

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2000

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 Number)

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 Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X

No

At October 27, 2000, the Registrant had outstanding 80,368,768 shares of its Common Stock.

ALLEGHENY TECHNOLOGIES INCORPORATED
SEC FORM 10-Q
QUARTER ENDED SEPTEMBER 30, 2000

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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)

	September 30, 2000 (Unaudited)	December 31, 1999
<u>ASSETS</u>		
Cash and cash equivalents	\$ 43.6	\$ 50.7
Accounts receivable	345.0	341.2
Inventories	608.5	558.3
Deferred income taxes	59.9	62.6
Prepaid expenses and other current assets	18.7	20.7
Total Current Assets	1,075.7	1,033.5
Property, plant and equipment	898.9	912.4
Prepaid pension cost	600.5	503.7
Cost in excess of net assets acquired	194.8	204.2
Other assets	92.0	96.8
Total Assets	\$ 2,861.9	\$ 2,750.6
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Accounts payable	\$ 165.4	\$ 172.9
Accrued liabilities	190.6	214.4
Short-term debt and current portion of long-term debt	6.1	152.7
Total Current Liabilities	362.1	540.0
Long-term debt	599.9	200.3
Accrued postretirement benefits	530.2	544.8
Other	306.4	265.3
Total Liabilities	1,798.6	1,550.4
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-98,951,490 shares at September 30, 2000 and December 31, 1999; outstanding-80,651,597 shares at September 30, 2000 and 90,368,196 shares at December 31, 1999	9.9	9.9
Additional paid-in capital	481.1	481.0
Retained earnings	1,066.9	994.5
Treasury stock: 18,299,893 shares at September 30, 2000 and 8,583,294 shares at December 31, 1999	(481.6)	(288.7)
Foreign currency translation losses	(16.6)	(3.7)
Unrealized gains on securities	3.6	7.2
Total Stockholders' Equity	1,063.3	1,200.2
Total Liabilities and Stockholders' Equity	\$ 2,861.9	\$ 2,750.6

The accompanying notes are an integral part of these statements.

ALLEGHENY TECHNOLOGIES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In millions except per share amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2000	1999	2000	1999
Sales	\$ 612.0	\$ 562.5	\$ 1,875.7	\$ 1,720.7
Costs and expenses:				
Cost of sales	490.5	471.3	1,516.0	1,392.6
Selling and administrative expenses	45.0	56.7	149.0	159.1
Interest expense, net	11.0	2.3	25.3	19.7
	<u>546.5</u>	<u>530.3</u>	<u>1,690.3</u>	<u>1,571.4</u>
Earnings before other income	65.5	32.2	185.4	149.3
Other income	0.8	0.4	14.7	3.6
Income from continuing operations before income taxes	66.3	32.6	200.1	152.9
Provision for income taxes	24.2	11.7	73.0	55.0
Income from continuing operations before extraordinary gains	42.1	20.9	127.1	97.9
Income from discontinued operations, net of tax	-	17.1	-	58.0
Extraordinary gains on sales of operations, net of tax	-	129.6	-	129.6
Net income	<u>\$ 42.1</u>	<u>\$ 167.6</u>	<u>\$ 127.1</u>	<u>\$ 285.5</u>
Basic net income per common share:				
Income from continuing operations before extraordinary gains	\$ 0.52	\$ 0.22	\$ 1.52	\$ 1.02
Income from discontinued operations	-	0.18	-	0.60
Extraordinary gains on sales of operations	-	1.36	-	1.35
Basic net income per common share	<u>\$ 0.52</u>	<u>\$ 1.76</u>	<u>\$ 1.52</u>	<u>\$ 2.97</u>
Diluted net income per common share:				
Income from continuing operations before extraordinary gains	\$ 0.52	\$ 0.21	\$ 1.52	\$ 1.01
Income from discontinued operations	-	0.18	-	0.60
Extraordinary gains on sales of operations	-	1.36	-	1.34
Diluted net income per common share	<u>\$ 0.52</u>	<u>\$ 1.75</u>	<u>\$ 1.52</u>	<u>\$ 2.95</u>
Dividends declared per common share	<u>\$ 0.20</u>	<u>\$ 0.32</u>	<u>\$ 0.60</u>	<u>\$ 0.96</u>

The accompanying notes are an integral part of these statements.

ALLEGHENY TECHNOLOGIES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Nine Months Ended	
	September 30,	
	2000	1999
Operating Activities:		
Net income	\$ 127.1	\$285.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Extraordinary gains on sales of operations, net	-	(129.6)
Income from discontinued operations, net of tax	-	(58.0)
Depreciation and amortization	75.6	71.5
Deferred income taxes	51.6	4.1
Gains on sales of investments and businesses	(11.1)	-
Change in operating assets and liabilities:		
Prepaid pension cost	(96.7)	(77.6)
Inventories	(43.2)	(0.9)
Accounts payable	(7.5)	21.8
Accounts receivable	(3.8)	(27.5)
Accrued income taxes	0.1	40.2
Other	(41.4)	47.4
Cash provided by operating activities	50.7	176.9
Investing Activities:		
Purchases of property, plant and equipment	(45.1)	(57.6)
Purchases of businesses and investment in ventures	(25.4)	(6.9)
Proceeds from the sales of investments and businesses	16.7	1.3
Disposals of property, plant and equipment	4.5	8.7
Other	(8.0)	0.9
Cash used in investing activities	(57.3)	(53.6)
Financing Activities:		
Net borrowings (payments) under credit agreements	251.4	(196.6)
Borrowings on long-term debt	4.8	-
Payments on long-term debt and capital leases	(1.1)	(1.5)
Net increase (decrease) in debt	255.1	(198.1)
Purchases of treasury stock	(207.3)	(148.3)
Cash dividends	(50.0)	(92.2)
Exercises of stock options	1.7	6.4
Cash used in financing activities	(0.5)	(432.2)
Cash provided by discontinued operations	-	283.7
Decrease in cash and cash equivalents	(7.1)	(25.2)
Cash and cash equivalents at beginning of the year	50.7	74.2
Cash and cash equivalents at end of period	\$ 43.6	\$ 49.0

The accompanying notes are an integral part of these statements.

ALLEGHENY TECHNOLOGIES INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Accounting Policies

Basis of Presentation

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

Certain amounts from 1999 have been reclassified to conform with the 2000 presentation, including classification of companies spun-off and sold as discontinued operations.

At a stockholders' meeting held on November 11, 1999, the Company's stockholders approved a reduction in the authorized number of shares of the Company's common stock and a one-for-two reverse stock split of the common stock. The reverse stock split was effective immediately following the spin-offs of Teledyne Technologies Incorporated and Water Pik Technologies, Inc. on November 29, 1999. All references in the financial statements and notes to the number of shares and per share amounts, have been restated to reflect this reverse stock split.

These unaudited consolidated financial statements have been prepared in accordance with 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 generally accepted accounting principles for complete financial statements. In the opinion of the Company, 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 1999 Annual Report. The results of operations for these interim periods are not necessarily indicative of the operating results for a full year.

Accounting Pronouncements

Financial Accounting Standards Board ("FASB") Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" was issued in June 1998, and amended in June 2000, pursuant to FASB Statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities: an amendment of FASB No. 133". These statements establish accounting and reporting standards for derivative instruments and hedging activities. They require that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. In June 1999, FASB Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities: Deferral of the Effective Date of FASB Statement No. 133" was issued. This statement delayed the effective date of FASB Statement No. 133 to all fiscal quarters of all fiscal years beginning after June 15, 2000. Effective January 1, 2001, the Company will apply this Standard to its derivative instruments, which are principally used to mitigate raw material commodity price and foreign exchange risks. Upon adoption, the Company will report its derivative contracts on the balance sheet at fair value.

In March 2000, the Financial Accounting Standards Board issued Interpretation No. 44 ("FIN 44") "Accounting for Certain Transactions Involving Stock Compensation--an interpretation of APB Opinion No. 25". Among other issues, FIN 44 clarifies the application of Accounting Principles Board Opinion No. 25 ("APB 25") regarding (a) the definition of employee for purposes of applying APB 25, (b) the criteria for determining whether a plan qualifies as a

noncompensatory plan, (c) the accounting consequence of various modifications to the terms of a previously fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination. The provisions of FIN 44 do not have a material impact on the Company's results of operations or financial condition.

In December 1999, the SEC issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"), which provides guidance on the recognition, presentation and disclosure of revenue in financial statements. Although SAB 101 does not change existing accounting rules on revenue recognition, changes in accounting to apply the guidance in SAB 101 may be accounted for as a change in accounting principle. The provisions of SAB 101 do not have a material impact on the Company's results of operations or financial condition.

Note 2. Discontinued Operations

On January 19, 1999, the Company announced its plans to effect a major strategic transformation of the Company that included the sales of several of the Company's businesses and the spin-offs of certain businesses in two of the Company's former business segments into independent, publicly-traded companies (the "spin-offs"). Teledyne Technologies Incorporated ("Teledyne") is comprised of certain businesses in the Company's former Aerospace and Electronics segment. Water Pik Technologies, Inc. ("Water Pik") is comprised of the Company's former Consumer segment.

Prior to the spin-offs, the Company received a tax ruling from the Internal Revenue Service that the spin-offs would be tax-free to the Company and to the Company's stockholders.

On November 29, 1999, the Company distributed all of the common stock of Teledyne and Water Pik to the Company's stockholders of record as of November 22, 1999. Stockholders of record received one share of Teledyne common stock for every seven shares of Allegheny Technologies common stock and one share of Water Pik common stock for every twenty shares of Allegheny Technologies common stock, based on the number of shares of Allegheny Technologies common stock they held prior to the reverse split. Immediately following the spin-offs, the Company effected a one-for-two reverse split of its common stock and changed its name from Allegheny Teledyne Incorporated to Allegheny Technologies Incorporated.

In 1999, the Company sold its unmanned aerial vehicle and its pyrotechnic components and systems businesses, known as Ryan Aeronautical and McCormick Selph Ordnance Unit, respectively, as well as the pressure relief valve, vehicle control valve, nitrogen gas springs, consumer drinkware, construction and mining equipment and material handling businesses. The Company recognized extraordinary gains of \$129.6 million, net of \$79.9 million in taxes, in the 1999 third quarter in connection with the sales of these businesses.

Discontinued operations include all companies that were spun-off or sold. Results of discontinued operations were as follows (in millions):

	Three Months Ended September 30, 1999	Nine Months Ended September 30, 1999
Net sales	\$ 293.3	\$ 987.7
Income before taxes	26.6	90.5
Provision for income taxes	9.5	32.5
Income from discontinued operations	\$ 17.1	\$ 58.0

Note 3. Inventories

Inventories were as follows (in millions):

	September 30, <u>2000</u>	December 31, <u>1999</u>
Raw materials and supplies	\$ 120.7	\$ 108.1
Work-in-process	515.8	437.8
Finished goods	<u>106.0</u>	<u>113.1</u>
Total inventories at current cost	742.5	659.0
Less allowances to reduce current cost values to LIFO basis	(126.3)	(95.0)
Progress payments	<u>(7.7)</u>	<u>(5.7)</u>
Total inventories	<u>\$ 608.5</u>	<u>\$ 558.3</u>

Note 4. Business Segments

Information on the Company's business segments was as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
Total sales:				
Flat-Rolled Products	\$ 364.9	\$ 334.2	\$1,138.8	\$ 975.9
High Performance Metals	202.7	191.0	600.9	606.7
Industrial Products	<u>69.8</u>	<u>67.0</u>	<u>212.8</u>	<u>214.0</u>
	637.4	592.2	1,952.5	1,796.6
Intersegment sales:				
Flat-Rolled Products	10.1	7.8	26.7	18.6
High Performance Metals	<u>15.3</u>	<u>21.9</u>	<u>50.1</u>	<u>57.3</u>
	25.4	29.7	76.8	75.9
Sales to external customers:				
Flat-Rolled Products	354.8	326.4	1,112.1	957.3
High Performance Metals	187.4	169.1	550.8	549.4
Industrial Products	<u>69.8</u>	<u>67.0</u>	<u>212.8</u>	<u>214.0</u>
	<u>\$ 612.0</u>	<u>\$ 562.5</u>	<u>\$ 1,875.7</u>	<u>\$ 1,720.7</u>
Operating Profit:				
Flat-Rolled Products	\$ 31.6	\$ 11.9	\$ 100.6	\$ 73.8
High Performance Metals	24.2	16.5	55.9	65.7
Industrial Products	<u>4.7</u>	<u>1.8</u>	<u>18.7</u>	<u>10.2</u>
Total operating profit	60.5	30.2	175.2	149.7
Corporate expenses	(6.6)	(10.8)	(22.5)	(27.8)
Interest expense, net	(11.0)	(2.3)	(25.3)	(19.7)
Gains on asset sales and other	(3.9)	(0.7)	0.1	5.2
Excess pension income	<u>27.3</u>	<u>16.2</u>	<u>72.6</u>	<u>45.5</u>
Income from continuing operations before income taxes	<u>\$ 66.3</u>	<u>\$ 32.6</u>	<u>\$ 200.1</u>	<u>\$ 152.9</u>

Excess pension income represents the amount of pension income in excess of amounts allocated to business segments to offset pension and other postretirement benefit expenses.

Note 5. Net Income Per Share

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2000	1999	2000	1999
Numerator:				
Income from continuing operations before extraordinary gains	\$ 42.1	\$ 20.9	\$ 127.1	\$ 97.9
Income from discontinued operations	-	17.1	-	58.0
Extraordinary gains on sales of operations	-	129.6	-	129.6
Numerator for basic and diluted net income per common share - Net income	<u>\$ 42.1</u>	<u>\$ 167.6</u>	<u>\$ 127.1</u>	<u>\$ 285.5</u>
Denominator:				
Weighted average shares	81.1	95.2	83.7	96.1
Contingent issuable stock	0.1	0.1	0.1	0.2
Denominator for basic net income per common share	81.2	95.3	83.8	96.3
Effect of dilutive securities:				
Employee stock options	0.1	0.4	0.1	0.5
Dilutive potential common shares	0.1	0.4	0.1	0.5
Denominator for diluted net income per common share - adjusted weighted average shares	<u>81.3</u>	<u>95.7</u>	<u>83.9</u>	<u>96.8</u>
Basic net income per common share:				
Income from continuing operations before extraordinary gains	\$ 0.52	\$ 0.22	\$ 1.52	\$ 1.02
Income from discontinued operations	-	0.18	-	0.60
Extraordinary gains on sales of operations	-	1.36	-	1.35
Basic net income per common share	<u>\$ 0.52</u>	<u>\$ 1.76</u>	<u>\$ 1.52</u>	<u>\$ 2.97</u>
Diluted net income per common share:				
Income from continuing operations before extraordinary gains	\$ 0.52	\$ 0.21	\$ 1.52	\$ 1.01
Income from discontinued operations	-	0.18	-	0.60
Extraordinary gains on sales of operations	-	1.36	-	1.34
Diluted net income per common share	<u>\$ 0.52</u>	<u>\$ 1.75</u>	<u>\$ 1.52</u>	<u>\$ 2.95</u>

Note 6. Comprehensive Income

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2000	1999	2000	1999
Net income	\$42.1	\$167.6	\$127.1	\$285.5
Foreign currency translation gains (losses)	0.3	1.7	(12.9)	(3.4)
Less: foreign currency translation losses due to sale of foreign entities	-	(4.9)	-	(4.9)
	<u>0.3</u>	<u>6.6</u>	<u>(12.9)</u>	<u>1.5</u>
Unrealized gains (losses) on securities:				
Unrealized holding gains arising during period	2.1	0.7	3.8	5.3
Less: realized gains included in net income	-	-	7.4	-
	<u>2.1</u>	<u>0.7</u>	<u>(3.6)</u>	<u>5.3</u>
Comprehensive income	<u>\$44.5</u>	<u>\$174.9</u>	<u>\$110.6</u>	<u>\$292.3</u>

Note 7. Stockholders' Equity

Allegheny Technologies paid a cash dividend of \$0.20 per share of common stock in each of the 2000 first, second and third quarters and paid a cash dividend of \$0.32 per share of common stock in each of the 1999 first, second and third quarters.

On October 1, 1998, the Company's Board of Directors authorized a stock repurchase program to acquire up to 10 million shares of Allegheny Technologies common stock. In December 1999, the Company's Board of Directors increased the number of shares authorized for purchase in the stock repurchase program by 10 million shares. In September 2000, the Board of Directors authorized an increase of an additional 5 million shares authorized for repurchase in the program, bringing the total authorization to 25 million shares. These shares may be purchased from time-to-time in the open market or in negotiated transactions. In the first nine months of 2000, the Company had repurchased 10.3 million shares for \$207.3 million under this program. From the inception of the share repurchase program through October 27, 2000, the Company has repurchased 19.7 million shares at a cost of \$517.9 million. For the third quarter 2000, average diluted shares outstanding are down 15 percent from the same year ago period.

Note 8. Commitments and Contingencies

The Company is subject to various domestic and international environmental laws and regulations which require that it investigate and remediate the effects of the release or disposal of materials at sites associated with past and present operations, including sites at which the Company has been identified as a potentially responsible party under the federal Superfund laws and comparable state laws. The Company is currently involved in the investigation and remediation of a number of sites under these laws.

Environmental liabilities are recorded when the Company's liability is probable and the costs are reasonably estimable. In many cases, however,

investigations are not yet at a stage where the Company has been able to determine whether it is liable or, if liability is probable, to reasonably estimate the loss or range of loss, or certain components thereof. Estimates of the Company's liability are further subject to uncertainties regarding the nature and extent of site contamination, the range of remediation alternatives available, evolving remediation standards, imprecise engineering evaluations and estimates of appropriate cleanup technology, methodology and cost, the extent of corrective actions that may be required, and the number and financial condition of other potentially responsible parties, as well as the extent of their responsibility for the remediation. Accordingly, as investigation and remediation of these sites proceed, it is likely that adjustments in the Company's accruals will be necessary to reflect new information. The amounts of any such adjustments could have a material adverse effect on the Company's results of operations in a given period, but the amounts, and the possible range of loss in excess of amounts accrued, are not reasonably estimable. Based on currently available information, however, management does not believe future environmental costs in excess of those accrued with respect to sites with which the Company has been identified are likely to have a material adverse effect on the Company's financial condition or results of operation. The resolution in any reporting period of one or more of these matters could have a material adverse effect on the Company's results of operation of that period. In addition, there can be no assurance that additional future developments, administrative actions or liabilities relating to environmental matters will not have a material adverse effect on the Company's financial condition or results of operations.

At September 30, 2000, the Company's reserves for environmental remediation obligations totaled approximately \$52.1 million, of which approximately \$13.2 million was included in other current liabilities. The reserve includes estimated probable future costs of \$16.9 million for federal Superfund and comparable state-managed sites; \$3.6 million for formerly owned or operated sites for which the Company has remediation or indemnification obligations; \$18.5 million for owned or controlled sites at which Company operations have been discontinued; and \$13.1 million for sites utilized by the Company in its ongoing operations. The Company is evaluating whether it may be able to recover a portion of future costs for environmental liabilities from third parties other than participating potentially responsible parties.

The timing of expenditures depends on a number of factors that vary by site, including the nature and extent of contamination, the number of potentially responsible parties, the timing of regulatory approvals, the complexity of the investigation and remediation, and the standards for remediation. The Company expects that it will expend present accruals over many years, and will complete remediation of all sites for which it has identified remediation obligations in up to thirty years.

Various claims (whether based on U.S. Government or Company audits and investigations or otherwise) have been or may be asserted against the Company related to its U.S. Government contract work, principally related to the former operations of Teledyne, Inc., including claims based on business practices and cost classifications. The Company also learns from time to time that it has been named as a defendant in civil actions filed under seal pursuant to the False Claims Act, principally related to the former operations of Teledyne, Inc. Although such claims are generally resolved by detailed fact-finding and negotiation, on those occasions when they are not so resolved, civil or criminal legal or administrative proceedings may ensue. Depending on the circumstances and the outcome, such proceedings could result in fines, penalties, compensatory and treble damages or the cancellation or suspension of payments under one or more U.S. Government contracts. Under government regulations, a company, or one or more of its operating divisions or units, can also be suspended or debarred from government contracts based on the results of investigations. Given the limited extent of the Company's business with the U.S. Government, the Company believes that a suspension or debarment of the Company would not have a material adverse effect on the future

operating results and consolidated financial condition of the Company. Although the outcome of these matters cannot be predicted with certainty, management does not believe there is any audit, review or investigation currently pending against the Company of which management is aware that is likely to have a material adverse effect on the Company's financial condition or liquidity, although the resolution in any reporting period of one or more of these matters could have a material adverse effect on the Company's results of operations for that period. Generally, since False Claims Act cases are under seal, the Company does not in all cases possess sufficient information to determine whether the Company will sustain a material loss in connection with such cases, or to reasonably estimate the amount of any loss attributable to such cases.

In the spin-offs of Teledyne and Water Pik, completed in November 1999, the new companies agreed to assume and to defend and hold the Company harmless against all liabilities (other than certain income tax liabilities) associated with the historical operations of their businesses, including all government contracting, environmental, product liability and other claims and demands, whenever any such claims or demands might arise or be made. If the new companies were unable or otherwise fail to satisfy these assumed liabilities, the Company could be required to satisfy them, which could have a material adverse effect on the Company's results of operations and financial condition.

In connection with the spin-offs of Teledyne and Water Pik, the Company received a tax ruling from the Internal Revenue Service stating that the spin-offs will be tax-free to the Company and the Company's stockholders. While the tax ruling, as supplemented, relating to the qualification of the spin-offs as tax-free distributions within the meaning of the Internal Revenue Code generally is binding on the Internal Revenue Service, the continuing validity of the tax ruling, as supplemented, is subject to certain factual representations and uncertainties that, among other things, require the new companies to take or refrain from taking certain actions. If a spin-off were not to qualify as a tax-free distribution within the meaning of the Internal Revenue Code, the Company would recognize taxable gain generally equal to the amount by which the fair market value of the common stock distributed to the Company's stockholders in the spin-off exceeded the Company's basis in the new company's assets. In addition, the distribution of the new company's common stock to Company stockholders would generally be treated as taxable to the Company's stockholders in an amount equal to the fair market value of the common stock they received. If a spin-off qualified as a distribution within the meaning of the Internal Revenue Code but was disqualified as tax-free to the Company because of certain post-spin-off circumstances, the Company would recognize taxable gain as described in the preceding sentence, but the distribution of the new company's common stock to the Company's stockholders in the spin-off would generally be tax-free to each Company stockholder. In the spin-offs, the new companies executed tax sharing and indemnification agreements in which each agreed to be responsible for any taxes imposed on and other amounts paid by the Company, its agents and representatives and its stockholders as a result of the failure of the spin-off to qualify as a tax-free distribution within the meaning of the Internal Revenue Code if the failure or disqualification is caused by post-spin-off actions by or with respect to that company or its stockholders. Potential liabilities under these agreements could exceed the respective new company's net worth by a substantial amount. If either or both of the spin-offs were not to qualify as tax-free distributions to the Company or its stockholders, and either or both of the new companies were unable or otherwise failed to satisfy the liabilities they assumed under the tax sharing and indemnification agreements, the Company could be required to satisfy them without full recourse against the new companies. This could have a material adverse effect on the Company's results of operations and financial condition.

A number of other lawsuits, claims and proceedings have been or may be asserted against the Company relating to the conduct of its business, including those pertaining to product liability, patent infringement, commercial, employment, employee benefits, tax, and stockholder matters. While the outcome of litigation cannot be predicted with certainty, and some of these lawsuits, claims or proceedings may be determined adversely to the Company, management does not believe that the disposition of any such pending matters is likely to have a material adverse effect on the Company's financial condition or liquidity, although the resolution in any reporting period of one or more of these matters could have a material adverse effect on the Company's results of operations for that period.

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

Results of Operations

Allegheny Technologies is one of the largest and most diversified producers of specialty materials in the world. It operates in the following three business segments which accounted for the following percentages of total sales for the 2000 and 1999 nine months:

	2000	1999
Flat-Rolled Products	59%	56%
High Performance Metals	30%	32%
Industrial Products	11%	12%

For the 2000 nine months, operating profit was \$175.2 million compared to \$149.7 million for the same 1999 period. Sales increased 9.0 percent to \$1,875.7 million for the 2000 nine months compared to \$1,720.7 million for the same 1999 period.

Income from continuing operations before extraordinary gains was \$127.1 million, or \$1.52 per diluted share, for the 2000 nine months, compared to \$97.9 million, or \$1.01 per diluted share, for the 1999 nine months. Net income was \$127.1 million, or \$1.52 per diluted share for the 2000 nine months, compared to \$285.5 million, or \$2.95 per diluted share, for the same 1999 period. Net income for the 1999 nine months included \$58.0 million of net income from discontinued operations and \$129.6 million of net extraordinary gains in connection with the sales of businesses. Net income in the first nine months of 2000 was increased by \$5.0 million, or \$0.06 per share, which included a gain on the sale of a minority interest in Gul Technologies Singapore Ltd., partially offset by a charge for exiting the tungsten mill products business of Metalworking Products.

In safety, the Company's OSHA Total Recordable Incident Rate improved by 34 percent and Lost Workday Case Rate improved by 39 percent as compared to 1999. This performance exceeds the Company's 25 percent safety improvement target for 2000. In addition, \$24 million in cost reductions were realized during the third quarter, increasing year-to-date cost reductions to \$70 million. The Company is on track to achieve its \$90 million cost reduction program in 2000.

Sales and operating profit for the Company's three business segments are discussed below.

Flat-Rolled Products Segment

Third quarter 2000 operating profit increased to \$31.6 million from \$11.9 million in the same year-ago period in spite of significantly higher raw material costs. Third quarter 2000 sales increased 8.7 percent to \$354.8 million compared to the prior year third quarter. For the nine-month period,

operating profit increased to \$100.6 million and sales increased 16.2 percent to \$1,112.1 million from the comparable 1999 period. The overall improvement in sales and operating profit resulted from revised raw material surcharge base levels and a diversified product mix. The segment also continued to benefit from on-going cost reduction efforts.

The average prices of flat-rolled products in the third quarter and nine months of 2000 were \$2,392 and \$2,363 per ton, respectively, compared to \$1,940 and \$1,993, respectively, per ton in the same 1999 periods. This increase was due primarily to the impact of revised raw materials surcharge base levels and an improved product mix. Higher margin product shipments (including strip, Precision Rolled Strip®, super stainless steel, nickel alloy and titanium products) increased 10 percent in the third quarter substantially replacing lower margin semi-finished product shipments. Tons shipped in the third quarter and nine month periods of 2000 were 148,325 tons and 470,669 tons respectively, compared to 168,181 tons and 480,242 tons for the same periods of 1999. Included in tons shipped were 138 tons of semi-finished products in the 2000 third quarter compared to 15,300 tons in the comparable 1999 period.

High Performance Metals Segment

Operating profit increased 46.7 percent and decreased 14.9 percent compared to the 1999 third quarter and 1999 nine months, respectively. Sales for the 2000 third quarter increased 10.8 percent compared to the 1999 period and 2000 nine months were flat compared to the 1999 nine months. Quarter over quarter sales benefited from increased demand for nickel-based superalloys and specialty steel alloys from the growing markets for electrical power generation turbines and biomedical products and improving conditions in aerospace and oil and gas markets. In addition, shipments were strong for niobium-titanium alloys for superconducting applications, nickel-titanium shape memory alloys for cellular phones, nickel-titanium super-elastic alloys for the medical industry, and hafnium alloys used in the production of superalloys for aerospace applications.

Comparative information on the segment's major products is provided in the following table:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2000	1999	2000	1999
Volume (000's pounds):				
Nickel-based and specialty steel alloys	11,147	10,709	35,041	33,681
Titanium mill products	6,110	5,352	18,068	17,539
Zirconium and related alloys	1,014	793	2,990	3,067
Average prices (per pound):				
Nickel-based and specialty steel alloys	\$ 5.92	\$ 5.84	\$ 5.81	\$ 5.95
Titanium mill products	\$10.78	\$11.76	\$10.85	\$11.92
Zirconium and related alloys	\$37.07	\$35.34	\$33.49	\$30.36

Industrial Products Segment

Operating profit for the 2000 third quarter was \$4.7 million compared to \$1.8 million for the same quarter of 1999, and sales increased 4.2 percent to \$69.8 million compared to the same prior period. For the 2000 nine months, operating profit increased 83.3 percent to \$18.7 million while sales decreased slightly. Sales and operating profit at Metalworking Products, the largest company in the segment, improved compared to the same 1999 periods due to stronger industrial demand and cost savings, including workforce reductions. On June 20, 2000, the Company announced its intention to sell Portland Forge and Casting Service, which are the other two companies that comprise this segment.

Corporate Items

Corporate expenses decreased to \$6.6 million for the 2000 third quarter and decreased to \$22.5 million for the 2000 nine months, compared to the respective 1999 periods, due to continued cost controls and 21 percent fewer corporate employees over the 1999 third quarter. Net interest expense increased to \$11.0 million for the third quarter 2000 from \$2.3 million for the third quarter 1999. Net interest expense increased to \$25.3 million for the 2000 nine months compared to \$19.7 million for the 1999 nine months. The increase in interest expense was primarily due to borrowings used to finance the Company's share repurchase program. Excess pension income increased to \$27.3 million for the 2000 third quarter and increased to \$72.6 million for the 2000 nine months compared to \$16.2 million and \$45.5 million, respectively, in the same 1999 periods due to higher pension assets as a result of strong investment performance during 1999. Third quarter 2000 excess pension income increased \$4.6 million from the 2000 second quarter due to reduced post-retirement benefit liabilities.

Special Items

Nine months 2000 results include first quarter special items of \$5.0 million, or \$0.06 per share. These items include a gain on the sale of a minority interest in Gul Technologies Singapore Ltd., included in other income, partially offset by a charge for exiting the tungsten mill products business of Metalworking Products included in cost of sales. Net income in the second and third quarters of 2000 and 1999 were not impacted by special items.

New Accounting Pronouncements

Financial Accounting Standards Board ("FASB") Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" was issued in June 1998, and amended in June 2000, pursuant to FASB Statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities: an amendment of FASB No. 133." These statements establish accounting and reporting standards for derivative instruments and hedging activities. They require that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. In June 1999, FASB Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities: Deferral of the Effective Date of FASB Statement No. 133" was issued. This statement delays the effective date of FASB Statement No. 133 to all fiscal quarters of all fiscal years beginning after June 15, 2000. Effective January 1, 2001, the Company will apply this Standard to derivative instruments, which are principally used to mitigate certain raw material commodity price and foreign exchange risks. Upon adoption, the Company will report its derivative contracts on the balance sheet at fair value.

In March 2000, the Financial Accounting Standards Board issued Interpretation No. 44 ("FIN 44") "Accounting for Certain Transactions involving Stock Compensation--an interpretation of APB Opinion No. 25." Among other issues, FIN 44 clarifies the application of Accounting Principles Board Opinion No. 25 ("APB 25") regarding (a) the definition of employee for purposes of applying APB 25, (b) the criteria for determining whether a plan qualifies as a noncompensatory plan, (c) the accounting consequence of various modifications to the terms of a previously fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination. The provisions of FIN 44 do not have a material impact on the Company's results of operations or financial condition.

In December 1999, the SEC issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101), which provides guidance on the recognition, presentation and disclosure of revenue in financial statements. Although SAB 101 does not change existing accounting rules on revenue recognition, changes in accounting to apply the guidance in SAB 101 may be accounted for as a change in accounting principle. SAB 101 is not expected to

have a material impact on the Company's results of operations or financial condition.

Income Taxes

The Company's effective tax rate from continuing operations was 36.5 percent for the 2000 third quarter and nine months, compared to 35.9 percent and 36.0 percent, respectively, for the same periods in 1999. The effective tax rates are affected by permanent book to tax differences such as non-deductible goodwill, lobbying expenses and state tax nexus items. The 2000 and 1999 rates also reflect benefits from federal and state tax planning initiatives.

Financial Condition and Liquidity

Working capital increased to \$713.6 million at September 30, 2000, compared to \$493.5 million at December 31, 1999. The current ratio increased to 3.0 from 1.9 in this same period. The increase in working capital was primarily due to the shifting of short-term debt to long-term debt and higher inventory.

In the first nine months of 2000, cash generated from operations of \$50.7 million, proceeds from the net increase in debt of \$255.1 million and proceeds from the sale of investments and businesses of \$16.7 million were used to repurchase shares for \$207.3 million, pay dividends of \$50.0 million and invest \$70.5 million in capital equipment and business expansion. Cash transactions plus cash on hand at the beginning of the year resulted in a cash position of \$43.6 million at September 30, 2000.

Capital expenditures for 2000 are expected to approximate \$65.0 million, of which \$45.1 million had been expended through September 30, 2000.

On October 1, 1998, the Company's Board of Directors authorized a stock repurchase program to acquire up to 10 million shares of Allegheny Technologies common stock. In December 1999, the Company's Board of Directors increased the number of shares authorized for purchase in the stock repurchase program by 10 million shares. In September 2000, the Board of Directors authorized an increase of an additional 5 million shares authorized for repurchase in the program, bringing the total authorization to 25 million shares. The shares may be purchased from time-to-time in the open market or in negotiated transactions. In the first nine months of 2000, the Company has repurchased approximately 10.3 million shares for \$207.3 million under this program. From the inception of the share repurchase program through October 27, 2000, the Company has repurchased 19.7 million shares at a cost of \$517.9 million. For the third quarter 2000, average diluted shares outstanding are down 15 percent from the same year ago period.

At a stockholders' meeting held on November 11, 1999, the Company's stockholders approved a one-for-two reverse split of the Company's stock. The reverse split was effective immediately following the spin-offs of Teledyne and Water Pik on November 29, 1999. Share and per share amounts have been adjusted for all periods presented to reflect this one-for-two reverse stock split.

The Company believes that internally generated funds, current cash on hand and borrowing from existing credit lines will be adequate to meet foreseeable needs. The Company may choose, however, to issue additional debt depending on market conditions.

Other Matters

Price Increases

In September 2000, Allegheny Ludlum, an Allegheny Technologies company, announced that it would increase base prices by approximately 5 to 7 percent on super stainless steel, nickel-based alloy and superalloy grades of sheet, standard strip, Precision Rolled Strip®, plate-mill-plate and continuous-mill-plate products as well as silicon electrical steel. These price increases were effective with orders received after the close of business on September 29, 2000 except for silicon steel which are effective January 2, 2001. Allegheny Ludlum also announced in September 2000 that it would increase base prices by approximately 4 to 5 percent on commercially pure titanium coil, sheet and plate products effective with new orders received after September 4, 2000. In July 2000, Allvac, an Allegheny Technologies company, announced that it would increase prices by approximately 8 percent to 10 percent on its nickel-based, titanium and specialty steel products. While price increases should have some impact on performance in 2000, the price increases are expected to primarily benefit 2001 performance.

Energy Costs

Prices and availability of most energy resources are subject to market conditions. These market conditions are often affected by political and economic factors that are generally outside of the Company's control. The uncertainty surrounding the price of oil and the political environment in the Middle East are factors that may impact petroleum costs. The U.S. government is also forecasting that supplies of natural gas may be at historical low levels during the winter of 2000-2001. These factors, among other things, may contribute to increased production costs that could have a material impact on the results of operations of the Company. The Company is evaluating energy factors with regard to production costs including negotiating with an energy partner to assist in cost containment and control of energy consumption.

Growth Strategy Analysis

In June 2000, the Company announced the results of its growth strategy analysis. The Company's objective is to reach an annualized sales rate that is at least 75 percent higher by the end of 2003 than in 1999, while maintaining the Company's historically high level of return on capital employed.

Environmental

The Company is subject to various domestic and international environmental laws and regulations which require that it investigate and remediate the effects of the release or disposal of materials at sites associated with past and present operations, including sites at which the Company has been identified as a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act, commonly known as Superfund, and comparable state laws. The Company is currently involved in the investigation and remediation of a number of sites under these laws. The Company's reserves for environmental investigation and remediation totaled approximately \$52.1 million at September 30, 2000. Based on currently available information, management does not believe future environmental costs at sites with which the Company has been identified in excess of those accrued with respect to sites with which the Company has been identified are likely to have a material adverse effect on the Company's financial condition or liquidity. The resolution in any reporting period of one or more of these matters could have a material adverse effect on the Company's results of operations for that period.

With respect to proceedings brought under the federal Superfund laws, or similar state statutes, the Company has been identified as a potentially

responsible party at approximately 33 such sites, excluding those at which it believes it has no future liability. The Company's involvement is very limited or de minimis at approximately 13 of these sites, and the potential loss exposure with respect to any of remaining 20 sites is not considered to be material.

For additional discussion of environmental matters, see Note 8 to the consolidated financial statements of the Company.

Government Contracts

One of the Company's operating companies directly performs work on contracts with the U.S. Government. Various claims (whether based on U.S. Government or Company audits and investigations or otherwise) have been or may be asserted against the Company related to its U.S. Government contract work, including claims based on business practices and cost classifications and actions under the False Claims Act. Under the False Claims Act, a person may assert the rights of the U.S. Government by initiating a suit under seal against a contractor. For the claim to be successful, the person must have information that the contractor falsely submitted a claim to the U.S. Government for payment. If it chooses, the U.S. Government may intervene and assume control of the case.

Government contracting claims may be resolved by detailed fact-finding and negotiation. When they are not resolved in that way, civil or criminal legal or administrative proceedings may ensue. Depending on the circumstances and the outcome, such proceedings could result in fines, penalties, compensatory and treble damages or the cancellation or suspension of payments under one or more U.S. Government contracts. Under government regulations, a company, or one or more of its operating divisions or units, can also be suspended or debarred from government contracts based on the results of investigations.

Given the limited extent of the Company's business with the U.S. Government, the Company believes that a suspension or debarment of the Company would not have a material adverse effect on the future operating results and consolidated financial condition of the Company. Although the outcome of these matters cannot be predicted with certainty, management does not believe there is any audit, review or investigation currently pending against the Company of which management is aware that is likely to have a material adverse effect on the Company's financial condition or liquidity. The resolution in any reporting period of one or more of these matters could have a material adverse effect on the Company's results of operations for that period.

For additional discussion of government contract matters, see Note 8 to the consolidated financial statements of the Company.

Forward-Looking Statements

From time to time the Company has made and may continue to make forward-looking statements. Certain forward-looking statements are contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 8 to the consolidated financial statements of the Company, including those statements concerning: the results of its growth strategy analysis and initiatives; projected levels of sales, earnings and earnings per share, financial performance, growth and segment margins; operational actions taken to respond to market conditions; product demand; benefits expected to be realized from diversified markets and product mix; prices and price increases; raw material availability and costs; energy costs and actions taken to control costs; working capital; cash flow and the Company's focus on generating cash flow; anticipated business, economic and market conditions; aerospace, oil and gas, automotive and other industry trends; cost reductions and cost reduction programs; expected capital expenditures; projected returns on sales of surplus assets; potential repurchases of the Company's stock; results of labor negotiations; foreign currency fluctuations; the outcome of any government

inquiries, litigation or other proceedings related to government contracts or other matters; and future environmental costs. These forward-looking statements are based on management's current expectations and include known and unknown risks, uncertainties and other factors, many of which the Company is unable to predict or control, that may cause the Company's actual results or performance to materially differ from any future results or performance expressed or implied by such statements. Factors that could cause actual results to differ materially from those projected in forward-looking statements, include, but are not limited to our ability to achieve our growth strategies and cost reduction programs; cyclical demand for our products; volatility of prices for and unavailability of critical raw materials; our ability to implement and maintain raw material surcharges and price increases which may depend on market conditions, including pricing by foreign producers; the effect of market conditions on the performance of pension assets; anticipated effects of acquisitions on earnings; the effect of energy costs, as well as those risks and uncertainties described above under the captions "Other Matters - Environmental" and "Other Matters - Government Contracts" and elsewhere herein. Realization of anticipated benefits described in forward-looking statements could take longer than expected and implementation difficulties, market factors and deterioration in domestic or global economic conditions could alter anticipated benefits. Additional risk factors are described from time to time in the Company's filings with the Securities and Exchange Commission, including its Report on Form 10-K for the year ended December 31, 1999 and its Reports on Form 10-Q. The Company assumes no duty to update its forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company uses derivative financial instruments from time to time to hedge ordinary business risks regarding foreign currencies on product sales and to partially hedge against volatile raw material cost fluctuations in the Flat-Rolled Products and High Performance Metals segments.

Foreign currency exchange contracts are used to limit transactional exposure to changes in currency exchange rates. The Company sometimes purchases foreign currency forward contracts that effectively 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, which are not financially material, are designated as hedges of export sales transactions in which settlement will occur in future periods, which otherwise would expose the Company, on the basis of its aggregate net cash flows in respective currencies, to foreign currency risk.

A portion of the Company's operations consists of investments in foreign subsidiaries. As a result, the Company's financial results could be affected by changes in foreign currency exchange rates. To mitigate this foreign currency translation risk, the Company has a practice of recapitalizing operations using local foreign currency debt to replace direct equity investment. The average interest rate to service this foreign debt is favorable to current U.S. interest rates.

As part of its risk management strategy, from time to time, the Company purchases exchange-traded futures contracts to manage exposure to changes in nickel prices, a component of raw material cost for some of its flat-rolled and high performance metals products. The nickel futures contracts obligate the Company to make or receive a payment equal to the net change in value of the contract at its maturity. Some of these contracts can be designated as hedges of the Company's firm sales commitments and are short-term in nature to correspond to the commitment period. The gains and losses on these contracts are deferred and recognized in earnings when realized as an adjustment to cost of goods sold. Historically, the Company has not closed any significant contracts prior to the execution of the underlying sales transactions, nor have

any of the underlying sales transactions for such significant contracts failed to occur which resulted in a material adverse effect on the Company.

The Company guarantees the outstanding Allegheny Ludlum fixed rate 6.95 percent debentures due in 2025. In a period of declining interest rates, the Company faces the risk of required interest payments exceeding those based on the then current market rate. To mitigate interest rate risk, the Company attempts to maintain a reasonable balance between fixed and variable rate debt to keep financing costs as low as possible.

The Company believes that adequate controls are in place to monitor these activities, which are not financially material. However, many factors, including those beyond the control of the Company such as changes in domestic and foreign political and economic conditions, as well as the magnitude and timing of interest rate changes, could adversely affect these activities.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits -

27.1 Financial data schedule - September 30, 2000

(b) Current Reports on Form 8-K filed by the Company -

None.

SIGNATURES

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

ALLEGHENY TECHNOLOGIES INCORPORATED
(Registrant)

Date: November 3, 2000

By /s/ R.J. Harshman
Richard J. Harshman
Vice President - Controller and Acting
Chief Financial Officer
(Principal Financial Officer and
Duly Authorized Officer)

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
27.1	Financial Data Schedule for Nine Months Ended September 30, 2000.

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The schedule contains summary financial information extracted from the registrant's consolidated statement of income for the nine months ended September 30, 2000 and consolidated balance sheet as of September 30, 2000 and is qualified in its entirety by reference to such financial statements.

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