ALLEGHENY TECHNOLOGIES INC
Form 10-Q
August 05, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2013

OR

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

For the Transition Period From _________ to _________

Commission File Number 1-12001

ALLEGHENY TECHNOLOGIES INCORPORATED

(Exact name of registrant as specified in its charter)

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

(412) 394-2800

(Registrant s telephone number, including area code)

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

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

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

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

At July 31, 2013, the registrant had outstanding 107,954,571 shares of its Common Stock.

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ALLEGHENY TECHNOLOGIES INCORPORATED

SEC FORM 10-Q

Quarter Ended June 30, 2013

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Allegheny Technologies Incorporated and Subsidiaries

Consolidated Balance Sheets

(In millions, except share and per share amounts)

(Current period unaudited)

	June 30, 2013	December 31, 2012
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 74.1	$ 304.6
Accounts receivable, net of allowances for doubtful accounts of $5.8 and $5.5 as of June 30, 2013 and December 31, 2012	655.5	613.3
Inventories, net	1,504.9	1,536.6
Prepaid expenses and other current assets	97.3	56.1
Total Current Assets	**2,331.8**	**2,510.6**
Property, plant and equipment, net	2,692.4	2,559.9
Cost in excess of net assets acquired	737.0	740.1
Deferred income taxes		71.5
Other assets	358.4	365.7
Total Assets	**$ 6,119.6**	**$ 6,247.8**
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable	$ 445.6	$ 499.9
Accrued liabilities	293.1	330.5
Deferred income taxes	27.6	24.0
Short term debt and current portion of long-term debt	420.3	17.1
Total Current Liabilities	**1,186.6**	**871.5**
Long-term debt	1,053.6	1,463.0
Accrued postretirement benefits	480.0	495.2
Pension liabilities	707.8	721.1
Deferred income taxes	4.2	
Other long-term liabilities	100.5	109.9
Total Liabilities	**3,532.7**	**3,660.7**
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, 2013 and December 31, 2012; outstanding- 108,000,543 shares at June 30, 2013 and 107,398,963 shares at December 31, 2012	11.0	11.0
Additional paid-in capital	1,175.1	1,181.7

Retained earnings	2,389.1	2,427.6
Treasury stock: 1,694,628 shares at June 30, 2013 and 2,296,208 shares at December 31, 2012	(79.2)	(111.3)
Accumulated other comprehensive loss, net of tax	(1,004.8)	(1,029.4)
Total ATI stockholders equity	**2,491.2**	**2,479.6**
Noncontrolling interests	95.7	107.5
Total Equity	**2,586.9**	**2,587.1**
Total Liabilities and Equity	**$ 6,119.6**	**$ 6,247.8**

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 June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Sales	**$ 1,135.5**	**$ 1,357.4**	**$ 2,314.9**	**$ 2,709.9**
Costs and expenses:				
Cost of sales	1,031.7	1,158.5	2,096.8	2,304.0
Selling and administrative expenses	82.1	90.7	167.8	194.1
Income before interest, other income and income taxes	21.7	108.2	50.3	211.8
Interest expense, net	(13.9)	(18.6)	(28.3)	(38.5)
Other income (expense), net	(0.1)	0.1	1.0	0.5
Income before income tax provision	7.7	89.7	23.0	173.8
Income tax provision	1.1	31.0	4.8	56.8
Net income	**6.6**	**58.7**	**18.2**	**117.0**
Less: Net income attributable to noncontrolling interests	2.2	2.3	3.8	4.4
Net income attributable to ATI	**$ 4.4**	**$ 56.4**	**$ 14.4**	**$ 112.6**
Basic net income attributable to ATI per common share	**$ 0.04**	**$ 0.53**	**$ 0.13**	**$ 1.06**
Diluted net income attributable to ATI per common share	**$ 0.04**	**$ 0.50**	**$ 0.13**	**$ 1.00**
Dividends declared per common share	**$ 0.18**	**$ 0.18**	**$ 0.36**	**$ 0.36**

The accompanying notes are an integral part of these statements.

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Allegheny Technologies Incorporated and Subsidiaries

Consolidated Statements of Comprehensive Income

(In millions)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	**$ 6.6**	**$ 58.7**	**$ 18.2**	**$ 117.0**
Currency translation adjustment				
Unrealized net change arising during the period	4.5	(14.6)	(8.5)	(5.2)
Unrealized holding gain (loss) on securities				
Net gain (loss) arising during the period	(0.1)			0.1
Derivatives				
Net derivatives gain (loss) on hedge transactions	(16.0)	15.9	(2.9)	(2.3)
Reclassification to net income of net realized gain	0.5	0.4	1.2	2.9
Income taxes on derivative transactions	(6.1)	6.2	(0.7)	0.2
Total	(9.4)	10.1	(1.0)	0.4
Postretirement benefit plans				
Amortization of net actuarial loss	33.5	30.0	67.0	59.9
Prior service cost				
Amortization to net income of net prior service cost (credits)	(3.8)	(3.0)	(7.6)	(5.9)
Income taxes on postretirement benefit plans	11.4	10.4	22.9	20.7
Total	18.3	16.6	36.5	33.3
Other comprehensive income, net of tax	13.3	12.1	27.0	28.6
Comprehensive income	**19.9**	**70.8**	**45.2**	**145.6**
Less: Comprehensive income attributable to noncontrolling interests	4.1	1.1	6.2	3.8
Comprehensive income attributable to ATI	**$ 15.8**	**$ 69.7**	**$ 39.0**	**$ 141.8**

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Allegheny Technologies Incorporated and Subsidiaries

Consolidated Statements of Cash Flows

(In millions)

(Unaudited)

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Operating Activities:		
Net income	**$ 18.2**	**$ 117.0**
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	96.9	96.2
Deferred taxes	57.1	(17.6)
Changes in operating asset and liabilities:		
Inventories	31.6	(128.3)
Accounts receivable	(42.2)	(35.1)
Accounts payable	(54.2)	(39.0)
Retirement benefits	32.3	26.8
Accrued income taxes	(53.9)	12.2
Accrued liabilities and other	(27.8)	27.6
Cash provided by operating activities	**58.0**	**59.8**
Investing Activities:		
Purchases of property, plant and equipment	(223.7)	(165.7)
Asset disposals and other	0.5	0.9
Cash used in investing activities	**(223.2)**	**(164.8)**
Financing Activities:		
Payments on long-term debt and capital leases	(5.9)	(5.8)
Net borrowings under credit facilities	0.6	0.3
Dividends paid to stockholders	(38.4)	(38.2)
Dividends paid to noncontrolling interests	(18.0)	
Taxes on share-based compensation	2.6	1.0
Exercises of stock options and other	0.4	0.7
Shares repurchased for income tax withholding on share-based compensation	(6.6)	(23.3)
Cash used in financing activities	**(65.3)**	**(65.3)**
Decrease in cash and cash equivalents	**(230.5)**	**(170.3)**
Cash and cash equivalents at beginning of period	**304.6**	**380.6**
Cash and cash equivalents at end of period	**$ 74.1**	**$ 210.3**

The accompanying notes are an integral part of these statements.

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Allegheny Technologies Incorporated and Subsidiaries

Statements of Changes in Consolidated Equity

(In millions, except per share amounts)

(Unaudited)

	ATI Stockholders						
	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests	Total Equity
Balance, December 31, 2011	$ 11.0	$ 1,207.1	$ 2,361.5	$ (162.7)	$ (941.6)	$ 96.3	$ 2,571.6
Net income			**112.6**			**4.4**	**117.0**
Other comprehensive income/(loss)					29.2	(0.6)	28.6
Cash dividends on common stock ($0.36 per share)			(38.2)				(38.2)
Purchase of subsidiary shares from noncontrolling interest						(0.1)	(0.1)
Employee stock plans		(37.4)	(6.1)	40.1			(3.4)
Balance, June 30, 2012	**$ 11.0**	**$ 1,169.7**	**$ 2,429.8**	**$ (122.6)**	**$ (912.4)**	**$ 100.0**	**$ 2,675.5**
Balance, December 31, 2012	$ 11.0	$ 1,181.7	$ 2,427.6	$ (111.3)	$ (1,029.4)	$ 107.5	$ 2,587.1
Net income			**14.4**			**3.8**	**18.2**
Other comprehensive income					24.6	2.4	27.0
Cash dividends on common stock ($0.36 per share)			(38.4)				(38.4)
Dividends paid to noncontrolling interest						(18.0)	(18.0)
Employee stock plans		(6.6)	(14.5)	32.1			11.0
Balance, June 30, 2013	**$ 11.0**	**$ 1,175.1**	**$ 2,389.1**	**$ (79.2)**	**$ (1,004.8)**	**$ 95.7**	**$ 2,586.9**

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

Note 1. Accounting Policies

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

These unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and note disclosures required by U.S. generally accepted accounting principles for complete financial statements. In management s opinion, all adjustments (which include only normal recurring adjustments) considered necessary for a fair presentation have been included. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s 2012 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, 2012 financial information has been derived from the Company s audited financial statements.

New Accounting Pronouncements Adopted

In January 2013, the Company adopted changes issued by the Financial Accounting Standards Board (FASB) to the disclosure of offsetting assets and liabilities. These changes require an entity to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. The enhanced disclosures will enable users of an entity s financial statements to understand and evaluate the effect or potential effect of master netting arrangements on an entity s financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments. Other than the additional disclosure requirements, the adoption of these changes had no impact on the consolidated financial statements.

In January 2013, the Company adopted changes issued by the FASB to the reporting of amounts reclassified out of accumulated other comprehensive income. These changes require an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required to be reclassified in its entirety to net income. For other amounts that are not required to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures that provide additional detail about those amounts. These requirements are to be applied to each component of accumulated other comprehensive income. Other than the additional disclosure requirements (see Note 12), the adoption of these changes had no impact on the consolidated financial statements.

Pending Accounting Pronouncements

In February 2013, the FASB issued changes to the accounting for obligations resulting from joint and several liability arrangements. This guidance requires an entity that is joint and severally liable to measure the obligation as the sum of the amount the entity has agreed with co-obligors to pay and any additional amount it expects to pay on behalf of one or more co-obligors. Required disclosures include a description of the nature of the arrangement, how the liability arose, the relationship with co-obligors and the terms and conditions of the arrangement. These changes become effective for the Company in fiscal year 2014. The Company does not anticipate a material impact to the consolidated financial statements upon adoption.

In March 2013, the FASB issued changes to a parent entity s accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. The amendments specify that a cumulative translation adjustment (CTA) should be released into earnings when an entity ceases to have a controlling financial interest in a subsidiary or group of assets within a consolidated foreign entity and the sale or transfer results in the complete or substantially complete liquidation of the foreign entity. For sales of an equity method investment that is a foreign entity, a pro rata portion of CTA attributable to the investment would be recognized in earnings when the investment is sold. When an entity sells either a part or all of its investment in a consolidated foreign entity, CTA would be recognized in earnings only if the sale results in the parent no longer having a controlling financial interest in the foreign entity. In addition, CTA should be recognized in earnings in a business combination achieved in stages (i.e., a step acquisition). These changes become effective for the Company in fiscal year 2014. The Company does not anticipate a material impact to the consolidated financial statements upon adoption.

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Note 2. Inventories

Inventories at June 30, 2013 and December 31, 2012 were as follows (in millions):

	June 30, 2013	December 31, 2012
Raw materials and supplies	$ 359.8	$ 351.6
Work-in-process	1,026.7	1,063.9
Finished goods	195.2	209.0
Total inventories at current cost	1,581.7	1,624.5
Less allowances to reduce current cost values to LIFO basis	(50.1)	(76.9)
Progress payments	(26.7)	(11.0)
Total inventories, net	$ 1,504.9	$ 1,536.6

Inventories are stated at the lower of cost (last-in, first-out (LIFO), first-in, first-out (FIFO), and average cost methods) or market, less progress payments. Most of the Company s inventory is valued utilizing the LIFO costing methodology. Inventory of the Company s non-U.S. operations is valued using average cost or FIFO methods. The effect of using the LIFO methodology to value inventory, rather than FIFO, decreased cost of sales by $26.8 million for the first six months of 2013 compared to a decrease of $7.1 million for the first six months of 2012.

Note 3. Property, Plant and Equipment

Property, plant and equipment at June 30, 2013 and December 31, 2012 was as follows (in millions):

	June 30, 2013	December 31, 2012
Land	$ 34.1	$ 34.4
Buildings	970.8	921.0
Equipment and leasehold improvements	3,478.9	3,344.4
	4,483.8	4,299.8
Accumulated depreciation and amortization	(1,791.4)	(1,739.9)
Total property, plant and equipment, net	$ 2,692.4	$ 2,559.9

The construction in progress portion of property, plant and equipment at June 30, 2013 was $743.5 million.

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Note 4. Debt

Debt at June 30, 2013 and December 31, 2012 was as follows (in millions):

	June 30, 2013	December 31, 2012
Allegheny Technologies 5.95% Notes due 2021	$ 500.0	$ 500.0
Allegheny Technologies 4.25% Convertible Notes due 2014	402.5	402.5
Allegheny Technologies 9.375% Notes due 2019	350.0	350.0
Allegheny Ludlum 6.95% debentures due 2025	150.0	150.0
ATI Ladish Series B 6.14% Notes due 2016 (a)	18.6	24.8
ATI Ladish Series C 6.41% Notes due 2015 (b)	31.7	32.5
Domestic Bank Group $400 million unsecured credit facility		
Foreign credit facilities	14.5	14.2
Industrial revenue bonds, due through 2020, and other	6.6	6.1
Total short-term and long-term debt	1,473.9	1,480.1
Short-term debt and current portion of long-term debt	420.3	17.1
Total long-term debt	$ 1,053.6	$ 1,463.0

(a) Includes fair value adjustments of $1.4 million at June 30, 2013 and $1.9 million at December 31, 2012.
(b) Includes fair value adjustments of $1.7 million at June 30, 2013 and $2.5 million at December 31, 2012.

In May 2013, the Company amended its $400 million senior unsecured domestic revolving credit facility to, among other things, extend the expiration date of the commitments of the lenders thereunder to May 31, 2018 and to modify the maximum leverage ratio permitted under the facility. Under the terms of the facility, the Company may increase the size of the credit facility by up to $100 million without seeking the further approval of the lending group. As amended, the facility requires the Company to maintain a leverage ratio (consolidated total indebtedness divided by consolidated earnings before interest, taxes and depreciation and amortization for the four prior fiscal quarters) of not greater than 4.0 beginning with the quarter ended June 30, 2013. The maximum leverage ratio is reduced to 3.75 beginning with the quarter ended March 31, 2015 and further reduced to 3.50 beginning with the quarter ended June 30, 2015 and for each fiscal quarter thereafter. The credit facility continues to require that the company maintain an interest coverage ratio (consolidated earnings before interest and taxes divided by interest expense) of not less than 2.0. At June 30, 2013, the leverage ratio was 3.29 and the interest coverage ratio was 4.09. The definition of consolidated earnings before interest and taxes, and consolidated earnings before interest, taxes, depreciation and amortization as used in the interest coverage and leverage ratios excludes any non-cash pension expense or income, and consolidated indebtedness in the leverage ratio is net of cash on hand in excess of $50 million. The Company was in compliance with these required ratios during all applicable periods. As of June 30, 2013, there were no outstanding borrowings made against the facility, although a portion of the facility was used to support approximately $4 million in letters of credit. The facility includes a $200 million sublimit for the issuance of letters of credit.

The Company has an additional separate credit facility for the issuance of letters of credit. As of June 30, 2013, $32 million in letters of credit were outstanding under this facility.

In addition, Shanghai STAL Precision Stainless Steel Company Limited (STAL), the Company s Chinese joint venture company in which ATI has a 60% interest, has a 205 million renminbi (approximately $33 million at June 30, 2013 exchange rates) revolving credit facility with a group of banks, which expires in August 2014. This credit facility is supported solely by STAL s financial capability without any guarantees from the joint venture partners. As of June 30, 2013, there were no borrowings under this credit facility.

The ATI Ladish Series B and Series C Notes are guaranteed by ATI and are equally ranked with all of ATI s existing and future senior unsecured debt.

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 income.

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

The majority of ATI s products are sold utilizing raw material surcharges and index mechanisms. However, as of June 30, 2013, 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 10% of its estimated annual nickel requirements. These nickel hedges extend to 2016.

At June 30, 2013, the outstanding financial derivatives used to hedge the Company s exposure to energy cost volatility included natural gas cost hedges for approximately 65% of its annual forecasted domestic requirements for 2013, approximately 50% for 2014, and approximately 5% for 2015, and electricity hedges for Western Pennsylvania operations of approximately 10% of its forecasted on-peak and off-peak requirements for 2014.

While the majority of the Company s direct export sales are transacted in U.S. dollars, foreign currency exchange contracts are used, from time-to-time, to limit transactional exposure to changes in currency exchange rates for those transactions denominated in a non-U.S. currency. The Company sometimes purchases foreign currency forward contracts that permit it to sell specified amounts of foreign currencies expected to be received from its export sales for pre-established U.S. dollar amounts at specified dates. The forward contracts are denominated in the same foreign currencies in which export sales are denominated. These contracts are designated as hedges of the variability in cash flows of a portion of the forecasted future export sales transactions which otherwise would expose the Company to foreign currency risk. The Company may also enter into foreign currency forward contracts that are not designated as hedges, which are denominated in the same foreign currency in which export sales are denominated. At June 30, 2013, the outstanding financial derivatives, including both hedges and undesignated derivatives, that are used to manage the Company s exposure to foreign currency, primarily euros, represented approximately 10% of its forecasted total international sales through 2016. In addition, the Company may also designate cash balances held in foreign currencies as hedges of forecasted foreign currency transactions.

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.

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(in millions): Asset derivatives	Balance sheet location	June 30, 2013	December 31, 2012
Derivatives designated as hedging instruments:			
Foreign exchange contracts	Prepaid expenses and other current assets	$ 5.0	$ 2.9
Nickel and other raw material contracts	Prepaid expenses and other current assets		0.6
Natural gas contracts	Prepaid expenses and other current assets	0.2	0.4
Foreign exchange contracts	Other assets	5.5	0.9
Nickel and other raw material contracts	Other assets		0.3
Natural gas contracts	Other assets	0.1	0.7
Total derivatives designated as hedging instruments:		10.8	5.8
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Prepaid expenses and other current assets	0.2	0.4
Total derivatives not designated as hedging instruments:		0.2	0.4
Total asset derivatives		$ 11.0	$ 6.2

Liability derivatives	Balance sheet location	June 30, 2013	December 31, 2012
Derivatives designated as hedging instruments:			
Natural gas contracts	Accrued liabilities	$ 2.9	$ 4.4
Nickel and other raw material contracts	Accrued liabilities	11.2	1.1
Foreign exchange contracts	Accrued liabilities		1.7
Electricity contracts	Accrued liabilities	0.2	0.3
Natural gas contracts	Other long-term liabilities	0.5	0.6
Electricity contracts	Other long-term liabilities	0.2	0.4
Foreign exchange contracts	Other long-term liabilities		1.4
Nickel and other raw material contracts	Other long-term liabilities	1.9	0.3
Total derivatives designated as hedging instruments:		16.9	10.2
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Accrued liabilities	0.7	1.6
Total derivatives not designated as hedging instruments:		0.7	1.6
Total liability derivatives		$ 17.6	$ 11.8

For derivative financial instruments that are designated as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income (OCI) and reclassified into earnings in the same period or periods during which the hedged item affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current period results. The Company did not use fair value or net investment hedges for the periods presented. The effects of derivative instruments in the tables below are presented net of related income taxes.

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Activity with regard to derivatives designated as cash flow hedges for the three and six month periods ended June 30, 2013 and 2012 was as follows (in millions):

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) Three months ended June 30, 2013	2012	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (a) Three months ended June 30, 2013	2012	Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) (b) Three months ended June 30, 2013	2012
Nickel and other raw material contracts	$ (7.4)	$ (3.1)	$ (1.1)	$ (0.7)	$	$
Natural gas contracts	(1.9)	1.2	0.1	(2.4)		
Electricity contracts	(0.1)	(0.1)		(0.4)		
Foreign exchange contracts	(0.4)	11.8	0.6	3.2		
Total	$ (9.8)	$ 9.8	$ (0.4)	$ (0.3)	$	$

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) Six Months Ended June 30, 2013	2012	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (a) Six Months Ended June 30, 2013	2012	Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) (b) Six Months Ended June 30, 2013	2012
Nickel and other raw material contracts	$ (8.8)	$ (4.7)	$ (1.0)	$ (0.8)	$	$
Natural gas contracts	(0.3)	(3.3)	(0.9)	(5.0)		
Electricity contracts		(1.1)	(0.2)	(1.1)		
Foreign exchange contracts	7.3	7.7	1.3	5.1		
Total	$ (1.8)	$ (1.4)	$ (0.8)	$ (1.8)	$	$

(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 amount excluded from effectiveness testing are presented in selling and administrative expenses.

Assuming market prices remain constant with those at June 30, 2013, a loss of $5.6 million is expected to be recognized over the next 12 months.

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

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Derivatives that are not designated as hedging instruments were as follows:

In millions Derivatives Not Designated as Hedging Instruments	Amount of Gain (Loss) Recognized in Income on Derivatives Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
Foreign exchange contracts	$ (0.4)	$ 1.3	$ 0.4	$ (0.1)

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

Note 6. Fair Value of Financial Instruments

The estimated fair value of financial instruments at June 30, 2013 was as follows:

(In millions)	Total Carrying Amount	Total Estimated Fair Value	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)
Cash and cash equivalents	$ 74.1	$ 74.1	$ 74.1	$
Derivative financial instruments:				
Assets	11.0	11.0		11.0
Liabilities	17.6	17.6		17.6
Debt	1,473.9	1,613.1	1,541.7	71.4

The estimated fair value of financial instruments at December 31, 2012 was as follows:

(In millions)	Total Carrying Amount	Total Estimated Fair Value	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)
Cash and cash equivalents	$ 304.6	$ 304.6	$ 304.6	$
Derivative financial instruments:				
Assets	6.2	6.2		6.2
Liabilities	11.8	11.8		11.8
Debt	1,480.1	1,703.2	1,625.6	77.6

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.

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

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

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

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

Note 7. Pension Plans and Other Postretirement Benefits

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

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

For the three month periods ended June 30, 2013 and 2012, the components of pension expense and components of other postretirement benefit expense for the Company s defined benefit plans included the following (in millions):

	Pension Benefits Three Months Ended June 30,		Other Postretirement Benefits Three Months Ended June 30,	
	2013	2012	2013	2012
Service cost - benefits earned during the year	$ 10.0	$ 8.7	$ 0.8	$