ALLEGHENY TECHNOLOGIES INC
Form 10-Q
November 01, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 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 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 ý 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 ý 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 ý	Accelerated filer ¨
Non-accelerated filer o (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 October 20, 2017, the registrant had outstanding 108,863,099 shares of its Common Stock.

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SEC FORM 10-Q
Quarter Ended September 30, 2017
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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)

	September 30, 2017	December 31, 2016
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 124.9	$ 229.6
Accounts receivable, net	525.9	452.1
Inventories, net	1,101.1	1,037.0
Prepaid expenses and other current assets	52.2	47.8
Total Current Assets	1,804.1	1,766.5
Property, plant and equipment, net	2,490.9	2,498.9
Goodwill	531.9	641.9
Other assets	248.2	262.7
Total Assets	$ 5,075.1	$ 5,170.0
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable	$ 350.5	$ 294.3
Accrued liabilities	286.7	309.3
Short term debt and current portion of long-term debt	36.4	105.1
Total Current Liabilities	673.6	708.7
Long-term debt	1,877.7	1,771.9
Accrued postretirement benefits	303.2	317.7
Pension liabilities	678.2	827.9
Deferred income taxes	14.1	15.6
Other long-term liabilities	80.8	83.4
Total Liabilities	3,627.6	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 September 30, 2017 and December 31, 2016; outstanding-108,863,099 shares at September 30, 2017 and 108,925,254 shares at December 31, 2016	11.0	11.0
Additional paid-in capital	1,196.4	1,188.8
Retained earnings	1,182.6	1,277.1
Treasury stock: 832,072 shares at September 30, 2017 and 769,917 shares at December 31, 2016	(25.9)	(28.0)
Accumulated other comprehensive loss, net of tax	(1,016.3)	(1,093.7)
Total ATI stockholders' equity	1,347.8	1,355.2
Noncontrolling interests	99.7	89.6
Total Equity	1,447.5	1,444.8
Total Liabilities and Equity	$ 5,075.1	$ 5,170.0

The accompanying notes are an integral part of these statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Sales	$869.1	$770.5	$2,615.2	$2,338.5
Cost of sales	775.8	720.3	2,296.8	2,273.3
Gross profit	93.3	50.2	318.4	65.2
Selling and administrative expenses	66.2	60.5	192.4	182.4
Impairment of goodwill	114.4	—	114.4	—
Restructuring charges	—	488.6	—	498.6
Operating income (loss)	(87.3)	(498.9)	11.6	(615.8)
Interest expense, net	(34.2)	(32.6)	(102.2)	(91.2)
Other income, net	0.2	—	3.7	1.8
Loss before income taxes	(121.3)	(531.5)	(86.9)	(705.2)
Income tax benefit	(1.9)	(4.3)	(2.0)	(64.4)
Net loss	(119.4)	(527.2)	(84.9)	(640.8)
Less: Net income attributable to noncontrolling interests	1.8	3.6	8.7	10.0
Net loss attributable to ATI	$(121.2)	$(530.8)	$(93.6)	$(650.8)
Basic net loss attributable to ATI per common share	$(1.12)	$(4.95)	$(0.87)	$(6.07)
Diluted net loss attributable to ATI per common share	$(1.12)	$(4.95)	$(0.87)	$(6.07)
Dividends declared per common share	$—	$0.08	$—	$0.24

The accompanying notes are an integral part of these statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Net loss	$(119.4)	$(527.2)	$(84.9)	$(640.8)
Currency translation adjustment				
Unrealized net change arising during the period	24.2	(4.4)	39.0	(19.6)
Derivatives				
Net derivatives gain (loss) on hedge transactions	9.2	4.8	(1.6)	21.9
Reclassification to net income (loss) of net realized loss (gain)	(1.2)	0.6	(3.5)	8.5
Income taxes on derivative transactions	4.8	2.0	(0.2)	11.5
Total	3.2	3.4	(4.9)	18.9
Postretirement benefit plans				
Actuarial loss				
Amortization of net actuarial loss	17.8	18.7	53.6	56.2
Net gain arising during the period	—	—	—	22.5
Prior service cost				
Amortization to net income (loss) of net prior service cost (credits)	(0.4)	(0.4)	(1.2)	—
Income taxes on postretirement benefit plans	(11.1)	6.9	1.9	29.8
Total	28.5	11.4	50.5	48.9
Other comprehensive income, net of tax	55.9	10.4	84.6	48.2
Comprehensive loss	(63.5)	(516.8)	(0.3)	(592.6)
Less: Comprehensive income attributable to noncontrolling interests	6.8	2.0	15.9	5.4
Comprehensive loss attributable to ATI	$(70.3)	$(518.8)	$(16.2)	$(598.0)

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)

	Nine months ended September 30,	
	2017	2016
Operating Activities:		
Net loss	$(84.9)	$(640.8)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	120.7	130.2
Deferred taxes	1.7	(78.1)
Impairment of goodwill	114.4	—
Non-cash restructuring charges	—	471.3
Changes in operating assets and liabilities:		
Inventories	(64.1)	192.7
Accounts receivable	(73.8)	(53.7)
Accounts payable	56.2	(60.2)
Retirement benefits (a)	(117.6)	(94.6)
Accrued income taxes	(4.6)	7.7
Accrued liabilities and other	(1.8)	13.8
Cash used in operating activities	(53.8)	(111.7)
Investing Activities:		
Purchases of property, plant and equipment	(85.3)	(174.9)
Asset disposals and other	3.2	2.1
Cash used in investing activities	(82.1)	(172.8)
Financing Activities:		
Borrowings on long-term debt	8.5	387.5
Payments on long-term debt and capital leases	(1.9)	(2.4)
Net borrowings under credit facilities	28.0	2.4
Debt issuance costs	(0.8)	(10.4)
Dividends paid to stockholders	—	(25.8)
Dividends paid to noncontrolling interests	—	(16.0)
Acquisition of noncontrolling interests	—	(12.2)
Sale to noncontrolling interests	2.2	—
Shares repurchased for income tax withholding on share-based compensation and other	(4.8)	—
Cash provided by financing activities	31.2	323.1
Increase (decrease) in cash and cash equivalents	(104.7)	38.6
Cash and cash equivalents at beginning of period	229.6	149.8
Cash and cash equivalents at end of period	$124.9	$188.4

(a) Includes a $(135) million contribution to the U.S. defined benefit pension plan in 2017 and a $(115) million contribution to the U.S. defined benefit pension plan in 2016.
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, 2015	$11.0	$1,161.7	$1,945.9	$(21.3)	$(1,014.5)	$101.6	$2,184.4
Net income (loss)	—	—	(650.8)	—	—	10.0	(640.8)
Other comprehensive income (loss)	—	—	—	—	52.8	(4.6)	48.2
Cash dividends on common stock ($0.24 per share)	—	—	(25.8)	—	—	—	(25.8)
Purchase of subsidiary shares from noncontrolling interest	—	—	—	—	—	(0.1)	(0.1)
Dividends to noncontrolling interests	—	—	—	—	—	(16.0)	(16.0)
Employee stock plans	—	21.6	(2.2)	(6.6)	—	—	12.8
Balance, September 30, 2016	$11.0	$1,183.3	$1,267.1	$(27.9)	$(961.7)	$90.9	$1,562.7
Balance, December 31, 2016	$11.0	$1,188.8	$1,277.1	$(28.0)	$(1,093.7)	$89.6	$1,444.8
Net income (loss)	—	—	(93.6)	—	—	8.7	(84.9)
Other comprehensive income	—	—	—	—	77.4	7.2	84.6
Dividends to noncontrolling interests	—	—	—	—	—	(8.0)	(8.0)
Sales of subsidiary shares to noncontrolling interest	—	—	—	—	—	2.2	2.2
Employee stock plans	—	7.6	(0.9)	2.1	—	—	8.8
Balance, September 30, 2017	$11.0	$1,196.4	$1,182.6	$(25.9)	$(1,016.3)	$99.7	$1,447.5

The accompanying notes are an integral part of these statements.

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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.

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 last-in, first-out (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 August 2017, the FASB issued changes to its accounting guidance for derivatives and hedging, which changes both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. Some changes resulting from this new guidance include the elimination of the concept of recognizing periodic hedge ineffectiveness for cash flow hedges, changes to the recognition and presentation of changes in the fair value of the hedging instrument, enhancement of the ability to use the critical-terms-match method for the cash flow hedge of

groups of forecasted transactions when the timing of the hedged transactions does not perfectly match the hedging instrument's maturity date, and the addition of new disclosure requirements and amendments to existing ones. This new guidance is effective for the Company's 2019 fiscal year, with early adoption permitted and all transition requirements and elections being applied to hedging relationships existing on the date of adoption. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

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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 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 results of operations. The Company is still evaluating a limited number of customer agreements involving production of parts and components in the High Performance Materials and Components segment, representing less than 5% of annualized 2017 revenues, that may require revenue to be recognized over time due to no alternative use for the product without significant economic loss, and an enforceable right to payment including a normal profit margin from the customer in the event of contract termination. Over-time recognition would be a change from current accounting, which is at a point-in-time for these products, however, based on ongoing production of these products, the impact to the statement of operations is not expected to be material. The Company 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.

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Note 2. Inventories

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

	September 30, 2017	December 31, 2016
Raw materials and supplies	$ 157.4	$ 149.6
Work-in-process	887.3	837.9
Finished goods	164.8	161.7
Total inventories at current cost	1,209.5	1,149.2
Adjustment from current cost to LIFO cost basis	45.8	97.3
Inventory valuation reserves	(118.7)	(169.0)
Progress payments	(35.5)	(40.5)
Total inventories, net	$ 1,101.1	$ 1,037.0

Inventories are stated at the lower of cost (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):

	Nine months ended September 30,	
	2017	2016
LIFO benefit (charge)	$(51.5)	$(23.1)
NRV benefit (charge)	51.3	23.5
Net cost of sales impact	$(0.2)	$0.4

The first nine months of 2016 results included $17.7 million in inventory valuation charges related to the market-based valuation of titanium products. Additionally, in the third quarter of 2016, in conjunction with the indefinite idling of the Company's Rowley, UT titanium sponge facility, the Company recorded an additional $11.3 million charge to revalue titanium sponge inventory based on revised assessments of industrial grade titanium market conditions and expected utilization of this inventory.

Note 3. Property, Plant and Equipment

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

	September 30, 2017	December 31, 2016
Land	$ 31.7	$ 31.4
Buildings	842.9	829.6
Equipment and leasehold improvements	3,562.6	3,497.2
	4,437.2	4,358.2
Accumulated depreciation and amortization	(1,946.3)	(1,859.3)
Total property, plant and equipment, net	$ 2,490.9	$ 2,498.9

The construction in progress portion of property, plant and equipment at September 30, 2017 was $71.8 million.

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Note 4. Goodwill Impairment

At September 30, 2017, the Company had $531.9 million of goodwill on its consolidated balance sheet, all of which relates to the High Performance Materials & Components (HPMC) segment. Goodwill decreased $110.0 million at September 30, 2017 compared to December 31, 2016, resulting from a $114.4 million impairment charge in the HPMC segment offset by $4.4 million from the impact of foreign currency translation on goodwill denominated in functional currencies other than the U.S. dollar.

The Company performs its annual goodwill impairment evaluations in the fourth quarter of each year. During the third quarter of 2017, the Company performed an interim goodwill impairment analysis on ATI Cast Products, a titanium investment casting business, due to impairment indicators including lower actual results versus projections. This reporting unit had a fair value that exceeded carrying value by 12% as a result of our 2016 annual goodwill impairment evaluation. For the 2017 interim impairment analysis, fair value was determined by using a quantitative assessment that used a discounted cash flow technique, which represents Level 3 unobservable information in the fair value hierarchy. As a result of the 2017 interim goodwill impairment evaluation, the Company determined that the fair value of the Cast Products business was significantly below the carrying value, including goodwill. This was primarily due to lower projected revenues, profitability and cash flows associated with revised expectations for the rate of operational improvement and profitability of this business based on current customer agreements. Consequently, during the third quarter of 2017, the Company recorded a $114.4 million pre-tax impairment charge to write-off all of the goodwill associated with ATI Cast Products, most of which was assigned from the Company’s 2011 Ladish acquisition that was not deductible for income tax purposes. This goodwill impairment charge was excluded from 2017 HPMC business segment results. Accumulated goodwill impairment losses as of September 30, 2017 and December 31, 2016 were $241.0 million and $126.6 million, respectively.

Also during the third quarter of 2017, management concluded that the goodwill impairment at ATI Cast Products was an impairment indicator to evaluate the recoverability of other long-lived assets of this reporting unit, including property, plant, equipment, and intangible assets. No impairment was determined to exist in these long-lived assets as a result of this interim impairment test.

Note 5. Debt

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

	September 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	25.0	—
Foreign credit facilities	7.7	4.4
Other	9.1	2.2
Debt issuance costs	(15.2)	(17.1)
Total debt	1,914.1	1,877.0
Short term debt and current portion of long-term debt	36.4	105.1
Total long-term debt	$ 1,877.7	$ 1,771.9

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

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

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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 September 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 September 30, 2017, there were $25.0 million of outstanding borrowings under the ABL facility, and $41.5 million was utilized to support the issuance of letters of credit. Average revolving credit borrowings under the ABL facility for the first nine months of 2017 and 2016 were $46 million and $109 million, respectively, bearing an average annual interest rate of 3.276% and 1.757%, respectively.

Note 6. 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 September 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 17 million pounds of nickel with hedge dates through 2021. The aggregate notional amount hedged is approximately 20% of a single year’s estimated nickel raw material purchase requirements.

At September 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 nine months of 2016, due to changes in expected operating levels, the Company
concluded that additional portions of these natural gas hedges for 2016 and the first quarter of 2017 were ineffective based on

forecast changes in underlying natural gas usage. The Company recognized $0.4 million and $1.7 million of pre-tax losses for the three and nine months ended September 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 September 30, 2017, the Company hedged approximately 55% of the Company's forecasted domestic requirements for natural gas for the remainder of 2017, approximately 35% for 2018, and approximately 30% 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

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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 September 30, 2017, the Company held 10.8 million euro notional value of foreign currency forward contracts designated as fair value hedges with maturity dates through 2017. The Company recorded $0.5 million and $2.7 million of charges in the three and nine months ended September 30, 2017, respectively, and $0.5 million and $3.0 million of charges in the three and nine months ended September 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.

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(In millions) Asset derivatives	Balance sheet location	September 30, 2017	December 31, 2016
Derivatives designated as hedging instruments:			
Foreign exchange contracts	Prepaid expenses and other current assets	$ 0.2	$ 2.4
Natural gas contacts	Prepaid expenses and other current assets	0.1	0.2
Nickel and other raw material contracts	Prepaid expenses and other current assets	3.3	2.2
Foreign exchange contracts	Other assets	—	0.2
Natural gas contracts	Other assets	0.3	0.2
Nickel and other raw material contracts	Other assets	2.5	3.3
Total derivatives designated as hedging instruments		6.4	8.5
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Prepaid expenses and other current assets	0.2	0.6
Total derivatives not designated as hedging instruments		0.2	0.6
Total asset derivatives		$ 6.6	$ 9.1
Liability derivatives	Balance sheet location		
Derivatives designated as hedging instruments:			
Natural gas contracts	Accrued liabilities	$ 0.8	$ 2.5
Nickel and other raw material contracts	Accrued liabilities	4.8	6.7
Foreign exchange contracts	Accrued liabilities	0.7	—
Natural gas contracts	Other long-term liabilities	0.1	—
Nickel and other raw material contracts	Other long-term liabilities	5.7	9.4
Foreign exchange contracts	Other long-term liabilities	—	0.1
Total derivatives designated as hedging instruments		12.1	18.7
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Accrued Liabilities	0.2	—
Total derivatives not designated as hedging instruments		0.2	—
Total liability derivatives		$ 12.3	$ 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 13 for further explanation).

Assuming market prices remain constant with those at September 30, 2017, a loss of $1.7 million, net of tax and excluding income tax valuation allowance changes, is expected to be recognized over the next 12 months.

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

Derivatives in Cash Flow Hedging Relationships	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 September 30,		Three months ended September 30,		Three months ended September 30,	
	2017	2016	2017	2016	2017	2016
Nickel and other raw material contracts	$ 5.6	$ 4.2	$ (0.9)	$ (2.2)	$ —	$ —
Natural gas contracts	—	(1.2)	(0.7)	(1.3)	—	(0.3)
Foreign exchange contracts	0.1	—	2.4	3.4	—	—
Total	$ 5.7	$ 3.0	$ 0.8	$ (0.1)	$ —	$ (0.3)

Derivatives in Cash Flow Hedging Relationships	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)	
	Nine months ended September 30,		Nine months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016	2017	2016
Nickel and other raw material contracts	$ 1.2	$ 13.0	$ (2.5)	$ (9.9)	$ —	$ —
Natural gas contracts	(2.1)	1.1	(2.8)	(7.2)	—	(1.2)
Foreign exchange contracts	(0.1)	(0.5)	7.5	13.0	—	—
Total	$ (1.0)	$ 13.6	$ 2.2	$ (4.1)	$ —	$ (1.2)

(a) The gains (losses) reclassified from accumulated OCI into income related to the effective portion of the derivatives are presented in cost of sales 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 10 million euro notional value outstanding as of September 30, 2017 of foreign currency forward contracts not designated as hedges, with maturity dates into the second quarter of 2018. These derivatives that are not designated as hedging instruments were as follows:

(In millions)	Amount of Gain (Loss) Recognized on Derivatives			
	Three months ended September 30,		Nine months ended September 30,	
Derivatives Not Designated as Hedging Instruments	2017	2016	2017	2016
Foreign exchange contracts	$(0.1)	$(0.2)	$(0.7)	$(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.

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Note 7. Fair Value of Financial Instruments

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

			Fair Value Measurements at Reporting Date Using	
(In millions)	Total Carrying Amount	Total Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets(Level 1)	Significant Observable Inputs (Level 2)
Cash and cash equivalents	$ 124.9	$ 124.9	$ 124.9	$ —
Derivative financial instruments:				
Assets	6.6	6.6	—	6.6
Liabilities	12.3	12.3	—	12.3
Debt (a)	1,929.3	2,250.7	2,108.9	141.8

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

			Fair Value Measurements at Reporting Date Using	
(In millions)	Total Carrying Amount	Total Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)
Cash and cash equivalents	$ 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.

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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 8. 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 September 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 September 30,		Three months ended September 30,	
	2017	2016	2017	2016
Service cost - benefits earned during the year	$3.5	$5.2	$ 0.6	$ 0.6
Interest cost on benefits earned in prior years	29.2	31.4	3.7	4.0
Expected return on plan assets	(36.7)	(37.2)	—	—
Amortization of prior service cost (credit)	0.3	0.3	(0.7)	(0.7)
Amortization of net actuarial loss	15.6	16.3	2.2	2.4
Total retirement benefit expense	$11.9	$16.0	$ 5.8	$ 6.3

For the nine month periods ended September 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	
	Nine months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Service cost - benefits earned during the year	$10.5	$15.5	$1.8	$1.9
Interest cost on benefits earned in prior years	87.6	94.1	11.0	12.0
Expected return on plan assets	(110.1)	(111.5)	—	—
Amortization of prior service cost (credit)	0.9	0.9	(2.1)	(0.9)
Amortization of net actuarial loss	46.9	49.0	6.7	7.2
Total retirement benefit expense	$35.8	$48.0	$17.4	$20.2

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. In July 2016, the Company made a $115 million contribution to the ATI Pension Plan.

Note 9. 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 that differ from a standard 35% tax rate, primarily related to income tax valuation allowance changes. Third quarter 2017 results included a benefit for income taxes of $1.9 million, which includes the impact of $106 million pre-tax non-deductible goodwill impairment and $0.3 million of discrete tax benefits. The third quarter 2016 benefit for income taxes was $4.3 million, which includes a $173.1 million income tax valuation allowance charge on U.S. federal deferred tax assets, and $4.1 million of

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discrete charges. The third quarter 2016 actions to indefinitely idle the Rowley, UT titanium sponge production facility resulted in a reassessment of the realizability of U.S. federal deferred tax assets.

For the first nine months of 2017, the benefit for income taxes was $2.0 million, compared to a benefit for income taxes of $64.4 million, or 9.1% of the loss before income taxes, for the comparable 2016 period. The first nine months of 2017 included discrete tax benefits of $7.0 million, largely for the effects of amending tax returns for prior periods in certain domestic jurisdictions, and the first nine months of 2016 included discrete tax expense of $0.5 million.

For the three and nine months ended September 30, 2017, the Company determined that it was unable to make a reliable estimate of the annual effective tax rate for the Company's domestic operations, as insignificant changes in projected results for these operations can produce a significant variation in its annual effective tax rate. Therefore, the Company recorded tax expense for these operations for the three and nine months ended September 30, 2017 based on the actual year to date effective rate for these periods.

Note 10. 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 September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Total sales:				
High Performance Materials & Components	$526.3	$474.7	$1,593.3	$1,493.7
Flat Rolled Products	372.3	321.7	1,118.5	927.2
	898.6	796.4	2,711.8	2,420.9
Intersegment sales:				
High Performance Materials & Components	13.4	12.9	43.6	40.5
Flat Rolled Products	16.1	13.0	53.0	41.9
	29.5	25.9	96.6	82.4
Sales to external customers:				
High Performance Materials & Components	512.9	461.8	1,549.7	1,453.2
Flat Rolled Products	356.2	308.7	1,065.5	885.3
	$869.1	$770.5	$2,615.2	$2,338.5
Operating profit (loss):				
High Performance Materials & Components	$61.7	$47.0	$180.6	$114.9
Flat Rolled Products	(7.3)	(20.8)	14.6	(162.2)
Total operating profit (loss)	54.4	26.2	195.2	(47.3)
LIFO and net realizable value reserves	(0.1)	—	(0.2)	0.4
Corporate expenses	(14.8)	(9.8)	(36.9)	(32.6)
Closed operations and other expenses	(12.2)	(15.4)	(28.4)	(24.6)
Impairment of goodwill (See Note 4)	(114.4)	—	(114.4)	—
Restructuring and other charges	—	(499.9)	—	(509.9)
Interest expense, net	(34.2)	(32.6)	(102.2)	(91.2)
Loss before income taxes	$(121.3)	$(531.5)	$(86.9)	$(705.2)

Restructuring and other charges for the third quarter ended September 30, 2016 primarily relate to the indefinite idling of the
Company's Rowley, UT titanium sponge facility and include $471.3 million of long-lived asset impairment charges, $11.3 million of inventory valuation charges for titanium sponge that are classified in cost of sales, and $17.3 million of facility shutdown, idling and employee benefit costs. The nine months ended September 30, 2016 also include a $9.0 million charge for severance obligations in the FRP operations, and a $1.0 million charge for severance obligations in the HPMC segment.

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Results for the HPMC segment exclude the Rowley, UT titanium sponge operations beginning with the third quarter of 2016, with such operations being reported in closed operations and other expenses. Reserves for restructuring charges at September 30, 2017 were $9.1 million, of which $3.1 million relates to severance and employee benefit costs and $6.0 million to closure costs. The decline in these reserves compared to $33.1 million at December 31, 2016 is primarily due to payments. These restructuring reserves are expected to be substantially paid in 2017.

Note 11. Per Share Information

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

(In millions, except per share amounts)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Numerator:				
Numerator for basic loss per common share –				
Net loss attributable to ATI	$(121.2)	$(530.8)	$(93.6)	$(650.8)
Effect of dilutive securities:				
4.75% Convertible Senior Notes due 2022	—	—	—	—
Numerator for diluted loss per common share –				
Net loss attributable to ATI after assumed conversions	$(121.2)	$(530.8)	$(93.6)	$(650.8)
Denominator:				
Denominator for basic net loss per common share – weighted average shares	107.7	107.3	107.7	107.3
Effect of dilutive securities:				
Share-based compensation	—	—	—	—
4.75% Convertible Senior Notes due 2022	—	—	—	—
Denominator for diluted net loss per common share – adjusted weighted average shares and assumed conversions	107.7	107.3	107.7	107.3
Basic net loss attributable to ATI per common share	$(1.12)	$(4.95)	$(0.87)	$(6.07)
Diluted net loss attributable to ATI per common share	$(1.12)	$(4.95)	$(0.87)	$(6.07)

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 20.9 million and 20.7 million anti-dilutive shares for the three and nine month periods ended September 30, 2017. There were 21.0 million and 10.3 million anti-dilutive shares for the three and nine month periods ended September 30, 2016, respectively.

Note 12. 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. The effects of income tax valuation allowances on U.S. Federal and State deferred tax assets are excluded from the Subsidiary's financial results, and are reported by the Guarantor Parent or the non-guarantor subsidiaries, as applicable.

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

(In millions)	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Assets:					
Cash and cash equivalents	$ 2.1	$ 7.4	$ 115.4	$ —	$ 124.9
Accounts receivable, net	0.1	140.1	385.7	—	525.9
Intercompany notes receivable	—	—	3,425.7	(3,425.7)	—
Inventories, net	—	154.2	946.9	—	1,101.1
Prepaid expenses and other current assets	9.7	10.0	32.5	—	52.2
Total current assets	11.9	311.7	4,906.2	(3,425.7)	1,804.1
Property, plant and equipment, net	0.9	1,579.6	910.4	—	2,490.9
Goodwill	—	—	531.9	—	531.9
Intercompany notes receivable	—	—	200.0	(200.0)	—
Investment in subsidiaries	5,524.0	37.7	—	(5,561.7)	—
Other assets	26.5	18.6	203.1	—	248.2
Total assets	$ 5,563.3	$ 1,947.6	$ 6,751.6	$ (9,187.4)	$ 5,075.1
Liabilities and stockholders' equity:					
Accounts payable	$ 3.7	$ 148.8	$ 198.0	$ —	$ 350.5
Accrued liabilities	42.9	83.1	160.7	—	286.7
Intercompany notes payable	1,783.8	1,641.9	—	(3,425.7)	—
Short term debt and current portion of long-term debt	0.3	0.3	35.8	—	36.4
Total current liabilities	1,830.7	1,874.1	394.5	(3,425.7)	673.6
Long-term debt	1,623.8	149.8	104.1	—	1,877.7
Intercompany notes payable	—	200.0	—	(200.0)	—
Accrued postretirement benefits	—	235.6	67.6	—	303.2
Pension liabilities	630.5	4.8	42.9	—	678.2
Deferred income taxes	14.1	—	—	—	14.1
Other long-term liabilities	16.7	18.4	45.7	—	80.8
Total liabilities	4,115.8	2,482.7	654.8	(3,625.7)	3,627.6
Total stockholders' equity (deficit)	1,447.5	(535.1)	6,096.8	(5,561.7)	1,447.5
Total liabilities and stockholders' equity	$ 5,563.3	$ 1,947.6	$ 6,751.6	$ (9,187.4)	$ 5,075.1

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

(In millions)	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Sales	$—	$ 287.9	$ 581.2	$ —	$ 869.1
Cost of sales	10.4	283.8	481.6	—	775.8
Gross profit (loss)	(10.4)	4.1	99.6	—	93.3
Selling and administrative expenses	25.8	8.6	31.8	—	66.2
Impairment of goodwill	—	—	114.4	—	114.4
Operating loss	(36.2)	(4.5)	(46.6)	—	(87.3)
Interest income (expense), net	(40.1)	(22.9)	28.8	—	(34.2)
Other income (loss) including equity in income of unconsolidated subsidiaries	(45.0)	0.3	(0.1)	45.0	0.2
Income (loss) before income tax provision (benefit)	(121.3)	(27.1)	(17.9)	45.0	(121.3)
Income tax provision (benefit)	(1.9)	(8.6)	28.3	(19.7)	(1.9)
Net income (loss)	(119.4)	(18.5)	(46.2)	64.7	(119.4)
Less: Net income attributable to noncontrolling interests	—	—	1.8	—	1.8
Net income (loss) attributable to ATI	$(119.4)	$(18.5)	$ (48.0)	$ 64.7	$ (121.2)
Comprehensive income (loss) attributable to ATI	$(63.5)	$(15.5)	$ (28.5)	$ 37.2	$ (70.3)

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

(In millions)	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Sales	$ —	$ 866.3	$ 1,748.9	$ —	$ 2,615.2
Cost of sales	33.4	822.5	1,440.9	—	2,296.8
Gross profit (loss)	(33.4)	43.8	308.0	—	318.4
Selling and administrative expenses	70.1	27.0	95.3	—	192.4
Impairment of goodwill	—	—	114.4	—	114.4
Operating income (loss)	(103.5)	16.8	98.3	—	11.6
Interest income (expense), net	(118.4)	(66.6)	82.8	—	(102.2)
Other income (loss) including equity in income of unconsolidated subsidiaries	135.0	1.1	2.6	(135.0)	3.7
Income (loss) before income tax provision (benefit)	(86.9)	(48.7)	183.7	(135.0)	(86.9)
Income tax provision (benefit)	(2.0)	(16.3)	97.4	(81.1)	(2.0)
Net income (loss)	(84.9)	(32.4)	86.3	(53.9)	(84.9)
Less: Net income attributable to noncontrolling interests	—	—	8.7	—	8.7
Net income (loss) attributable to ATI	$ (84.9)	$ (32.4)	$ 77.6	$ (53.9)	$ (93.6)
Comprehensive income (loss) attributable to ATI	$ (0.3)	$ (27.1)	$ 109.9	$ (98.7)	$ (16.2)

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Condensed Statements of Cash Flows
For the nine months ended September 30, 2017

(In millions)	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Cash flows provided by (used in) operating activities	$ (84.2)	$ (83.1)	$ 113.5	$ —	$ (53.8)
Investing Activities:					
Purchases of property, plant and equipment	(0.5)	(27.4)	(57.4)	—	(85.3)
Net receipts/(payments) on intercompany activity	—	—	(205.1)	205.1	—
Asset disposals and other	—	0.1	3.1	—	3.2
Cash flows provided by (used in) investing activities	(0.5)	(27.3)	(259.4)	205.1	(82.1)
Financing Activities:					
Borrowings on long-term debt	—	—	8.5	—	8.5
Payments on long-term debt and capital leases	(0.3)	(0.2)	(1.4)	—	