ALLEGHENY TECHNOLOGIES INC
Form 10-Q
May 09, 2008

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

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

For the Quarterly Period Ended March 31, 2008

OR

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

For the Transition Period From ____________ to ____________

Commission File Number 1-12001

ALLEGHENY TECHNOLOGIES INCORPORATED

(Exact name of registrant as specified in its charter)

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

(412) 394-2800

(Registrant s telephone number, including area code)

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

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

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

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

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

ALLEGHENY TECHNOLOGIES INCORPORATED
SEC FORM 10-Q
QUARTER ENDED MARCH 31, 2008
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ALLEGHENY TECHNOLOGIES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In millions, except share and per share amounts)

	March 31, 2008 (Unaudited)	December 31, 2007 (Audited)
ASSETS		
Cash and cash equivalents	$ 468.0	$ 623.3
Accounts receivable, net	716.0	652.2
Inventories, net	1,085.5	916.1
Deferred income taxes		18.8
Prepaid expenses and other current assets	48.2	38.3
Total Current Assets	2,317.7	2,248.7
Property, plant and equipment, net	1,329.9	1,239.5
Prepaid pension asset	244.7	230.3
Cost in excess of net assets acquired	210.2	209.8
Deferred income taxes	49.2	42.1
Other assets	124.7	125.2
Total Assets	**$ 4,276.4**	**$ 4,095.6**
LIABILITIES AND STOCKHOLDERS EQUITY		
Accounts payable	$ 469.2	$ 388.4
Accrued liabilities	246.6	277.3
Accrued income taxes	71.2	17.4
Deferred income taxes	22.9	
Short-term debt and current portion of long-term debt	20.9	20.9
Total Current Liabilities	830.8	704.0
Long-term debt	503.5	507.3
Retirement benefits	472.7	469.6
Other long-term liabilities	183.1	191.2
Total Liabilities	**1,990.1**	**1,872.1**
Stockholders Equity:		
Preferred stock, par value $0.10: authorized- 50,000,000 shares; issued-none		
Common stock, par value $0.10: authorized-500,000,000 shares; issued-102,404,256 shares at March 31, 2008 and December 31, 2007; outstanding-101,102,261 shares at March 31, 2008 and 101,586,334 shares at December 31, 2007	10.2	10.2
Additional paid-in capital	639.2	693.7

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

The accompanying notes are an integral part of these statements.

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ALLEGHENY TECHNOLOGIES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In millions except per share amounts)
(Unaudited)

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

The accompanying notes are an integral part of these statements.

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ALLEGHENY TECHNOLOGIES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

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

* Certain amounts have been

adjusted. See
Note 3.

The accompanying notes are an integral part of these statements.

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ALLEGHENY TECHNOLOGIES INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Unaudited

Note 1. Accounting Policies

Basis of Presentation

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

These unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and note disclosures required by U.S. generally accepted accounting principles for complete financial statements. In management s opinion, all adjustments (which include only normal recurring adjustments) considered necessary for a fair presentation have been included. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s 2007 Annual Report on Form 10-K. The results of operations for these interim periods are not necessarily indicative of the operating results for any future period. The December 31, 2007 financial information has been derived for our audited financial statements.

New Accounting Pronouncements Adopted

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

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

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

Pending New Accounting Pronouncements

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

Note 2. Inventories

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

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

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

Note 3. Supplemental Financial Statement Information

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

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

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

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

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Note 4. Debt

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

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

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

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

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

Note 5. Per Share Information

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

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Numerator for basic and diluted net income per common share net income	$ 142.0	$ 197.8
Denominator:		
Denominator for basic net income per common share-weighted average shares	100.8	101.4
Effect of dilutive securities:		
Option equivalents	0.5	0.7
Contingently issuable shares	0.3	0.7
Denominator for diluted net income per common share adjusted weighted average shares and assumed conversions	101.6	102.8

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

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Note 6. Comprehensive Income

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

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

Note 7. Income Taxes

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

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

Note 8. Pension Plans and Other Postretirement Benefits

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

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

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

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

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

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

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

Note 9. Business Segments

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

	Three Months Ended March 31, 2008	2007
Total sales:		
High Performance Metals	$ 525.1	$ 518.7
Flat-Rolled Products	760.6	810.7
Engineered Products	128.5	117.8
	1,414.2	1,447.2
Intersegment sales:		
High Performance Metals	44.1	41.3
Flat-Rolled Products	13.7	27.0
Engineered Products	13.0	6.3
	70.8	74.6
Sales to external customers:		
High Performance Metals	481.0	477.4
Flat-Rolled Products	746.9	783.7
Engineered Products	115.5	111.5
	$ 1,343.4	$ 1,372.6
Operating profit:		
High Performance Metals	$ 131.4	$ 167.5
Flat-Rolled Products	101.2	160.2

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

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

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

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

Corporate expenses for the first three months of 2008 were $17.7 million, compared to $21.0 million for the first