

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended September 30, 2019

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 45069  
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (513) 425-5000

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Trading Symbol</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock \$0.01 Par Value	AKS	The New York Stock Exchange

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, 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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input type="checkbox"/>
Smaller reporting company	<input type="checkbox"/>	Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Yes  No

Indicate by check mark whether the registrant is a shell company. Yes  No

There were 316,418,632 shares of common stock outstanding as of October 28, 2019.

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**AK STEEL HOLDING CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(dollars in millions, except per share data)

<b>(unaudited)</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Net sales	\$ 1,535.5	\$ 1,735.6	\$ 4,913.7	\$ 5,141.1
Cost of products sold (exclusive of items shown separately below)	1,366.0	1,486.2	4,280.4	4,462.6
Selling and administrative expenses	71.0	79.6	222.9	235.8
Depreciation	47.4	55.0	147.4	164.8
Ashland Works closure	—	—	64.1	—
Total operating costs	1,484.4	1,620.8	4,714.8	4,863.2
<b>Operating profit</b>	51.1	114.8	198.9	277.9
Interest expense	37.0	37.8	112.0	113.3
Pension and OPEB (income) expense	(6.8)	(10.0)	(7.2)	(30.0)
Other (income) expense	0.7	0.7	(16.5)	(3.4)
<b>Income before income taxes</b>	20.2	86.3	110.6	198.0
Income tax expense (benefit)	0.3	1.4	2.7	(4.0)
<b>Net income</b>	19.9	84.9	107.9	202.0
Less: Net income attributable to noncontrolling interests	17.1	17.7	42.8	49.5
<b>Net income attributable to AK Steel Holding Corporation</b>	\$ 2.8	\$ 67.2	\$ 65.1	\$ 152.5
<b>Net income per share attributable to AK Steel Holding Corporation common stockholders:</b>				
Basic	\$ 0.01	\$ 0.21	\$ 0.21	\$ 0.48
Diluted	\$ 0.01	\$ 0.21	\$ 0.21	\$ 0.48

See notes to condensed consolidated financial statements.

**AK STEEL HOLDING CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
(dollars in millions)

<b>(unaudited)</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Net income	\$ 19.9	\$ 84.9	\$ 107.9	\$ 202.0
Other comprehensive income (loss), before tax:				
Foreign currency translation gain (loss)	(1.4)	(0.3)	(1.7)	(1.4)
Cash flow hedges:				
Gains (losses) arising in period	(4.2)	(2.3)	(21.1)	(7.8)
Reclassification of losses (gains) to net income	5.2	0.5	0.9	(12.6)
Pension and OPEB plans:				
Reclassification of prior service cost (credits) to net income	(2.3)	(2.4)	(7.4)	(7.3)
Reclassification of losses (gains) to net income	(2.7)	3.6	(8.0)	10.8
<b>Other comprehensive income (loss), before tax</b>	<b>(5.4)</b>	<b>(0.9)</b>	<b>(37.3)</b>	<b>(18.3)</b>
Income tax benefit related to items of comprehensive income (loss)	—	—	—	—
<b>Other comprehensive income (loss)</b>	<b>(5.4)</b>	<b>(0.9)</b>	<b>(37.3)</b>	<b>(18.3)</b>
<b>Comprehensive income</b>	<b>14.5</b>	<b>84.0</b>	<b>70.6</b>	<b>183.7</b>
Less: Comprehensive income attributable to noncontrolling interests	17.1	17.7	42.8	49.5
<b>Comprehensive income (loss) attributable to AK Steel Holding Corporation</b>	<b>\$ (2.6)</b>	<b>\$ 66.3</b>	<b>\$ 27.8</b>	<b>\$ 134.2</b>

See notes to condensed consolidated financial statements.

**AK STEEL HOLDING CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(dollars in millions, except per share data)

<b>(unaudited)</b>	<b>September 30, 2019</b>	<b>December 31, 2018</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 30.8	\$ 48.6
Accounts receivable, net	624.4	635.8
Inventory	1,362.7	1,419.9
Other current assets	48.3	97.0
Total current assets	2,066.2	2,201.3
Property, plant and equipment	7,094.0	6,969.2
Accumulated depreciation	(5,201.8)	(5,057.6)
Property, plant and equipment, net	1,892.2	1,911.6
Operating lease assets	253.4	—
Other non-current assets	392.8	402.8
<b>TOTAL ASSETS</b>	<b>\$ 4,604.6</b>	<b>\$ 4,515.7</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 676.0	\$ 801.0
Accrued liabilities	234.7	288.9
Current portion of operating lease liabilities	53.6	—
Current portion of pension and other postretirement benefit obligations	37.3	38.7
Total current liabilities	1,001.6	1,128.6
Non-current liabilities:		
Long-term debt	1,969.7	1,993.7
Long-term operating lease liabilities	219.1	—
Pension and other postretirement benefit obligations	785.0	829.9
Other non-current liabilities	170.5	134.0
<b>TOTAL LIABILITIES</b>	<b>4,145.9</b>	<b>4,086.2</b>
Equity:		
Common stock, authorized 450,000,000 shares of \$0.01 par value each; issued 317,749,451 and 316,595,613 shares in 2019 and 2018; outstanding 316,382,722 and 315,535,765 shares in 2019 and 2018	3.2	3.2
Additional paid-in capital	2,902.7	2,894.9
Treasury stock, common shares at cost, 1,366,729 and 1,059,848 shares in 2019 and 2018	(7.3)	(6.4)
Accumulated deficit	(2,626.7)	(2,691.8)
Accumulated other comprehensive loss	(137.3)	(100.0)
Total stockholders' equity	134.6	99.9
Noncontrolling interests	324.1	329.6
<b>TOTAL EQUITY</b>	<b>458.7</b>	<b>429.5</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 4,604.6</b>	<b>\$ 4,515.7</b>

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The condensed consolidated balance sheets as of September 30, 2019 and December 31, 2018, include the following amounts related to consolidated variable interest entities, prior to intercompany eliminations. See Note 11 for more information concerning variable interest entities.

<b>(unaudited)</b>	<b>September 30, 2019</b>	<b>December 31, 2018</b>
<b><u>Middletown Coke Company, LLC (“SunCoke Middletown”)</u></b>		
Cash and cash equivalents	\$ 1.2	\$ 1.1
Inventory	24.9	21.1
Property, plant and equipment	432.9	427.8
Accumulated depreciation	(122.9)	(106.9)
Accounts payable	14.2	13.7
Other assets (liabilities), net	1.3	(1.2)
Noncontrolling interests	323.2	328.2
<b><u>Other variable interest entities</u></b>		
Cash and cash equivalents	\$ 0.1	\$ 0.5
Property, plant and equipment	11.7	11.7
Accumulated depreciation	(10.0)	(9.8)
Other assets (liabilities), net	0.2	0.5
Noncontrolling interests	0.9	1.4

See notes to condensed consolidated financial statements.

**AK STEEL HOLDING CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(dollars in millions)

<b>(unaudited)</b>	<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 107.9	\$ 202.0
Depreciation	129.5	153.3
Depreciation—SunCoke Middletown	17.9	11.5
Amortization	25.7	24.5
Ashland Works closure	64.1	—
Deferred income taxes	0.7	(6.3)
Pension and OPEB expense (income)	(2.9)	(24.2)
Contributions to pension trust	(34.0)	(40.7)
Other postretirement benefit payments	(23.9)	(28.5)
Mark-to-market (gains) losses on derivative contracts	(40.8)	(11.5)
Changes in working capital	(36.7)	(11.1)
Other operating items, net	(15.0)	(19.1)
Net cash flows from operating activities	192.5	249.9
<b>Cash flows from investing activities:</b>		
Capital investments	(135.8)	(101.1)
Other investing items, net	10.0	0.2
Net cash flows from investing activities	(125.8)	(100.9)
<b>Cash flows from financing activities:</b>		
Net borrowings (payments) under credit facility	(30.0)	(85.0)
Redemption of long-term debt	(3.8)	—
SunCoke Middletown distributions to noncontrolling interest owners	(48.3)	(54.0)
Other financing items, net	(2.4)	(0.7)
Net cash flows from financing activities	(84.5)	(139.7)
Net increase (decrease) in cash and cash equivalents	(17.8)	9.3
Cash and cash equivalents, beginning of period	48.6	38.0
Cash and cash equivalents, end of period	\$ 30.8	\$ 47.3

See notes to condensed consolidated financial statements.

**AK STEEL HOLDING CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF EQUITY**  
(dollars in millions)

(unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Common stock</b>				
Balance at beginning and end of period	\$ 3.2	\$ 3.2	\$ 3.2	\$ 3.2
<b>Additional paid-in capital</b>				
Balance at beginning of period	2,901.0	2,891.1	2,894.9	2,884.8
Share-based compensation	1.7	1.5	7.8	7.8
Stock options exercised	—	0.7	—	0.7
Balance at end of period	2,902.7	2,893.3	2,902.7	2,893.3
<b>Treasury stock</b>				
Balance at beginning of period	(7.2)	(6.4)	(6.4)	(5.4)
Purchase of treasury stock	(0.1)	—	(0.9)	(1.0)
Balance at end of period	(7.3)	(6.4)	(7.3)	(6.4)
<b>Accumulated deficit</b>				
Balance at beginning of period	(2,629.5)	(2,792.5)	(2,691.8)	(2,877.0)
Cumulative effect of adopting new hedging standard	—	—	—	(0.8)
Net income	2.8	67.2	65.1	152.5
Balance at end of period	(2,626.7)	(2,725.3)	(2,626.7)	(2,725.3)
<b>Accumulated other comprehensive loss</b>				
Balance at beginning of period	(131.9)	(66.8)	(100.0)	(50.2)
Cumulative effect of adopting new hedging standard	—	—	—	0.8
Change in accumulated other comprehensive loss	(5.4)	(0.9)	(37.3)	(18.3)
Balance at end of period	(137.3)	(67.7)	(137.3)	(67.7)
<b>Noncontrolling interests</b>				
Balance at beginning of period	340.0	342.2	329.6	345.2
Net income	17.1	17.7	42.8	49.5
Net distributions to noncontrolling interests	(33.0)	(19.2)	(48.3)	(54.0)
Balance at end of period	324.1	340.7	324.1	340.7
<b>Total equity</b>	<b>\$ 458.7</b>	<b>\$ 437.8</b>	<b>\$ 458.7</b>	<b>\$ 437.8</b>

See notes to condensed consolidated financial statements.



**AK STEEL HOLDING CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(dollars in millions, except per share data, unless otherwise indicated)**

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**NOTE 1 – Summary of Significant Accounting Policies**

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*Basis of Presentation*—These financial statements consolidate the operations and accounts of AK Steel Holding Corporation (“AK Holding”), its wholly owned subsidiary AK Steel Corporation (“AK Steel”), all subsidiaries in which AK Holding has a controlling interest, and two variable interest entities for which AK Steel is the primary beneficiary. Unless the context provides otherwise, references to “we,” “us” and “our” refer to AK Holding and its subsidiaries. In our opinion, the accompanying condensed consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, necessary to present fairly our financial position as of September 30, 2019 and December 31, 2018, our results of operations for the three and nine months ended September 30, 2019 and 2018, and our cash flows for the nine months ended September 30, 2019 and 2018. Our results of operations for the three and nine months ended September 30, 2019 are not necessarily indicative of the results we expect for the full year ending December 31, 2019. These condensed consolidated financial statements should be read along with our audited consolidated financial statements for the year ended December 31, 2018, included in our Annual Report on Form 10-K for the year ended December 31, 2018.

*Leases*—We determine if an arrangement contains a lease at inception. We recognize right-of-use assets and liabilities associated with leases based on the present value of the future minimum lease payments over the lease term at the later of the commencement date of the lease or January 1, 2019 (the implementation date of Accounting Standards Update No. 2016-02, *Leases (Topic 842)*). We use our incremental borrowing rate at the recognition date in determining the present value of future payments for leases that do not have a readily determinable implicit rate. Lease terms reflect options to extend or terminate the lease when it is reasonably certain that the option will be exercised. For leases that include residual value guarantees or payments for terminating the lease, we include these costs in the lease liability when it is probable that we will incur them. Right-of-use assets and obligations for short-term leases (leases with an initial term of 12 months or less) are not recognized in the condensed consolidated balance sheet. Lease expense for short-term leases is recognized on a straight-line basis over the lease term. We have agreements that contain lease and non-lease components. In assessing whether an agreement includes a lease component, we consider the nature of the assets included under the agreement and our right to direct their use. We allocate the costs of the agreement to the separate components based on the relative standalone prices of the components. Where observable standalone prices are not readily available, we estimate the standalone price based on the most observable information available. For leases of real estate and certain light equipment, such as vehicles and mobile equipment, and for certain contracts that contain assets, such as production support, natural gas, electricity and industrial gas agreements, we account for the lease and non-lease components in the contracts as a single lease component. Results for reporting periods beginning after January 1, 2019 are presented under Topic 842, while prior period amounts have not been adjusted and continue to be reported in accordance with our historical accounting treatment.

**NOTE 2 – Supplementary Financial Statement Information**

*Revenue*

Net sales by market are presented below:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Automotive	\$ 1,040.0	\$ 1,036.7	\$ 3,212.6	\$ 3,264.5
Infrastructure and Manufacturing	239.8	277.1	785.6	782.2
Distributors and Converters	255.7	421.8	915.5	1,094.4
Total	\$ 1,535.5	\$ 1,735.6	\$ 4,913.7	\$ 5,141.1

Net sales by product line are presented below:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Carbon steel	\$ 1,000.9	\$ 1,132.6	\$ 3,202.3	\$ 3,303.6
Stainless and electrical steel	389.3	454.3	1,264.8	1,363.5
Tubular products, components and other	145.3	148.7	446.6	474.0
Total	\$ 1,535.5	\$ 1,735.6	\$ 4,913.7	\$ 5,141.1

We sell domestically to customers located primarily in the Midwestern, Southern and Eastern United States and to foreign customers, primarily in Canada, Mexico and Western Europe. Net sales to customers located outside the United States were \$144.3 and \$439.6 for the three and nine months ended September 30, 2019, compared to \$149.6 and \$490.3 for the corresponding periods in 2018.

*Inventory*

Inventories as of September 30, 2019 and December 31, 2018, are presented below:

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
Finished and semi-finished	\$ 1,017.5	\$ 1,054.4
Raw materials	345.2	365.5
Inventory	\$ 1,362.7	\$ 1,419.9

*Other Non-Current Assets*

Intangible assets at September 30, 2019 and December 31, 2018, consist of:

	<b>Gross Amount</b>	<b>Accumulated Amortization</b>	<b>Net Amount</b>
<b>As of September 30, 2019</b>			
Customer relationships	\$ 36.6	\$ (11.3)	\$ 25.3
Technology	23.0	(7.8)	15.2
Intangible assets	\$ 59.6	\$ (19.1)	\$ 40.5
<b>As of December 31, 2018</b>			
Customer relationships	\$ 36.6	\$ (7.4)	\$ 29.2
Technology	19.3	(4.6)	14.7
Intangible assets	\$ 55.9	\$ (12.0)	\$ 43.9

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Amortization expense related to intangible assets was \$2.9 and \$7.1 for the three and nine months ended September 30, 2019, compared to \$2.2 and \$6.9 for the three and nine months ended September 30, 2018.

*Investments in Affiliates*

We have investments in several businesses that are accounted for using the equity method of accounting. Summarized financial statement data for all investees is presented below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenue	\$ 81.4	\$ 88.9	\$ 242.2	\$ 247.2
Gross profit	21.2	24.5	66.7	69.2
Net income	1.8	6.4	8.8	15.7
Our share of income of equity investees (included in cost of products sold)	0.3	2.5	2.4	5.5

*Ashland Works Closure*

In January 2019, our Board of Directors approved and we announced the planned closure of our Ashland Works, including the previously idled blast furnace and steelmaking operations ("Ashland Works Hot End") and the hot dip galvanizing coating line that has continued to operate. Factors that influenced our decision to close Ashland Works included an uncertain global trade landscape influenced by shifting domestic and international political priorities, Ashland Works' high cost of production, and continued intense competition from domestic and foreign steel competitors. These conditions directly impacted our pricing, which in turn directly impacted our assessment of the demand forecasts for the markets we serve. Despite several favorable trade actions, carbon steel imports remained at a high level, driven by global overcapacity, particularly in China. We expected global overcapacity to be exacerbated by several domestic steel companies that had restarted or planned new capacity additions in the United States. In addition, we concluded that we had sufficient coating capacity to meet our customers' needs without using our coating operations at Ashland Works. We are presently transitioning products to our other U.S. coating lines, and plan to close the Ashland Works coating line before the end of 2019.

We recorded a charge during the first quarter of 2019 as a result of this announcement. For the nine months ended September 30, 2019, the charge of \$77.4 included \$18.5 for termination of take-or-pay supply agreements, \$20.2 for supplemental unemployment and other employee benefit costs, pension and OPEB termination benefits of \$13.3 (recorded in pension and OPEB (income) expense), an estimated multiemployer plan withdrawal liability of \$18.0, and \$7.4 for other costs. The supplemental unemployment and other employee benefit costs are expected to be paid primarily in 2020 and 2021. For the \$77.4 charge, we expect to make cash payments of approximately \$15.0 in 2019, \$30.0 in 2020 and the remaining amount over several years thereafter. The actual multiemployer plan withdrawal liability will not be known until a future date and is expected to be paid over a number of years. In addition to the \$77.4 charge, we expect to record expenses of approximately \$14.0 over the full-year 2019, consisting of cash costs of approximately \$10.0 related to closing the facility and \$4.0 of accelerated depreciation related to the coating line fixed assets. These cash costs related to closing the facility will decline in future years and no depreciation expense will be incurred beyond 2019. Ongoing costs to maintain the equipment and utilities and meet supplier obligations related to the idled Ashland Works Hot End were \$2.1 and \$7.0 for the three and nine months ended September 30, 2019, and \$4.7 and \$15.1 for the corresponding periods in 2018.

**NOTE 3 – Income Taxes**

Income taxes recorded for the periods ended September 30, 2019 and 2018, were estimated using the discrete method. Income taxes are based on our financial results through the end of the period, as well as the related change in the valuation allowance on deferred tax assets. We are unable to estimate the annual effective tax rate with sufficient precision for purposes of the effective tax rate method, which requires us to consider a projection of full-year income and the expected change in the valuation allowance. The estimated annual effective tax rate method was not reliable due to its sensitivity to small changes to forecasted annual pre-tax earnings and the effect of our valuation allowance, which create results with significant variations in the customary relationship between income tax expense and pre-tax income for the interim periods. As a result, we determined that using the discrete method is more appropriate than using the annual effective tax rate method.

During the first nine months of 2018, we reduced our valuation allowance and recorded an income tax benefit of \$5.3 as a result of changes to the tax net operating loss carryover rules included in the Tax Cuts and Jobs Act of 2017 that allow us to use certain indefinite-lived deferred tax liabilities as a source of future income to realize deferred tax assets.

**NOTE 4 – Long-term Debt and Other Financing**

Debt balances at September 30, 2019 and December 31, 2018, are presented below:

	September 30, 2019	December 31, 2018
Credit Facility	\$ 305.0	\$ 335.0
7.50% Senior Secured Notes due July 2023 (effective rate of 8.3%)	380.0	380.0
5.00% Exchangeable Senior Notes due November 2019 (effective rate of 10.8%)	148.5	148.5
7.625% Senior Notes due October 2021	406.2	406.2
6.375% Senior Notes due October 2025 (effective rate of 7.1%)	270.2	274.8
7.00% Senior Notes due March 2027	391.6	391.6
Industrial Revenue Bonds due 2020 through 2028	99.3	99.3
Unamortized debt discount and issuance costs	(31.1)	(41.7)
Total long-term debt	<u>\$ 1,969.7</u>	<u>\$ 1,993.7</u>

During the nine months ended September 30, 2019, we were in compliance with all the terms and conditions of our debt agreements. The Exchangeable Notes maturing in 2019 and \$7.3 of Industrial Revenue Bonds due in 2020 are classified as long term based on our ability and intent to refinance that debt on a long-term basis. During the nine months ended September 30, 2019, we repurchased an aggregate principal amount of \$4.6 of our 6.375% Senior Notes due October 2025 in private, open market transactions and recognized a net gain on the repurchases totaling \$0.6, which is included in other (income) expense.

*Credit Facility*

In April 2019, we increased the capacity of our revolving credit facility (the “Credit Facility”), which expires in September 2022, by \$150.0 to \$1,500.0. As of September 30, 2019, we had outstanding borrowings of \$305.0 under the Credit Facility, and our eligible collateral under the Credit Facility, after application of applicable advance rates, was \$1,372.6. Availability as of September 30, 2019, was \$994.5 after reductions of \$73.1 for outstanding letters of credit.

**NOTE 5 – Leases**

We have leases primarily for offices, production buildings and equipment. Our leases have remaining contractual lease terms up to 19 years. Certain of those leases include options to extend the leases, and those options are for periods from 1 to 32 years depending on the particular lease. Some leases may also include options to terminate the leases. Certain leases include variable lease payments based on production, usage or independent factors such as changes in published producer price indices.

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Lease costs are presented below:

	<b>Three Months Ended September 30, 2019</b>	<b>Nine Months Ended September 30, 2019</b>
Operating leases	\$ 16.7	50.6
Short-term leases	10.1	31.7
Variable lease costs	17.7	53.5
Total	<u>\$ 44.5</u>	<u>\$ 135.8</u>

Other information related to leases was as follows:

	<b>Nine Months Ended September 30, 2019</b>
Cash paid for operating leases within cash flows from operating activities	\$ 55.1
Right-of-use assets obtained in exchange for operating lease liabilities	26.4
Weighted-average remaining lease term of operating leases (in years)	8.2
Weighted-average discount rate for operating leases	8.5%

Future minimum lease payments under noncancelable operating leases as of September 30, 2019, were as follows:

Year ending December 31:	
2019 (remaining period of year)	\$ 19.0
2020	67.5
2021	53.3
2022	43.3
2023	37.0
Thereafter	183.6
Total future minimum operating lease payments	403.7
Less imputed interest	131.0
Total operating lease liabilities	272.7
Less current portion of operating lease liabilities	53.6
Long-term operating lease liabilities	<u>\$ 219.1</u>

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**NOTE 6 – Pension and Other Postretirement Benefits**

Net periodic benefit (income) expense for pension and other postretirement benefits was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Pension Benefits</b>				
Service cost	\$ 0.7	\$ 0.9	\$ 1.9	\$ 2.4
Interest cost	22.1	23.7	66.6	71.2
Expected return on assets	(28.0)	(38.8)	(84.0)	(116.4)
Amortization of prior service cost	1.0	1.0	2.5	2.9
Amortization of (gain) loss	(1.8)	3.9	(5.3)	11.8
Termination benefits—Ashland Works	—	—	9.7	—
Net periodic benefit (income) expense	<u>\$ (6.0)</u>	<u>\$ (9.3)</u>	<u>\$ (8.6)</u>	<u>\$ (28.1)</u>
<b>Other Postretirement Benefits</b>				
Service cost	\$ 0.7	\$ 1.1	\$ 2.4	\$ 3.4
Interest cost	4.1	3.9	12.3	11.7
Amortization of prior service cost (credit)	(3.3)	(3.4)	(9.9)	(10.2)
Amortization of (gain) loss	(0.9)	(0.3)	(2.7)	(1.0)
Termination benefits—Ashland Works	—	—	3.6	—
Net periodic benefit (income) expense	<u>\$ 0.6</u>	<u>\$ 1.3</u>	<u>\$ 5.7</u>	<u>\$ 3.9</u>

We have funded our \$43.5 of required contributions to the master pension trust for 2019, which included contributions of \$34.0 through September 30, 2019 and the remaining \$9.5 contribution in October 2019. Based on current actuarial assumptions, we estimate that our required pension contributions will be approximately \$50.0 in 2020 and \$50.0 in 2021. Factors that affect our estimates of future funding projections include return on plan assets, actuarial data and assumptions relating to plan participants, the discount rate used to measure the pension obligations and changes to regulatory funding requirements.

**NOTE 7 – Environmental and Legal Contingencies**

*Environmental Contingencies*

We and our predecessors have been involved in steel manufacturing and related operations since 1900. Although we believe our operating practices have been consistent with prevailing industry standards, hazardous materials may have been released at operating sites or third-party sites in the past, including operating sites that we no longer own. If we reasonably can, we have estimated potential remediation expenditures for those sites where future remediation efforts are probable based on identified conditions, regulatory requirements or contractual obligations arising from the sale of a business or facility. For sites involving government-required investigations, we typically make an estimate of potential remediation expenditures only after the investigation is complete and when we better understand the nature and scope of the remediation. In general, the material factors in these estimates include the costs associated with investigations, delineations, risk assessments, remedial work, governmental response and oversight, site monitoring, and preparation of reports to the appropriate environmental agencies. We have recorded the following liabilities for environmental matters on our condensed consolidated balance sheets:

	September 30, 2019	December 31, 2018
Accrued liabilities	\$ 6.3	\$ 8.0
Other non-current liabilities	35.3	31.2

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We cannot predict the ultimate costs for each site with certainty because of the evolving nature of the investigation and remediation process. Rather, to estimate the probable costs, we must make certain assumptions. The most significant of these assumptions is for the nature and scope of the work that will be necessary to investigate and remediate a particular site and the cost of that work. Other significant assumptions include the cleanup technology that will be used, whether and to what extent any other parties will participate in paying the investigation and remediation costs, reimbursement of past response and future oversight costs by governmental agencies, and the reaction of the governing environmental agencies to the proposed work plans. Costs for future investigation and remediation are not discounted to their present value. To the extent that we have been able to reasonably estimate future liabilities, we do not believe that there is a reasonable possibility that we will incur a loss or losses that exceed the amounts we accrued for the environmental matters discussed below that would, either individually or in the aggregate, have a material adverse effect on our consolidated financial condition, results of operations or cash flows. However, since we recognize amounts in the consolidated financial statements in accordance with accounting principles generally accepted in the United States that exclude potential losses that are not probable or that may not be currently estimable, the ultimate costs of these environmental proceedings may be higher than the liabilities we currently have recorded in our consolidated financial statements.

Except as we expressly note below, we do not currently anticipate any material effect on our consolidated financial position, results of operations or cash flows as a result of compliance with current environmental regulations. Moreover, because all domestic steel producers operate under the same federal environmental regulations, we do not believe that we are more disadvantaged than our domestic competitors by our need to comply with these regulations. Some foreign competitors may benefit from less stringent environmental requirements in the countries where they produce, resulting in lower compliance costs for them and providing those foreign competitors with a cost advantage on their products.

According to the Resource Conservation and Recovery Act (“RCRA”), which governs the treatment, handling and disposal of hazardous waste, the United States Environmental Protection Agency (“EPA”) and authorized state environmental agencies may conduct inspections of RCRA-regulated facilities to identify areas where there have been releases of hazardous waste or hazardous constituents into the environment and may order the facilities to take corrective action to remediate such releases. Environmental regulators may inspect our major steelmaking facilities. While we cannot predict the future actions of these regulators, it is possible that they may identify conditions in future inspections of these facilities which they believe require corrective action.

Under authority from the Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”), the EPA and state environmental authorities have conducted site investigations at certain of our facilities and other third-party facilities, portions of which previously may have been used for disposal of materials that are currently regulated. The results of these investigations are still pending, and we could be directed to spend funds for remedial activities at the former disposal areas. Because of the uncertain status of these investigations, however, we cannot reliably predict whether or when such spending might be required or its magnitude.

As previously reported, on April 29, 2002, we entered a mutually agreed-upon administrative order on consent with the EPA pursuant to Section 122 of CERCLA to perform a Remedial Investigation/Feasibility Study (“RI/FS”) of the Hamilton Plant site located in New Miami, Ohio. The plant ceased operations in 1990 and all of its former structures have been demolished. We submitted the investigation portion of the RI/FS, and we completed a supplemental study in 2014. We currently have accrued \$0.7 for the remaining cost of the RI/FS. Until the RI/FS is complete, we cannot reliably estimate the additional costs, if any, we may incur for potentially required remediation of the site or when we may incur them.

As previously reported, on September 30, 1998, our predecessor, Armco Inc., received an order from the EPA under Section 3013 of RCRA requiring it to develop a plan for investigation of eight areas of our Mansfield Works that allegedly could be sources of contamination. A site investigation began in November 2000 and is continuing. We cannot reliably estimate how long it will take to complete this site investigation. We currently have accrued \$0.4 for the projected cost of the study. Until the site investigation is complete, we cannot reliably estimate the additional costs, if any, we may incur for potentially required remediation of the site or when we may incur them.

As previously reported, on September 26, 2012, the EPA issued an order under Section 3013 of RCRA requiring us to develop a plan for investigation of four areas at our Ashland Works coke plant. The Ashland Works coke plant ceased operations in 2011 and all of its former structures have been demolished and removed. In 1981, we acquired the plant from Honeywell International Corporation (as successor to Allied Corporation), who had managed the coking operations there for approximately 60 years. In connection with the sale of the coke plant, Honeywell agreed to indemnify us from certain claims and obligations that could arise from the investigation and we intend to pursue such indemnification from Honeywell, if necessary. We cannot reliably estimate how long it will take to complete the site investigation. On March 10, 2016, the EPA

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invited us to participate in settlement discussions regarding an enforcement action. Settlement discussions between the parties are ongoing, though whether the parties will reach agreement and any such agreement's terms are uncertain. We currently have accrued \$1.4 for the projected cost of the investigation and known remediation. Until the site investigation is complete, we cannot reliably estimate the costs, if any, we may incur for potential additional required remediation of the site or when we may incur them.

As previously reported, on July 15, 2009, we and the Pennsylvania Department of Environmental Protection ("PADEP") entered a Consent Order and Agreement (the "Consent Order") to resolve an alleged unpermitted discharge of wastewater from the closed Hillside Landfill at our former Ambridge Works. Under the terms of the Consent Order, we paid a penalty and also agreed to implement various corrective actions, including an investigation of the area where landfill activities occurred, submission of a plan to collect and treat surface waters and seep discharges, and upon approval from PADEP, implementation of that plan. We have accrued \$4.8 for the remedial work required under the approved plan and Consent Order. We submitted a National Pollution Discharge Elimination System ("NPDES") permit application to move to the next work phase. We currently estimate that the remaining work will be completed by 2021, though it may be delayed.

As previously reported, on June 29, 2000, the United States filed a complaint on behalf of the EPA against us in the U.S. District Court for the Southern District of Ohio, Case No. C-1-00530, alleging violations of the Clean Air Act, the Clean Water Act and RCRA at our Middletown Works. Subsequently, the State of Ohio, the Sierra Club and the National Resources Defense Council intervened. On May 15, 2006, the court entered a Consent Decree in Partial Resolution of Pending Claims (the "Consent Decree"). Under the Consent Decree, we agreed to undertake a comprehensive RCRA facility investigation at Middletown Works and, as appropriate, complete a corrective measures study. The Consent Decree also required us to implement certain RCRA corrective action interim measures. We have completed the remedial activity at Dicks Creek, but continue to work on the RCRA facility investigation and certain interim measures. We have accrued \$13.2 for the cost of known remediation and other work required under the Consent Decree.

As previously reported, on May 12, 2014, the Michigan Department of Environment, Great Lakes, and Energy ("EGLE") (previously the Michigan Department of Environmental Quality) issued to our Dearborn Works an Air Permit to Install No. 182-05C (the "PTI") to increase the emission limits for the blast furnace and other emission sources. The PTI was issued as a correction to a prior permit to install that did not include certain information during the prior permitting process. On July 10, 2014, the South Dearborn Environmental Improvement Association ("SDEIA"), Detroiters Working for Environmental Justice, Original United Citizens of Southwest Detroit and the Sierra Club filed a Claim of Appeal of the PTI in the State of Michigan, Wayne County Circuit, Case No. 14-008887-AA. The appellants and EGLE required the intervention of Severstal Dearborn, LLC ("Dearborn") (now owned by us) in this action as an additional appellee. The appellants allege multiple deficiencies with the PTI and the permitting process. On July 2, 2019, the Circuit Court dismissed the PTI appeal and ruled that EGLE appropriately issued the permit modification. The appellants have appealed that decision. Until the appeal is resolved, we cannot determine what the ultimate permit limits will be. Until the permit limits are determined and final, we cannot reliably estimate the costs we may incur, if any, or when we may incur them.

As previously reported, on August 21, 2014, the SDEIA filed a Complaint under the Michigan Environmental Protection Act ("MEPA") in the State of Michigan, Wayne County Circuit Case No. 14-010875-CE. The plaintiffs allege that the air emissions from our Dearborn Works are impacting the air, water and other natural resources, as well as the public trust in such resources. The plaintiffs are requesting, among other requested relief, that the court assess and determine the sufficiency of the PTI's limitations. On October 15, 2014, the court ordered a stay of the proceedings until a final order is issued in Wayne County Circuit Court Case No. 14-008887-AA (discussed above). When the proceedings resume, we will vigorously contest these claims. Until the claims in this Complaint are resolved, we cannot reliably estimate the costs we may incur, if any, or when we may incur them.

As previously reported, on April 27, 2000, EGLE issued RCRA Corrective Action Order No. 111-04-00-07E to Rouge Steel Company and Ford Motor Company for the property that includes our Dearborn Works. The Corrective Action Order has been amended five times. We are a party to the Corrective Action Order as the successor-in-interest to Dearborn, which was the successor-in-interest to Rouge Steel Company. The Corrective Action Order requires the site-wide investigation, and where appropriate, remediation of the facility. The site investigation and remediation are ongoing. We cannot reliably estimate how long it will take to complete this site investigation and remediation. To date, Ford Motor Company has incurred most of the costs of the investigation and remediation due to its prior ownership of the steelmaking operations at Dearborn Works. Until the site investigation is complete, we cannot reliably estimate the additional costs we may incur, if any, for any potentially required remediation of the site or when we may incur them.



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As previously reported, we received an order in October 2002 from the EPA under Section 3013 of RCRA requiring us to investigate several areas of Zanesville Works that allegedly could be sources of contamination. A site investigation began in 2003 and was approved by EPA in November 2012. On October 28, 2016, the EPA requested that we conduct a corrective measures study and implement these measures as necessary. We subsequently agreed to proceed with a voluntary corrective measures study and have accrued \$0.8 for the study. Until the study is complete, we cannot reliably estimate the costs, if any, we may incur for potential required remediation of the site or when we may incur them.

In addition to the foregoing matters, we are or may be involved in proceedings with various regulatory authorities that may require us to pay fines, comply with more rigorous standards or other requirements or incur capital and operating expenses for environmental compliance. We believe that the ultimate disposition of the proceedings will not have, individually or in the aggregate, a material adverse effect on our consolidated financial condition, results of operations or cash flows.

*Legal Contingencies*

As previously reported, since 1990 we have been named as a defendant in numerous lawsuits alleging personal injury as a result of exposure to asbestos. The great majority of these lawsuits have been filed on behalf of people who claim to have been exposed to asbestos while visiting the premises of one of our current or former facilities. The majority of asbestos cases pending in which we are a defendant do not include a specific dollar claim for damages. In the cases that do include specific dollar claims for damages, the complaint typically includes a monetary claim for compensatory damages and a separate monetary claim in an equal amount for punitive damages, but does not attempt to allocate the total monetary claim among the various defendants.

The number of asbestos cases pending at September 30, 2019, is presented below:

	<b>Asbestos Cases Pending at September 30, 2019</b>
Cases with specific dollar claims for damages:	
Claims up to \$0.2	179
Claims above \$0.2 to \$5.0	4
Claims above \$5.0 to \$20.0	3
Total claims with a specific dollar claim for damages (a)	186
Cases without a specific dollar claim for damages	178
Total asbestos cases pending	364

(a) Involve a total of 2,261 plaintiffs and 21,026 defendants

In each case, the amount described is per plaintiff against all of the defendants, collectively. Thus, it usually is not possible at the outset of a case to determine the specific dollar amount of a claim against us. In fact, it usually is not even possible at the outset to determine which of the plaintiffs actually will pursue a claim against us. Typically, that can only be determined through written interrogatories or other discovery after a case has been filed. Therefore, in a case involving multiple plaintiffs and multiple defendants, we initially only account for the lawsuit as one claim. After we have determined through discovery whether a particular plaintiff will pursue a claim, we make an appropriate adjustment to statistically account for that specific claim. It has been our experience that only a small percentage of asbestos plaintiffs ultimately identify us as a target defendant from whom they actually seek damages and most of these claims ultimately are either dismissed or settled for a small fraction of the damages initially claimed. We maintain appropriate reserves within a range of possible outcomes for asbestos claims. Asbestos-related claims information for the three and nine months ended September 30, 2019 and 2018 is presented as follows:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
New Claims Filed	16	13	54	46
Pending Claims Disposed Of	9	10	33	52
Total Amount Paid in Settlements	\$ 1.9	\$ 0.2	\$ 3.4	\$ 0.9

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Since the onset of asbestos claims against us in 1990, six asbestos claims against us proceeded to trial in five separate cases. Five out of six claims concluded with a verdict in our favor. On June 14, 2019, judgment was entered on a jury verdict in an asbestos case in state court in Oklahoma against a party that was indemnified by us and another unrelated defendant. The judgment amount was \$8.1 against both defendants jointly and severally. We are appealing that judgment and intend to contest the matter vigorously, which may include asserting contribution claims against the other defendant. We continue to vigorously defend all asbestos claims. Based upon present knowledge, and the factors above, we believe it is unlikely that the resolution in the aggregate of the asbestos claims against us will have a materially adverse effect on our consolidated results of operations, cash flows or financial condition. However, predictions about the outcome of pending litigation, particularly claims alleging asbestos exposure, are subject to substantial uncertainties. These uncertainties include (1) the significantly variable rate at which new claims may be filed, (2) the effect of bankruptcies of other companies currently or historically defending asbestos claims, (3) the litigation process from jurisdiction to jurisdiction and from case to case, (4) the type and severity of the disease each claimant is alleged to suffer, and (5) the potential for enactment of legislation affecting asbestos litigation.

As previously reported, on January 20, 2010, ArcelorMittal France and ArcelorMittal Atlantique et Lorraine (collectively “ArcelorMittal”) filed an action in the United States District Court for the District of Delaware, Case No. 10-050-SLR against us, Dearborn, and Wheeling-Nisshin Inc., whom Dearborn indemnified in this action. By virtue of our responsibility as a successor-in-interest to Dearborn and an indemnitor of Wheeling-Nisshin Inc., we now have complete responsibility for the defense of this action. The three named defendants are collectively referred to hereafter as “we” or “us”, though the precise claims against each separate defendant may vary. The complaint alleges that we are infringing the claims of U.S. Patent No. 6,296,805 (the “Patent”) in making pre-coated cold-rolled boron steel sheet and seeks injunctive relief and unspecified compensatory damages. We filed an answer denying ArcelorMittal’s claims and raised various affirmative defenses. We also filed counterclaims against ArcelorMittal for a declaratory judgment that we are not infringing the Patent and that the Patent is invalid. Subsequently, the trial court separated the issues of liability and damages. The case proceeded with a trial to a jury on the issue of liability during the week of January 15, 2011. The jury returned a verdict that we did not infringe the Patent and that the Patent was invalid. Judgment then was entered in our favor. ArcelorMittal filed an appeal with the United States Court of Appeals for the Federal Circuit. On November 30, 2012, the court of appeals issued a decision reversing certain findings related to claim construction and the validity of the Patent and remanded the case to the trial court for further proceedings. On April 16, 2013, according to a petition previously filed by ArcelorMittal and ArcelorMittal USA LLC, the U.S. Patent and Trademark Office (“PTO”) reissued the Patent as U.S. Reissue Patent RE44,153 (the “Reissued Patent”). Also on April 16, 2013, ArcelorMittal filed a second action against us in the United States District Court for the District of Delaware, Case Nos. 1:13-cv-00685 and 1:13-cv-00686 (collectively the “Second Action”). The complaint filed in the Second Action alleges that we are infringing the claims of the Reissued Patent and seeks injunctive relief and unspecified compensatory damages. On April 23, 2013, we filed a motion to dismiss key elements of the complaint filed in the Second Action. In addition, the parties briefed related non-infringement and claims construction issues in the original action. On October 25, 2013, the district court granted summary judgment in our favor, confirming that our product does not infringe the original Patent or the Reissued Patent. The court further ruled that ArcelorMittal’s Reissued Patent was invalid due to ArcelorMittal’s deliberate violation of a statutory prohibition on broadening a patent through reissue more than two years after the original Patent was granted and that the original Patent had been surrendered when the Reissued Patent was issued and thus is no longer in effect. Final Judgment was entered on October 31, 2013. On November 6, 2013, ArcelorMittal filed a motion to clarify or, in the alternative, to alter or amend the October 31, 2013 judgment. We opposed the motion. On December 5, 2013, the court issued a memorandum and order denying the motion and entered final judgment in our favor, and against ArcelorMittal, specifically ruling that all claims of ArcelorMittal’s Reissued Patent are invalid as violative of 35 U.S.C. §251(d). On December 30, 2013, ArcelorMittal filed notices of appeal to the Federal Circuit Court of Appeals. On May 12, 2015, the Federal Circuit issued its decision affirming in part and reversing in part the trial court’s decision and remanding the case for further proceedings. The Federal Circuit ruled that 23 of the 25 claims of the Reissued Patent were improperly broadened and therefore invalid. However, the Federal Court found that the district court erred in invalidating the remaining two claims and remanded the case for further proceedings before the district court. Following the remand, ArcelorMittal filed a motion in the trial court for leave to amend the Second Action to assert additional patent infringement claims based on another, related patent that the PTO issued on June 10, 2014, No. RE44,940 (Second Reissue Patent). It also filed a motion to dismiss the original action on the grounds that it is now moot in light of the Court of Appeals’ last ruling. We opposed both of those motions. In addition, we filed separate motions for summary judgment in the original action on the grounds of non-infringement and invalidity. A hearing on all motions was held on October 27, 2015. On December 4, 2015, the district court issued an order granting our motion for summary judgment that neither of the remaining claims of the Reissued Patent are infringed and both are invalid as obvious. The court therefore entered final judgment in favor of the defendants in the original case. In the court’s order, the judge also granted ArcelorMittal’s motion to file a first amended complaint and ArcelorMittal did file an amended complaint in Case No. 1:13-cv-00685 (“685 Action”) alleging we are infringing the claims of the Second Reissue Patent, which we deny. On December 21, 2015, ArcelorMittal filed a notice of

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appeal from the district court's December 4, 2015 final judgment. On May 16, 2017, the Federal Circuit Court of Appeals affirmed the district court's judgment of invalidity and non-infringement of the reissued Patent. On June 14, 2017, ArcelorMittal filed a petition to the Federal Circuit for rehearing en banc of the May 16, 2017 decision. On August 14, 2017, the Federal Court of Appeals denied ArcelorMittal's petition for rehearing en banc. On January 20, 2016, we filed a motion to dismiss the amended complaint in the 685 Action, or in the alternative, a motion to stay pending a resolution of the appeal in the original case. On April 19, 2016, the district court issued an order denying our motion and ordering limited discovery. Following discovery, on August 17, 2016, we filed a motion for summary judgment on the basis that the claims in the 685 Action are precluded by the judgment in the original case. On January 19, 2017, the district court issued an opinion granting summary judgment in our favor in the 685 Action on the grounds of non-infringement and also entered a final judgment on that basis. On February 14, 2017, ArcelorMittal filed a notice of appeal of the district court's order in the Federal Circuit Court of Appeals. On November 5, 2018, the Federal Court of Appeals issued a decision vacating the judgment of non-infringement entered by the district court. The decision remanded the case back to the district court for further proceedings. On June 4, 2019, ArcelorMittal sued a subsidiary of Precision Partners in Federal Court in Canada asserting claims of patent infringement involving a hot-stamping process patent that uses the same aforementioned boron steel product at issue in the 685 Action. On October 23, 2019, the parties signed a settlement agreement and entered into a licensing agreement involving ArcelorMittal's patents relating to the press hardening of parts made of aluminized boron high strength steel. This license allows us to sell our aluminized boron steel product for hot stamping without restriction. The license agreement is a part of the settlement of all outstanding litigation between the parties, including the lawsuit recently filed by ArcelorMittal in Canada against a subsidiary of Precision Partners.

*Other Contingencies*

In addition to the matters discussed above, there are various pending and potential claims against us and our subsidiaries involving product liability, commercial, employee benefits and other matters arising in the ordinary course of business. Because of the considerable uncertainties which exist for any claim, it is difficult to reliably or accurately estimate what the amount of a loss would be if a claimant prevails. If material assumptions or factual understandings we rely on to evaluate exposure for these contingencies prove to be inaccurate or otherwise change, we may be required to record a liability for an adverse outcome. If, however, we have reasonably evaluated potential future liabilities for all of these contingencies, including those described more specifically above, it is our opinion, unless we otherwise noted, that the ultimate liability from these contingencies, individually and in the aggregate, should not have a material effect on our consolidated financial position, results of operations or cash flows.

**NOTE 8 – Share-based Compensation**

In May 2019, our stockholders approved the 2019 Omnibus Supplemental Incentive Plan ("OSIP"), which authorizes granting an aggregate maximum of 4.4 million shares under the OSIP through May 31, 2029. The OSIP permits and the prior Stock Incentive Plan permitted the granting of nonqualified stock option, restricted stock, performance shares and restricted stock unit awards to our directors, officers and other employees. Under the OSIP, any dividends on unvested awards are subject to the same restrictions as the underlying award. Information on share-based compensation expense is presented below:

<b>Share-based Compensation Expense</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Stock options	\$ 0.2	\$ 0.2	\$ 2.2	\$ 2.2
Restricted stock	0.3	0.5	2.1	2.9
Restricted stock units issued to Directors	0.3	0.3	0.9	0.9
Performance shares	0.6	0.4	1.8	1.5
Equity-based long-term performance plan	0.3	0.1	0.8	0.3
Total share-based compensation expense	<u>\$ 1.7</u>	<u>\$ 1.5</u>	<u>\$ 7.8</u>	<u>\$ 7.8</u>

We estimate share-based compensation expense will be \$9.5 for 2019.

We granted stock options on 1,199,415 shares during the nine months ended September 30, 2019, with a weighted-average fair value of \$1.52 per share of stock option. No options were exercised during the nine months ended September 30, 2019.

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We granted restricted stock awards of 772,054 shares during the nine months ended September 30, 2019, at a weighted-average fair value of \$2.65 per share. The total intrinsic value of restricted stock awards that vested (i.e., restrictions lapsed) during the nine months ended September 30, 2019 was \$2.0.

We granted performance share awards of 595,733 shares during the nine months ended September 30, 2019, with a weighted-average fair value of \$3.09 per share. The total intrinsic value of performance share awards that vested during the nine months ended September 30, 2019 was \$0.7.

During the first quarter of 2019, in order to further align our management and stockholder interests, the Board of Directors changed the structure of long-term incentive compensation for executive officers. For performance periods beginning in 2019, 50% of the long-term incentive plan compensation earned by executive officers will now be denominated in stock instead of the 30% denominated in stock for the performance period that began in 2018. In addition, beginning in 2019, 30% of the compensation earned by other non-executive officer participants under the long-term incentive plan will now be paid in stock. The remaining portion of the long-term incentive plan for all participants will be settled in cash. As a result, the equity-based portion of the long-term incentive plan is treated as share-based compensation with a performance condition.

**NOTE 9 – Comprehensive Income**

Other comprehensive income, net of tax, information is presented below:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<b>Foreign currency translation</b>				
Balance at beginning of period	\$ (0.9)	\$ —	\$ (0.6)	\$ 1.1
Other comprehensive income (loss)—foreign currency translation gain (loss)	(1.4)	(0.3)	(1.7)	(1.4)
Balance at end of period	<u>\$ (2.3)</u>	<u>\$ (0.3)</u>	<u>\$ (2.3)</u>	<u>\$ (0.3)</u>
<b>Cash flow hedges</b>				
Balance at beginning of period	\$ (14.0)	\$ 4.5	\$ 7.2	\$ 22.3
Cumulative effect of adopting new hedging standard	—	—	—	0.8
Other comprehensive income (loss):				
Gains (losses) arising in period	(4.2)	(2.3)	(21.1)	(7.8)
Income tax expense (benefit) (b)	—	—	—	—
Gains (losses) arising in period, net of tax	(4.2)	(2.3)	(21.1)	(7.8)
Reclassification of losses (gains) to net income:				
Recorded in cost of products sold	5.2	0.5	0.9	(12.6)
Income tax (expense) benefit (b)	—	—	—	—
Net amount of reclassification of losses (gains) to net income, net of tax	5.2	0.5	0.9	(12.6)
Total other comprehensive income (loss), net of tax	1.0	(1.8)	(20.2)	(20.4)
Balance at end of period	<u>\$ (13.0)</u>	<u>\$ 2.7</u>	<u>\$ (13.0)</u>	<u>\$ 2.7</u>
<b>Pension and OPEB plans</b>				
Balance at beginning of period	\$ (117.0)	\$ (71.3)	\$ (106.6)	\$ (73.6)
Reclassification to net income:				
Prior service costs (credits) (a)	(2.3)	(2.4)	(7.4)	(7.3)
Actuarial (gains) losses (a)	(2.7)	3.6	(8.0)	10.8
Subtotal	(5.0)	1.2	(15.4)	3.5
Income tax (expense) benefit (b)	—	—	—	—
Amount of reclassification to net income, net of tax	(5.0)	1.2	(15.4)	3.5
Total other comprehensive income (loss), net of tax	(5.0)	1.2	(15.4)	3.5
Balance at end of period	<u>\$ (122.0)</u>	<u>\$ (70.1)</u>	<u>\$ (122.0)</u>	<u>\$ (70.1)</u>

(a) Included in pension and OPEB (income) expense

(b) Included in income tax expense (benefit)

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**NOTE 10 – Earnings per Share**

The computations for basic and diluted earnings per common share are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income attributable to AK Steel Holding Corporation	\$ 2.8	\$ 67.2	\$ 65.1	\$ 152.5
Common shares outstanding (weighted-average shares in millions):				
Common shares outstanding for basic earnings per share	315.8	314.9	315.8	314.8
Effect of exchangeable debt	—	—	—	—
Effect of dilutive stock-based compensation	1.0	1.1	0.7	1.0
Common shares outstanding for diluted earnings per share	316.8	316.0	316.5	315.8
Basic earnings per share	\$ 0.01	\$ 0.21	\$ 0.21	\$ 0.48
Diluted earnings per share	\$ 0.01	\$ 0.21	\$ 0.21	\$ 0.48
Potentially issuable common shares (in millions) excluded from earnings per share calculation due to anti-dilutive effect	3.7	2.5	3.7	2.3

**NOTE 11 – Variable Interest Entities**

*SunCoke Middletown*

We purchase substantially all the coke and electrical power generated from SunCoke Middletown’s plant under long-term supply agreements. SunCoke Middletown is a consolidated variable interest entity because we have committed to purchase all the expected production from the facility through at least 2031 and we are the primary beneficiary. Therefore, we consolidate SunCoke Middletown’s financial results with our financial results, even though we have no ownership interest in SunCoke Middletown. SunCoke Middletown had income before income taxes of \$17.0 and \$17.8 for the three months ended September 30, 2019 and 2018, and \$43.2 and \$49.8 for the nine months ended September 30, 2019 and 2018, that was included in our consolidated income before income taxes.

*Vicksmetal/Armco Associates*

We indirectly own a 50% interest in Vicksmetal/Armco Associates (“VAA”), a joint venture with Vicksmetal Company. VAA slits electrical steel primarily for us, though it also does so for third parties. VAA is a consolidated variable interest entity and we are the primary beneficiary. Therefore, we consolidate VAA’s financial results with our financial results.

**NOTE 12 – Fair Value Measurements**

We measure certain assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date. In determining fair value, we use various valuation approaches. The hierarchy of those valuation approaches is broken down into three levels based on the reliability of inputs as follows:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities that we have the ability to access at the measurement date.
- Level 2 inputs are inputs, other than quoted prices, that are directly or indirectly observable for the asset or liability. Level 2 inputs include model-generated values that rely on inputs either directly observed or readily-derived from available market data sources, such as Bloomberg or other news and data vendors. They include quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates and yield curves observable at commonly quoted intervals or current market) and

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contractual prices for the underlying financial instrument, as well as other relevant economic factors. As a practical expedient, we estimate the value of money market mutual funds by using a \$1.00 per share multiplied by the number of shares in the fund as of the measurement date. We generate fair values for our commodity derivative contracts and foreign currency forward contracts from observable futures prices for the respective commodity or currency, from sources such as the New York Mercantile Exchange (NYMEX) or the London Metal Exchange (LME). We use the Black-Scholes option valuation model to value option contract derivatives (including caps, floors and collars). We use independent sources for implied volatilities, and we discount model-generated future values with discount factors that reflect the counterparty's credit quality. We apply different discount rates to different contracts since the maturities and counterparties differ. As of September 30, 2019, a spread over benchmark rates of less than 2% was used for derivatives valued as assets and a spread over benchmark rates of less than 5% was used for derivatives valued as liabilities. We have estimated the fair value of long-term debt based upon quoted market prices for the same or similar issues or on the current interest rates available to us for debt on similar terms and with similar maturities.

- Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs are used to measure fair value if observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. This level of categorization is not applicable to our valuations on a normal, recurring basis.

Assets and liabilities measured at fair value on a recurring basis are presented below:

	September 30, 2019			December 31, 2018		
	Level 1	Level 2	Total	Level 1	Level 2	Total
<b>Assets measured at fair value</b>						
Cash and cash equivalents	\$ 30.8	\$ —	\$ 30.8	\$ 48.6	\$ —	\$ 48.6
Other current assets:						
Foreign exchange contracts	—	0.1	0.1	—	0.1	0.1
Commodity hedge contracts	—	13.8	13.8	—	13.0	13.0
Other non-current assets:						
Foreign exchange contracts	—	0.2	0.2	—	0.4	0.4
Commodity hedge contracts	—	2.4	2.4	—	2.9	2.9
Assets measured at fair value	<u>\$ 30.8</u>	<u>\$ 16.5</u>	<u>\$ 47.3</u>	<u>\$ 48.6</u>	<u>\$ 16.4</u>	<u>\$ 65.0</u>
<b>Liabilities measured at fair value</b>						
Accrued liabilities:						
Foreign exchange contracts	\$ —	\$ (0.7)	\$ (0.7)	\$ —	\$ (1.2)	\$ (1.2)
Commodity hedge contracts	—	(10.8)	(10.8)	—	(5.9)	(5.9)
Other non-current liabilities:						
Foreign exchange contracts	—	(0.6)	(0.6)	—	(1.5)	(1.5)
Commodity hedge contracts	—	(3.4)	(3.4)	—	(1.6)	(1.6)
Liabilities measured at fair value	<u>\$ —</u>	<u>\$ (15.5)</u>	<u>\$ (15.5)</u>	<u>\$ —</u>	<u>\$ (10.2)</u>	<u>\$ (10.2)</u>
<b>Liabilities measured at other than fair value</b>						
Long-term debt, including current portions:						
Fair value	\$ —	\$ (1,906.7)	\$ (1,906.7)	\$ —	\$ (1,852.4)	\$ (1,852.4)
Carrying amount	—	(1,969.7)	(1,969.7)	—	(1,993.7)	(1,993.7)

The carrying amounts of our other financial instruments do not differ materially from their estimated fair values at September 30, 2019 and December 31, 2018.

**NOTE 13 – Derivative Instruments and Hedging Activities**

Exchange rate fluctuations affect a portion of revenues and operating costs that are denominated in foreign currencies, and we use forward currency and currency option contracts to reduce our exposure to certain of these currency price fluctuations. Contracts to sell euros have not been designated as cash flow hedges for accounting purposes, and gains or losses are reported in earnings immediately in other (income) expense. Contracts to purchase Canadian dollars are designated as cash flow hedges for accounting purposes, and we record the gains and losses for the derivatives and premiums paid for option contracts in accumulated other comprehensive income (loss) until we reclassify them into cost of products sold when we recognize the associated underlying operating costs.

We are exposed to fluctuations in market prices of raw materials and energy sources. We may use cash-settled commodity price swaps and options to hedge the market risk associated with the purchase of certain of our raw materials and energy requirements. For input commodities, these derivatives are typically used for a portion of our electricity, iron ore, natural gas and zinc requirements. Our hedging strategy is to reduce the effect on earnings from the price volatility of these various commodity exposures, including timing differences between when we incur raw material commodity costs and when we receive sales surcharges from our customers based on those raw materials. Independent of any hedging activities, price changes in any of these commodity markets could negatively affect operating costs.

All commodity derivatives are recognized as an asset or liability at fair value. We record the gains and losses and premiums paid for option contracts for commodity derivatives designated as cash flow hedges of forecasted purchases of raw materials and energy sources in accumulated other comprehensive income (loss) and reclassify them into cost of products sold when we recognize earnings for the associated underlying transaction. We record all gains or losses from commodity derivatives for which hedge accounting treatment has not been elected to earnings immediately in cost of products sold. We have provided no collateral to counterparties under collateral funding arrangements as of September 30, 2019.

Outstanding derivative contracts and the period over which we are hedging our exposure to the volatility in future cash flows are presented below:

<b>Derivative Contracts</b>	<b>Settlement Dates</b>	<b>September 30, 2019</b>	<b>December 31, 2018</b>
<b>Commodity contracts:</b>			
Natural gas (in MMBTUs)	October 2019 to June 2021	37,905,000	39,868,000
Zinc (in lbs)	October 2019 to June 2021	33,050,000	52,150,000
Iron ore (in metric tons)	October 2019 to June 2021	1,810,000	2,125,000
Electricity (in MWHs)	October 2019 to June 2021	1,597,000	1,461,000
<b>Foreign exchange contracts:</b>			
Euros (in millions)	October 2019 to November 2019	€ 1.0	€ 4.0
Canadian dollars (in millions)	October 2019 to December 2021	C\$ 91.1	C\$ 118.6



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The fair value of derivative instruments in the condensed consolidated balance sheets is presented below:

<u>Asset (liability)</u>	<u>September 30, 2019</u>	<u>December 31, 2018</u>
<b>Derivatives designated as cash flow hedges:</b>		
Other current assets—commodity contracts	\$ 0.8	\$ 3.4
<b>Other non-current assets:</b>		
Foreign exchange contracts	0.2	0.4
Commodity contracts	—	1.0
<b>Accrued liabilities:</b>		
Foreign exchange contracts	(0.7)	(1.2)
Commodity contracts	(10.6)	(4.7)
<b>Other non-current liabilities:</b>		
Foreign exchange contracts	(0.6)	(1.5)
Commodity contracts	(2.6)	(1.2)
<b>Derivatives not designated as cash flow hedges:</b>		
<b>Other current assets:</b>		
Foreign exchange contracts	0.1	0.1
Commodity contracts	13.0	9.6
Other non-current assets—commodity contracts	2.4	1.9
Accrued liabilities—commodity contracts	(0.2)	(1.2)
Other non-current liabilities—commodity contracts	(0.8)	(0.4)

Gains (losses) on derivative instruments included in the condensed consolidated statements of operations and comprehensive income (loss) are presented below:

<u>Gain (loss)</u>	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
<b>Derivatives designated as cash flow hedges:</b>				
<b>Commodity contracts:</b>				
Recognized in accumulated other comprehensive income that were included in the assessment of effectiveness	\$ (3.4)	\$ (3.1)	\$ (21.4)	\$ (5.4)
Reclassified from accumulated other comprehensive income into cost of products sold	(4.8)	0.1	0.4	13.1
<b>Foreign exchange contracts:</b>				
Recognized in accumulated other comprehensive income that were included in the assessment of effectiveness	(0.8)	0.8	0.3	(2.4)
Reclassified from accumulated other comprehensive income into cost of products sold	(0.4)	(0.6)	(1.3)	(0.5)
<b>Derivatives not designated as cash flow hedges:</b>				
Commodity contracts—recognized in cost of products sold	(15.3)	4.5	41.1	(1.9)
Foreign exchange contracts—recognized in other income (expense)	0.1	(0.1)	—	0.3

We routinely use iron ore derivatives to reduce the volatility of the cost of our iron ore purchases. These derivatives do not qualify for hedge accounting treatment. Therefore, adjustments to mark these derivatives to fair value each period are recognized immediately in our financial results versus being recognized in the period that iron ore purchases affect earnings. For the three and nine months ended September 30, 2019, gains (losses) recognized in cost of products sold shown in the table above include \$(15.3) and \$41.9 for unrealized mark-to-market gains (losses) on iron ore derivatives. Gains (losses) recognized in cost of products sold shown in the table above for unrealized mark-to-market gains (losses) on iron ore derivatives for the corresponding periods in 2018 include \$4.4 and \$(1.2). Not included in the financial results for the three

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and nine months ended September 30, 2019, were realized gains of \$13.5 and \$26.9 for iron ore derivatives contracts that settled during the periods for which we had recognized mark-to-market gains in our financial results in prior quarters, compared to \$5.7 and \$17.2 for the same periods in 2018.

Gains (losses) before tax expected to be reclassified into cost of products sold within the next twelve months for our existing derivatives that qualify as cash flow hedges for hedge accounting are presented below:

<b>Hedge</b>	<b>Gains (losses)</b>	
Natural gas	\$	(9.9)
Zinc		(3.8)
Electricity		(1.7)
Canadian dollars		(1.5)

**NOTE 14 – Supplementary Cash Flow Information**

Net cash paid (received) during the period for interest, net of capitalized interest, and income taxes are presented below:

	<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
Net cash paid (received) during the period for:		
Interest, net of capitalized interest	\$ 102.4	\$ 100.7
Income taxes	(9.4)	(5.7)

Included in net cash flows from operations was cash provided by SunCoke Middletown of \$54.8 and \$60.4 for the nine months ended September 30, 2019 and 2018. Consolidated cash and cash equivalents at September 30, 2019 and December 31, 2018, include SunCoke Middletown's cash and cash equivalents of \$1.2 and \$1.1. SunCoke Middletown's cash and cash equivalents have no compensating balance arrangements or legal restrictions, but are not available for our use.

We had capital investments during the nine months ended September 30, 2019 and 2018 that had not been paid as of the end of the respective period. These amounts are included in accounts payable and accrued liabilities and have been excluded from the condensed consolidated statements of cash flows until paid. We also grant restricted stock to certain employees and restricted stock units to directors. Non-cash investing and financing activities are presented below:

	<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
Capital investments	\$ 24.2	\$ 25.6
Issuance of restricted stock and restricted stock units	2.9	4.3

**NOTE 15 – Labor Agreements**

In April 2019, we and the United Steelworkers, Local 1865, which represents approximately 215 production employees at Ashland Works, reached an agreement to revise and extend the collective bargaining agreement. The new agreement includes terms governing the permanent closure of the facility, including benefits to employees who are terminated or transition to other AK Steel plants.

In May 2019, members of the United Steelworkers, Local 1190 ratified a three-year labor agreement covering approximately 230 production employees at Mountain State Carbon, LLC. The new agreement will be in effect through April 30, 2022.

In May 2019, members of the United Auto Workers, Local 4104, which governs approximately 105 production employees at Zanesville Works, ratified a new three-year labor agreement. The new agreement will be in effect through May 31, 2022.

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In July 2019, members of the United Auto Workers, Local 3303, which governs approximately 1,120 production and maintenance employees at Butler Works, ratified a new three-year agreement. The new agreement will be in effect through June 15, 2022.

In September 2019, members of the United Auto Workers, Local 3462, which governs approximately 300 production employees at Coshocton Works, ratified a new agreement. The new agreement will be in effect through July 31, 2023.

An agreement with the International Association of Machinists and Aerospace Workers, Local 1943, which governs approximately 1,715 production employees at Middletown Works, is scheduled to expire on March 15, 2020.

In April 2019, the trustees for the IAM National Pension Fund (the “Fund”) voluntarily elected to place the Fund in the Red Zone for 2019 and implement a rehabilitation plan. The rehabilitation plan provides two options for a new schedule to be adopted by employers and their covered bargaining employees to both increase employer contributions and reduce certain employee pension benefits. We have agreed with the affected unions at Butler and Zanesville Works to adopt the more favorable schedule and are working with our Middletown Works IAM Local to determine the schedule to choose for that location. Depending on the schedule selected, our contributions to the Fund could increase approximately \$2.0 in 2020, with gradually increasing requirements through 2031.

**NOTE 16 – New Accounting Pronouncements**

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We adopted Accounting Standards Update No. 2016-02, *Leases (Topic 842)*, as subsequently amended, as of January 1, 2019 through the modified retrospective method applied to those contracts that were not completed as of January 1, 2019. Topic 842 requires entities to recognize lease assets and lease liabilities and disclose key information about leasing arrangements for certain leases. Results for reporting periods beginning after January 1, 2019 are presented under Topic 842, while prior period amounts have not been adjusted and continue to be reported in accordance with our historical accounting treatment. We elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed us to carry forward the historical lease classification. We also elected the practical expedient related to land easements, allowing us to carry forward our accounting treatment for land easements on existing agreements. Adoption of the new standard resulted in recording additional lease assets and liabilities of \$291.1 as of January 1, 2019. The adoption of the standard did not materially impact our consolidated net earnings or cash flows.

**NOTE 17 – Supplementary Guarantor Information**

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AK Steel’s senior secured notes due 2023 and senior unsecured notes due 2021, 2025 and 2027 (collectively, the “Senior Notes”) and its Exchangeable Notes due 2019 are governed by indentures entered into by AK Holding and its 100%-owned subsidiary, AK Steel. Under the terms of the Senior Notes’ indentures, AK Holding and certain subsidiary guarantors each fully and unconditionally, jointly and severally, guarantee the payment of interest, principal and premium, if any, on each of the notes included in the Senior Notes. Under the terms of the indenture for the Exchangeable Notes, AK Holding fully and unconditionally, jointly and severally, guarantees the payment of interest, principal and premium, if any, on the Exchangeable Notes. AK Holding is the sole guarantor of the Exchangeable Notes.

We present all investments in subsidiaries in the supplementary guarantor information using the equity method of accounting. Therefore, the net income (loss) of the subsidiaries accounted for using the equity method is in their parents’ investment accounts. The principal elimination entries eliminate investments in subsidiaries and inter-company balances and transactions. The following supplementary condensed consolidating financial statements present information about AK Holding, AK Steel, the subsidiary guarantors of the Senior Notes and the other non-guarantor subsidiaries.

**Condensed Consolidated Statements of Comprehensive Income (Loss)**  
**Three Months Ended September 30, 2019**

	AK Holding	AK Steel	Guarantor Subsidiaries of the Senior Notes	Other Non- Guarantor Subsidiaries	Eliminations	Consolidated Company
Net sales	\$ —	\$ 1,396.0	\$ 76.1	\$ 186.3	\$ (122.9)	\$ 1,535.5
Cost of products sold (exclusive of items shown separately below)	—	1,276.5	52.1	147.1	(109.7)	1,366.0
Selling and administrative expenses	0.6	68.5	3.6	9.7	(11.4)	71.0
Depreciation	—	36.4	2.1	8.9	—	47.4
Total operating costs	0.6	1,381.4	57.8	165.7	(121.1)	1,484.4
Operating profit (loss)	(0.6)	14.6	18.3	20.6	(1.8)	51.1
Interest expense	—	35.0	—	2.0	—	37.0
Pension and OPEB (income) expense	—	(6.8)	—	—	—	(6.8)
Other (income) expense	—	5.8	(4.6)	(0.4)	(0.1)	0.7
Income (loss) before income taxes	(0.6)	(19.4)	22.9	19.0	(1.7)	20.2
Income tax expense (benefit)	—	(6.2)	5.7	1.2	(0.4)	0.3
Equity in net income (loss) of subsidiaries	3.4	16.6	—	0.2	(20.2)	—
Net income (loss)	2.8	3.4	17.2	18.0	(21.5)	19.9
Less: Net income attributable to noncontrolling interests	—	—	—	17.1	—	17.1
Net income (loss) attributable to AK Steel Holding Corporation	2.8	3.4	17.2	0.9	(21.5)	2.8
Other comprehensive income (loss)	(5.4)	(5.4)	—	(1.4)	6.8	(5.4)
Comprehensive income (loss) attributable to AK Steel Holding Corporation	\$ (2.6)	\$ (2.0)	\$ 17.2	\$ (0.5)	\$ (14.7)	\$ (2.6)

**Condensed Consolidated Statements of Comprehensive Income (Loss)**  
**Three Months Ended September 30, 2018**

	AK Holding	AK Steel	Guarantor Subsidiaries of the Senior Notes	Other Non- Guarantor Subsidiaries	Eliminations	Consolidated Company
Net sales	\$ —	\$ 1,602.0	\$ 81.0	\$ 179.0	\$ (126.4)	\$ 1,735.6
Cost of products sold (exclusive of item shown separately below)	—	1,401.3	54.8	145.7	(115.6)	1,486.2
Selling and administrative expenses	0.7	79.6	3.6	8.8	(13.1)	79.6
Depreciation	—	43.8	2.0	9.2	—	55.0
Total operating costs	0.7	1,524.7	60.4	163.7	(128.7)	1,620.8
Operating profit (loss)	(0.7)	77.3	20.6	15.3	2.3	114.8
Interest expense	—	36.4	—	1.4	—	37.8
Pension and OPEB (income) expense	—	(10.0)	—	—	—	(10.0)
Other (income) expense	—	0.6	(4.3)	(0.4)	4.8	0.7
Income (loss) before income taxes	(0.7)	50.3	24.9	14.3	(2.5)	86.3
Income tax expense (benefit)	—	(3.9)	6.2	(0.3)	(0.6)	1.4
Equity in net income (loss) of subsidiaries	67.9	13.7	—	0.5	(82.1)	—
Net income (loss)	67.2	67.9	18.7	15.1	(84.0)	84.9
Less: Net income attributable to noncontrolling interests	—	—	—	17.7	—	17.7
Net income (loss) attributable to AK Steel Holding Corporation	67.2	67.9	18.7	(2.6)	(84.0)	67.2
Other comprehensive income (loss)	(0.9)	(0.9)	—	(0.3)	1.2	(0.9)
Comprehensive income (loss) attributable to AK Steel Holding Corporation	\$ 66.3	\$ 67.0	\$ 18.7	\$ (2.9)	\$ (82.8)	\$ 66.3

**Condensed Consolidated Statements of Comprehensive Income (Loss)**  
**Nine Months Ended September 30, 2019**

	AK Holding	AK Steel	Guarantor Subsidiaries of the Senior Notes	Other Non- Guarantor Subsidiaries	Eliminations	Consolidated Company
Net sales	\$ —	\$ 4,491.9	\$ 239.9	\$ 557.0	\$ (375.1)	\$ 4,913.7
Cost of products sold (exclusive of item shown separately below)	—	4,001.7	168.3	446.4	(336.0)	4,280.4
Selling and administrative expenses	3.4	215.2	10.8	29.1	(35.6)	222.9
Depreciation	—	108.2	6.4	32.8	—	147.4
Ashland Works closure	—	64.1	—	—	—	64.1
Total operating costs	3.4	4,389.2	185.5	508.3	(371.6)	4,714.8
Operating profit (loss)	(3.4)	102.7	54.4	48.7	(3.5)	198.9
Interest expense	—	106.7	—	5.3	—	112.0
Pension and OPEB expense (income)	—	(7.2)	—	—	—	(7.2)
Other (income) expense	—	0.9	(19.2)	(2.2)	4.0	(16.5)
Income (loss) before income taxes	(3.4)	2.3	73.6	45.6	(7.5)	110.6
Income tax expense (benefit)	—	(16.9)	18.4	3.1	(1.9)	2.7
Equity in net income (loss) of subsidiaries	68.5	49.3	—	3.0	(120.8)	—
Net income (loss)	65.1	68.5	55.2	45.5	(126.4)	107.9
Less: Net income attributable to noncontrolling interests	—	—	—	42.8	—	42.8
Net income (loss) attributable to AK Steel Holding Corporation	65.1	68.5	55.2	2.7	(126.4)	65.1
Other comprehensive income (loss)	(37.3)	(37.3)	—	(1.7)	39.0	(37.3)
Comprehensive income (loss) attributable to AK Steel Holding Corporation	\$ 27.8	\$ 31.2	\$ 55.2	\$ 1.0	\$ (87.4)	\$ 27.8

**Condensed Consolidated Statements of Comprehensive Income (Loss)**  
**Nine Months Ended September 30, 2018**

	AK Holding	AK Steel	Guarantor Subsidiaries of the Senior Notes	Other Non- Guarantor Subsidiaries	Eliminations	Consolidated Company
Net sales	\$ —	\$ 4,704.3	\$ 242.5	\$ 582.8	\$ (388.5)	\$ 5,141.1
Cost of products sold (exclusive of item shown separately below)	—	4,168.1	166.8	477.1	(349.4)	4,462.6
Selling and administrative expenses	2.8	233.2	11.0	26.5	(37.7)	235.8
Depreciation	—	130.6	6.0	28.2	—	164.8
Total operating costs	2.8	4,531.9	183.8	531.8	(387.1)	4,863.2
Operating profit (loss)	(2.8)	172.4	58.7	51.0	(1.4)	277.9
Interest expense	—	109.3	—	4.0	—	113.3
Pension and OPEB expense (income)	—	(30.0)	—	—	—	(30.0)
Other (income) expense	—	6.4	(11.8)	(2.8)	4.8	(3.4)
Income (loss) before income taxes	(2.8)	86.7	70.5	49.8	(6.2)	198.0
Income tax expense (benefit)	—	(21.8)	17.6	1.7	(1.5)	(4.0)
Equity in net income (loss) of subsidiaries	155.3	46.8	—	0.7	(202.8)	—
Net income (loss)	152.5	155.3	52.9	48.8	(207.5)	202.0
Less: Net income attributable to noncontrolling interests	—	—	—	49.5	—	49.5
Net income (loss) attributable to AK Steel Holding Corporation	152.5	155.3	52.9	(0.7)	(207.5)	152.5
Other comprehensive income (loss)	(18.3)	(18.3)	—	(1.4)	19.7	(18.3)
Comprehensive income (loss) attributable to AK Steel Holding Corporation	\$ 134.2	\$ 137.0	\$ 52.9	\$ (2.1)	\$ (187.8)	\$ 134.2

**Condensed Consolidated Balance Sheets**  
**September 30, 2019**

	AK Holding	AK Steel	Guarantor Subsidiaries of the Senior Notes	Other Non- Guarantor Subsidiaries	Eliminations	Consolidated Company
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ —	\$ 14.7	\$ 0.1	\$ 16.0	\$ —	\$ 30.8
Accounts receivable, net	—	493.5	35.7	102.4	(7.2)	624.4
Inventory	—	1,234.7	59.4	81.3	(12.7)	1,362.7
Other current assets	—	38.7	0.2	9.4	—	48.3
<b>Total current assets</b>	<b>—</b>	<b>1,781.6</b>	<b>95.4</b>	<b>209.1</b>	<b>(19.9)</b>	<b>2,066.2</b>
Property, plant and equipment	—	6,193.0	196.4	704.6	—	7,094.0
Accumulated depreciation	—	(4,893.2)	(109.2)	(199.4)	—	(5,201.8)
Property, plant and equipment, net	—	1,299.8	87.2	505.2	—	1,892.2
Investment in subsidiaries	(3,054.3)	2,003.3	—	71.2	979.8	—
Inter-company accounts	3,188.9	—	1,709.9	—	(4,898.8)	—
Operating lease assets	—	206.0	2.8	44.6	—	253.4
Other non-current assets	—	51.1	33.3	308.4	—	392.8
<b>TOTAL ASSETS</b>	<b>\$ 134.6</b>	<b>\$ 5,341.8</b>	<b>\$ 1,928.6</b>	<b>\$ 1,138.5</b>	<b>\$ (3,938.9)</b>	<b>\$ 4,604.6</b>
<b>LIABILITIES AND EQUITY</b>						
Current liabilities:						
Accounts payable	\$ —	\$ 591.9	\$ 27.4	\$ 60.7	\$ (4.0)	\$ 676.0
Accrued liabilities	—	207.4	7.7	19.6	—	234.7
Current portion of operating lease liabilities	—	49.1	1.0	3.5	—	53.6
Current portion of pension and other postretirement benefit obligations	—	37.0	—	0.3	—	37.3
<b>Total current liabilities</b>	<b>—</b>	<b>885.4</b>	<b>36.1</b>	<b>84.1</b>	<b>(4.0)</b>	<b>1,001.6</b>
Non-current liabilities:						
Long-term debt	—	1,969.7	—	—	—	1,969.7
Long-term operating lease liabilities	—	174.9	1.7	42.5	—	219.1
Pension and other postretirement benefit obligations	—	782.4	—	2.6	—	785.0
Inter-company accounts	—	4,443.5	—	529.9	(4,973.4)	—
Other non-current liabilities	—	140.2	0.6	29.7	—	170.5
<b>TOTAL LIABILITIES</b>	<b>—</b>	<b>8,396.1</b>	<b>38.4</b>	<b>688.8</b>	<b>(4,977.4)</b>	<b>4,145.9</b>
Equity:						
Total stockholders' equity (deficit)	134.6	(3,054.3)	1,890.2	125.6	1,038.5	134.6
Noncontrolling interests	—	—	—	324.1	—	324.1
<b>TOTAL EQUITY</b>	<b>134.6</b>	<b>(3,054.3)</b>	<b>1,890.2</b>	<b>449.7</b>	<b>1,038.5</b>	<b>458.7</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 134.6</b>	<b>\$ 5,341.8</b>	<b>\$ 1,928.6</b>	<b>\$ 1,138.5</b>	<b>\$ (3,938.9)</b>	<b>\$ 4,604.6</b>



**Condensed Consolidated Balance Sheets**  
**December 31, 2018**

	AK Holding	AK Steel	Guarantor Subsidiaries of the Senior Notes	Other Non- Guarantor Subsidiaries	Eliminations	Consolidated Company
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ —	\$ 22.1	\$ 8.2	\$ 18.3	\$ —	\$ 48.6
Accounts receivable, net	—	515.4	34.0	95.3	(8.9)	635.8
Inventory	—	1,299.6	53.9	75.6	(9.2)	1,419.9
Other current assets	—	85.5	0.1	11.4	—	97.0
<b>Total current assets</b>	<b>—</b>	<b>1,922.6</b>	<b>96.2</b>	<b>200.6</b>	<b>(18.1)</b>	<b>2,201.3</b>
Property, plant and equipment	—	6,111.1	189.7	668.4	—	6,969.2
Accumulated depreciation	—	(4,785.5)	(102.8)	(169.3)	—	(5,057.6)
Property, plant and equipment, net	—	1,325.6	86.9	499.1	—	1,911.6
Investment in subsidiaries	(3,017.4)	1,931.1	—	68.2	1,018.1	—
Inter-company accounts	3,117.3	—	1,630.7	—	(4,748.0)	—
Other non-current assets	—	54.3	32.9	315.6	—	402.8
<b>TOTAL ASSETS</b>	<b>\$ 99.9</b>	<b>\$ 5,233.6</b>	<b>\$ 1,846.7</b>	<b>\$ 1,083.5</b>	<b>\$ (3,748.0)</b>	<b>\$ 4,515.7</b>
<b>LIABILITIES AND EQUITY</b>						
Current liabilities:						
Accounts payable	\$ —	\$ 722.5	\$ 26.2	\$ 55.5	\$ (3.2)	\$ 801.0
Accrued liabilities	—	251.5	8.7	28.7	—	288.9
Current portion of pension and other postretirement benefit obligations	—	38.4	—	0.3	—	38.7
<b>Total current liabilities</b>	<b>—</b>	<b>1,012.4</b>	<b>34.9</b>	<b>84.5</b>	<b>(3.2)</b>	<b>1,128.6</b>
Non-current liabilities:						
Long-term debt	—	1,993.7	—	—	—	1,993.7
Pension and other postretirement benefit obligations	—	827.0	—	2.9	—	829.9
Inter-company accounts	—	4,312.3	—	511.2	(4,823.5)	—
Other non-current liabilities	—	105.6	0.2	28.2	—	134.0
<b>TOTAL LIABILITIES</b>	<b>—</b>	<b>8,251.0</b>	<b>35.1</b>	<b>626.8</b>	<b>(4,826.7)</b>	<b>4,086.2</b>
Equity:						
Total stockholders' equity (deficit)	99.9	(3,017.4)	1,811.6	127.1	1,078.7	99.9
Noncontrolling interests	—	—	—	329.6	—	329.6
<b>TOTAL EQUITY</b>	<b>99.9</b>	<b>(3,017.4)</b>	<b>1,811.6</b>	<b>456.7</b>	<b>1,078.7</b>	<b>429.5</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 99.9</b>	<b>\$ 5,233.6</b>	<b>\$ 1,846.7</b>	<b>\$ 1,083.5</b>	<b>\$ (3,748.0)</b>	<b>\$ 4,515.7</b>

**Condensed Consolidated Statements of Cash Flows  
Nine Months Ended September 30, 2019**

	AK Holding	AK Steel	Guarantor Subsidiaries of the Senior Notes	Other Non- Guarantor Subsidiaries	Eliminations	Consolidated Company
Net cash flows from operating activities	\$ (2.5)	\$ 77.6	\$ 49.2	\$ 72.8	\$ (4.6)	\$ 192.5
Cash flows from investing activities:						
Capital investments	—	(97.8)	(1.5)	(36.5)	—	(135.8)
Other investing items, net	—	9.7	—	0.3	—	10.0
Net cash flows from investing activities	—	(88.1)	(1.5)	(36.2)	—	(125.8)
Cash flows from financing activities:						
Net borrowings (payments) under credit facility	—	(30.0)	—	—	—	(30.0)
Redemption of long-term debt	—	(3.8)	—	—	—	(3.8)
Inter-company activity	2.5	39.3	(55.8)	9.4	4.6	—
SunCoke Middletown distributions to noncontrolling interest owners	—	—	—	(48.3)	—	(48.3)
Other financing items, net	—	(2.4)	—	—	—	(2.4)
Net cash flows from financing activities	2.5	3.1	(55.8)	(38.9)	4.6	(84.5)
Net increase (decrease) in cash and cash equivalents	—	(7.4)	(8.1)	(2.3)	—	(17.8)
Cash and cash equivalents, beginning of period	—	22.1	8.2	18.3	—	48.6
Cash and cash equivalents, end of period	\$ —	\$ 14.7	\$ 0.1	\$ 16.0	\$ —	\$ 30.8

**Condensed Consolidated Statements of Cash Flows  
Nine Months Ended September 30, 2018**

	AK Holding	AK Steel	Guarantor Subsidiaries of the Senior Notes	Other Non- Guarantor Subsidiaries	Eliminations	Consolidated Company
Net cash flows from operating activities	\$ (2.1)	\$ 133.1	\$ 47.6	\$ 65.3	\$ 6.0	\$ 249.9
Cash flows from investing activities:						
Capital investments	—	(82.6)	(3.7)	(14.8)	—	(101.1)
Other investing items, net	—	0.7	—	(0.5)	—	0.2
Net cash flows from investing activities	—	(81.9)	(3.7)	(15.3)	—	(100.9)
Cash flows from financing activities:						
Net borrowings (payments) under credit facility	—	(85.0)	—	—	—	(85.0)
Inter-company activity	2.4	44.9	(48.9)	7.6	(6.0)	—
SunCoke Middletown distributions to noncontrolling interest owners	—	—	—	(54.0)	—	(54.0)
Other financing items, net	(0.3)	(0.4)	—	—	—	(0.7)
Net cash flows from financing activities	2.1	(40.5)	(48.9)	(46.4)	(6.0)	(139.7)
Net increase (decrease) in cash and cash equivalents	—	10.7	(5.0)	3.6	—	9.3
Cash and cash equivalents, beginning of period	—	14.5	7.2	16.3	—	38.0
Cash and cash equivalents, end of period	\$ —	\$ 25.2	\$ 2.2	\$ 19.9	\$ —	\$ 47.3

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

(dollars in millions, except per share and per ton data or as otherwise specifically noted)

### Results of Operations

We are a leading producer of flat-rolled carbon, stainless and electrical steel products, primarily for the automotive, infrastructure and manufacturing, and distributors and converters markets. Our downstream businesses also provide customer solutions with carbon and stainless steel tubing products, advanced-engineered solutions, tool design and build, hot- and cold-stamped steel components, and complex assemblies.

Our mission is to create innovative, high-quality steel solutions for our customers, and our key values of safety, quality, productivity and innovation, along with environmental responsibility and sustainability, are its foundation. We target customers who require comprehensive steel solutions that involve the most technically demanding, highest-quality steel products, precise "just-in-time" delivery, technical support and product development assistance. Our research and engineering expertise, robust product quality and delivery capabilities, as well as our emphasis on collaborative customer technical support and product planning, are critical factors in our ability to serve our customer markets. We are focused on markets for our steel solutions that deliver higher margins, where possible, and on reducing amounts sold into the steel spot markets, which typically are lower margin and which have experienced substantial volatility in pricing over the past several years, primarily due to the effect of shifting international trade environments on our domestic markets.

Our corporate strategy is comprised of three pillars:

- commercializing our innovative new products and services;
- transforming our operations to significantly improve our competitive position; and
- driving future growth in new markets and downstream businesses.

#### Overview

Our third quarter 2019 results reflected the impact of a sharp decline in carbon spot market pricing and corresponding softening in purchases, primarily from the distributors and converters market. The decline in spot market pricing offset higher selling prices for shipments to the automotive market and drove our average selling price per ton of flat-rolled steel to decline 4% to \$1,067 in the third quarter of 2019, compared to \$1,114 per ton for the same quarter a year ago. Flat-rolled steel shipments of 1,303,000 tons for the third quarter of 2019 were down 8% from the same quarter a year ago, primarily due to lower shipments to the distributors and converters and automotive markets. As a result, net sales for the third quarter of 2019 decreased 12% to \$1,535.5, compared to net sales of \$1,735.6 in the third quarter of 2018.

Net income attributable to AK Holding for the third quarter of 2019 was \$2.8, or \$0.01 per diluted share of common stock, compared to net income of \$67.2, or \$0.21 per diluted share, in the third quarter of 2018. Third quarter 2019 adjusted EBITDA (as defined in the *Non-GAAP Financial Measures* section) was \$86.9, or 5.7% of net sales, compared to adjusted EBITDA of \$160.8, or 9.3% of net sales, for the third quarter of 2018. The third quarter 2019 results included mark-to-market losses of \$15.3, or \$0.05 per diluted share, from iron ore derivatives, as compared to a mark-to-market gain of \$4.4, or \$0.01 per diluted share, for the same period in 2018. Lower costs for scrap and alloys offset higher raw material costs for coke, coal and iron ore.

Liquidity was \$1,024.0 at the end of the third quarter of 2019, consisting of cash and cash equivalents and \$994.5 of availability under our Credit Facility. Our liquidity has increased \$35.2 since the beginning of 2019. Borrowings under the credit facility were \$305.0 at September 30, 2019.

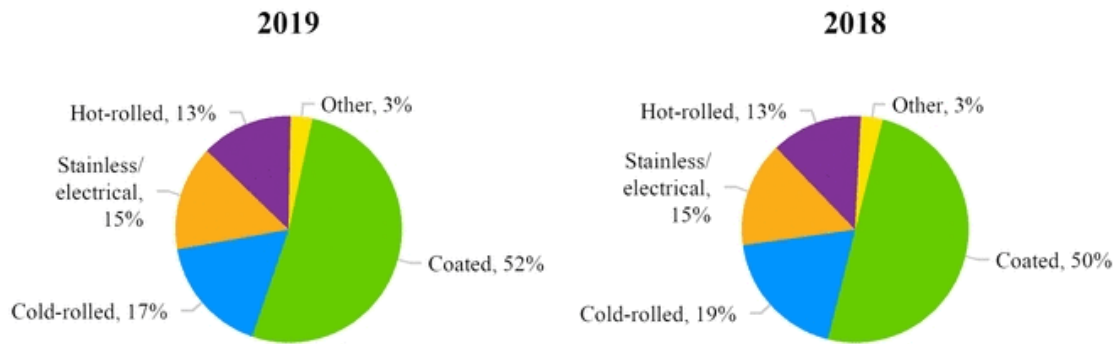
#### Steel Shipments

Total shipments of flat-rolled steel were 1,303,000 tons and 1,424,000 tons for the three months ended September 30, 2019 and 2018. Total shipments of flat-rolled steel were 4,082,800 tons and 4,294,700 tons for the nine months ended September 30, 2019 and 2018. The 8% decrease in flat-rolled steel shipments during the three months ended September 30, 2019 from a year ago was primarily a result of lower shipments to the distributors and converters market. In addition, we experienced a modest reduction in shipments to the automotive market due to the effects of the General Motors ("GM") strike that began on September 15, 2019, and slightly lower automotive vehicle builds. Although the GM strike was resolved on October 25, 2019, we expect our results for the fourth quarter of 2019 to be negatively impacted by the effects of the GM strike, including reduced shipments to the automotive market during the quarter. For the nine months ended September 30, 2019, total shipments declined from the prior year period as a result of lower shipments to the automotive and distributors

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and converters markets. Shipments of flat-rolled steel by product category for the nine months ended September 30, 2019 and 2018, as a percent of total flat-rolled steel shipments, were as follows:

**Flat-Rolled Steel Shipments by Product Category  
Nine Months Ended September 30,**



*Net Sales*

The following table presents information on net sales:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	Change	2019	2018	Change
Net sales	\$1,535.5	\$1,735.6	(12)%	\$4,913.7	\$5,141.1	(4)%
Average net selling price per ton of flat-rolled steel	1,067	1,114	(4)%	1,094	1,087	1 %
Net sales outside the United States	144.3	149.6		439.6	490.3	
Net sales outside the United States as a percent of net sales	9%	9%		9%	10%	

The decrease in net sales for the three months ended September 30, 2019 from the year-ago quarter was primarily driven by lower steel shipments and a decline in commodity carbon spot market pricing, partly offset by improved automotive pricing. The decrease in net sales for the nine months ended September 30, 2019 over the prior year period was driven by the same factors.

The following table presents the percentage of net sales to each of our markets:

Market	Nine Months Ended September 30,	
	2019	2018
Automotive	65%	64%
Infrastructure and Manufacturing	16%	15%
Distributors and Converters	19%	21%

*Cost of Products Sold*

Cost of products sold was \$1,366.0 for the three months ended September 30, 2019, a decrease from \$1,486.2 for the three months ended September 30, 2018, primarily driven by lower shipments and lower costs for carbon scrap and alloys, partially offset by higher costs for coke, coal and iron ore. Cost of products sold was \$4,280.4 for the nine months ended September 30, 2019, a decrease from \$4,462.6 for the nine months ended September 30, 2018, primarily driven by lower shipments and lower costs for scrap, energy and alloys, partially offset by higher costs for coke, coal and iron ore. Cost of products sold as a percentage of sales increased to 89.0% and 87.1% for the three and nine months ended September 30, 2019

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from 85.6% and 86.8% for the three and nine months ended September 30, 2018, primarily as a result of substantially lower carbon spot market selling prices. For the three months ended September 30, 2019, we recorded mark-to-market gains (losses) on iron ore derivatives of \$(15.3), as compared to mark-to-market gains (losses) of \$4.4 for the same quarter last year. For the nine months ended September 30, 2019, we recorded mark-to-market gains (losses) on iron ore derivatives of \$41.9, as compared to mark-to-market gains (losses) of \$(1.2) for the nine months ended September 30, 2018. Planned maintenance outage costs were \$9.1 and \$37.9 in the three and nine months ended September 30, 2019, compared to \$4.7 and \$26.7 in 2018.

### *Selling and Administrative Expenses*

Selling and administrative expenses for the three and nine months ended September 30, 2019 were \$71.0 and \$222.9 compared to \$79.6 and \$235.8 for the corresponding periods in 2018. The decreases were primarily a result of lower variable compensation expense compared to the prior year periods.

### *Depreciation*

Depreciation expense for the three and nine months ended September 30, 2019 was \$47.4 and \$147.4, compared to \$55.0 and \$164.8 for the three and nine months ended September 30, 2018. The declines were primarily a result of a significant amount of fixed assets related to the initial construction of our Rockport Works facility becoming fully depreciated as of December 31, 2018, partly offset by higher depreciation at SunCoke Middletown.

### *Ashland Works Closure*

As a result of the decision to permanently close Ashland Works discussed in Note 2 to the condensed consolidated financial statements, we recorded a charge during the first quarter of 2019. For the nine months ended September 30, 2019, the charge of \$77.4 included \$18.5 for termination of certain take-or-pay supply agreements, \$20.2 for supplemental unemployment and other employee benefit costs, pension and OPEB termination benefits of \$13.3 (recorded in pension and OPEB (income) expense), an estimated multiemployer plan withdrawal liability of \$18.0, and \$7.4 for other costs. The supplemental unemployment and other employee benefit costs are expected to be paid primarily in 2020 and 2021. For the \$77.4 charge, we expect to make cash payments of approximately \$15.0 in 2019, \$30.0 in 2020 and the remaining amount over several years thereafter. The actual multiemployer plan withdrawal liability will not be known until a future date and is expected to be paid over a number of years. In addition to the \$77.4 charge, we expect to record expenses of approximately \$14.0 over the full-year 2019, consisting of cash costs of approximately \$10.0 related to closing the facility and \$4.0 of accelerated depreciation related to the coating line fixed assets. These cash costs related to closing the facility will decline in future years and no depreciation expense will be incurred beyond 2019.

### *Operating Profit*

Operating profit was \$51.1 and \$198.9 for the three and nine months ended September 30, 2019, compared to \$114.8 and \$277.9 for the three and nine months ended September 30, 2018. Included in operating profit was \$17.0 and \$43.2 related to SunCoke Middletown for the three and nine months ended September 30, 2019, compared to \$17.8 and \$49.8 for the same periods in 2018.

### *Interest Expense*

Interest expense for the three and nine months ended September 30, 2019 was \$37.0 and \$112.0, compared to \$37.8 and \$113.3 in the same periods a year ago.

### *Pension and Other Postretirement Employee Benefit ("OPEB") (Income) Expense*

Pension and OPEB income was \$6.8 and \$7.2 for the three and nine months ended September 30, 2019, compared to income of \$10.0 and \$30.0 for the corresponding periods in 2018. The decreases in income were primarily due to pension and OPEB termination benefits of \$13.3 recognized in the first quarter of 2019 associated with the previously announced Ashland Works closure and a lower expected return on plan assets, partially offset by a greater amount of amortization of unrealized gains.

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### *Other (Income) Expense*

Other (income) expense was \$0.7 and \$(16.5) for the three and nine months ended September 30, 2019, compared to \$0.7 and \$(3.4) for the same periods ended September 30, 2018. Included in the nine months ended September 30, 2019 was a gain of \$11.6 related to the sale of electrical transmission assets at our Dearborn Works.

### *Income Tax Expense (Benefit)*

Income taxes recorded for the periods ended September 30, 2019 and 2018 were estimated using the discrete method. Income taxes are based on our actual year-to-date financial results through the end of the period, as well as the related changes in the valuation allowance on deferred tax assets. We are unable to estimate the annual effective tax rate with sufficient precision for purposes of the effective tax rate method, which requires us to consider a projection of full-year income and the expected change in the valuation allowance. The estimated annual effective tax rate method is not reliable due to its sensitivity to small changes to forecasted annual pre-tax earnings and the effect of our valuation allowance, which creates results that vary significantly from the customary relationship between income tax expense and pre-tax income for interim periods. As a result, we determined that the discrete method is more appropriate than the annual effective tax rate method. During the first nine months of 2018, we reduced our valuation allowance and recorded an income tax benefit of \$5.3 as a result of changes to the tax net operating carryover rules included in the Tax Cuts and Jobs Act of 2017 that allow us to use certain indefinite-lived deferred tax liabilities as a source of future income to realize deferred tax assets.

### *Net Income Attributable to AK Steel Holding Corporation*

As a result of the various factors and conditions described above, we reported net income attributable to AK Holding of \$2.8, or \$0.01 per diluted share, for the three months ended September 30, 2019, compared to net income attributable to AK Holding of \$67.2, or \$0.21 per diluted share, for the three months ended September 30, 2018. We reported net income attributable to AK Holding of \$65.1, or \$0.21 per diluted share, for the nine months ended September 30, 2019, compared to net income attributable to AK Holding of \$152.5, or \$0.48 per diluted share, for the nine months ended September 30, 2018. Adjusted for the charge for the Ashland Works closure, we reported adjusted net income of \$142.5, or \$0.45 per diluted share, for the nine months ended September 30, 2019.

### *Adjusted EBITDA*

Adjusted EBITDA (as defined in the *Non-GAAP Financial Measures* section) was \$86.9, or 5.7% of net sales, for the three months ended September 30, 2019, compared to adjusted EBITDA of \$160.8, or 9.3% of net sales, for the three months ended September 30, 2018. Adjusted EBITDA was \$399.3, or 8.1% of net sales, for the nine months ended September 30, 2019, compared to adjusted EBITDA of \$427.9, or 8.3% of net sales, for the nine months ended September 30, 2018.

### *Non-GAAP Financial Measures*

In certain of our disclosures, we have reported adjusted EBITDA, adjusted EBITDA margin and adjusted net income attributable to AK Holding that exclude the effects of noncontrolling interests and costs associated with the closure of Ashland Works. We believe that reporting adjusted net income with these items excluded more clearly reflects our current operating results and provides investors with a better understanding of our overall financial performance. Adjustments to net income do not result in an income tax effect as any gross income tax effects are offset by a corresponding change in the deferred income tax valuation allowance.

EBITDA is an acronym for earnings before interest, taxes, depreciation and amortization. It is a metric that is sometimes used to compare the results of different companies by removing the effects of different factors that might otherwise make comparisons inaccurate or inappropriate. For purposes of this report, we have made adjustments to EBITDA noted in the preceding paragraph. The adjusted results, although not financial measures under generally accepted accounting principles in the United States ("GAAP") and not identically applied by other companies, facilitate the ability to analyze our financial results in relation to those of our competitors and to our prior financial performance by excluding items that otherwise would distort the comparison. Adjusted EBITDA, adjusted EBITDA margin and adjusted net income are not, however, intended as alternative measures of operating results or cash flow from operations as determined in accordance with GAAP and are not necessarily comparable to similarly titled measures used by other companies.

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Neither current nor potential investors in our securities should rely on adjusted EBITDA, adjusted EBITDA margin or adjusted net income as a substitute for any GAAP financial measure, and we encourage current and potential investors to review the following reconciliations of adjusted EBITDA and adjusted net income.

**Reconciliation of Adjusted EBITDA**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income attributable to AK Holding	\$ 2.8	\$ 67.2	\$ 65.1	\$ 152.5
Net income attributable to noncontrolling interests	17.1	17.7	42.8	49.5
Income tax expense (benefit)	0.3	1.4	2.7	(4.0)
Interest expense, net	36.7	37.6	111.3	112.7
Depreciation and amortization	51.4	58.4	160.7	178.3
EBITDA	108.3	182.3	382.6	489.0
Less: EBITDA of noncontrolling interests (a)	21.4	21.5	60.7	61.1
Ashland Works closure	—	—	77.4	—
Adjusted EBITDA	\$ 86.9	\$ 160.8	\$ 399.3	\$ 427.9
Adjusted EBITDA margin	5.7%	9.3%	8.1%	8.3%

(a) The reconciliation of net income attributable to noncontrolling interests to EBITDA of noncontrolling interests is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income attributable to noncontrolling interests	\$ 17.1	\$ 17.7	\$ 42.8	\$ 49.5
Depreciation	4.3	3.8	17.9	11.6
EBITDA of noncontrolling interests	\$ 21.4	\$ 21.5	\$ 60.7	\$ 61.1

**Reconciliation of Adjusted Net Income**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Reconciliation of Net Income Attributable to AK Holding</b>				
Net income attributable to AK Holding, as reported	\$ 2.8	\$ 67.2	\$ 65.1	\$ 152.5
Ashland Works closure	—	—	77.4	—
Adjusted net income attributable to AK Holding	\$ 2.8	\$ 67.2	\$ 142.5	\$ 152.5
<b>Reconciliation of Diluted Earnings per Share</b>				
Diluted earnings per share, as reported	\$ 0.01	\$ 0.21	\$ 0.21	\$ 0.48
Ashland Works closure	—	—	0.24	—
Adjusted diluted earnings per share	\$ 0.01	\$ 0.21	\$ 0.45	\$ 0.48

**Liquidity and Capital Resources**

In April 2019, we increased the capacity of our Credit Facility to \$1,500.0. At September 30, 2019, our total liquidity increased to \$1,024.0, consisting of \$29.5 of cash and cash equivalents and \$994.5 of availability under the Credit Facility. Our eligible collateral was \$1,372.6 at September 30, 2019, after application of advance rates. At September 30, 2019, we had \$305.0 of outstanding borrowings under the Credit Facility and \$73.1 of outstanding letters of credit that reduced availability. During the nine months ended September 30, 2019, our borrowings from the Credit Facility ranged from \$285.0 to \$465.0, with outstanding borrowings averaging \$347.5 per day. Consolidated cash and cash equivalents of \$30.8 at

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September 30, 2019, included \$1.3 of cash and cash equivalents of consolidated variable interest entities, which are not available for our use.

We believe that our current sources of liquidity will be adequate to meet our obligations for the foreseeable future. We expect to fund future liquidity requirements for items such as capital investments, employee and retiree benefit obligations, scheduled debt maturities and debt redemptions with internally generated cash and other financing sources. As part of our efforts to improve our capital structure, we regularly evaluate accessing the capital markets as a source of liquidity if we view conditions as favorable. We use the Credit Facility as necessary from time to time to fund requirements for working capital, capital investments and other general corporate purposes. We are focused on reducing debt through free cash flow generation. In 2019, our only scheduled debt maturity is our \$148.5 of 5.0% Exchangeable Senior Notes (the "Exchangeable Notes") due November 2019. We intend to use availability under our Credit Facility to repay them and believe that we will continue to have more than sufficient liquidity after retiring them. Our Credit Facility is scheduled to expire in September 2022 and any amounts outstanding under it at the time of expiration would need to be repaid or refinanced.

From time to time, we may repurchase, as we have done previously, outstanding notes in the open market on an unsolicited basis, by tender offer, through privately negotiated transactions or otherwise. Our forward-looking statements on liquidity are based on currently available information and expectations and, if the information or expectations are inaccurate or conditions deteriorate, there could be a material adverse effect on our liquidity.

Cash generated by operating activities was \$192.5 for the nine months ended September 30, 2019. This total included cash generated by SunCoke Middletown of \$54.8, which can only be used by SunCoke Middletown for its operations or for distribution to its equity owners. Significant sources of cash included cash generated from normal business activities and a reduction in accounts receivable and inventory, partly offset by a decrease in accounts payable.

### *Investing and Financing Activities*

During the nine months ended September 30, 2019, net cash used for investing activities totaled \$125.8, primarily due to capital investments of \$135.8. For 2019, we expect to make capital investments of approximately \$170.0 to \$190.0, including about \$40.0 to \$45.0 of investments for our downstream businesses. In the near-term, we expect to fund these investments from cash generated from operations or from borrowings under our Credit Facility.

During the nine months ended September 30, 2019, net cash used for financing activities was \$84.5, which included net repayment of borrowings under the Credit Facility of \$30.0 and distributions from SunCoke Middletown to its noncontrolling interest owners of \$48.3.

### *Restrictions Under Debt Agreements*

The Credit Facility and indentures governing our senior indebtedness and tax-exempt fixed-rate Industrial Revenue Bonds (collectively, the "Notes") contain restrictions and covenants that may limit our operating flexibility.

The indentures governing the Notes (other than the Exchangeable Notes) include customary restrictions on (a) the incurrence of additional debt by certain of our subsidiaries, (b) the incurrence of certain liens, (c) sale/leaseback transactions, and (d) our ability to merge or consolidate with other entities or to sell, lease or transfer all or substantially all of our assets to another entity. They also contain customary events of default. In addition, the indenture governing the 7.50% Senior Secured Notes due 2023 includes covenants with customary restrictions on the use of proceeds from the sale of collateral. The indenture governing the Exchangeable Notes does not contain any financial or operating covenants or restrictions on the payments of dividends, the incurrence of indebtedness or our issuance or repurchase of securities.

The Credit Facility contains customary restrictions, including limitations on, among other things, distributions and dividends, acquisitions and investments, indebtedness, liens and affiliate transactions. In addition, the Credit Facility requires us to maintain a minimum fixed charge coverage ratio of one to one if availability under the Credit Facility is less than \$150.0.

We do not expect any of these restrictions to affect or limit our ability to conduct our business in the ordinary course. During the period, we were in compliance with all the terms and conditions of our debt agreements.



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### *Employee Benefit Obligations*

We have funded our \$43.5 of required contributions to the master pension trust for 2019, which included contributions of \$34.0 through September 30, 2019 and the remaining \$9.5 contribution in October 2019. Based on current actuarial assumptions, we estimate that our required annual pension contributions will be approximately \$50.0 in 2020 and \$50.0 in 2021. Factors that affect our estimates of future funding projections include return on plan assets, actuarial data and assumptions relating to plan participants, the discount rate used to measure the pension obligations, and changes to regulatory funding requirements. 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 we must make the contribution increases.

### **Iron Ore**

Iron ore is one of the principal raw materials required for our steel manufacturing operations. We make most of our iron ore purchases at negotiated prices under multi-year agreements, reducing the impact of short-term market price movements. The price we pay for iron ore is affected by a variety of factors under the terms of our contracts, including measures of general industrial inflation and steel prices and a variable-price mechanism that adjusts the annual average price we pay for iron ore based on reference to an iron ore index referred to as the IODEX. We manage and mitigate our exposure to the IODEX component of our purchases through a systematic hedging strategy, under which we hedge a higher proportion of our near-term iron ore exposure and a lower proportion for our longer-term exposure through a combination of swaps and options. As of September 30, 2019, we have hedged the IODEX component for a substantial portion of our iron ore purchases for 2019 and 2020. Our iron ore derivatives do not meet the accounting criteria for hedge accounting treatment. As a result, the changes in fair value for those derivatives are immediately recognized in earnings, instead of when we recognize the underlying cost of iron ore. This accounting treatment does not affect the ultimate gains or losses on the derivative contracts we will recognize in the financial statements, but only the timing of recognition.

### **Research, Innovation and Operations**

Rapidly evolving and highly competitive markets require our customers to seek new, comprehensive steel solutions, and we believe we are well positioned to deliver the most robust solutions through our broad portfolio of offerings. In addition to our flat-rolled steels, our broad product portfolio includes carbon and stainless tubular products, sophisticated tool and die designs, and lightweight, complex, hard-to-manufacture components and sub-assemblies for the automotive market. The collaboration across our steel, tube-making, stamping and materials research groups generates innovative and comprehensive solutions for our customers, which we believe improves our competitive advantage.

Creating innovative products and breakthrough solutions is a strategic priority, as we believe differentiation through producing higher value steels to meet challenging requirements enables us to maintain and enhance our margins. We conduct a broad range of research and development activities aimed at improving existing products and processes and developing new ones. Our tradition of leading steel innovation has produced a highly diversified flat-rolled steel product portfolio. In recent years, we have increased our commitment to research and development with greater investment, both in personnel and capabilities. One of these investments, our state-of-the-art Research and Innovation Center in Middletown, Ohio, has enhanced technical collaboration and increased introduction of new steel solutions to the marketplace.

#### *Research and Innovation Awards*

The Office of Energy Efficiency and Renewable Energy under the U.S. Department of Energy (“DOE”) continues to grant AK Steel awards for innovative steel research. In March 2019, we received an award to leverage high performance computing from the Lawrence Livermore National Laboratory to conduct hot rolling research. Researchers from AK Steel will work in collaboration with scientists from the Computational Engineering Division to build a Fast Acting Reduced Ordered Model to predict the properties of a finished steel coil after hot rolling in order to continue to improve product consistency, provide immediate feedback on product quality, and to save time, money and energy by reducing expensive industrial trials. This research also will complement current Artificial Intelligence models used in the manufacture of AK Steel’s portfolio of innovative steel products.

In July 2019, we received an award from the DOE High Performance Computing for Materials Program to collaborate in a project with the DOE’s Oak Ridge National Laboratory. The project, “Thermo-Mechanical Forming Process Development to Produce Tailored Strength Automotive Structural Components,” is to develop microstructure-based transformation models to predict austenite stability in high-strength steels. This is the fourth award AK Steel has recently received from the DOE to

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support innovative steel research. The first, awarded in 2017, focused on manufacturing new steels that provide increased efficiency in high-frequency electric motors, and a second award in 2018 focused on investigating novel low density steels in the laboratory, which could ultimately be used in automotive structural applications. All four awards underscore AK Steel's innovation and commitment to being a leader in next generation steel product and process development.

### *Customer Awards*

In May 2019, Ford and GM, two of our valued automotive customers, each presented us with prestigious supplier awards. At the GM 27th Annual Supplier of the Year Awards, GM recognized its best suppliers that have consistently exceeded GM's expectations, created outstanding value or introduced innovations to GM. AK Steel was awarded as a Supplier of the Year for Non-Fabricated Steel, the second time in two years that we received the award. In addition, at Ford's 21st Annual Ford World Excellence Awards, Ford recognized AK Steel as a top-performing global supplier and presented us with its Smart Brand Pillar award in recognition of demonstrated leadership in Ford's primary brand pillars. Further, AK Tube received a Supplier of the Year award from Kirchhoff Automotive. AK Tube was one of just three suppliers to receive this award.

### *Safety Awards*

In May 2019, AK Steel's Middletown Works received the Max Eward Safety Award for 2018 from the American Coke and Coal Chemicals Institute ("ACCCI"), a leading industry trade organization. The award recognizes Middletown Works for operating one of the safest cokemaking facilities in America and operating all of 2018 without any OSHA recordable injuries. This ACCCI recognition marks the 18th time in the last 22 years that one or more AK Steel coke plants have received the Max Eward Safety Award. In June 2019, our Coshocton Works and Zanesville Works were recognized for outstanding safety performance by the Ohio Bureau of Workers' Compensation, Division of Safety and Hygiene. We continue to focus on safety in all we do, driving safety results that lead our industry.

## **Trade Matters**

### *Section 232 Investigation of Imported Foreign Steel*

On April 19, 2017, the Commerce Department initiated an investigation pursuant to Section 232 of the Trade Expansion Act, as amended by the Trade Act of 1974 ("Section 232"), into whether imports of foreign steel into the U.S. pose a threat to U.S. national security. On March 8, 2018, President Trump signed a proclamation pursuant to Section 232 imposing a 25 percent tariff on imported steel. Following the proclamation, the U.S. government announced various agreements for exemptions from the Section 232 steel tariff for certain countries, including Argentina, Australia, Brazil and South Korea. Some of these countries, such as South Korea and Brazil, have agreed to a quota system that limits their annual imports of steel into the U.S. In addition, although steel products from the European Union, Canada and Mexico were initially exempted from the tariff, on June 1, 2018, those exemptions expired and the Section 232 tariff was applied to steel imports from these countries as well.

In retaliation against the Section 232 tariffs, the European Union, Mexico and Canada subsequently imposed their own tariffs against certain steel products and other goods imported from the U.S. The Mexican retaliatory tariffs went into effect on June 5, 2018, the European Union's tariffs began to apply on June 22, 2018, and Canadian tariffs became effective on July 1, 2018. We ship steel products into Canada, Mexico and the European Union and have been required to pay tariffs on certain of our shipments. We may at some point in the future recover a portion of the tariffs we have paid to Canada under the country's duty drawback rules. These rules provide for the reimbursement for tariffs paid on the portion of products imported into that country that are exported from Canada as part of a final product. On May 17, 2019, the United States announced an agreement with Canada and Mexico to remove the Section 232 tariffs for steel and aluminum imports from those countries and for the removal of all retaliatory tariffs imposed on American goods by those countries. The agreement provides for aggressive monitoring and a mechanism to prevent surges in imports of steel and aluminum. If surges in imports of specific steel products occur, the United States may reimpose Section 232 tariffs on those products. Any retaliation by Canada and Mexico, however, would then be limited to steel products. The Section 232 steel and related retaliatory tariffs still remain in place with the European Union, and negotiations between the U.S. and European Union are ongoing. In addition to the ongoing country-by-country negotiations in which the U.S. government is engaged, the Commerce Department has also implemented a system for petitioning the U.S. government to exempt specific products (for instance, a certain grade of steel) from the tariff and a process for challenging these exemption requests.

The Section 232 steel tariff currently only applies to certain steel products, including flat-rolled carbon, stainless and electrical steel products, but it does not apply to certain downstream goods that may contain these steels. As a result, some third parties or customers may attempt to substitute purchases of our flat-rolled steel with imports of downstream goods

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containing foreign steel product inputs that are not subject to the tariff or trade cases. These actions would circumvent the purpose and intent of the Section 232 steel tariffs. The effects of the limited scope of the steel tariff are particularly salient to our electrical steel business. Imports of downstream electrical goods not currently covered by the tariff include electrical transformer cores and core assemblies, electrical transformers, and even laminations, which are simply cut pieces of electrical steel. To avoid the Section 232 steel tariff, producers have continued to increase their imports of foreign-made downstream electrical goods or moved some of their domestic production outside the United States, which adversely affects our electrical steel business. In the absence of a remedy against these actions to circumvent the Section 232 steel tariff on electrical steel, these actions are likely to increase over time, pressuring our electrical steel business. We continue to proactively work to mitigate or eliminate this potential avenue for avoiding and circumventing the steel tariff, including by communicating our concerns to the U.S. government and requesting appropriate action to address this issue. In the absence of decisive action by the U.S. government or a meaningful change in business or market conditions, we expect our electrical steel business to continue to face material downward pressure. We believe the United States' electrical infrastructure is critical to national security and that additional actions are necessary and should be undertaken by the U.S. government to preserve its short- and long-term integrity.

Members of the U.S. Congress have introduced legislation to restrict the President's power to implement tariffs on national security grounds. Some of the proposed legislation has included provisions that would require Congressional approval of the current Section 232 proclamations or they would terminate. If such legislation is passed by both the House of Representatives and Senate, President Trump would have the ability to veto it, which would then require a two-thirds majority vote in each of the branches of Congress to override the presidential veto. In addition, there are pending challenges to the President's authority and actions under Section 232 in the U.S. court system and before international bodies.

### *United States-Mexico-Canada Trade Agreement*

On October 1, 2018, the Trump administration announced that the U.S. had reached an agreement with Canada and Mexico on the United States-Mexico-Canada Trade Agreement ("USMCA"), which is being proposed to replace the existing North American Free Trade Agreement ("NAFTA") among those countries. Among other things, the USMCA, as proposed, includes revised "rules of origin" that exempt automakers and other manufacturers from tariffs if their automobiles and other products incorporate certain levels of materials produced in North America, including steel, and labor from workers paid at least \$16 per hour. We believe that the USMCA has the potential to incentivize automakers and other manufacturers to increase manufacturing production in North America and to increase demand for North American steel. Because all of our manufacturing facilities are located in North America and our principal market is automotive, this would positively impact our business. For the proposed USMCA to take effect, both houses of Congress must approve implementing legislation, and we cannot currently predict when or if this may occur. Mexico passed the agreement through its legislature in June and Canada has indicated it will take up the measure when or if the U.S. Congress acts.

### **New Accounting Pronouncements**

The information called for by this section is incorporated herein by reference to Note 16 of the condensed consolidated financial statements.

### **Forward-Looking Statements**

Certain statements we made or incorporated by reference in this Form 10-Q, or made in other documents furnished to or filed with the Securities Exchange Commission, as well as in press releases or in presentations made by our employees, reflect our estimates and beliefs and are intended to be, and hereby are identified as "forward-looking statements" for purposes of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Words such as "expects," "anticipates," "believes," "intends," "plans," "estimates" and other similar references to future periods typically identify forward-looking statements. We caution readers that forward-looking statements reflect our current beliefs and judgments, 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 and uncertainties and contingencies that are beyond our control. They are also based upon assumptions about future business decisions and conditions that may change. In particular, these include, but are not limited to, statements in the *Liquidity and Capital Resources* section and Item 3. *Quantitative and Qualitative Disclosure about Market Risk*.

Forward-looking statements are only predictions and involve risks and uncertainties, resulting in the possibility that actual events or performance will differ materially from such predictions as a result of certain risk factors. Such factors that could cause our actual results and financial condition to differ materially from the results contemplated by such forward-looking

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statements include reduced selling prices, shipments and profits associated with a highly competitive and cyclical industry; domestic and global steel overcapacity; risks related to U.S. government actions on trade agreements and treaties, laws, regulations or policies affecting trade; changes in the cost of raw materials, supplies and energy; our significant amount of debt and other obligations; severe financial hardship or bankruptcy of one or more of our major customers or key suppliers; our significant proportion of sales to the automotive market; reduced demand in key product markets due to competition from aluminum and other alternatives to steel; excess inventory of raw materials; supply chain disruptions or poor quality of raw materials or supplies; production disruption or reduced production levels; our healthcare and pension obligations; not reaching new labor agreements on a timely basis; major litigation, arbitrations, environmental issues and other contingencies; regulatory compliance and changes; climate change and greenhouse gas emissions; conditions in the financial, credit, capital and banking markets; our use of derivative contracts to hedge commodity pricing volatility; potential permanent idling of facilities; inability to fully realize benefits of margin enhancement initiatives; information technology security threats, cybercrime and exposure of private information; our failure to achieve expected benefits of the Precision Partners acquisition; and changes in tax laws and regulations; as well as those risks and uncertainties discussed in more detail in our Annual Report on Form 10-K for the year ended December 31, 2018 (“2018 Form 10-K”), as updated in subsequent Quarterly Reports on Form 10-Q and Current Reports on Form 8-K filed with or furnished to the Securities and Exchange Commission.

As such, we caution readers not to place undue reliance on forward-looking statements, which speak only to our plans, assumptions and expectations as of the date hereof. We undertake no obligation to publicly update any forward-looking statement, except as required by law.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

There have been no significant changes in our exposures to market risk since December 31, 2018. See Item 7A. *Quantitative and Qualitative Disclosures about Market Risk* in our 2018 Form 10-K for a discussion on our exposures to market risk.

### **Item 4. Controls and Procedures.**

We maintain a system of disclosure controls and procedures that is designed to provide reasonable assurance that information is disclosed and accumulated and communicated to management in a timely fashion. An evaluation of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) was performed as of the end of the period covered by this report. This evaluation was performed under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information we are required to disclose in the reports that we file or submit under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure and are effective to provide reasonable assurance that such information is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission’s rules and forms.

There has been no change in our internal control over financial reporting during the quarter covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

The information called for by this item is incorporated herein by reference to Note 7 of the condensed consolidated financial statements included in Part I, Item 1.

### **Item 1A. Risk Factors.**

We caution readers that our business activities involve risks and uncertainties that could cause actual results to differ materially from those currently expected by management. We described the principal risk factors that could impact our results in our 2018 Form 10-K.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

There were no unregistered sales of equity securities in the quarter ended September 30, 2019.

**ISSUER PURCHASES OF EQUITY SECURITIES**

<b>Period</b>	<b>Total Number of Shares Purchased (a)</b>	<b>Average Price Paid Per Share (a)</b>	<b>Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (b)</b>	<b>Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (b)</b>
July 2019	—	\$ —	—	
August 2019	—	—	—	
September 2019	3,244	2.31	—	
Total	<u>3,244</u>	<u>2.31</u>	<u>—</u>	\$ 125.6

- (a) Employees may have us withhold shares to pay federal, state and local taxes due upon the vesting of restricted stock or performance shares under the terms of the AK Steel Holding Corporation Stock Incentive Plan. In this event, the withheld shares have a fair market value equal to the minimum statutory withholding rate that tax authorities could impose on the transaction. We repurchase the withheld shares at the quoted average of the reported high and low sales prices on the day we withhold the shares.
- (b) On October 21, 2008, the Board of Directors authorized us to repurchase, from time to time, up to \$150.0 of our outstanding equity securities. The Board of Directors' authorization specified no expiration date.

**Item 4. Mine Safety Disclosures.**

The operations of AK Coal Resources, Inc.'s North Fork mine and coal wash plant (collectively, the "AK Coal Operations") are subject to regulation by the Mine Safety and Health Administration ("MSHA") under the Federal Mine Safety and Health Act of 1977, as amended ("Mine Act"). MSHA inspects mining and processing operations, such as the AK Coal Operations, on a regular basis and issues various citations and orders when it believes a violation has occurred under the Mine Act. Exhibit 95.1 to this Quarterly Report on Form 10-Q presents citations and orders from MSHA and other regulatory matters required to be disclosed by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act or otherwise under this Item 4.

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**Item 6. Exhibits.**

<b>Exhibit Number</b>	<b>Description</b>
<a href="#">*31.1</a>	Section 302 Certification of Chief Executive Officer
<a href="#">*31.2</a>	Section 302 Certification of Chief Financial Officer
<a href="#">*32.1</a>	Section 906 Certification of Chief Executive Officer
<a href="#">*32.2</a>	Section 906 Certification of Chief Financial Officer
<a href="#">*95.1</a>	Mine Safety Disclosure Exhibit
101.Ins	Inline XBRL Instance Document (the XBRL Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
*101.Sch	Inline XBRL Taxonomy Extension Schema Document
*101.Cal	Inline XBRL Taxonomy Extension Calculation Linkbase Document
*101.Def	Inline XBRL Taxonomy Extension Definition Linkbase Document
*101.Lab	Inline XBRL Taxonomy Extension Label Linkbase Document
*101.Pre	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104.1	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

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\* Filed or furnished herewith, as applicable

**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: October 30, 2019

/s/ Jaime Vasquez

Jaime Vasquez

Vice President, Finance and Chief Financial Officer

Dated: October 30, 2019

/s/ Gregory A. Hoffbauer

Gregory A. Hoffbauer

Vice President, Controller and Chief Accounting Officer

## SECTION 302 CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Roger K. Newport, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AK Steel Holding Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: October 30, 2019

/s/ Roger K. Newport

Roger K. Newport  
Chief Executive Officer



## SECTION 302 CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Jaime Vasquez, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AK Steel Holding Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: October 30, 2019

/s/ Jaime Vasquez

Jaime Vasquez

Vice President, Finance and Chief Financial Officer

## SECTION 906 CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Roger K. Newport, Chief Executive Officer of AK Steel Holding Corporation (the "Company"), do hereby certify in accordance with 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) This Quarterly Report on Form 10-Q for the period ending September 30, 2019 fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)), and,
- (2) The information contained in this Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 30, 2019

/s/ Roger K. Newport

Roger K. Newport

Chief Executive Officer

## SECTION 906 CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Jaime Vasquez, Vice President, Finance and Chief Financial Officer of AK Steel Holding Corporation (the “Company”), do hereby certify in accordance with 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) This Quarterly Report on Form 10-Q for the period ending September 30, 2019 fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)), and,
- (2) The information contained in this Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 30, 2019

/s/ Jaime Vasquez

Jaime Vasquez

Vice President, Finance and Chief Financial Officer

## MINE SAFETY DISCLOSURE EXHIBIT

The operations of AK Coal Resources, Inc.'s North Fork mine and coal wash plant (collectively, the "AK Coal Operations") are subject to regulation by the Mine Safety and Health Administration ("MSHA") under the Federal Mine Safety and Health Act of 1977, as amended ("Mine Act"). MSHA inspects mining and processing operations, such as the AK Coal Operations, on a regular basis and issues various citations and orders when it believes a violation has occurred under the Mine Act. We present information below regarding certain mining safety and health citations that MSHA has issued with respect to the AK Coal Operations. In evaluating this information with respect to the AK Coal Operations, consideration should be given to the following factors, among others: (i) the number of citations and orders will vary depending on the size of the mine or plant; (ii) the number of citations issued will vary from inspector to inspector and location to location; and (iii) citations and orders can be contested and appealed and, in that process, are often reduced in severity and amount, and are sometimes dismissed.

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), each operator of a coal or other mine or plant is required to include certain mine safety results within its periodic reports filed with the Securities and Exchange Commission. As required by the reporting requirements included in Section 1503(a) of the Dodd-Frank Act, we provide the following items regarding certain mining safety and health matters, for the period presented, for each of our locations that are covered under the scope of the Dodd-Frank Act:

- (A) the total number of violations of mandatory health or safety standards that could significantly and substantially contribute to the cause and effect of a coal or other mine safety or health hazard under section 104 of the Mine Act (30 U.S.C. 814) for which the operator received a citation from MSHA;
- (B) the total number of orders issued under section 104(b) of the Mine Act (30 U.S.C. 814(b));
- (C) the total number of citations and orders for unwarrantable failure of the mine operator to comply with mandatory health or safety standards under section 104(d) of the Mine Act (30 U.S.C. 814(d));
- (D) the total number of imminent danger orders issued under section 107(a) of the Mine Act (30 U.S.C. 817(a));
- (E) the total dollar value of proposed assessments from MSHA under the Mine Act (30 U.S.C. 801 et seq.);
- (F) legal actions pending before Federal Mine Safety and Health Review Commission ("FMSHRC") involving such coal or other mine or plant as of the last day of the period;
- (G) legal actions initiated before the FMSHRC involving such coal or other mine or plant during the period; and
- (H) legal actions resolved before the FMSHRC involving such coal or other mine or plant during the period.

During the quarter ended September 30, 2019, the AK Coal Operations did not receive any flagrant violations under Section 110(b)(2) of the Mine Act. In addition, it did not receive any written notices of a pattern of violations, or the potential to have a pattern of such violations, under section 104(e) of the Mine Act. In addition, there were no mining-related fatalities at the AK Coal Operations during this same period.

For purposes of reporting regulatory matters under Section 1503(a) of the Dodd-Frank Act, we are providing the following table that sets forth the total number of specific citations and orders, the total dollar value of the proposed civil penalty assessments that were issued by MSHA, and a list of legal actions pending before the FMSHRC, including the Administrative Law Judges thereof, pursuant to the Mine Act, during the quarter ended September 30, 2019 for each of our subsidiaries that is a coal mine or plant operator, by individual location.

MSHA	Mine Name	Significant and Substantial Citations Issued (Section 104 of the Mine Act) *Excludes 104(d) citations/ orders	Failure to Abate Orders (Section 104(b) of the Mine Act)	Unwarrantable Failure Citations/Orders Issued (Section 104(d) of the Mine Act)	Imminent Danger Orders Issued (Section 107(a) of the Mine Act)	Dollar Value of Proposed Civil Penalty Assessments (in Thousands)	Legal Actions Pending as of Last Day of Period	Legal Actions Initiated During Period	Legal Actions Resolved
3609406	Coal Innovations #1	—	—	—	—	\$ —	—	—	—
3610041	North Fork	8	—	1	—	\$ 10 (a)	1 (b)	—	2

(a) Notification has not yet been provided regarding the monetary amount of any proposed penalties with respect to some of the disclosed citations. The recipient is challenging several of the citations.

(b) These pending legal actions all relate to contests of citations and orders referenced in Subpart B of the Mine Act's procedural rules.