend payment, is at least the greater of \$100 million and 25% of the maximum revolving credit availability, and no event of default under the ABL facility has occurred and is continuing or would result from paying the dividend. In addition, there is no limit on dividend declarations or payments if the undrawn availability is less than the greater of \$100 million and 25% of the maximum revolving credit advance amount but more than the greater of \$60 million and 15% of the maximum revolving credit advance amount, if (i) no event of default has occurred and is continuing or would result from paying the dividend, (ii) we demonstrate to the administrative agent that, prior to and after giving effect to the payment of the dividend (A) the undrawn availability, as measured both at the time of the dividend payment and as an average for the 60 consecutive day period

immediately preceding the dividend payment, is at least the greater of \$60 million and 15% of the maximum revolving credit availability, and (B) we maintain a fixed charge coverage ratio of at least 1.00:1.00, as calculated in accordance with the terms of the ABL facility.

Table of Contents

## Critical Accounting Policies

## Inventory

At June 30, 2017, we had net inventory of \$1,076.2 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. 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. Generally, over time based on overall inflationary trends in raw materials, labor and overhead costs, the use of the LIFO inventory valuation method will result in a LIFO inventory valuation reserve, as the higher current period costs are included in cost of sales and the balance sheet carrying value of inventory is reduced.

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.

The prices for many of the raw materials we use have been extremely volatile during the past several years, while labor and overhead costs have been generally stable, with a modest inflationary trend. Raw material cost changes typically have the largest impact on the LIFO inventory costing methodology based on the overall proportion of raw material costs to other inventoriable costs. Since we value most of our inventory utilizing the LIFO inventory costing methodology, a fall in material costs generally results in a benefit to operating results by reducing cost of sales and increasing the inventory carrying value, while conversely, a rise in raw material costs generally has a negative effect on our operating results by increasing cost of sales while lowering the carrying value of inventory. For example, for the six months ended June 30, 2017 and 2016, the LIFO inventory valuation method resulted in cost of sales that were \$18.2 million and \$4.6 million higher, respectively, than would have been recognized under the FIFO methodology to value our inventory.

Due primarily to persistent raw material deflation over the last several years, we are in the unusual situation of having a LIFO inventory balance that exceeds replacement cost. In cases where inventory at FIFO cost is lower than the LIFO carrying value, a write-down of the inventory to market may be required, subject to a lower of cost or market evaluation. In applying the lower of cost or market principle, market means current replacement cost, subject to a ceiling (market value shall not exceed net realizable value) and a floor (market shall not be less than net realizable value reduced by an allowance for a normal profit margin). We evaluate product lines on a quarterly basis to identify inventory values that exceed estimated net realizable value.

The calculation of a resulting NRV inventory reserve, if any, is recognized as an expense in the period that the need for the reserve is identified.

The impact to our cost of sales for changes in the LIFO costing methodology and associated NRV inventory reserves were as follows (in millions):

	Six months ended June 30,	
	2017	2016
LIFO benefit (charge)	\$(18.2)	\$(4.6)
NRV benefit (charge)	18.1	5.0
Net cost of sales impact	\$(0.1)	\$0.4

We also recorded inventory valuation charges for the market-based valuation of Rowley-produced titanium sponge inventory. These lower of cost or market charges were \$17.7 million for the first six months of 2016.

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.

## Table of Contents

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.

### Asset Impairment

We monitor the recoverability of the carrying value of our long-lived assets. An impairment charge is recognized when the expected net undiscounted future cash flows from an asset's use (including any proceeds from disposition) are less than the asset's carrying value, and the asset's carrying value exceeds its fair value. Changes in the expected use of a long-lived asset group, and the financial performance of the long-lived asset group and its operating segment, are evaluated as indicators of possible impairment. Future cash flow value may include appraisals for property, plant and equipment, land and improvements, future cash flow estimates from operating the long-lived assets, and other operating considerations. In the fourth quarter of each year in conjunction with the annual business planning cycle, or more frequently if new material information is available, we evaluate the recoverability of idled facilities.

Goodwill is reviewed annually in the fourth quarter of each year for impairment or more frequently if impairment indicators arise. Other events and changes in circumstances may also require goodwill to be tested for impairment between annual measurement dates. At June 30, 2017, ATI had \$643.5 million of goodwill on its consolidated balance sheet, an increase of \$1.6 million from December 31, 2016 due to foreign currency translation on goodwill for reporting units with a functional currency other than the U.S. dollar. All goodwill relates to reporting units in the HPMC segment.

Management concluded that none of ATI's reporting units or long-lived assets experienced any triggering event that required an interim impairment analysis at June 30, 2017. However, results for one reporting unit with goodwill of \$114.4 million will continue to be monitored closely in the second half of 2017 for impairment indicators, including review of actual results versus projections. This reporting unit had a fair value that exceeded carrying value by 12% as a result of our 2016 impairment evaluation.

### Income Taxes

The provision for, or benefit from, income taxes includes deferred taxes resulting from temporary differences in income for financial and tax purposes using the liability method. Such temporary differences result primarily from differences in the carrying value of assets and liabilities. Future realization of deferred income tax assets requires sufficient taxable income within the carryback and/or carryforward period available under tax law. On a quarterly basis, we evaluate the realizability of our deferred tax assets.

The evaluation includes the consideration of all available evidence, both positive and negative, regarding historical operating results including recent years with reported losses, the estimated timing of future reversals of existing taxable temporary differences, estimated future taxable income exclusive of reversing temporary differences and carryforwards, and potential tax planning strategies which may be employed to prevent an operating loss or tax credit carryforward from expiring unused. In situations where a three year cumulative loss condition exists, accounting standards limit the ability to consider projections of future results as positive evidence to assess the realizability of deferred tax assets. Valuation allowances are established when it is estimated that it is more likely than not that the tax benefit of the deferred tax asset will not be realized.

Beginning in 2015, our results reflected a three year cumulative loss from U.S. operations, which continues through the second quarter 2017; prior thereto, our historical domestic results reflected a three year cumulative profit. As a result, we established deferred tax asset valuation allowances for certain U.S. Federal and state deferred tax assets. These deferred tax valuation allowances on U.S. Federal and state deferred tax assets, as well as valuation allowances for certain foreign jurisdictions, had the effect of significantly reducing the reported income tax provision/benefit applicable to the pre-tax income/loss in each period. In addition, we have \$45.6 million of valuation allowances on amounts recorded in other comprehensive income as of June 30, 2017.



While we remain in a cumulative loss condition, our ability to evaluate the realizability of deferred tax assets in that jurisdiction is generally limited to the ability to offset timing differences on taxable income associated with deferred tax liabilities. Therefore, a change in estimate of deferred tax asset valuation allowances for federal, state, or foreign jurisdictions during this cumulative loss condition period will primarily be affected by changes in estimates of the time periods that deferred tax assets and liabilities will be realized, or on a limited basis to tax planning strategies that may result in a change in the amount of taxable income realized.

## Table of Contents

### Retirement Benefits

In accordance with accounting standards, we determine the discount rate used to value pension plan liabilities as of the last day of each year. The discount rate reflects the current rate at which the pension liabilities could be effectively settled. In estimating this rate, we receive input from our actuaries regarding the rate of return on high quality, fixed income investments with maturities matched to the expected future retirement benefit payments. Based on current market conditions, discount rates are below the rates in effect at the year-end 2016 remeasurement date, when a 4.45% discount rate was used for valuing pension liabilities. The estimated effect at the year-end 2016 valuation date of a decrease in the discount rate by 0.50% would increase pension liabilities by approximately \$150 million. The effect on pension liabilities for changes to the discount rate, the difference between expected and actual plan asset returns, and the net effect of other changes in actuarial assumptions and experience are deferred and amortized over future periods in accordance with accounting standards.

For ERISA (Employee Retirement Income Security Act of 1974, as amended) funding purposes, discount rates used to measure pension liabilities for U.S. qualified defined benefit plans are calculated on a different basis using a IRS-determined segmented yield curve, which currently results in a higher discount rate than the discount rate methodology required by accounting standards. Funding requirements are also affected by IRS-determined mortality assumptions, which may differ from those used under accounting standards. These IRS-determined mortality assumptions are generally expected to be revised in the future to project greater participant longevity, which would increase pension liabilities as calculated for funding purposes. We currently expect to continue to have average annual funding requirements of approximately \$135 million to the ATI Pension Plan for the next few years, using the expected rate of return on plan assets, which is 7.75% for 2017. However, these pension funding estimates are subject to significant uncertainty, including potential changes to mortality tables with revised longevity estimates, and the performance of our pension trust assets. Pension trust asset performance is dependent on the market value of plan assets as of the end of the year. In March 2017, we made a \$135 million cash contribution to the ATI Pension Plan to improve the plan's funded position.

### 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, 2016.

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

### Pending Accounting Pronouncements

See Note 1 of the Notes to Consolidated Financial Statements for information on pending accounting pronouncements.

### 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," "forecast," "outlook," "projects," and similar expressions. Forward-looking statements are based on management's current expectations and include known and unknown risks, uncertainties and other factors, many of which we are unable to predict or control, that may cause our actual results, performance or achievements to differ materially from those expressed or implied in the forward-looking statements. Important factors that could cause actual results to differ

materially from those in the forward-looking statements include: (a) material adverse changes in economic or industry conditions generally, including global supply and demand conditions and prices for our specialty metals; (b) material adverse changes in the markets we serve; (c) our inability to achieve the level of cost savings, productivity improvements, synergies, growth or other benefits anticipated by management, from strategic investments and the integration of acquired businesses; (d) volatility in the price and availability 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) labor disputes or work stoppages; (g) equipment outages;

Table of Contents

and (h) other risk factors summarized in our Annual Report on Form 10-K for the year ended December 31, 2016, and in other reports filed with the Securities and Exchange Commission. We assume no duty to update our forward-looking statements.

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

As part of our risk management strategy, we utilize derivative financial instruments, from time to time, to hedge our exposure to changes in energy and raw material prices, foreign currencies, and interest rates. We monitor the third-party financial institutions which are our counterparties to these financial instruments on a daily basis and diversify our transactions among counterparties to minimize exposure to any one of these entities. Fair values for derivatives were measured using exchange-traded prices for the hedged items including consideration of counterparty risk and the Company's credit risk. Our exposure to volatility in interest rates is presently not material, as nearly all of our debt is at fixed interest rates.

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

At June 30, 2017, the outstanding financial derivatives used to hedge our exposure to energy cost volatility included natural gas hedges. In the first six months of 2016, due to changes in expected operating levels within Flat Rolled Products segment operations, we concluded that that additional portions of these natural gas cash flow hedges for 2016 and the first quarter of 2017 were ineffective based on forecast changes in underlying natural gas usage. We recognized a \$0.2 million and \$1.3 million pre-tax loss for the three and six months ended June 30, 2016, respectively, for natural gas cash flow hedge ineffectiveness, which is reported in selling and administrative expenses on the consolidated statement of operations. Approximately 70% of our forecasted domestic requirements for natural gas for the remainder of 2017, approximately 35% for 2018 and approximately 25% for 2019 are hedged. The net mark-to-market valuation of these outstanding natural gas hedges at June 30, 2017 was an unrealized pre-tax loss of \$1.8 million, comprised of \$0.1 million in prepaid expense and other current assets, \$0.2 million in other long-term assets, \$1.9 million in accrued liabilities and \$0.2 million in other long-term liabilities. For the three months ended June 30, 2017, the effects of natural gas hedging activity increased cost of sales by \$1.1 million.

**Volatility of Raw Material Prices.** We use raw materials surcharge and index mechanisms to offset the impact of increased raw material costs; however, competitive factors in the marketplace can limit our ability to institute such mechanisms, and there can be a delay between the increase in the price of raw materials and the realization of the benefit of such mechanisms. For example, in 2016, we used approximately 80 million pounds of nickel; therefore, a hypothetical change of \$1.00 per pound in nickel prices would result in increased costs of approximately \$80 million. In addition, in 2016, we also used approximately 300 million pounds of ferrous scrap in the production of our flat-rolled products; a hypothetical change of \$0.01 per pound would result in increased costs of approximately \$3 million. While we enter into raw materials futures contracts from time-to-time to hedge exposure to price fluctuations, such as for nickel, we cannot be certain that our hedge position adequately reduces exposure. We believe that we have adequate controls to monitor these contracts, but we may not be able to accurately assess exposure to price volatility in the markets for critical raw materials.

The majority of our products are sold utilizing raw material surcharges and index mechanisms. However, as of June 30, 2017, we had entered into financial hedging arrangements, primarily at the request of our customers, related to firm orders for an aggregate notional amount of approximately 27 million pounds of nickel with hedge dates through 2021. The aggregate notional amount hedged is approximately 35% of a single year's estimated nickel raw material purchase requirements. Any gain or loss associated with these hedging arrangements is included in cost of sales. At June 30, 2017, the net mark-to-market valuation of our outstanding raw material hedges was an unrealized pre-tax loss of \$15.2 million, comprised of \$1.3 million in prepaid expense and other current assets, \$1.2 million in other long-term assets, \$8.1 million in accrued liabilities and \$9.6 million in other long-term liabilities on the balance sheet.

## Table of Contents

**Foreign Currency Risk.** Foreign currency exchange contracts are used, from time-to-time, to limit transactional exposure to changes in currency exchange rates. We sometimes purchase foreign currency forward contracts that permit us to sell specified amounts of foreign currencies expected to be received from our export sales for pre-established U.S. dollar amounts at specified dates. The forward contracts are denominated in the same foreign currencies in which export sales are denominated. These contracts are designated as hedges of the variability in cash flows of a portion of the forecasted future export sales transactions which otherwise would expose the Company to foreign currency risk, primarily euros. In addition, we may also designate cash balances held in foreign currencies as hedges of forecasted foreign currency transactions.

In 2015, we net settled substantially all of our foreign currency forward contracts designated as cash flow hedges with 2016 and 2017 maturity dates. The portion of the deferred gains on these settled cash flow hedges determined to be effective is currently recognized in accumulated other comprehensive income and is reclassified to earnings when the underlying transactions occur. As of June 30, 2017, we held 21.6 million euro notional value of foreign currency forward contracts designated as fair value hedges with maturity dates through 2017. We recorded a \$1.9 million and \$2.2 million charge in the three and six months ended June 30, 2017, respectively, and a \$3.1 million benefit and a \$2.5 million charge in the three and six months ended June 30, 2016, respectively, in costs of sales on the consolidated statement of operations for maturities and mark-to-market changes on these fair value hedges.

We may also enter into foreign currency forward contracts that are not designated as hedges, which are denominated in the same foreign currency in which export sales are denominated. We have 8 million euro notional value outstanding as of June 30, 2017 of foreign currency forward contracts not designated as hedges, with maturity dates into the fourth quarter of 2017.

At June 30, 2017, the net mark-to-market valuation of the outstanding foreign currency forward contracts was an unrealized pre-tax loss of \$0.8 million, of which \$0.2 million is included in prepaid expense and other current assets and \$1.0 million in accrued liabilities on the balance sheet.

### Item 4. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934. Based on the evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were not effective to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required financial disclosure.

As disclosed under Item 9A. Controls and Procedures in our Annual Report on Form 10-K for the year ended December 31, 2016, management identified a material weakness in internal control over financial reporting relating to the calculation and review of deferred tax asset valuation allowances.

In the first six months of 2017, the Company implemented changes to the income tax process, which included, but were not limited to, supplementing the internal tax team with additional subject matter resources and augmenting the internal review procedures to include consultation and external review procedures over the quarterly and annual income tax calculations that are used to determine the income tax provision or benefit reported in the Company's consolidated financial statements. In addition, the Company implemented changes to the design of controls to separately identify a key control regarding the calculation and review of deferred tax asset valuation allowances, and implemented changes to ensure that income tax controls include specific activities to ensure the proper application of accounting principles related to the deferred tax asset valuation allowance, and to ensure that controls function at an appropriate level of precision. The material weakness cannot be considered remediated until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are

operating effectively. We currently expect to complete remediation of the material weakness by December 31, 2017.

Table of Contents

Changes in Internal Control Over Financial Reporting

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we have evaluated any changes in our internal control over financial reporting that occurred during the second quarter of 2017 and have concluded that, other than as discussed above under “Evaluation of Disclosure Controls and Procedures,” there were no changes to our internal control over financial reporting during the second quarter of 2017 that materially affect, or are 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 currently or formerly owned businesses, including those pertaining to product liability, patent infringement, commercial, government contracting, construction, employment, employee and retiree benefits, taxes, environmental, health and safety and occupational disease, and stockholder and corporate governance matters. Certain of such lawsuits, claims and proceedings are described in our Annual Report on Form 10-K for the year ended December 31, 2016, and addressed in Note 13 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

The following is an update to, and should be read in conjunction with Item 1A. Risk Factors contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016. 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, 2016, 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.

Labor Matters. We have approximately 8,500 full-time employees. Approximately 40% of our workforce is covered by various collective bargaining agreements, predominantly with the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union (USW). At various times, our collective bargaining agreements with unions expire and are subject to renegotiation. Our collective bargaining agreement with the USW that covers approximately 500 ATI Specialty Alloys & Components employees that expired on April 1, 2017 was most recently extended through July 31, 2017, and negotiations with the USW are ongoing. Generally, collective bargaining agreements that expire may be terminated after notice by the union. After termination, the union may authorize a strike. A strike by the employees covered by one or more of the collective bargaining agreements could have a material adverse effect on our operating results. There can be no assurance that we will succeed in concluding collective bargaining agreements with the unions to replace those that expire.



Table of Contents

Item 6. Exhibits

(a) Exhibits

- 10.1 Allegheny Technologies Incorporated 2017 Incentive Plan (filed herewith).
- 12.1 Computation of the Ratio of Earnings to Fixed Charges (filed herewith).
- 31.1 Certification of Chief Executive Officer required by Securities and Exchange Commission Rule 13a – 14(a) or 15d – 14(a) (filed herewith).
- 31.2 Certification of Chief Financial Officer required by Securities and Exchange Commission Rule 13a – 14(a) or 15d – 14(a) (filed herewith).
- 32.1 Certification pursuant to 18 U.S.C. Section 1350 (furnished herewith).
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

Table of Contents

SIGNATURES

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

ALLEGHENY TECHNOLOGIES INCORPORATED

(Registrant)

Date: August 2, 2017 By /s/ Patrick J. DeCourcy

Patrick J. DeCourcy

Senior Vice President, Finance and Chief Financial Officer

(Principal Financial Officer)

Date: August 2, 2017 By /s/ Karl D. Schwartz

Karl D. Schwartz

Vice President, Controller and Chief Accounting Officer

(Principal Accounting Officer)

Table of Contents

EXHIBIT INDEX

- 10.1 Allegheny Technologies Incorporated 2017 Incentive Plan (filed herewith).
- 12.1 Computation of the Ratio of Earnings to Fixed Charges (filed herewith).
- 31.1 Certification of Chief Executive Officer required by Securities and Exchange Commission Rule 13a – 14(a) or 15d – 14(a) (filed herewith).
- 31.2 Certification of Chief Financial Officer required by Securities and Exchange Commission Rule 13a – 14(a) or 15d – 14(a) (filed herewith).
- 32.1 Certification pursuant to 18 U.S.C. Section 1350 (furnished herewith).
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document