

AK STEEL HOLDING CORP
Form 10-Q/A
August 02, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A
Amendment No. 1

(Mark One)

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

For the quarterly period ended June 30, 2010

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 No. 1-13696

AK STEEL HOLDING CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

31-1401455
(I.R.S. Employer Identification No.)

9227 Centre Pointe Drive, West Chester, Ohio
(Address of principal executive offices)

45069
(Zip Code)

(513) 425-5000
(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 filing requirements for the past 90 days. Yes No

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

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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” (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer Accelerated filer

Non-accelerated filer 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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

109,984,622 shares of common stock
(as of July 28, 2010)

AK STEEL HOLDING CORPORATION

Explanatory Paragraph

The purpose of the Amendment No. 1 to the Quarterly Report on Form 10-Q of AK Steel Holding Corporation for the quarter ended June 30, 2010, as filed with the Securities and Exchange Commission on July 30, 2010, (“Original Filing”), is to correct two typographical errors in the Outlook section of Item 2 on page 33. The first error was the omission of the word "increase" in the fifth sentence in the second paragraph. The corrected sentence should read: "Assuming a 65% increase in the iron ore benchmark price, the Company expects to generate an operating profit of approximately \$15 per ton for the third quarter of 2010". The second error incorrectly stated an estimate of the impact of a change of five percentage points in the iron ore benchmark price as \$110.0. The corrected sentence should read: “The Company estimates that a change of five percentage points in the iron ore benchmark price (e.g., from 65% to 70%) would impact operating profit in the third quarter by approximately \$11.0, or \$7 per ton”. These are the only changes that were made to the Original Filing.

Item 2 in its entirety is included below.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.
(dollars in millions, except per share and per ton data)

Results of Operations

The Company’s operations consist of seven steelmaking and finishing plants located in Indiana, Kentucky, Ohio and Pennsylvania that produce flat-rolled carbon steels, including premium-quality coated, cold-rolled and hot-rolled products, and specialty stainless and electrical steels that are sold in hot band, sheet and strip form. These products are sold to the automotive, infrastructure and manufacturing, and distributors and converters markets. The Company sells its carbon products principally to customers in the United States. The Company’s electrical and stainless steel products are sold both domestically and internationally. The Company’s operations also include two plants operated by AK Tube LLC, where flat-rolled carbon and stainless steel is further finished into welded steel tubing used in the automotive, large truck and construction markets. In addition, the Company operates European trading companies that buy and sell steel and steel products and other materials.

During the first half of 2010, the Company continued to face challenging economic conditions on the road to recovery following the dramatic decline in steel consumption in 2009 that resulted from the domestic and global recessions. Market conditions in the first quarter of 2010 continued the improvements experienced throughout 2009, with the Company experiencing significant increases in shipments and key financial metrics, particularly with respect to year-on-year quarterly comparisons. The second quarter of 2010 maintained this theme of continued improvement, as the Company’s shipments and financial results improved dramatically on a year-to-year basis and strengthened on a sequential basis as compared to the first quarter of 2010. The Company also continued its focus on cost and quality, as evidenced by record performance in internal quality metrics and external claims during the second quarter.

Steel Shipments

Total shipments for the three months ended June 30, 2010 and 2009, were 1,449,400 tons and 740,600 tons, respectively. For the three-month period ended June 30, 2010, value-added products comprised 84.3% of total shipments compared to 85.9% for the three-month period ended June 30, 2009. Total shipments for the six months ended June 30, 2010 and 2009 were 2,835,200 tons and 1,519,400 tons, respectively. For the six-month period ended June 30, 2010, value-added products comprised 83.9% of total shipments compared to 86.1% for the six-month period

ended June 30, 2009. Total shipments for the three- and six-month periods ended June 30, 2010, were substantially higher than during the same period in 2009 due to increased steel demand, particularly in the spot and automotive markets. The higher market demand in the spot and automotive markets resulted in increases in coated and cold-rolled shipments. The improved demand in the automotive market also resulted in an increase in stainless shipments. Ongoing weakness in the domestic housing market and the global economy generally, however, continued to limit electrical shipments. The value-added shipments were slightly lower as a percentage of total shipments for each period in 2010 versus 2009 primarily because hot-rolled carbon shipments to the spot market increased as a percentage of total sales to a slightly greater extent than did coated, cold-rolled and specialty steel shipments. The increase in hot-rolled shipments was due to improved economic conditions which spurred increased service center shipments to end users.

Beyond the strides made in increasing top-line revenue through greater volumes of steel shipments, the Company continued its focus on maximizing profitability through product mix adjustments based on current and projected market demands – both domestically and internationally. The following presents net shipments by product line:

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| (tons in thousands) | For the Three Months Ended June 30, | | | | | For the Six Months Ended June 30, | | | | |
|------------------------------------|-------------------------------------|----------------|--------------|----------------|----------------|-----------------------------------|----------------|----------------|--|--|
| | 2010 | | 2009 | | | 2010 | | 2009 | | |
| VALUE-ADDED SHIPMENTS | | | | | | | | | | |
| Stainless/electrical | 218.9 | 15.1 % | 148.5 | 20.1 % | 431.0 | 15.2 % | 307.6 | 20.2 % | | |
| Coated | 685.2 | 47.3 % | 322.4 | 43.5 % | 1,320.4 | 46.6 % | 672.8 | 44.3 % | | |
| Cold-rolled | 284.7 | 19.6 % | 148.8 | 20.1 % | 566.5 | 20.0 % | 293.0 | 19.3 % | | |
| Tubular | 32.6 | 2.3 % | 16.6 | 2.2 % | 61.3 | 2.1 % | 34.8 | 2.3 % | | |
| Subtotal value-added shipments | 1,221.4 | 84.3 % | 636.3 | 85.9 % | 2,379.2 | 83.9 % | 1,308.2 | 86.1 % | | |
| NON VALUE-ADDED SHIPMENTS | | | | | | | | | | |
| Hot-rolled | 184.1 | 12.7 % | 64.9 | 8.8 % | 377.8 | 13.3 % | 140.4 | 9.2 % | | |
| Secondary | 43.9 | 3.0 % | 39.4 | 5.3 % | 78.2 | 2.8 % | 70.8 | 4.7 % | | |
| Subtotal non value-added shipments | 228.0 | 15.7 % | 104.3 | 14.1 % | 456.0 | 16.1 % | 211.2 | 13.9 % | | |
| TOTAL SHIPMENTS | 1,449.4 | 100.0 % | 740.6 | 100.0 % | 2,835.2 | 100.0 % | 1,519.4 | 100.0 % | | |

Sales

For the three months ended June 30, 2010, net sales were \$1,596.1, more than twice the amount of second quarter 2009 net sales of \$793.6 and an approximate 14% increase over first quarter 2010 net sales of \$1,405.7. Net sales to customers outside the United States for the three- and six-month periods ended June 30, 2010 totaled \$228.7 and \$426.5, respectively, compared to the three- and six-month periods ended June 30, 2009 which totaled \$190.7 and \$370.9, respectively. A substantial portion of the revenue outside of the United States is associated with electrical steel and, to a lesser extent, stainless steel products. The Company's average selling price for the second quarter of 2010 was \$1,101 per ton, an approximate 3% increase from the Company's second quarter 2009 average selling price of \$1,072 per ton and an approximate 9% increase from the first quarter 2010 average selling price of \$1,014 per ton. The increase in net sales over 2009 reflects increased demand for most steel products, particularly in the spot and automotive markets, as global economic conditions continued to improve from dramatically depressed levels. The increase in average selling prices in 2010 was primarily the result of generally increased demand versus the comparative prior periods.

Costs of Goods Sold

The Company has faced higher raw material and energy costs in 2010. This is due, in large part, to raw materials price increases, in particular with respect to iron ore. For further details concerning iron ore costs, see the discussion below under "Iron Ore Pricing." The Company has also purchased greater amounts of raw materials and energy consistent with its significantly higher operating levels compared to 2009. Associated with the higher costs, the Company recorded a LIFO charge of \$40.8 and \$49.2, respectively, for the three and six months ended June 30, 2010, compared to a LIFO credit of \$93.9 and \$160.0, respectively, for the three and six months ended June 30, 2009.

The Company's maintenance outage costs decreased in the three and six months ended June 30, 2010, to \$7.8 and \$10.1, respectively, compared to costs of \$15.6 and \$20.3 in the corresponding periods of 2009.

Selling and Administrative Expenses

Selling and administrative expenses for the three and six months ended June 30, 2010 were \$52.6 and \$106.8, respectively, compared to \$47.9 and \$95.7, respectively, for the corresponding periods in 2009. The increases for these periods were due primarily to a generally higher level of spending associated with the overall improvement in business conditions, including higher compensation costs. Depreciation expense for the three and six months ended June 30, 2010 was \$49.9 and \$100.2, respectively, compared to \$51.6 and \$102.9, respectively, for the corresponding periods in 2009.

Operating Profit

The Company reported operating profits of \$65.6, or \$45 per ton, and \$123.2, or \$43 per ton, in the three- and six month periods ended June 30, 2010. These results compare to operating losses of \$72.5, or \$98 per ton, and \$172.4, or \$113 per ton, in the three- and six-month periods ended June 30, 2009. The principal cause of this improvement in operating performance was significantly higher steel shipments driven by increased customer demand. In addition to providing increased revenue, the higher shipments enabled the Company to spread its operating costs over more tons, thereby improving its operating profit.

Interest Expense

Interest expense for the three and six months ended June 30, 2010 was \$11.1 and \$20.0, respectively, compared to \$9.2 and \$19.4, respectively, for the same periods in 2009. The increase was due primarily to the write-off of the unamortized debt discount and unamortized issuance costs related to the redemption of the Company's remaining 7 3/4% Senior Notes due 2010 ("Old Notes"). For further details on the redemption and the related senior note issuance, tender offer and consent solicitation transactions, please see the "Senior Notes" discussion in the "Liquidity and Capital Resources" section below.

Other Income (Expense)

Other income (expense) for the three and six months ended June 30, 2010, was expense of \$9.2 and \$13.8, respectively, compared to income of \$3.4 and \$5.7, respectively, for the corresponding periods in 2009. The increase in expense for the three- and six-month periods was due primarily to additional foreign exchange losses. The increase in expense for the three-month period also was impacted by the loss on the redemption of the Old Notes. For further details on the redemption and the related senior note issuance, tender offer and consent solicitation transactions, please see the "Senior Notes" discussion in the "Liquidity and Capital Resources" section below.

Income Taxes

Income taxes recorded for the year 2010 have been estimated based on year-to-date income and projected financial results for the full year. The final effective tax rate to be applied to 2010 will depend, among other things, on the actual amount of taxable income generated by the Company for the full year. As a result of the first quarter 2010 enactment of the Patient Protection and Affordable Care Act and the subsequent enactment of the Health Care and Education Reconciliation Act of 2010, the Company recorded a non-cash tax charge of \$25.3 in the first quarter of 2010. The charge is due to a reduction in the value of the Company's deferred tax asset as a result of a change to the tax treatment associated with Medicare Part D reimbursements.

Net Income (Loss)

As a result of the various factors and conditions described above, the Company reported net income in the three months ended June 30, 2010, of \$26.7, or \$0.24 per diluted share, compared to a net loss of \$47.2, or \$0.43 per diluted share, in the three months ended June 30, 2009.

In the absence of a global benchmark price for 2010 iron ore purchases, the Company used an assumed 65% increase from the 2009 benchmark price for purposes of its second quarter 2010 financial results. For purposes of its first quarter 2010 financial results, the Company had assumed a 30% increase from the 2009 benchmark price. As a result, the Company's second quarter 2010 results include the impact of higher iron ore costs versus the first quarter of 2010. In addition, the Company recognized as an expense in the second quarter the incremental amount of the assumed 65% benchmark price increase that is attributable to its first quarter results. This pre-tax "true-up" expense recognized in the second quarter was approximately \$18.0. Excluding the effect of the first quarter true-up for iron ore costs in the second quarter, net income would have been approximately \$37.4, or \$0.34 per diluted share. For further details concerning iron ore costs, see the discussion below under "Iron Ore Pricing".

For the six months ended June 30, 2010, net income was \$28.6, or \$0.26 per diluted share. During the comparable six-month period in 2009, the Company reported a net loss of \$120.6, or \$1.10 per diluted share.

First-half of 2010 results include a non-cash charge in the first quarter of \$25.3, or \$0.23 per diluted share, related to federal healthcare legislation signed into law in March of 2010. Excluding the special charge related to healthcare

legislation, net income for the first half of 2010 was \$53.9, or \$0.49 per diluted share.

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| | Three Months Ended June 30, 2010 |
|---|-------------------------------------|
| Reconciliation to net income attributable to AK Steel Holding Corporation | |
| Adjusted net income (excluding item below) | \$ 37.4 |
| Iron ore true-up expense (\$18.0 less tax of \$7.3) | (10.7) |
| Net income attributable to AK Steel Holding Corporation | \$ 26.7 |
| Reconciliation to basic and diluted earnings per share | |
| Adjusted basic and diluted earnings per share (excluding item below) | \$ 0.34 |
| Iron ore true-up expense (net of tax) | (0.10) |
| Basic and diluted earnings per share | \$ 0.24 |

| | Six Months Ended June 30, 2010 |
|---|-----------------------------------|
| Reconciliation to net income attributable to AK Steel Holding Corporation | |
| Adjusted net income (excluding item below) | \$ 53.9 |
| Income tax provision due to tax law change | (25.3) |
| Net income attributable to AK Steel Holding Corporation | \$ 28.6 |
| Reconciliation to basic and diluted earnings per share | |
| Adjusted basic and diluted earnings per share (excluding item below) | \$ 0.49 |
| Income tax provision due to tax law change | (0.23) |
| Basic and diluted earnings per share | \$ 0.26 |

The reconciliation charts above include certain non-GAAP financial measures that the Company believes could be useful to investors in understanding and evaluating its operating performance across comparable periods. The presentation of these additional financial measures is not meant to be considered in isolation or as a substitute for measures of financial performance prepared in accordance with GAAP.

Outlook

All of the statements in this “Outlook” section are subject to, and qualified by, the cautionary information set forth under the heading “Forward-Looking Statements.”

The Company expects shipments in the third quarter of 2010 to be approximately 3% higher than its second quarter 2010 shipments. The Company anticipates that its average per-ton selling price will be about 5% lower than the second quarter of 2010. The Company also expects planned maintenance costs to decrease by approximately \$4.0 in the third quarter of 2010 compared to the second quarter. The Company estimates capital investments of approximately \$165.0 in 2010. Assuming a 65% increase in the iron ore benchmark price, the Company expects to generate an operating profit of approximately \$15 per ton for the third quarter of 2010. There remains substantial uncertainty with respect to global iron ore pricing for 2010 and, if there is an increase in the benchmark price for iron ore beyond the 65% assumed by the Company with respect to the first half of the year, it will have a negative impact on the Company’s third quarter financial performance. The Company estimates that a change of five percentage points in the iron ore benchmark price (e.g., from 65% to 70%) would impact operating profit in the third quarter by approximately \$11.0, or \$7 per ton.

Iron Ore Pricing

Iron ore is one of the principal raw materials required for the Company's steel manufacturing operations. For example, the Company expects to purchase approximately six million tons of iron ore pellets in 2010. The Company makes most of its purchases of iron ore at negotiated prices under annual and multi-year agreements. The multi-year agreements typically have a variable price mechanism by which the annual price of iron ore is adjusted based, in whole or in part, upon a benchmark price for iron ore established by contract negotiations between the principal iron ore producers and certain of their largest customers. That benchmark price typically is set in the first quarter of each year and for the Company is retroactive to January 1 of that year. For 2010, however, the benchmark price still has not

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been established and there is no reliable basis at this point for determining what the final benchmark price of iron ore will be in 2010. In the second quarter of 2010, however, the Company began provisionally paying each of its three principal iron ore suppliers as if the benchmark price had increased by 65% compared to 2009. Since an increase in the benchmark price of at least 65% appears probable for 2010, and the Company in fact currently is paying its suppliers as if the benchmark price for iron ore pellets has increased by 65%, this actual experience formed the basis for the first half 2010 financial results provided in this Quarterly Report. Although there have been media reports and other information provided by suppliers directly to the Company which indicate that the benchmark price may increase greater than 65%, to date none of those reports and information have been confirmed. There continues to be substantial uncertainty with respect to when or even if a benchmark price will be established for 2010 and, if it is, what the amount will be and whether it will be an annual price or change quarterly. The Company thus continues to be unable to provide any specific estimate as to what price it will ultimately pay for iron ore in 2010. If there is an increase in the 2010 price of iron ore beyond the 65% assumed with respect to the first and second quarters, it will have a negative impact on the Company's financial results in both the quarter of the increase and any remaining quarters in 2010. This impact could occur principally in three ways, which are described below.

First, at whatever point the increased iron ore price is finally determined, the Company will have to recognize the impact of that increase in its cost of goods sold starting in that quarter. To the extent, if at all, the Company cannot recover that additional cost from its customers, it will negatively impact the Company's financial results in that and any subsequent quarter in 2010.

Second, to the extent the Company did not recognize the full price increase (i.e. any amount over 65%) in the quarters prior to that in which the iron ore price is finally determined, that cumulative incremental amount will be recognized as an expense in the quarter in which the final price increase is determined. Thus, for example, if the amount of the increase is finally determined in the third quarter and that increase exceeds the Company's assumed 65% benchmark increase, the Company will, in effect, recognize as an expense in the third quarter the incremental amount of the increase that is attributable to its first and second quarter sales. Consistent with that approach, because the Company assumed only a 30% increase in the benchmark price of iron ore for purposes of its first quarter 2010 financial results, the Company has recognized as an expense in the second quarter the incremental amount of the increase between 30% and 65% that is attributable to the first quarter.

Third, to the extent that the incremental increase in price is beyond the 65% already assumed by the Company for 2010, the increase will have a negative impact on the Company's LIFO calculation. That incremental increase will result in a higher value for the Company's iron ore inventory and thus increase the Company's estimated LIFO charge in 2010.

The Company attempts to mitigate the impact of its increased raw material costs in the normal course of pricing its own products through increased prices in the spot market and the use of variable pricing with its contract customers that allows the Company to adjust selling prices in response to changes in the cost of certain raw materials and energy, including iron ore. It typically is unable, however, to recover 100% of its increased iron ore costs in this manner. As noted above, the iron ore price increases under the Company's multi-year supply contracts are retroactive to January 1. Because the Company already has sold its products for all of the first half of 2010 and a significant portion of the third quarter of 2010 at prices which may not fully reflect the iron ore price increases it will pay in 2010, it will be unable to recover the retroactive portion of the price increases, either through spot market price increases or through its variable pricing mechanisms with its contract customers. For further details on this point, see the discussion of Risk Factors below. In addition, competitive market conditions have prevented the Company from being able to negotiate terms which enable it to recover 100% of its iron ore price increases from all of its customers, even on a prospective basis. There are a variety of factors which ultimately will impact how much of any increase in iron ore prices the Company is able to recover through its own steel price increases, including the amount of the increase in the benchmark price for iron ore, the timing of when the benchmark price is set and whether it is an annual or quarterly

benchmark, the final terms of the Company's agreements with its contract customers, and the extent to which competitive pressures may prevent the Company from increasing the price of the steel it sells into the spot market sufficiently to cover the full amount of the iron ore price increase.

Electrical Steel Market

The Company sells its electrical steel products, which are iron-silicon alloys with unique magnetic properties, primarily to manufacturers of power transmission and distribution transformers and electrical motors and generators in the infrastructure and manufacturing markets. The Company sells its electrical steel products both domestically and internationally.

In 2009, the Company experienced a significant decrease in both its domestic and international sales of grain-oriented electrical steel (“GOES”) products. Internationally, this reduction was caused principally by the deterioration in the global economy and the related decline in spending for new electric power transmission and distribution transformers in developing countries. To a lesser extent, the Company’s international electrical steel sales also were negatively impacted by the determination in the China trade case to impose duties on GOES imported from the United States. Although the Company has been able to substantially replace the GOES sales it lost in China as a result of those duties, the continued weakness in the global economy has hampered the Company’s efforts to replace those sales entirely. The domestic GOES market likewise was negatively impacted by reduced maintenance and capital spending by utilities and the decline in the United States housing and construction markets, which drive the domestic need for new electrical transformers.

Through the first two quarters of 2010 the Company has seen an improvement in its electrical steel business. While current electrical steel shipments and pricing continue to be significantly below their 2008 levels, shipments have been on the rise as power generation and distribution activities around the world pick up. For example, the Company’s GOES shipments increased in the first quarter of 2010 by approximately 8% versus the fourth quarter of 2009 and increased in the second quarter of 2010 by approximately 13% versus the first quarter of 2010.

Coal Supply

The Company’s steel-making operations utilize several types of coals, including metallurgical coal in connection with its blast furnaces. Approximately 25% of the metallurgical coal which the Company anticipates consuming in 2010 was expected to be produced at the Upper Big Branch Mine of Massey Metallurgical Coal, Inc. (“Massey”) in West Virginia, which in April 2010 was the site of a tragic explosion with multiple fatalities. Following the explosion, Massey sent a letter to the Company in which it asserted an incident of force majeure under the terms of the parties’ contract for the purchase of such coal. Massey has increased production at other mines and has acquired other resources, and now expects to be able to provide more than half of the metallurgical coal which it had expected to provide to the Company in 2010 from the Upper Big Branch Mine. The Company purchases coal from a diverse group of suppliers and continues to believe that it can secure all of its metallurgical coal requirements for 2010. The cost of acquiring a portion of that coal from alternative sources will be higher than the contract price which the Company would have paid to Massey. This additional coal cost was approximately \$2.0 in the second quarter and a similar amount, or less, likely will be incurred in the third and fourth quarters. The Company continues to discuss this situation with Massey and is taking other steps (e.g., changing its blend of metallurgical coals) to attempt to mitigate its increased costs arising from the potential inability of Massey to meet its contractual commitment to the Company.

Impact of Recent Healthcare Legislation

On March 23, 2010, the Company announced that it would record a non-cash charge of approximately \$31.0 in the first quarter of 2010 resulting from the Patient Protection and Affordable Care Act (the “Act”). As a result principally of the subsequent enactment of the Health Care and Education Reconciliation Act of 2010 (the “Reconciliation Act”), and certain delays in effective dates set forth in that legislation, this charge was reduced to \$25.3. The charge is due to a reduction in the value of the Company’s deferred tax asset as a result of a change to the tax treatment associated with Medicare Part D reimbursements (which were established by Congress in 2003 as an incentive for companies to continue to provide retiree prescription drug benefits).

The Act was signed into law on March 23, 2010. The Reconciliation Act was signed into law on March 30, 2010. The Act, as modified by the Reconciliation Act, includes a large number of health-related provisions to take effect over the next four years, including expanded dependent coverage, subsidized insurance premiums, incentives for businesses to provide health care benefits, a prohibition on the denial of coverage and denial of claims based on pre-existing conditions, the creation of health insurance exchanges intended to help insure a large number of

uninsured Americans through enhanced competition, and other expansions of healthcare benefits and coverage. The costs of these provisions are expected to be funded by a variety of taxes and fees. Some of these taxes and fees, as well as certain of the healthcare changes brought about by these acts, will directly or indirectly result in increased healthcare costs for the Company. The Company cannot reliably predict at this time what the total amount of those increased costs will be.

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Liquidity and Capital Resources

At June 30, 2010, the Company had total liquidity of \$830.1, consisting of \$129.5 of cash and cash equivalents and \$700.6 of availability under the Company's \$850.0 five-year revolving credit facility (the "Credit Facility"). At June 30, 2010, there were no outstanding borrowings under the Credit Facility; however, availability was reduced by \$149.4 due to outstanding letters of credit. The Company's Credit Facility is secured by its inventory and accounts receivable. Availability under the Credit Facility can fluctuate monthly based on the varying levels of eligible collateral. The Company's eligible collateral, after application of applicable advance rates, exceeded \$850.0 as of June 30, 2010.

Cash used by operations totaled \$154.3 for the six months ended June 30, 2010. Primary uses of cash were a \$110.0 pension contribution, a \$65.0 contribution to a VEBA Trust established for Middletown Works retirees and an increase in working capital of \$145.6. The increase in working capital resulted primarily from higher accounts receivable attributable to the increased level of sales revenue. Also contributing to the increase in working capital was an increase in inventories, as a result of both higher raw material costs and a higher level of inventories. An increase in accounts payable due to a higher level of business activity partially offset the use of cash.

In April 2010, AK Steel commenced a cash tender offer and consent solicitation (the "Tender Offer") for all of the approximately \$504.0 in aggregate principal amount of outstanding 7 3/4% Senior Notes due 2010 (the "Old Notes"). At the expiration of the Tender Offer on May 21, 2010, AK Steel accepted \$321.2 in aggregate principal amount of Old Notes tendered by holders. The aggregate amount paid by the Company to consummate the Tender Offer for the Old Notes was approximately \$332.8, an amount equal to 100% of the principal amount of the tendered Old Notes, plus interest accrued to Tender Offer's expiration and a redemption premium of approximately \$1.5 associated with the tendering noteholders' acceptance of the accompanying consent solicitation. In May 2010, AK Steel called for redemption all of the approximately \$182.8 in aggregate principal amount of Old Notes that remained outstanding after the expiration of the Tender Offer. The aggregate redemption price for the Old Notes was approximately \$189.9, an amount equal to 100% of the principal amount of the outstanding Old Notes, plus interest accrued to the redemption date, June 15, 2010. Of this \$189.9 used for the redemption, approximately \$130.7 was cash on hand, while the remainder of the funds resulted from the \$392.0 of net proceeds from the Company's issuance of \$400.0 of new 7 5/8% Senior Notes due 2020. The use of existing cash for such redemption as opposed to using cash which could have been generated by issuing a greater amount of the new Senior Notes due 2020 was a strategic decision by the Company driven by the historically low interest rates currently being earned on cash deposits. By using existing cash to reduce the Company's senior debt, the Company strengthened its balance sheet for the longer-term and reduced its ongoing annual interest expense by more than \$8.5 per year. As a consequence, however, the Company will be operating with a cash position which is lower than it has been for several years. The Company may, from time to time, access its Credit Facility to fund short-term fluctuations in its working capital. For further details on the related tender offer and consent solicitation and redemption transactions, please see the "Senior Notes" discussion below.

Pension- and Retiree Healthcare Benefit-related Matters

During the first six months of 2010, the Company made pension contributions totaling \$110.0, satisfying its required funding for 2010. The second-quarter pension contribution of \$35.0 increased the Company's total pension fund contributions since 2005 to approximately \$1.2 billion. The Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act, which was recently signed into law, provides options to pension plan sponsors to delay their required pension funding. Based upon current actuarial valuations and utilizing an option available under that legislation, the Company estimates that it could reduce its average required annual pension contributions for 2011 and 2012 to approximately \$180.0. The Company previously had estimated its minimum required annual pension contributions for 2011 and 2012 to be approximately \$275.0. The calculation of estimated future pension contributions requires the use of assumptions concerning future events. The most significant of these assumptions

relate to future investment performance of the pension funds, actuarial data relating to plan participants, and the benchmark interest rate used to discount future benefits to their present value. Because of the variability of factors underlying these assumptions, including the possibility of future pension legislation, the reliability of estimated future pension contributions decreases as the length of time until the contributions must be made increases.

In the first quarter of 2008, the Company received court approval regarding the October 2007 settlement with the Middletown Works retirees that required the Company to make a total of \$663.0 in cash payments to a VEBA Trust. The Company made an initial contribution of \$468.0 in 2008. It made the first of three subsequent annual payments of

\$65.0 in March 2009, and the second \$65.0 payment in March 2010. The final \$65.0 payment will be due in March 2011. See discussion of Middletown Works Retiree Healthcare Benefits Litigation in Note 9 of Part I, Item 1.

Investing and Financing Activity

During the six months ended June 30, 2010, net cash used by investing activities totaled \$82.9, which includes \$35.0 of routine capital investments and \$48.9 in capital investments related to the investment by Middletown Coke Company, Inc. (“Middletown Coke”) in capital equipment for the coke plant being constructed in Middletown, Ohio. The Middletown Coke capital investment is funded by its parent company, SunCoke Energy, Inc. (“SunCoke”), and is reflected as a payable from Middletown Coke to SunCoke which is reflected in other non-current liabilities on the Company’s Condensed Consolidated Balance Sheets.

The Company entered into a 20-year supply contract in 2008 with Middletown Coke to provide the Company with metallurgical-grade coke and electrical power. The coke and power will come from a new facility to be constructed, owned and operated by Middletown Coke adjacent to the Company’s Middletown Works. Even though the Company has no ownership interest in Middletown Coke, the expected production from the facility is completely committed to the Company. As such, Middletown Coke is deemed to be a variable interest entity and the financial results of Middletown Coke are required to be consolidated with the results of the Company as directed by ASC Topic 810, “Consolidation”. At June 30, 2010, Middletown Coke had approximately \$121.2 in assets comprised mainly of construction in progress. Additionally, Middletown Coke had approximately \$125.2 in liabilities, comprised mainly of payables to SunCoke which is reflected in other non-current liabilities on the Company’s Condensed Consolidated Balance Sheets.

In August 2009, the Company also entered into an agreement with Haverhill North Coke Company, an affiliate of SunCoke, to provide the Company with 550,000 tons of coke annually from SunCoke’s Haverhill facility (“SunCoke Haverhill”) located in southern Ohio. The agreement has a 12-year term with two five-year renewal options. Under the agreement, the Company also will purchase a portion of the electricity co-generated from the heat recovery coke battery. Like the Middletown Coke agreement, this agreement enhances the Company’s long-term supply of cost-competitive coke and energy in an environmentally responsible fashion. It also furthers the Company’s strategic goals to assure an adequate supply of a key raw material and to better insulate itself from volatile coke and energy prices. The SunCoke Haverhill agreement does not replace or diminish the Company’s need for the coke and electricity from the Middletown Coke facility. The Company continues to need the coke from that facility on a long-term basis and has no immediate plans to idle any of its existing cokemaking capacity. However, the age and rapidly escalating environmental compliance costs associated with the Company’s Ashland coke batteries are continuing concerns.

During the past five years, the Company announced \$267.5 in capital investments to expand and improve the Company’s production capabilities for high value-added stainless and electrical steels. The projects include replacing two of the existing electric arc furnaces (“EAF”) at the Company’s Butler Works with a single EAF capable of melting about 40% more steel than is produced in the current operation, as well as upgrading an existing processing line at Butler Works. The new EAF will lower the Company’s operating costs and enable it to produce approximately 400,000 tons of additional carbon slabs at Butler Works, thus improving the Company’s self-sufficiency by reducing its need to purchase merchant slabs. All but approximately \$20.0 will be invested by the end of 2010, with the new EAF melting facility scheduled to start up in early 2011.

During the six months ended June 30, 2010, cash used by financing activities totaled \$95.0. This includes the purchase of \$7.5 of the Company’s common stock primarily to satisfy federal, state and local taxes due upon the vesting of restricted stock, the payment of common stock dividends in the amount of \$11.0, and an offset of \$35.0 in advances from noncontrolling interest owner SunCoke to Middletown Coke. It also includes a use of cash of \$505.9,

primarily for the tender offer repurchase and redemption of the Company's 7 3/4% Senior Notes due 2012, debt issuance costs of \$8.7 and proceeds from the issuance of \$400.0 of new 7 5/8% Senior Notes due 2020. The details of this refinancing transaction are discussed below under "Senior Notes".

The Company believes that its current liquidity will be adequate to meet its obligations for the foreseeable future. Future liquidity requirements for employee benefit plan contributions, scheduled debt maturities, planned debt redemptions and capital investments are expected to be funded by internally generated cash and/or other financing sources. To the extent, if at all, that the Company would need to fund any of its planned capital investments other than through internally generated cash, the Company's Credit Facility is available for that purpose. At June 30, 2010, there were no outstanding borrowings under the Credit Facility, with availability reduced by \$149.4 due to outstanding

letters of credit. However, it is extremely difficult to provide reliable financial forecasts, even on a quarterly basis, under the current business conditions. The Company's forward-looking statements on liquidity are based on currently available information and expectations and, to the extent the information is inaccurate or conditions change, there could be a material adverse impact to the Company's liquidity.

Dividends

The following table lists the dates thus far in 2010 on which the Company announced that its Board of Directors declared a quarterly cash dividend of \$0.05 per share of common stock, the record dates for determining stockholders of record and the payment dates for the quarterly cash dividend.

2010 COMMON STOCK DIVIDENDS

| Announcement Date | Record Date | Payment Date | Per Share |
|-------------------|-------------------|--------------------|-----------|
| January 25, 2010 | February 12, 2010 | March 10, 2010 | \$ 0.05 |
| April 20, 2010 | May 14, 2010 | June 10, 2010 | \$ 0.05 |
| July 27, 2010 | August 13, 2010 | September 10, 2010 | \$ 0.05 |

The payment of cash dividends is subject to a restrictive covenant contained in the instruments governing the Company's Credit Facility. Under these covenants, dividends and share repurchases are not restricted unless availability falls below \$150.0, at which point dividends would be limited to \$12.0 annually and share repurchases would be prohibited. As of June 30, 2010, the availability under the Credit Facility was \$700.6. Accordingly, none of the covenants currently prevent the Company from declaring and paying a dividend to its stockholders. Although the prior indentures governing the Company's retired 7 3/4% Senior Notes due 2012 included certain restrictions that could limit the Company's ability to declare dividends, the new indentures governing the Company's recently-issued 7 5/8% Senior Notes due 2020 do not restrict the Company's payment of dividends to stockholders.

Senior Notes

On May 11, 2010, AK Steel issued \$400.0 of 7 5/8% Senior Notes due 2020 (the "2020 Notes"). The issuance generated net proceeds of \$392.0 after underwriting fees. AK Holding, of which AK Steel is a wholly-owned subsidiary, fully and unconditionally, jointly and severally, guarantees the payment of interest, principal and premium, if any, on the 2020 Notes. In April 2010, AK Steel commenced a cash tender offer and consent solicitation (the "Tender Offer") for all of the approximately \$504.0 in aggregate principal amount of outstanding 7 3/4% Senior Notes due 2012 (the "Old Notes"). At the expiration of the Tender Offer on May 21, 2010, AK Steel accepted \$321.2 in aggregate principal amount of Old Notes tendered by holders. The aggregate amount paid by the Company to consummate the Tender Offer for the Old Notes was approximately \$332.8, an amount equal to 100% of the principal amount of the tendered Old Notes, plus interest accrued to the Tender Offer's expiration and a redemption premium of approximately \$1.5 associated with the tendering noteholders' acceptance of the accompanying consent solicitation. The redemption premium was recorded in other income (expense) on the Company's Condensed Consolidated Statements of Operations.

In addition, on May 12, 2010, pursuant to the terms of the indenture governing the Old Notes, AK Steel called for redemption all of the approximately \$182.8 in aggregate principal amount of Old Notes that remained outstanding after the expiration of the Tender Offer. The aggregate redemption price for the Old Notes was approximately \$189.9, an amount equal to 100% of the principal amount of the outstanding Old Notes, plus interest accrued to the

redemption date, June 15, 2010. The proceeds from the issuance of the 2020 Notes along with cash on hand were used to retire the Old Notes.

As a result of the Tender Offer and redemption transactions, on June 15, 2010, AK Steel and the guarantors (which are discussed in the immediately following paragraph) of the Old Notes retired the approximately \$504.0 in aggregate principal amount of Old Notes outstanding and satisfied and discharged their obligations under the indentures that governed the Old Notes.

In connection with the issuance of the 2020 Notes, AK Steel and AK Holding entered into new indentures governing the 2020 Notes. Under the terms of the prior indentures governing the Old Notes, AK Steel's parent company, AK Holding, as well as AKS Investments, Inc. and AK Tube LLC, which are direct and indirect wholly-owned subsidiaries, respectively, of AK Steel, had fully and unconditionally, jointly and severally, guaranteed the payment of

interest, principal and premium, if any, on the Old Notes. Under the terms of the new indentures, AK Holding currently is the sole guarantor of the 2020 Notes.

At any time prior to May 15, 2015, AK Steel may redeem the 2020 Notes, in whole or in part, at a redemption price equal to 100% of the principal amount, plus a “make-whole” premium calculated in accordance with the indentures governing the 2020 Notes and accrued and unpaid interest. In addition, AK Steel may redeem the 2020 Notes, in whole or in part, at any time on or after May 15, 2015, at the redemption price for such notes, set forth below as a percentage of the face amount, plus accrued and unpaid interest to the redemption date, if redeemed during the twelve-month period commencing on May 15 of the years indicated below:

| Year | Redemption Price | |
|--------------------|------------------|---|
| 2015 | 103.813 | % |
| 2016 | 102.542 | % |
| 2017 | 101.271 | % |
| 2018 or thereafter | 100.000 | % |

During 2009, and prior to the Tender Offer and redemption transactions described above, the Company repurchased \$26.4 in aggregate principal amount of the Old Notes with cash payments totaling \$22.8. In connection with these repurchases, the Company recorded non-cash, pre-tax gains of approximately \$3.6. The repurchases were funded from the Company’s existing cash balances. There were no repurchases in the first or second quarters of 2010.

Restrictions Under the Credit Facility and Senior Notes

The indentures governing the Company’s 2020 Notes and its Credit Facility contain restrictions and covenants that may limit the Company’s operating flexibility.

The 2020 Notes’ indentures include restrictive covenants but these covenants are significantly less restrictive than the covenants contained in the indentures for the Old Notes. The covenants relating to the 2020 Notes include customary restrictions on (a) the incurrence of additional debt by certain AK Steel subsidiaries, (b) the incurrence of liens by AK Steel and AK Holding’s other subsidiaries, (c) the amount of sale/leaseback transactions, and (d) the ability of AK Steel and AK Holding to merge or consolidate with other entities and to sell, lease or transfer all or substantially all of the assets of the AK Steel and AK Holding to another entity. The 2020 Notes also contain customary events of default.

The Company’s Credit Facility contains restrictions on, among other things, distributions and dividends, acquisitions and investments, indebtedness, liens and affiliate transactions. The Company does not expect any of these restrictions to affect or limit its ability to conduct its business in the ordinary course. In addition, the Credit Facility requires maintenance of a minimum fixed charge coverage ratio of one to one if availability under the facility is less than \$125.0.

As of the filing date of this Quarterly Report the Company is in compliance with all of the 2020 Notes’ covenants and the Credit Facility covenants.

Ashland Works Labor Agreement

On July 9, 2010, members of the United Steelworkers Local 1865 union ratified a three-year extension to a labor agreement covering about 750 hourly production and maintenance steel operations employees at the Company’s Ashland (KY) Works. The new agreement extends the existing contract to September 1, 2013 and the terms were

effective as of July 1, 2010. The existing contract was scheduled to expire September 1, 2010. Among other items, the contract extension contains new language which allows the Company flexibility in operating the Ashland Works to meet market conditions, while committing to significant capital investments of approximately \$30.0 over the life of the contract in the steelmaking plant, in particular the blast furnace. The contract extension also provides for lump sum payments to each represented employee covered by the contract in 2010, 2011 and 2012 and a standard hourly wage rate increase in September of 2010.

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Forward-Looking Statements

Certain statements made or incorporated by reference in this Form 10-Q, or made in press releases or in oral presentations made by Company employees, reflect management's estimates and beliefs and are intended to be, and are hereby identified as "forward-looking statements" for purposes of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These include, but are not limited to, certain paragraphs in Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, such as "Outlook," "Iron Ore Pricing," "Electrical Steel Market," "Coal Supply," "Impact of Recent Healthcare Legislation," "Liquidity and Capital Resources" and "Risk Factors." Words such as "expects," "anticipates," "believes," "intends," "plans," "estimates" and other similar references to future periods typically identify such forward-looking statements. These forward-looking statements reflect the current belief and judgment of the Company's management, but are not guarantees of future performance or outcomes. They are based on a number of assumptions and estimates that are inherently subject to economic, competitive, regulatory, and operational risks, uncertainties and contingencies that are beyond the Company's control, and upon assumptions with respect to future business decisions and conditions that are subject to change. Such risks, uncertainties, contingencies and changes to assumptions could cause actual results to differ materially from those currently expected by management and include, among others: risks related to or in connection with reduced selling prices and shipments associated with a cyclical industry; severe financial hardship or bankruptcy of one of more of our major customers; decreased demand in key product markets; depressed electrical steel sales as a result of continued low volume of U.S. housing starts, decreased utility company spending and low demand as a result of general economic conditions; competitive pressure from increased global steel production and imports; changes in the cost of raw materials and energy, particularly iron ore; disruptions with respect to our supply of raw materials; disruptions with respect to production; changes in the law or circumstances impacting our healthcare and pension obligations; increased employee healthcare costs and related taxes and fees incurred by the Company as a result of the Health Care and Education Reconciliation Act of 2010; unexpected outcomes in major litigation, arbitrations, environmental issues and other contingencies; climate change and greenhouse gas emission limitations and regulations; and financial, credit, capital and/or banking markets.

As discussed in its Annual Report on Form 10-K for the year ended December 31, 2009, the Company cautions readers that such forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those currently expected by management. See "Risk Factors" in Part II, Item 1A of this report and in Part I, Item 1A of the Company's Form 10-K for the year ended December 31, 2009.

Any forward-looking statement made by the Company in this document speaks only as of the date on which it is made. The Company undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

Item 6. Exhibits.

| | |
|--------------|--|
| Exhibit 31.1 | Section 302 Certification of Chief Executive Officer |
| Exhibit 31.2 | Section 302 Certification of Chief Financial Officer |
| Exhibit 32.1 | Section 906 Certification of Chief Executive Officer |
| Exhibit 32.2 | Section 906 Certification of Chief Financial Officer |

SIGNATURES

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

AK STEEL HOLDING CORPORATION
(Registrant)

Dated: July 30, 2010

/s/ Albert E. Ferrara, Jr.
Albert E. Ferrara, Jr.
Senior Vice President, Finance and Chief
Financial Officer

Dated: July 30, 2010

/s/ Richard S. Williams
Richard S. Williams
Controller and Chief Accounting Officer

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