

FRONTIER COMMUNICATIONS CORP
Form 8-K
May 11, 2018
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (date of earliest event reported): May 9, 2018

Frontier Communications Corporation

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation)

001-11001
(Commission File Number)

06-0619596
(IRS Employer Identification No.)

401 Merritt 7, Norwalk, Connecticut
(Address of principal executive offices)

06851
(Zip Code)

(203) 614-5600

(Registrant's telephone number, including area code)

Not Applicable

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

Written
communications
pursuant to Rule
425 under the
Securities Act (17
CFR 230.425)

Soliciting material
pursuant to Rule
14a-12 under the
Exchange Act (17
CFR 240.14a-12)

Pre-commencement
communications
pursuant to Rule
14d-2(b) under the
Exchange Act (17
CFR 240.14d-2(b))

Pre-commencement
communications
pursuant to Rule
13e-4(c) under the
Exchange Act (17
CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 5.07 Submission of Matters to a Vote of Security Holders.

Frontier Communications Corporation held its 2018 Annual Meeting of Stockholders on May 9, 2018. The number of shares of common stock present at the Annual Meeting was 66,844,418, or 83.3% of the shares of common stock outstanding on March 12, 2018, the record date for the Annual Meeting. At the Annual Meeting, the following items were submitted to a vote of stockholders:

(1) All nominees were elected to serve on the Board of Directors pursuant to the following votes:

Director	FOR	AGAINST	ABSTAIN
Leroy T. Barnes, Jr.	23,762,809	3,382,496	353,869
Peter C.B. Bynoe	24,293,326	2,853,302	352,546
Diana S. Ferguson	24,342,565	2,795,201	361,408
Edward Fraioli	24,312,938	2,810,405	375,831
Daniel J. McCarthy	24,349,427	2,797,670	352,077
Pamela D.A. Reeve	24,350,462	2,804,535	344,177
Virginia P. Rueterholz	24,353,640	2,800,181	345,353
Howard L. Schrott	23,767,784	3,369,528	361,862
Mark Shapiro	24,032,017	3,102,491	364,666

There were 39,345,244 broker non-votes with respect to each nominee.

(2) The advisory proposal to approve executive compensation was approved with the following vote:

FOR	AGAINST	ABSTAIN
22,849,766	4,166,065	483,343

There were 39,345,244 broker non-votes with respect to this matter.

(3) The appointment of KPMG LLP as Frontier's independent registered public accounting firm for 2018 was ratified with the following vote:

FOR	AGAINST	ABSTAIN
60,938,595	5,049,919	855,904

There were no broker non-votes with respect to this matter.

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 hereunto duly authorized.

FRONTIER Communications CORPORATION

Date: May 11, 2018 By: /s/ Mark D. Nielsen
 Mark D. Nielsen
 Executive Vice President, Chief Legal Officer and Secretary

Interest cost				
	16.2	29.3	56.4	87.6
Amortization of prior service cost				
	(19.6)	(12.6)	(53.5)	(39.1)
Amortization of loss				
	0.7	3.2	2.0	9.6
Net periodic benefit cost				
	\$(1.6)	\$21.0	\$8.2	\$61.9

The decrease in Net periodic benefit cost for Pension Benefits for the nine months ended September 30, 2008 was principally the result of total curtailment charges of \$39.8 recorded in the nine months ended September 30, 2007. These curtailment charges related to modified retiree pension benefits negotiated in connection with new labor contracts at the Company's Middletown Works and Mansfield Works. There were no such curtailment charges in the nine months ended September 30, 2008. Additionally, the Net periodic benefit cost was impacted by an increase of \$0.4 and \$8.5, respectively, in the expected return on assets for the three months and nine months ended September 30, 2008. The increase in the expected return contributed to the overall decrease in the net periodic benefit cost and is attributable to the presence of greater assets in the pension trust in 2008 versus 2007 due to the Company's pension contributions in 2007 and 2008.

The decrease in Net periodic benefit cost for Other Postretirement Benefits for the three and nine months ended September 30, 2008 was primarily the result of court approval of a settlement with a group of retirees from the Company's Middletown Works. Under the terms of the settlement, AK Steel transferred to a Voluntary Employees Beneficiary Association trust (the "VEBA Trust") all postretirement benefit obligations (the "OPEB Obligations") owed to the class members under the Company's applicable health and welfare plans and will have no further liability for any claims incurred by the class members after the effective date of the settlement relating to their OPEB Obligations. For a more detailed discussion of the terms of the settlement – which is still subject to appeal – see discussion of "Middletown Works Retiree Healthcare Benefits Litigation" in Note 9, below. The VEBA Trust will be utilized to fund the future OPEB Obligations to the covered retirees. Under the terms of the settlement, AK Steel was obligated to initially fund the VEBA Trust with a contribution of \$468.0 in cash within two business days of the effective date of the settlement. AK Steel made this contribution on March 4, 2008. AK Steel further is obligated under the settlement to make three subsequent annual cash contributions of \$65.0 each, for a total contribution of \$663.0. As a result of this

settlement, the Company remeasured its obligations for retiree benefits as of March 1, 2008. The obligation was reduced by a negative plan amendment of \$339.1 and an actuarial gain of \$2.1 primarily due to the lower than expected benefit payments since the prior measurement date. The obligation also was reduced as the result of the initial \$468.0 contribution to the VEBA Trust. The obligation will be reduced further by each of the \$65.0 contributions to the VEBA trust. The remeasurement of the retiree medical benefits at March 1, 2008 reduced net periodic benefit cost by approximately \$45.8 in the first nine months of 2008 and will lower this cost by approximately \$19.6 in the fourth quarter of 2008.

The schedule below includes amounts calculated based on a benefit obligation measurement date of March 1, 2008. The assumptions used in the calculation of the obligation did not change from October 31, 2007 to March 1, 2008.

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	Other Postretirement Benefits	
	September 30, 2008	December 31, 2007
Change in benefit obligations:		
Benefit obligations at beginning of period	\$ 1,941.2	\$ 2,103.6
Service cost	4.0	4.9
Interest cost	74.9	116.8
Plan participants' contributions	8.6	27.9
Actuarial gain	(2.1)	(149.4)
Amendments	(339.1)	19.0
VEBA contributions	(468.0)	—
Benefits paid	(108.0)	(181.6)
Benefit obligations at end of period	\$ 1,111.5	\$ 1,941.2
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 23.7	\$ 24.6
Employer contributions	76.1	152.8
Plan participants' contributions	8.6	27.9
Benefits paid	(108.0)	(181.6)
Fair value of plan assets at end of period	\$ 0.4	\$ 23.7
Funded status	\$ (1,111.1)	\$ (1,917.5)
Amounts recognized in the consolidated balance sheets:		
Current liabilities	\$ (148.3)	\$ (156.0)
Noncurrent liabilities	(962.8)	(1,761.5)
Net amount recognized	\$ (1,111.1)	\$ (1,917.5)
Amounts recognized in accumulated other comprehensive income:		
Actuarial loss	\$ 41.8	\$ 46.4
Prior service credit	(608.4)	(330.6)
Net amount recognized	\$ (566.6)	\$ (284.2)
Other changes in plan assets and benefit obligations recognized in other comprehensive income:		
Net actuarial gain	\$ (2.1)	\$ (151.2)
Recognized actuarial loss	(2.0)	(12.8)
Prior service cost (credit)	(339.1)	19.0
Recognized prior service credit	53.4	51.6
Total recognized in other comprehensive income	\$ (289.8)	\$ (93.4)

In the first quarter of 2008, the Company adopted the measurement date provisions of Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards No. 158, "Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132(R)" ("FAS 158"). As a result, the Company recorded a \$12.0 pre-tax charge to retained earnings and a \$7.3 pre-tax charge to accumulated other comprehensive income to reflect the two months' amount of other postretirement net periodic benefit cost that had been delayed as the result of the October 31, 2007 measurement date used in 2007. In addition, the Company recorded a minimal charge to retained earnings and a \$3.5 pre-tax increase to accumulated other comprehensive income to reflect the two months of pension net periodic benefit cost that had been delayed as the result of the October 31, 2007 measurement date. These amounts were determined using the October 31, 2007 measurement date valuation.

The total projected future benefit obligation of the Company with respect to payments for healthcare benefits to the Company's retirees is accounted for as "Pension and other postretirement benefit obligations" in the Company's condensed consolidated balance sheets. The net amount of the liability recognized by the Company, as of September 30, 2008, for future payment of such benefit obligations was approximately \$1.1 billion, compared to nearly \$2.0 billion at December 31, 2007.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for healthcare plans. As of September 30, 2008, a one-percentage-point change in the assumed healthcare cost trend rates would have the following effects:

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	One-Percentage-Point:	
	Increase	Decrease
Effect on total service cost and interest cost components	\$ 2.0	\$ (1.8)
Effect on postretirement benefit obligation	33.8	(30.3)

Accounting for retiree healthcare benefits requires the use of actuarial methods and assumptions, including assumptions about current employees' future retirement dates, the anticipated mortality rate of retirees, anticipated future increases in healthcare costs, the obligation of the Company under future collective bargaining agreements with respect to healthcare benefits for retirees and the outcome of the pending appeal in the Middletown Works Retiree Healthcare Benefits Litigation. Changing any of these assumptions could have a material impact on the calculation of the Company's total obligation for future healthcare benefits. There are a variety of circumstances which could result in a change in one or more of these assumptions. For example, as has already occurred in connection with several of the labor contracts negotiated by the Company during the last few years, the union which represented a particular group of retirees when they were employed by the Company could in the course of negotiations with the Company agree to a change in retiree healthcare benefits. The precise circumstances under which retiree healthcare benefits may be altered vary depending on the terms of the relevant collective bargaining agreement.

The Company is unable to estimate at this time the likely impact that potential future changes to the nature and/or scope of its obligation to provide healthcare benefits may have on the calculation of its total future healthcare benefit obligations. Any attempt to make such a calculation would involve significant assumptions and would be subject to substantial uncertainties, including (1) changes in the assumptions which underlie the calculations, such as assumptions about current employees' future retirement dates, the anticipated mortality rate of retirees, and future increases in health care costs, (2) uncertainties as to the extent to which retirees will consent to changes to their healthcare benefits, or that the unions will agree to, or not take action to oppose, such changes in the course of negotiations of new collective bargaining agreements, and (3) uncertainties as to the outcome of arbitrations or litigation that have been or might be initiated by retirees or their unions over this issue.

Under its method of accounting for pension and other postretirement benefit plans, the Company recognizes into income (loss), as a fourth quarter adjustment, any unrecognized actuarial gains and losses that exceed 10% of the larger of projected benefit obligations or plan assets (the "corridor"). The Company does not anticipate a fourth quarter 2008 corridor charge related to its other postretirement benefit plans. However, the Company does anticipate such a corridor charge with respect to its pension plans. Based on current assumptions for prevailing interest rates, a reduction in pension plan assets as a result of the weak conditions in the financial markets, and other relevant assumptions, the Company currently believes that its pension corridor charge in the fourth quarter of 2008 likely will be significant. However, because factors influencing the determination of plan assets and plan liabilities fluctuate significantly, the Company cannot yet determine with certainty the actual amount of this non-cash fourth quarter corridor charge related to its pension plans.

5. Share-Based Compensation

AK Steel Holding Corporation's Stock Incentive Plan (the "SIP") permits the granting of nonqualified stock option, restricted stock, and performance share awards to directors, officers and key management employees of the Company. In addition, on October 16, 2008, the Company's Board of Directors, on the recommendation of its Nominating and Governance Committee, approved an amendment to the SIP which provides for the prospective grant of restricted stock units ("RSUs") to directors in lieu of restricted stock for the equity portion of their director fees. The change to the SIP also authorized the directors to elect to convert their outstanding restricted shares to RSUs. Each RSU represents the right to receive one share of AK Steel Holding common stock at a later date. These nonqualified stock option, restricted stock, RSU and performance share awards may be granted with respect to an aggregate

maximum of 16 million shares through the period ending December 31, 2014. The shares that are issued as the result of these grants are newly issued shares. The exercise price of each option may not be less than the market price of the Company's common stock on the date of the grant. Stock options have a maximum term of 10 years and may not be exercised earlier than six months following the date of grant or such other term as may be specified in the award agreement. For option grants to officers and key management employees, the award agreements provide that the options vest and become exercisable at the rate of one-third per year over three years. Stock options granted to directors vest and become exercisable after one year. The restrictions on a restricted stock award previously issued to a director lapse upon completion of the full tenure for which the director was elected to serve on the Board. As noted above, new equity awards to directors for a portion of their fees will be in the form of RSUs. Those RSUs will vest upon grant, but settlement of the grant and issuance of shares of AK Holding common stock will not occur until at least the one-year anniversary of the grant. A director, however, may timely elect to defer the settlement date and the issuance of the common stock beyond that one-year anniversary. If the director chooses to receive the stock in a

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single lump sum, the deferral will be until six months after termination of the director's Board service. If the director chooses to receive the stock in installments, he or she may timely elect to receive up to fifteen annual installments commencing six months after termination of the director's Board service. With respect to existing restricted stock which a director elects to convert to RSUs, the RSUs will vest at the time of the May 2009 annual meeting of AK Holding shareholders. The settlement of those RSUs, and the issuance of shares of AK Holding common stock pursuant to the settlement, also will occur at the time of the May 2009 annual shareholders meeting unless the director timely elects to defer the settlement date and issuance of the stock in the same fashion as noted above with respect to newly issued RSUs. For restricted stock awards granted to officers and key management employees on or prior to December 31, 2006, typically 25% of the shares covered by a restricted stock award vest two years after the date of the award and an additional 25% vest on the third, fourth and fifth anniversaries of the date of the award. However, in 2005, the Board of Directors of the Company approved the grant of special restricted stock awards to the executive officers and selected key managers relating to the Company's performance in 2004 which vest ratably on the first, second, third anniversaries of the grant. Restricted stock awards granted after December 31, 2006 also will vest ratably on the first, second and third anniversaries of the grant. Performance shares vest after a three-year period. The total amount of performance shares issued will be based on the Company's share performance compared to a prescribed compounded annual growth rate and the total share return compared to Standard and Poor's 400 Mid Cap Index.

The Company's calculation of fair value of the options is estimated on the date of grant using the Black-Scholes option valuation model with the following weighted average assumptions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008 (b)	2007 (a)	2008	2007
Expected volatility	—	46.6%	52.4% – 56.5%	45.0% – 48.8%
Weighted-average volatility	—	46.60%	55.47%	46.82%
Expected term (in years)	—	7.3	2.9 – 7.3	2.9 – 7.3
Risk-free interest rate	—	4.91%	2.44% – 3.31%	4.50% – 4.91%
Dividend yield	—	—	0.55%	—

(a) Ranges not shown where data includes a single grant.

(b) There were no grants in the three months ended September 30, 2008.

The Company's policy for amortizing the value of the share-based payments is a straight-line method. The Company uses historical data regarding stock option exercise behaviors to estimate the expected life of options granted based on the period of time that options granted are expected to be outstanding. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. The expected volatility was based on historical volatility for a period equal to the stock option's expected life. The expected dividend yield is based on the Company's historical dividend payments. The Company's estimate assumes that 5% of the options issued will be forfeited.

A summary of stock option activity under the Company's share-based compensation plans for the nine months ended September 30, 2008 is presented below:

Weighted Average Exercise	Weighted Average Remaining	Aggregate Intrinsic
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	Shares	Price	Contractual Life	Value
Stock Options				
Outstanding at December 31, 2007	1,152,097	\$ 10.04		
Granted	127,000	36.75		
Exercised	(523,909)	6.38		
Outstanding at September 30, 2008	755,188	\$ 17.07	7.3 yrs	\$ 27.9
Options expected to vest at September 30, 2008	345,812	\$ 22.02	8.5 yrs	\$ 11.1
Options exercisable at September 30, 2008	391,175	\$ 12.47	6.3 yrs	\$ 16.2

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The weighted-average grant-date fair value of options granted during the nine months ended September 30, 2008 and 2007 was \$17.54 and \$8.32, respectively. There were no options granted in the three months ended September 30, 2008. During the three months ended September 30, 2007, the fair value of options granted was \$21.67. The total intrinsic value of options exercised during the nine months ended September 30, 2008 and 2007, based upon the average market price during the period, was \$24.9 and \$21.5, respectively. There were no options exercised during the three months ended September 30, 2008. For the three months ended September 30, 2007, the intrinsic value of options exercised was \$0.8.

The following table summarizes information about stock options outstanding at September 30, 2008:

Range of Exercise Prices			Options Outstanding		Options Exercisable		
			Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable	Weighted Average Exercise Price
\$ 3.05 to \$ 7.90			239,381	6.2 yrs.	\$ 7.22	167,880	\$ 6.94
\$ 7.91 to \$ 16.65			124,803	6.6 yrs.	14.40	121,800	14.40
\$ 16.66 to \$ 16.95			230,754	8.3 yrs.	16.76	69,912	16.78
\$ 16.96 to \$ 68.47			160,250	8.2 yrs.	34.30	31,583	24.81

The Company granted performance shares in the amounts of 176,250 and 371,500 for the nine-month periods ended September 30, 2008 and 2007, respectively. The three-year performance periods for these 2008 and 2007 grants end on December 31, 2010 and 2009, respectively.

The estimated pre-tax expense associated with share-based compensation for 2008 is \$7.0, of which \$1.7 and \$5.3, respectively, was expensed in the three- and nine-month periods ended September 30, 2008. The share-based compensation expense resulted in a decrease in net income of \$1.1 and \$3.3, respectively, in the three- and nine-month periods ended September 30, 2008. The share-based compensation expense taken includes expense for both nonqualified stock options and performance shares granted from the SIP.

A summary of the activity for non-vested restricted stock awards as of September 30, 2008 and changes during the nine-month period is presented below. There were no forfeitures during the period.

Restricted Stock Awards	Shares	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2007	979,988	\$ 11.31
Granted	148,694	37.03
Vested	(329,186)	11.68
Outstanding at September 30, 2008	799,496	\$ 15.94

Common stock compensation expense related to restricted stock awards granted under the Company's SIP was \$3.6 (\$2.2 after tax) and \$3.1 (\$1.9 after tax) for the nine-month periods ended September 30, 2008 and 2007, respectively. For the three-month periods ended September 30, 2008 and 2007, the expenses were \$1.1 (\$0.7 after tax) and \$0.8 (\$0.5 after tax), respectively.

As of September 30, 2008, there were \$6.9 of total unrecognized compensation costs related to non-vested share-based compensation awards granted under the SIP. Those costs are expected to be recognized over a weighted average period of 1.2 years.

6. Long-term Debt

During 2007, the Company redeemed the entire \$450.0 of outstanding 7-7/8% senior notes due in 2009, of which \$300.0 was redeemed in the first half, with the remaining \$150.0 redeemed in the third quarter of the year. In connection with these early redemptions, the Company incurred non-cash, pre-tax charges of approximately \$2.3 in the first nine months of 2007 for the write-off of unamortized debt expense. The redemptions were funded from the Company's existing cash balances.

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During 2007, the Company entered into an \$850.0 five-year revolving credit facility with a syndicate of lenders. The facility is secured by the Company's inventory and accounts receivable and replaced two previous credit facilities totaling \$700.0 which were secured separately by inventory and accounts receivable. The facility provides the Company with enhanced liquidity, lower costs and greater flexibility for borrowings and will be used for general corporate purposes. The Company incurred a non-cash pre-tax charge of approximately \$2.8 in the first quarter of 2007 related to the replacement of the previous revolving credit facilities.

7. Income Taxes

Income taxes recorded through September 30, 2008 have been estimated based on year-to-date income and projected results for the full year. The amounts recorded reflect the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" which clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes standards for the recognition and measurement of tax positions taken or expected to be taken on a tax return.

The balance of unrecognized tax benefits at December 31, 2007 was \$50.9. For the nine-month period ending September 30, 2008, the unrecognized tax benefits related to tax positions taken in prior periods increased by \$0.9. This increase related to the impact of federal audit adjustments on state and local taxes. The portion of the increase in unrecognized tax benefits that will affect the effective tax rate is \$0.4. For 2008, it is estimated the Company will record an additional \$1.4 of unrecognized tax benefits related to tax positions likely to be taken on tax returns to be filed for the current year with \$0.9 affecting the effective tax rate.

The Company recognizes interest and penalties accrued related to uncertain tax positions as a component of income tax expense. Accrued interest and penalties are included in the related tax liability line in the condensed consolidated balance sheets. The balance of interest and penalties at December 31, 2007 was \$4.9. For the nine-month period ended September 30, 2008, the Company recognized approximately \$2.0 in interest and penalties.

Certain tax positions exist for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change within twelve months of September 30, 2008. The Company has filed an appeal with taxing authorities to resolve a state tax issue related to the Company's filing position for tax years prior to 2002. The resolution of this issue, if concluded in the Company's favor, is estimated to reduce related unrecognized tax benefits within the next twelve months by approximately \$0.3 to \$0.9.

The Company is subject to taxation by the United States and by various state and foreign jurisdictions. The Company's tax years for 2005 and forward are subject to examination by the tax authorities. Net operating losses carried forward from prior years are subject to examination by tax authorities. However, with a few exceptions, the Company is no longer subject to federal, state, local or foreign examinations by tax authorities for years before 2005.

8. Comprehensive Income

Comprehensive income, net of tax, is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net income	\$ 188.3	\$ 108.4	\$ 434.6	\$ 281.0
Other comprehensive income (loss), net of tax:				
Foreign currency translation gain (loss)	(2.6)	1.2	(1.4)	0.9
Derivative instrument hedges, mark to market:				

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Gain/(loss) arising in period	(31.5)	(7.1)	—	(13.5)
Reclass of (gain)/loss included in net income	(11.1)	3.7	(13.7)	2.0
Unrealized holding (gain)/loss on securities	(0.8)	(0.2)	(1.2)	(0.1)
Pension and other postretirement benefit adjustment	(8.0)	(6.0)	153.3	(2.8)
Comprehensive income	\$ 134.3	\$ 100.0	\$ 571.6	\$ 267.5

A deferred tax rate of approximately 38% was applied to derivative instrument hedges, unrealized gains and losses and the pension and other postretirement benefit adjustment.

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Accumulated other comprehensive income, net of tax, is as follows:

	September 30, 2008	December 31, 2007
Foreign currency translation	\$ 5.9	\$ 7.3
Derivative instrument hedges	(11.6)	2.0
Unrealized gain (loss) on investments	(1.0)	0.2
Employee benefit liability	188.9	38.3
Accumulated other comprehensive income	\$ 182.2	\$ 47.8

9. Environmental and Legal Contingencies

Environmental Contingencies: Domestic steel producers, including AK Steel, are subject to stringent federal, state and local laws and regulations relating to the protection of human health and the environment. The Company has expended the following for environmental-related capital investments and environmental compliance:

	2007	2006	2005
Environmental related capital investments	\$ 2.4	\$ 9.6	\$ 33.3
Environmental compliance costs	122.8	125.5	109.0

AK Steel and its predecessors have been conducting steel manufacturing and related operations since the year 1900. Although the Company believes its operating practices have been consistent with prevailing industry standards during this time, hazardous materials may have been released in the past at one or more operating sites or third party sites, including operating sites that the Company no longer owns. The Company has 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. At September 30, 2008, the Company had recorded \$11.7 in current accrued liabilities and \$46.7 in non-current other liabilities on its condensed consolidated balance sheets for estimated probable costs relating to environmental matters. The comparable balances recorded by the Company at December 31, 2007 were \$11.1 in current accrued liabilities and \$40.6 in non-current other liabilities. In general, the material components of these accruals include the costs associated with investigations, delineations, risk assessments, remedial work, governmental response and oversight costs, site monitoring, and preparation of reports to the appropriate environmental agencies. The ultimate costs to AK Steel with respect to each site cannot be predicted with certainty because of the evolving nature of the investigation and remediation process. Rather, to develop the estimates of the probable costs, AK Steel must make certain assumptions.

The most significant of these assumptions relate to the nature and scope of the work which will be necessary to investigate and remediate a particular site and the cost of that work. Other significant assumptions include the cleanup technology which will be used, whether and to what extent any other parties will participate in paying the investigation and remediation costs, reimbursement of governmental agency past response and future oversight costs, and the reaction of the governing environmental agencies to the proposed work plans. Costs of future expenditures are not discounted to their present value. The Company does not believe that there is a reasonable possibility that a loss or losses exceeding the amounts accrued will be incurred in connection with the environmental matters discussed below that would, either individually or in the aggregate, have a material adverse effect on the Company's consolidated financial condition, results of operations or cash flows. However, since amounts recognized in the financial statements in accordance with accounting principles generally accepted in the United States exclude costs that are not probable or that may not be currently estimable, the ultimate costs of these environmental proceedings may be higher than those currently recorded in the Company's condensed consolidated financial statements.

Pursuant to the Resource Conservation and Recovery Act (“RCRA”), which governs the treatment, handling and disposal of hazardous waste, the 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. AK Steel’s major steelmaking facilities are subject to RCRA inspections by environmental regulators. While the Company 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 conferred by the Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”), the EPA and state environmental authorities have conducted site investigations at certain of AK Steel’s facilities and other

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third-party facilities, portions of which previously may have been used for disposal of materials that are currently subject to regulation. The results of these investigations are still pending, and AK Steel could be directed to expend funds for remedial activities at the former disposal areas. Because of the uncertain status of these investigations, however, the Company cannot reliably predict whether or when such expenditures might be required, their magnitude or the timeframe during which these potential costs would be incurred.

As previously reported, on July 27, 2001, AK Steel received a Special Notice Letter from the EPA requesting that AK Steel agree to conduct a Remedial Investigation/Feasibility Study (“RI/FS”) and enter into an administrative order on consent pursuant to Section 122 of CERCLA regarding the former Hamilton Plant located in New Miami, Ohio. The Hamilton Plant no longer exists. It ceased operations in 1990, and all of its former structures have been demolished and removed. Although AK Steel did not believe that a site-wide RI/FS was necessary or appropriate, in April 2002, it entered into a mutually agreed-upon administrative order on consent to perform such an investigation and study of the Hamilton Plant site. The site-wide RI/FS is underway and is projected to be completed this year. AK Steel currently has accrued \$0.7 for the remaining cost of the RI/FS. Until the RI/FS is completed, AK Steel cannot reliably estimate the additional costs, if any, associated with any potentially required remediation of the site or the timeframe during which these potential costs would be incurred.

On September 30, 1998, AK Steel received an order from the EPA under Section 3013 of RCRA requiring it to develop a plan for investigation of eight areas of the Mansfield Works that allegedly could be sources of contamination. A site investigation began in November 2000 and is continuing. AK Steel cannot reliably estimate at this time how long it will take to complete this site investigation. AK Steel currently has accrued approximately \$2.1 for the projected cost of the study at the Mansfield Works. Until the site investigation is completed, AK Steel cannot reliably estimate the additional costs, if any, associated with any potentially required remediation of the site or the timeframe during which these potential costs would be incurred.

On October 9, 2002, AK Steel received an order from the EPA under Section 3013 of RCRA requiring it to develop a plan for investigation of several areas of the Zanesville Works that allegedly could be sources of contamination. A site investigation began in early 2003 and is continuing. AK Steel estimates that it will take approximately two more years to complete this site investigation. AK Steel currently has accrued approximately \$1.0 for the projected cost of the study and remediation at Zanesville Works. Until the site investigation is completed, AK Steel cannot reliably estimate the additional costs, if any, associated with any potentially required remediation of the site or the timeframe during which these potential costs would be incurred.

On November 26, 2004, Ohio EPA issued a Notice of Violation (“NOV”) for alleged waste violations associated with an acid leak at AK Steel’s Coshocton Works. In November 2007, Ohio EPA and AK Steel reached an agreement to resolve this NOV. Pursuant to that agreement, AK Steel implemented an inspection program, initiated an investigation of the area where the acid leak occurred, will submit a closure plan, and upon approval from Ohio EPA, will implement that closure plan. Also, as part of the agreement, AK Steel paid a civil penalty of twenty-eight thousand dollars and funded a supplemental environmental project in the amount of seven thousand dollars. Until the investigation is completed and a closure plan is approved, AK Steel cannot reliably estimate the costs associated with closure or the timeframe during which the closure costs will be incurred.

On December 20, 2006, Ohio EPA issued an NOV with respect to two electric arc furnaces at AK Steel’s Mansfield Works alleging failure of the Title V stack tests with respect to several air pollutants. The Company is investigating this claim and is working with Ohio EPA to attempt to resolve it. AK Steel believes it will reach a settlement in this matter that will not have a material financial impact on AK Steel, but cannot be certain that a settlement will be reached. If a settlement is reached, the Company cannot reliably estimate at this time how long it will take to reach such a settlement or what its terms might be. AK Steel will vigorously contest any claims which cannot be resolved

through a settlement. Until it has reached a settlement with Ohio EPA or the claims that are the subject of the NOV are otherwise resolved, AK Steel cannot reliably estimate the costs, if any, associated with any potentially required operational changes at the furnaces or the timeframe over which any potential costs would be incurred.

The Hamilton County Department of Environmental Services ("HCDES") issued three NOVs, on June 19, 2007, June 27, 2007, and August 15, 2007, alleging that one of the basic oxygen furnaces at the Company's Middletown Works failed to meet the Maximum Achievable Control Technology ("MACT") requirements. In a related matter, on September 5, 2008, Ohio EPA issued a request for stipulated penalties in the approximate amount of \$0.49 under a March 31, 2004, Consent Order in Case No. CV 2004 03 1000, Butler County, Ohio, Court of Common Pleas. The request for stipulated penalties alleges that the Company failed to comply with certain Consent Order deadlines and emission limitations on the same basic oxygen furnace at the Company's Middletown Works.

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(Collectively, the proposed stipulated penalties and the three NOV's will be referred to herein as the "MACT Claims.") AK Steel has been working with Ohio EPA and HCDES to attempt to resolve the MACT Claims. On October 15, 2008, AK Steel reached an agreement with Ohio EPA and HCDES to resolve the MACT Claims in exchange for a payment by AK Steel of \$0.20 as a civil penalty and \$0.05 to the Clean Diesel School Bus Program Fund as a supplemental environmental project.

On July 23, 2007, the EPA issued an NOV with respect to the Coke Plant at AK Steel's Ashland Works alleging violations of pushing and combustion stack limits. The Company is investigating this claim and is working with the EPA to attempt to resolve it. AK Steel believes it will reach a settlement in this matter that will not have a material financial impact on AK Steel, but cannot be certain that a settlement will be reached. If a settlement is reached, the Company cannot reliably estimate at this time how long it will take to reach such a settlement or what its terms might be. AK Steel will vigorously contest any claims which cannot be resolved through a settlement. Until it has reached a settlement with the EPA or the claims that are the subject of the NOV are otherwise resolved, AK Steel cannot reliably estimate the costs, if any, associated with any potentially required operational changes at the Coke Plant or the timeframe over which any potential costs would be incurred.

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

Legal Contingencies: In addition to these environmental matters, and the items discussed below, there are various claims pending against AK Steel and its subsidiaries involving product liability, commercial, employee benefits and other matters arising in the ordinary course of business. Unless otherwise noted, in management's opinion, the ultimate liability resulting from all of these claims, individually and in the aggregate, should not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

As previously reported, on June 29, 2000, the United States filed a complaint on behalf of the EPA against AK Steel in the U.S. District Court for the Southern District of Ohio (the "Court"), Case No. C-1-00530, for alleged violations of the Clean Air Act, the Clean Water Act and the RCRA at the Middletown Works. Subsequently, the State of Ohio, the Sierra Club and the National Resources Defense Council intervened. On April 3, 2006, a proposed Consent Decree in Partial Resolution of Pending Claims (the "Consent Decree"), executed by all parties, was lodged with the Court. After a 30-day notice period, the Consent Decree was entered by the Court on May 15, 2006. Under the Consent Decree, the Company will implement certain RCRA corrective action interim measures to address polychlorinated biphenyls ("PCBs") in sediments and soils relating to Dicks Creek and certain other specified surface waters, adjacent floodplain areas, and other previously identified geographic areas. The Company also will undertake a comprehensive RCRA facility investigation at its Middletown Works and, as appropriate, complete a corrective measures study. Under the Consent Decree, the Company paid a civil penalty of \$0.46 and will perform a supplemental environmental project that will remove ozone-depleting refrigerants from certain equipment at an estimated cost of \$0.85. The Company anticipates that the cost of the remaining work required under the Consent Decree will be approximately \$18.0, consisting of approximately \$3.2 in capital investments and \$14.8 in expenses. The Company has accrued the \$14.8 for anticipated expenses associated with this project. The Company is in the process of completing work to more definitively delineate the soils and sediments which will need to be removed under the Consent Decree. Until that process is complete, the Company cannot reliably determine whether the actual cost of the work required under the Consent Decree will exceed the amount presently accrued. If there are additional costs, the Company does not anticipate at this time that they will have a material financial impact on the Company. The Company cannot reliably estimate at this time the timeframe during which the accrued or potential additional costs would be incurred.

On June 26, 2002, seventeen individuals filed a purported class action against AK Steel in the United States District Court for the Southern District of Ohio, Case No. C-1-02-467. As subsequently amended, the complaint alleges that AK Steel discriminates against African-Americans in its hiring practices and that AK Steel discriminates against all of its employees by preventing its employees from working in a racially integrated environment free from racial discrimination. The named plaintiffs seek various forms of declaratory, injunctive and unspecified monetary relief (including back pay, front pay, lost benefits, lost seniority and punitive damages) for themselves and unsuccessful African-American candidates for employment at AK Steel. On January 19, 2007, the Court conditionally certified two subclasses of unsuccessful African-American candidates. On January 14, 2008, AK Steel filed motions for summary judgment on all claims. On April 9, 2008, the Court granted AK Steel's motion for summary judgment with respect to the disparate treatment claims of four of the named plaintiffs and those claims have been dismissed with prejudice. In addition, the claims of several other plaintiffs

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were dismissed for various reasons, leaving a total of six plaintiffs, including five with claims as class representatives and one with an individual claim. On May 29, 2008, AK Steel reached a settlement (the “Bert Settlement”) with the class representatives (on behalf of themselves and the entire classes) and the one remaining plaintiff whose individual claim was not dismissed. The Bert Settlement was subject to court approval. On July 8, 2008, the court issued an order giving preliminary approval of the Bert Settlement and scheduling a hearing (the “Fairness Hearing”) on final approval for October 21, 2008. On October 21, 2008, the Court held the Fairness Hearing and, having received no timely objections, approved the Bert Settlement on October 23, 2008. Under the terms of the Bert Settlement, AK Steel will no longer use the pre-employment test at issue in the litigation, and will have pre-employment tests used at its Middletown Works and Ashland Works validated by an expert agreed to by the parties. In addition, AK Steel also will pay ten thousand dollars to each of five class representatives and to the one remaining individual plaintiff. AK Steel will contribute to a common fund the amount of three thousand four hundred dollars for each class member who files a timely proof of claim, to be distributed by class counsel. There are an estimated 154 class members. AK Steel will further pay to class counsel \$0.75 in attorneys’ fees. None of these payments is due until after judgment from the Court dismissing all claims covered by the Bert Settlement is final (i.e., not subject to any appeals). If the Bert Settlement does not become final, AK Steel will continue to contest this matter vigorously.

Since 1990, AK Steel (or its predecessor, Armco Inc.) has been named as a defendant in numerous lawsuits alleging personal injury as a result of exposure to asbestos. As of December 31, 2007, there were approximately 426 such lawsuits pending against AK Steel. 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 a current or former AK Steel facility. Approximately 40% of these premises suits arise out of claims of exposure at a facility in Houston, Texas that has been closed since 1984. When such an asbestos lawsuit initially is filed, the complaint typically does not include a specific dollar claim for damages. Only 135 of the 426 cases pending at December 31, 2007 in which AK Steel is a defendant include specific dollar claims for damages in the filed complaints. Those 135 cases involve a total of almost 2,600 plaintiffs and 17,317 defendants. In these cases, the complaint typically includes a monetary claim for compensatory damages and a separate monetary claim in an equal amount for punitive damages, and does not attempt to allocate the total monetary claim among the various defendants. For example, 120 of the 135 cases involve claims of \$0.2 or less, seven involve claims of between \$0.2 and \$5.0, five involve claims of between \$5.0 and \$15.0, and three involve claims of \$20.0. 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 AK Steel. In fact, it usually is not even possible at the outset to determine which of the plaintiffs actually will pursue a claim against AK Steel. Typically, that can only be determined through written interrogatories or other discovery after a case has been filed. Thus, in a case involving multiple plaintiffs and multiple defendants, AK Steel initially only accounts for the lawsuit as one claim against it. After AK Steel has determined through discovery whether a particular plaintiff will pursue a claim against it, it makes an appropriate adjustment to statistically account for that specific claim. It has been AK Steel’s experience to date that only a small percentage of asbestos plaintiffs ultimately identify AK Steel 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. Set forth below is a chart showing the number of new claims filed (accounted for as described above), the number of pending claims disposed of (i.e. settled or otherwise dismissed), and the approximate net amount of dollars paid on behalf of AK Steel in settlement of asbestos-related claims in 2007 and 2006.

	2007	2006
New Claims Filed	71	60
Claims Disposed Of	138	65
Dollars Paid in Settlements	\$ 0.4	\$ 0.4

Since the onset of asbestos claims against AK Steel in 1990, five asbestos claims have proceeded to trial in four separate cases. All five concluded with a verdict in favor of AK Steel. AK Steel intends to continue its practice of

vigorously defending the asbestos claims asserted against it. Based upon its present knowledge, and the factors set forth above, AK Steel believes it is unlikely that the resolution in the aggregate of the asbestos claims against AK Steel will have a material adverse effect on the Company's consolidated results of operations, cash flows or financial condition. However, predictions as to 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 impact of bankruptcies of other companies currently or historically defending asbestos claims, (3) the uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case, (4) the type and severity of the disease alleged to be suffered by each claimant, and (5) the potential for enactment of legislation affecting asbestos litigation.

As previously reported, on January 2, 2002, John D. West, a former employee, filed a class action in the United States District Court for the Southern District of Ohio against the AK Steel Corporation Retirement Accumulation Pension Plan, or

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AK RAPP, and the AK Steel Corporation Benefit Plans Administrative Committee. Mr. West claims that the method used under the AK RAPP to determine lump sum distributions does not comply with the Employment Retirement Income Security Act of 1974 (“ERISA”) and resulted in underpayment of benefits to him and the other class members. The District Court ruled in favor of the plaintiff class and on March 29, 2006 entered an amended final judgment against the defendants in the amount of \$37.6 in damages and \$7.3 in prejudgment interest, for a total of approximately \$44.9, with post judgment interest accruing at the rate of 4.7% per annum until paid. The defendants appealed to the United States Court of Appeals for the Sixth Circuit. On April 20, 2007, a panel of the Court of Appeals issued an opinion in which it affirmed the decision of the District Court. On August 15, 2007, the defendants filed a motion to stay the issuance of a mandate pending the filing of a petition for certiorari. On August 28, 2007, the Court of Appeals granted the motion. On November 16, 2007, defendants filed a petition for certiorari with the Supreme Court of the United States. That petition remains pending. The defendants intend to continue to contest this matter vigorously. In the event the plaintiffs ultimately prevail in this litigation, the funds for the payments to class members pursuant to the judgment will come from the AK Steel Master Pension Trust. The Company’s pension liability was re-measured as of April 30, 2007 to include the amount of this liability as of that date. That amount was \$47.4. The Company’s current estimates of its future funding obligations for its pension liabilities thus include a \$47.4 liability associated with this case. As of September 30, 2008, the amount of the judgment plus total accrued interest in this case was approximately \$50.4.

On October 20, 2005, two individuals filed a purported class action against AK Steel and the AK Steel Corporation Benefit Plans Administrative Committee in the United States District Court for the Southern District of Ohio, Case No. 1:05-cv-681. The complaint alleges that the defendants incorrectly calculated the amount of surviving spouse benefits due to be paid to the plaintiffs under the applicable pension plan. On December 19, 2005, the defendants filed their answer to the complaint. The parties subsequently filed cross-motions for summary judgment on the issue of whether the applicable plan language had been properly interpreted. On September 28, 2007, the United States Magistrate Judge assigned to the case issued a Report and Recommendation in which he recommended that the plaintiffs’ motion for partial summary judgment be granted and that the defendants’ motion be denied. The defendants filed timely objections to the Magistrate’s Report and Recommendation. On March 31, 2008, the court issued an order adopting the Magistrate’s recommendation and granting partial summary judgment to the plaintiffs on the issue of plan interpretation. The defendants subsequently filed a motion asking the court to certify the case for an immediate appeal to the United States Court of Appeals for the Sixth Circuit and seeking a stay pending appeal. On May 29, 2008, the court denied the defendants’ motion seeking an immediate appeal and stay. The case now will proceed forward with respect to discovery on the issue of damages. The plaintiffs have filed a motion for class certification which remains pending. No trial date has been set. The defendants intend to contest this matter vigorously.

On December 12, 2007, two individuals filed a purported class action against AK Holding, AK Steel, Anthem Insurance Companies, Inc. (“Anthem”), and others in the United States District Court for the Southern District of Ohio, Case No. 1:07-cv-01002. The complaint alleges that the plaintiffs are entitled to compensation arising from the demutualization of Anthem in 2001. On March 20, 2008, AK Holding and AK Steel filed their answer to the complaint. No trial date has been set. AK Holding and AK Steel intend to contest this matter vigorously.

In September and October, 2008, several companies filed purported class actions in the United States District Court for the Northern District of Illinois, against nine steel manufacturers, including AK Holding. The Case Nos. for these actions are 08CV5214, 08CV5371, 08CV5468, 08CV5633, 08CV5700, 08CV5942 and 08CV6197. The plaintiffs are companies which claim to have purchased steel products from one or more of the defendants and they purport to file the actions on behalf of all persons and entities who purchased steel products for delivery or pickup in the United States from any of the named defendants at any time from at least as early as January 2005 to the present. The complaints allege that the defendant steel producers have conspired to restrict output and to fix, raise, stabilize and maintain artificially high prices with respect to steel products in the United States. Discovery has not yet commenced

and no trial date has been set. AK Holding intends to contest this matter vigorously.

Middletown Works Retiree Healthcare Benefits Litigation

On June 1, 2006, AK Steel notified approximately 4,600 of its current retirees (or their surviving spouses) who formerly were hourly and salaried members of the Armco Employees Independent Federation (“AEIF”) that AK Steel was terminating their existing healthcare insurance benefits plan and implementing a new plan more consistent with current steel industry practices which would require the retirees to contribute to the cost of their healthcare benefits, effective October 1, 2006. On July 18, 2006, a group of nine former hourly and salaried members of the AEIF filed a purported class action (the “Retiree Action”) in the United States District Court for the Southern District of Ohio (the “Court”), Case No. 1-06CV0468, alleging that AK Steel did not have a right to make changes to their healthcare benefits. The named plaintiffs in the Retiree

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Action sought, among other things, injunctive relief (including an order retroactively rescinding the changes) for themselves and the other members of the putative class. On August 4, 2006, the plaintiffs in the Retiree Action filed a motion for a preliminary injunction seeking to prevent AK Steel from implementing the previously announced changes to healthcare benefits with respect to the AEIF-represented hourly employees. AK Steel opposed that motion, but on September 22, 2006 the trial court issued an order granting the motion. On that same day, AK Steel filed a notice of appeal to the United States Court of Appeals for the Sixth Circuit seeking a reversal of the decision to grant the preliminary injunction. While the appeal was pending, however, AK Steel announced on October 8, 2007 that it had reached a tentative settlement (the “Settlement”) of the claims of the retirees in the Retiree Action. Accordingly, on October 18, 2007, the pending appeal from the preliminary injunction was dismissed at the request of the parties.

The Settlement was subject to approval by the Court. On October 25, 2007, the parties filed a joint motion asking the Court to approve the Settlement. On November 1, 2007, an order was issued by the Court granting the plaintiffs’ renewed motion for class certification. On November 2, 2007, the Court issued an order giving preliminary approval of the Settlement and scheduled a hearing (the “Fairness Hearing”) on final approval of the Settlement beginning on February 12, 2008. In November 2007, notice of the Settlement was sent to all retirees or their surviving spouses who would be covered by the terms of the Settlement (collectively, the “Class Members”). Between the time the original notification of the benefit changes was sent on June 1, 2006 and the time that membership in the class was determined, the number of Class Members had increased to approximately 4,870. With dependents of the Class Members, the total number of persons covered by the Settlement is approximately 8,300.

The Class Members were given the opportunity to object to the Settlement in writing and, if they so objected in writing, to oppose it orally at the Fairness Hearing. A group of retirees did file objections. The Fairness Hearing was conducted on February 12-13, 2008. The objecting retirees were represented by counsel at the Fairness Hearing and did oppose the Settlement. On February 21, 2008, the Court issued a written decision approving the Settlement. The final judgment (the “Judgment”) formally approving the Settlement was entered on February 29, 2008. The Settlement became effective on that date. The Class Members who opposed the Settlement have filed appeals from the Judgment to the United States Court of Appeals for the Sixth Circuit, Case Nos. 08-3166 and 08-3354. The briefing has not yet been completed and no date has been set in those appeals.

Under terms of the Settlement, AK Steel has transferred to a Voluntary Employees Beneficiary Association trust (the “VEBA Trust”) all postretirement benefit obligations (the “OPEB Obligations”) owed to the Class Members under the Company’s applicable health and welfare plans and will have no further liability for any claims incurred by the Class Members after the effective date of the Settlement relating to their OPEB Obligations. The VEBA Trust will be utilized to fund the future OPEB Obligations to the Class Members. Under the terms of the Settlement, AK Steel was obligated to initially fund the VEBA Trust with a contribution of \$468.0 in cash within two business days of the effective date of the Settlement. AK Steel made this contribution on March 4, 2008. AK Steel further is obligated under the Settlement to make three subsequent annual cash contributions of \$65.0 each, for a total contribution of \$663.0.

As noted above, Class Members who objected to the Settlement have filed an appeal from the Judgment. The Settlement includes terms which contemplate that possibility. During the pendency of the appeal, the VEBA Trust will continue to be responsible for the OPEB Obligations to the Class Members. If the appeal is still pending at the time the next payment is due from AK Steel to the VEBA Trust under the terms of the Settlement, the funds which otherwise would have been paid to the VEBA Trust will be placed into an escrow account to be invested by the Trustees of the VEBA Trust. If the Judgment is affirmed on appeal, the funds placed into the escrow account, including interest or other earnings or losses, will be paid to the VEBA Trust. If, however, the Judgment is reversed, modified or vacated as a result of the appeal in such a way as to place the responsibility on AK Steel for payment of all of the OPEB Obligations to Class Members, then all of the monies placed into the escrow account, including

interest or other earnings or losses, will revert to AK Steel. In addition, under those circumstances, AK Steel will be immediately designated as the sole fiduciary controlling the VEBA Trust and all assets of the VEBA Trust will be subject to, and payable in connection with, any health or welfare plans maintained and controlled by AK Steel for the benefit of any of its employees or retirees, not just the Class Members. In the event of a reversal, modification or vacation of the Judgment that results in only part of the OPEB Obligations returning to the responsibility of AK Steel, then AK Steel will be designated as the sole fiduciary with respect to an appropriate pro-rata share of the VEBA Trust assets relative to the portion of the OPEB Obligations for which AK Steel has resumed responsibility.

Once the Settlement becomes final and no longer subject to appeal, the Company's only remaining liability with respect to the OPEB Obligations to the Class Members will be to contribute whatever portion of the \$663.0 due to the VEBA Trust that has not yet been paid at that time. At the time of the Fairness Hearing, the Company's total OPEB liability for all of its

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retirees was approximately \$2.0 billion. Of that amount, approximately \$1.0 billion was attributable to the Class Members. Immediately following the Judgment approving the Settlement, the Company's total OPEB liability was reduced by approximately \$339.1. This reduction in the Company's OPEB liability is being treated as a negative plan amendment and amortized as a reduction to net periodic benefit cost over approximately eleven years. This negative plan amendment will result in an annual net periodic benefit cost reduction of approximately \$30.0 in addition to the lower interest costs associated with the lower OPEB liability. Upon payment on March 4, 2008 of the initial \$468.0 contribution by AK Steel to the VEBA Trust in accordance with the terms of the Settlement, the Company's total OPEB liability was reduced further to approximately \$1.1 billion. The Company's total OPEB liability will be reduced further by the amount of each subsequent annual \$65.0 payment. In total, it is expected that the \$663.0 Settlement with the Class Members, if the Judgment is upheld on appeal, ultimately will reduce the Company's total OPEB liability by approximately \$1.0 billion.

Other than as described above, under the terms of the Settlement, the Company will have no other liability or responsibility with respect to OPEB Obligations to the Class Members.

As noted above, if the Judgment approving the Settlement is not affirmed on appeal, the result will be that the Company resumes responsibility, in whole or in part (depending upon the terms of the judicial decision reversing, vacating or modifying the Judgment) for the OPEB Obligations to some or all of the Class Members. Under such circumstances, the Company's total OPEB liability would increase accordingly, but the Company cannot reliably project at this time the amount of that increase because it is dependent upon the specific terms of the judicial decision. At that point, as to any such OPEB Obligations for which the Company has resumed responsibility as a result of the judicial decision, AK Steel would restart the retiree litigation and seek to judicially enforce what it continues to believe is its contractual right to unilaterally reduce, or even completely eliminate, healthcare benefits provided to any Class Members as to whom the Settlement no longer applies.

For accounting purposes, a settlement of the Company's OPEB Obligations related to the Class Members will be deemed to have occurred when AK Steel makes the last \$65.0 payment called for under the Settlement, assuming that there are no legal appeals pending at that time.

10. Fair Value Measurements

The Company adopted Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("FAS 157"), effective January 1, 2008. Under this standard, 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, the Company uses 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 the reporting entity has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. The valuation under this approach does not entail a significant degree of judgment.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs 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 contractual prices for the underlying financial instrument, as well as other relevant economic measures.

Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that 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.

The following fair value table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as of September 30, 2008. There were no valuations using Level 3 inputs.

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	Level 1	Level 2	Total
Assets:			
Available for sale investments—			
Marketable equity securities (1)	\$ 23.4	\$ —	\$ 23.4
Foreign exchange contracts (2)	—	1.0	1.0
Assets measured at fair value at September 30, 2008	\$ 23.4	\$ 1.0	\$ 24.4
Liabilities (3):			
Commodity hedge contracts	\$ —	\$ 18.0	\$ 18.0
Liabilities measured at fair value at September 30, 2008	\$ —	\$ 18.0	\$ 18.0

(1) Held in a trust and included in Other investments on the Condensed Consolidated Balance Sheet.

(2) Included in Accounts receivable, net on the Condensed Consolidated Balance Sheet.

(3) Included in Accrued liabilities and Other noncurrent liabilities on the Condensed Consolidated Balance Sheet.

11. Supplemental Guarantor Information

AK Holding, along with AK Tube, LLC and AK Steel Investments Inc. (the “Guarantor Subsidiaries”) fully and unconditionally, jointly and severally guarantee the payment of interest, principal and premium, if any, on AK Steel’s 7-3/4% Senior Notes Due 2012. AK Tube, LLC is owned 100% by AKS Investments Inc. and AKS Investments Inc. is 100% owned by AK Steel. AK Steel is 100% owned by AK Holding. The Company has determined that full financial statements and other disclosures concerning AK Holding and the Guarantor Subsidiaries are not required to be presented. The presentation of the supplemental guarantor information reflects all investments in subsidiaries under the equity method. Net income (loss) of the subsidiaries accounted for under the equity method is therefore reflected in their parents’ investment accounts. The principal elimination entries eliminate investments in subsidiaries and inter-company balances and transactions. The following supplemental condensed consolidating financial statements present information about AK Holding, AK Steel, the Guarantor Subsidiaries and the Other Subsidiaries. The Other Subsidiaries are not guarantors of the above notes.

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Condensed Statements of Operations
For the Three Month Ended September 30, 2008

	AK Holding	AK Steel	Guarantor Subsidiaries	Other Subsidiaries	Eliminations	Consolidated Company
Net sales	\$ —	\$ 1,980.8	\$ 57.3	\$ 166.5	\$ (47.0)	\$ 2,157.6
Cost of products sold	—	1,574.0	48.0	138.9	(20.0)	1,740.9
Selling and administrative expenses	0.9	64.3	3.0	4.7	(16.3)	56.6
Depreciation	—	48.8	1.6	0.1	—	50.5
Total operating costs	0.9	1,687.1	52.6	143.7	(36.3)	1,848.0
Operating profit (loss)	(0.9)	293.7	4.7	22.8	(10.7)	309.6
Interest expense	—	11.6	—	—	—	11.6
Other income (expense)	—	(2.3)	2.0	5.0	(4.0)	0.7
Income (loss) before income taxes	(0.9)	279.8	6.7	27.8	(14.7)	298.7
Income tax provision (benefit)	(0.3)	77.5	2.4	9.5	21.3	110.4
Income (loss) from continuing operations	(0.6)	202.3	4.3	18.3	(36.0)	188.3
Equity in net income of subsidiaries	188.9	(13.4)	—	—	(175.5)	—
Net income (loss)	\$ 188.3	\$ 188.9	\$ 4.3	\$ 18.3	\$ (211.5)	\$ 188.3

Condensed Statements of Operations
For the Three Months Ended September 30, 2007

	AK Holding	AK Steel	Guarantor Subsidiaries	Other Subsidiaries	Eliminations	Consolidated Company
Net sales	\$ —	\$ 1,586.8	\$ 57.4	\$ 110.9	\$ (33.4)	\$ 1,721.7
Cost of products sold	—	1,330.4	50.8	88.8	(16.5)	1,453.5
Selling and administrative expenses	0.5	61.3	2.9	3.8	(13.1)	55.4
Depreciation	—	47.6	1.6	0.1	—	49.3
Total operating costs	0.5	1,439.3	55.3	92.7	(29.6)	1,558.2
Operating profit (loss)	(0.5)	147.5	2.1	18.2	(3.8)	163.5
Interest expense	—	14.8	—	0.1	—	14.9
Other income (expense)	—	(4.8)	—	9.3	—	4.5

Income (loss) before income taxes	(0.5)	127.9	2.1	27.4	(3.8)	153.1
Income tax provision (benefit)	(0.1)	34.7	0.8	9.2	0.1	44.7
Income (loss) from continuing operations	(0.4)	93.2	1.3	18.2	(3.9)	108.4
Equity in net income of subsidiaries	108.8	15.6	—	—	(124.4)	—
Net income (loss)	\$ 108.4	\$ 108.8	\$ 1.3	\$ 18.2	\$ (128.3)	\$ 108.4

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Condensed Statements of Operations
For the Nine Months Ended September 30, 2008

	AK Holding	AK Steel	Guarantor Subsidiaries	Other Subsidiaries	Eliminations	Consolidated Company
Net sales	\$ —	\$ 5,698.9	\$ 176.7	\$ 470.7	\$ (160.7)	\$ 6,185.6
Cost of products sold	0.1	4,707.1	152.2	391.3	(104.3)	5,146.4
Selling and administrative expenses	2.6	188.6	9.3	13.9	(46.3)	168.1
Depreciation	—	148.5	5.0	0.4	—	153.9
Total operating costs	2.7	5,044.2	166.5	405.6	(150.6)	5,468.4
Operating profit (loss)	(2.7)	654.7	10.2	65.1	(10.1)	717.2
Interest expense	—	34.8	—	0.1	—	34.9
Other income (expense)	—	(8.2)	13.7	31.5	(27.3)	9.7
Income (loss) before income taxes	(2.7)	611.7	23.9	96.5	(37.4)	692.0
Income tax provision (benefit)	(0.9)	226.4	8.4	32.5	(9.0)	257.4
Income (loss) from continuing operations	(1.8)	385.3	15.5	64.0	(28.4)	434.6
Equity in net income of subsidiaries	436.4	51.1	—	—	(487.5)	—
Net income (loss)	\$ 434.6	\$ 436.4	\$ 15.5	\$ 64.0	\$ (515.9)	\$ 434.6

Condensed Statements of Operations
For the Nine Months Ended September 30, 2007

	AK Holding	AK Steel	Guarantor Subsidiaries	Other Subsidiaries	Eliminations	Consolidated Company
Net sales	\$ —	\$ 4,986.2	\$ 186.5	\$ 299.7	\$ (161.3)	\$ 5,311.1
Cost of products sold	0.1	4,207.7	163.0	220.5	(104.8)	4,486.5
Selling and administrative expenses	2.0	182.9	8.9	11.3	(40.2)	164.9
Depreciation	—	143.6	5.0	0.4	—	149.0
Pension curtailment charge	—	39.8	—	—	—	39.8
Total operating costs	2.1	4,574.0	176.9	232.2	(145.0)	4,840.2
Operating profit (loss)	(2.1)	412.2	9.6	67.5	(16.3)	470.9

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Interest expense	—	55.8	—	1.4	(0.8)	56.4
Other income (expense)	—	(23.2)	—	27.0	8.9	12.7
Income (loss) before income taxes	(2.1)	333.2	9.6	93.1	(6.6)	427.2
Income tax provision (benefit)	(0.7)	112.5	3.4	32.1	(1.1)	146.2
Income (loss) from continuing operations	(1.4)	220.7	6.2	61.0	(5.5)	281.0
Equity in net income of subsidiaries	282.4	61.7	—	—	(344.1)	—
Net income (loss)	\$ 281.0	\$ 282.4	\$ 6.2	\$ 61.0	\$ (349.6)	\$ 281.0

Table of ContentsCondensed Balance Sheets
As of September 30, 2008

	AK Holding	AK Steel	Guarantor Subsidiaries	Other Subsidiaries	Eliminations	Consolidated Company
ASSETS						
Current Assets:						
Cash and cash equivalents	\$ —	\$ 423.8	\$ —	\$ 17.6	\$ —	\$ 441.4
Accounts receivable, net	—	758.2	28.0	73.3	(1.7)	857.8
Inventories, net	—	754.8	21.3	76.5	(33.0)	819.6
Deferred tax assets	—	311.8	—	—	—	311.8
Other current assets	0.3	46.2	0.4	0.4	—	47.3
Total Current Assets	0.3	2,294.8	49.7	167.8	(34.7)	2,477.9
Property, Plant and Equipment	—	5,132.1	88.7	12.8	—	5,233.6
Less accumulated depreciation	—	(3,162.7)	(39.3)	(9.3)	—	(3,211.3)
Property, Plant and Equipment, Net	—	1,969.4	49.4	3.5	—	2,022.3
Other Assets:						
Investment in AFSG Holdings, Inc.	—	—	55.6	—	—	55.6
Investment in affiliates	(595.7)	595.7	40.1	942.9	(983.0)	—
Inter-company accounts	2,030.2	(2,318.1)	(44.3)	(297.9)	630.1	—
Other investments	—	27.7	—	23.1	—	50.8
Goodwill	—	(0.1)	32.9	4.3	—	37.1
Other intangible assets	—	—	0.3	—	—	0.3
Deferred tax assets	—	235.1	—	—	—	235.1
Other non-current assets	—	14.4	—	0.1	—	14.5
TOTAL ASSETS	\$ 1,434.8	\$ 2,818.9	\$ 183.7	\$ 843.8	\$ (387.6)	\$ 4,893.6
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)						
Current Liabilities:						
Accounts payable	\$ —	\$ 706.8	\$ 8.0	\$ 16.4	\$ (1.7)	\$ 729.5
Accrued liabilities	—	237.3	3.6	11.8	—	252.7
Current portion of long-term debt	—	12.8	—	—	—	12.8
Current portion of pension and other postretirement benefit obligations	—	150.3	—	—	—	150.3
Total Current Liabilities	—	1,107.2	11.6	28.2	(1.7)	1,145.3
Non-current Liabilities:						
Long-term debt	—	652.3	—	—	—	652.3
Pension and other postretirement benefit obligations	—	1,492.4	0.5	—	—	1,492.9
Other non-current liabilities	—	162.7	—	3.0	2.6	168.3
Total Non-current Liabilities	—	2,307.4	0.5	3.0	2.6	2,313.5

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TOTAL LIABILITIES	—	3,414.6	12.1	31.2	0.9	3,458.8
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	1,434.8	(595.7)	171.6	812.6	(388.5)	1,434.8
TOTAL LIABILITIES AND EQUITY	\$ 1,434.8	\$ 2,818.9	\$ 183.7	\$ 843.8	\$ (387.6)	\$ 4,893.6

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Table of ContentsCondensed Balance Sheets
As of December 31, 2007

	AK Holding	AK Steel	Guarantor Subsidiaries	Other Subsidiaries	Eliminations	Consolidated Company
ASSETS						
Current Assets:						
Cash and cash equivalents	\$ —	\$ 699.0	\$ —	\$ 14.6	\$ —	\$ 713.6
Accounts receivable, net	—	582.2	25.3	69.0	(1.5)	675.0
Inventories, net	—	597.7	19.6	68.4	(38.9)	646.8
Deferred tax assets	—	357.6	—	—	—	357.6
Other current assets	0.2	32.9	0.3	0.4	—	33.8
Total Current Assets	0.2	2,269.4	45.2	152.4	(40.4)	2,426.8
Property, Plant and Equipment	—	5,031.5	87.2	12.4	—	5,131.1
Less accumulated depreciation	—	(3,021.8)	(34.3)	(9.1)	—	(3,065.2)
Property, Plant and Equipment, Net	—	2,009.7	52.9	3.3	—	2,065.9
Other Assets:						
Investment in AFSG Holdings, Inc.	—	—	55.6	—	—	55.6
Investments in affiliates	(930.6)	930.6	40.1	879.4	(919.5)	—
Inter-company accounts	1,805.1	(2,446.6)	(54.9)	(284.2)	980.6	—
Other investments	—	21.1	—	21.8	—	42.9
Goodwill	—	—	32.9	4.2	—	37.1
Other intangible assets	—	—	0.3	—	—	0.3
Deferred tax assets	—	549.5	—	—	—	549.5
Other non-current assets	—	19.1	—	0.2	—	19.3
TOTAL ASSETS	\$ 874.7	\$ 3,352.8	\$ 172.1	\$ 777.1	\$ 20.7	\$ 5,197.4
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)						
Current Liabilities:						
Accounts payable	\$ —	\$ 570.2	\$ 6.3	\$ 13.2	\$ (1.5)	\$ 588.2
Accrued liabilities	—	199.1	3.3	11.6	—	214.0
Current portion of long-term debt	—	12.7	—	—	—	12.7
Current portion of pension and other postretirement benefit obligations	—	158.0	—	—	—	158.0
Total Current Liabilities	—	940.0	9.6	24.8	(1.5)	972.9
Non-current Liabilities:						
Long-term debt	—	652.7	—	—	—	652.7
Pension and other postretirement benefit obligations	—	2,536.2	1.0	—	—	2,537.2
Other non-current liabilities	—	154.5	—	3.0	2.4	159.9
Total Non-current Liabilities	—	3,343.4	1.0	3.0	2.4	3,349.8
TOTAL LIABILITIES	—	4,283.4	10.6	27.8	0.9	4,322.7

TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	874.7	(930.6)	161.5	749.3	19.8	874.7
TOTAL LIABILITIES AND EQUITY	\$ 874.7	\$ 3,352.8	\$ 172.1	\$ 777.1	\$ 20.7	\$ 5,197.4

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Condensed Statements of Cash Flows
For the Nine Months Ended September 30, 2008

	AK Holding	AK Steel	Guarantor Subsidiaries	Other Subsidiaries	Eliminations	Consolidated Company
Net cash flow from operating activities	\$ (1.3)	\$ (186.7)	\$ 17.8	\$ 53.8	\$ (22.7)	\$ (139.1)
Cash flows from investing activities:						
Capital investments	—	(118.8)	(1.7)	(0.3)	—	(120.8)
Investments, net	—	(8.2)	—	—	—	(8.2)
Proceeds from sale of property, plant and equipment	—	8.0	—	—	—	8.0
Other items, net	—	0.6	(0.1)	(0.2)	—	0.3
Net cash flow from investing activities	—	(118.4)	(1.8)	(0.5)	—	(120.7)
Cash flows from financing activities:						
Redemptions of long-term debt	—	(0.5)	—	—	—	(0.5)
Proceeds from exercise of stock options	3.3	—	—	—	—	3.3
Purchase of treasury stock	(9.6)	—	—	—	—	(9.6)
Common stock dividends paid	(16.8)	10.4	(13.7)	(14.1)	17.4	(16.8)
Excess tax benefits from stock-based transactions	—	12.4	—	—	—	12.4
Inter-company activity	24.5	7.2	(2.2)	(34.8)	5.3	—
Other items, net	(0.1)	0.4	(0.1)	(1.4)	—	(1.2)
Net cash flow from financing activities	1.3	29.9	(16.0)	(50.3)	22.7	(12.4)
Net increase (decrease)	—	(275.2)	—	3.0	—	(272.2)
Cash and equivalents, beginning of period	—	699.0	—	14.6	—	713.6
Cash and equivalents, end of period	\$ —	\$ 423.8	\$ —	\$ 17.6	\$ —	\$ 441.4

Condensed Statements of Cash Flows
For the Nine Months Ended September 30, 2007

	AK Holding	AK Steel	Guarantor Subsidiaries	Other Subsidiaries	Eliminations	Consolidated Company
Net cash flow from operating activities	\$ (1.1)	\$ (251.0)	\$ 5.2	\$ 636.4	\$ 10.8	\$ 400.3

Cash flows from investing activities:						
Capital investments	—	(61.6)	(1.6)	(0.3)	—	(63.5)
Investments, net	—	4.3	—	—	—	4.3
Proceeds from sale of property, plant and equipment	—	0.1	—	—	—	0.1
Proceeds from draw on restricted funds for emission control expenditures	—	2.5	—	—	—	2.5
Other items, net	—	1.1	—	(0.3)	—	0.8
Net cash flow from investing activities	—	(53.6)	(1.6)	(0.6)	—	(55.8)
Cash flows from financing activities:						
Redemptions of long-term debt	—	(450.0)	—	—	—	(450.0)
Proceeds from exercise of stock options	9.1	—	—	—	—	9.1
Purchase of treasury stock	(1.8)	—	—	—	—	(1.8)
Inter-company activity	(6.2)	647.2	(3.6)	(625.6)	(11.8)	—
Excess tax benefits from stock-based transactions	—	6.1	—	—	—	6.1
Fees related to new credit facility	—	(2.6)	—	—	—	(2.6)
Other items, net	—	(0.1)	—	—	1.0	0.9
Net cash flow from financing activities	1.1	200.6	(3.6)	(625.6)	(10.8)	(438.3)
Net increase (decrease)	—	(104.0)	—	10.2	—	(93.8)
Cash and equivalents, beginning of period	—	510.5	—	8.9	—	519.4
Cash and equivalents, end of period	\$ —	\$ 406.5	\$ —	\$ 19.1	\$ —	\$ 425.6

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

Results of Operations

The Company's operations consist of seven steelmaking and finishing plants located in Indiana, Kentucky, Ohio and Pennsylvania that produce flat-rolled carbon steels, including premium quality coated, cold-rolled and hot-rolled products, and specialty stainless and electrical steels that are sold in slab, hot band, and sheet and strip form. The Company's operations also include AK Tube LLC, which further finishes flat-rolled carbon and stainless steel at two tube plants located in Ohio and Indiana into welded steel tubing used in the automotive, large truck and construction markets. In addition, the Company's operations include European trading companies that buy and sell steel, steel products and other materials.

Steel shipments for the three months ended September 30, 2008 and 2007 were 1,476,300 tons and 1,603,000 tons, respectively. For the three-month period ended September 30, 2008, value-added products comprised 79.6% of total shipments compared to 82.8% for the three-month period ended September 30, 2007. The value-added shipments were lower due to a decrease in cold-rolled and coated shipments resulting from weaker automotive demand, partially offset by higher hot-rolled shipments to the spot market. Shipments for the nine months ended September 30, 2008 and 2007 were 4,792,500 tons and 4,910,600 tons, respectively. For the nine-month period ended September 30, 2008, value-added products comprised 80.0% of total shipments compared to 80.4% for the nine-month period ended September 30, 2007. Total shipments for the first nine months ended September 30, 2008 were lower than the same period in 2007 primarily due to lower shipments to the automotive market, partially offset by higher shipments to the service center market. The most significant differences in product mix from 2007 to 2008 for the first nine months of the year were a reduction in shipments of stainless, carbon cold-rolled, and nonoriented electrical steel products. The reduction in stainless shipments was attributable principally to reduced demand in the automotive and appliance markets. The reduction in cold-rolled steel products was attributable principally to lower spot market shipments. The reduction in nonoriented electrical steel products was the result of the weak housing market in the United States. It should be noted, however, that demand for grain-oriented electrical steel products remains strong globally and shipments increased year-over-year for the first nine months. The Company continues to focus on maximizing product profitability based on current and projected market demands – both domestically and internationally. The following presents net shipments by product line:

(tons in thousands)	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2008		2007		2008		2007	
Stainless / electrical	240.3	16.3%	259.1	16.2%	752.1	15.7%	805.6	16.4%
Coated	592.0	40.1%	666.4	41.6%	2,015.4	42.1%	2,020.8	41.2%
Cold-rolled	314.2	21.3%	367.8	22.9%	970.2	20.2%	1,005.6	20.5%
Tubular	28.3	1.9%	33.7	2.1%	96.0	2.0%	112.1	2.3%
S u b t o t a l								
v a l u e - a d d e d								
shipments	1,174.8	79.6%	1,327.0	82.8%	3,833.7	80.0%	3,944.1	80.4%
Hot-rolled	260.7	17.7%	218.2	13.6%	816.7	17.0%	766.3	15.6%
Secondary	40.8	2.7%	57.8	.6%	142.1	3.0%	200.2	4.0%
S u b t o t a l n o n								
v a l u e - a d d e d								
shipments	301.5	20.4%	276.0	17.2%	958.8	20.0%	966.5	19.6%

Total shipments	1,476.3	100.0%	1,603.0	100.0%	4,792.5	100.0%	4,910.6	100.0%
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For the three months ended September 30, 2008, net sales were \$2,157.6, reflecting an approximate 25% increase from third quarter 2007 net sales of \$1,721.7 and a slight decrease from second quarter 2008 net sales of \$2,236.6. Net sales during the first nine months of 2008 and 2007 were \$6,185.6 and \$5,311.1, respectively. Net sales to customers outside the United States totaled \$938.5 and \$666.5 during the first nine months of 2008 and 2007, respectively. A substantial majority of the revenue outside of the United States is associated with electrical and stainless steel products. In the third quarter of 2008, the Company set a quarterly record of \$1,462 per ton for its average selling price, which reflects a 36% improvement over the Company's third quarter 2007 average selling price of \$1,074 per ton and a 14% increase over the second quarter 2008 average selling price of \$1,287 per ton. The Company's average steel selling price for the first nine months of 2008 was \$1,291 per ton, also a record for the Company and an increase of 19% from the \$1,082 per ton average selling price in the first nine months of 2007. The increases in net sales and average selling prices for the three- and nine-month periods ended September 30, 2008, versus the comparable periods in 2007, were the result of higher contract sales prices, higher surcharges and higher spot market prices. The higher surcharges were the result of both increased raw material costs and the Company's successful efforts to add and/or expand raw material and energy surcharges in its customer agreements as existing agreements expire and new agreements are negotiated. The price increases in the first nine months of 2008 were driven principally by strong demand for the Company's products, in particular its carbon steel products. The increases also are

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being driven by the need to recover the current unprecedented increases in steelmaking inputs, including in particular iron ore and scrap.

Selling and administrative expense for the three and nine months ended September 30, 2008 of \$56.6 and \$168.1, respectively, were higher than the corresponding amounts for 2007 of \$55.4 and \$164.9, respectively, due primarily to higher compensation and employee benefit costs along with an overall higher level of spending.

Depreciation expense of \$50.5 and \$153.9, respectively, for the three and nine months ended September 30, 2008 was higher than the depreciation expense for the corresponding periods in 2007 of \$49.3 and \$149.0, respectively. The principal cause of this increase was the impact of various capital investments in 2007 and 2008 related to the expansion of the Company's high-end electrical steel production capabilities.

The Company had record operating profit of \$309.6 and \$717.2, respectively, for the three- and nine-month periods ended September 30, 2008. This compares to operating profit of \$163.5 and \$470.9, respectively, for the three- and nine-month periods ended September 30, 2007. The Company's operating profit per ton of \$210 for the three months ended September 30, 2008 also was a record and represented an increase of more than 105% over the Company's operating profit per ton of \$102 in the three months ended September 30, 2007. This record performance was principally the result of higher average selling prices, particularly with respect to the Company's carbon and electrical steel products, and higher surcharges, driven by increases in raw material and energy costs. Higher spot market shipments and lower retiree benefit costs also were significant contributing factors. The Company's operating profit per ton for the nine months ended September 30, 2008 was \$150 and represented an increase of 56% over operating profit per ton of \$96 in the nine months ended September 30, 2007.

The Company's maintenance outage costs in the first nine months of 2008 were approximately \$20.0 higher than they were in the corresponding period in 2007. This increase in maintenance outage costs was due primarily to a planned maintenance outage at the Company's Middletown Works blast furnace in the second quarter of 2008.

Continued increases in the Company's input costs in the third quarter partially mitigated the benefits of the Company's revenue increases. The Company continued to experience higher raw material and energy costs, particularly with respect to scrap, iron ore, purchased carbon slabs, alloys and natural gas. As a result of these increased costs for raw materials and energy, the Company's LIFO charge increased to \$65.4 for the three months ended September 30, 2008, compared to a LIFO credit of \$12.1 for the three months ended September 30, 2007. While the Company did experience higher raw material and energy costs, the impact of this increase was partially mitigated by lower total employment costs as a result of various labor agreements negotiated in 2007 and earlier which reduced both the number of employees and per-employee labor costs.

Also in the first nine months of 2007, the Company incurred non-cash pension benefit curtailment charges totaling \$39.8 in connection with labor agreements with the represented employees at the Company's Mansfield and Middletown Works, and there were no similar charges in the first nine months of 2008. In addition to the lower costs from these labor agreements, the Company also has benefited from the settlement of the litigation with a class of retirees at Middletown Works concerning retiree healthcare benefits. That settlement was approved by the court and became effective February 29, 2008, but is subject to a pending appeal. See discussion of "Middletown Works Retiree Healthcare Benefits Litigation" in Item 1, Note 9, above. The other postretirement benefits net periodic benefit cost will be lower as a result of the \$339.1 negative plan amendment and \$2.1 actuarial gain, which are being amortized over approximately eleven years, and the lower interest cost associated with the reduced obligation. This settlement lowered net periodic benefit cost by approximately \$45.8 in the first nine months of 2008 and will lower this cost by approximately \$19.6 during the fourth quarter of 2008.

The Company experienced an unplanned outage at its Ashland Works blast furnace late in the third quarter of 2007 that continued into the fourth quarter of 2007. A portion of the impact of this outage was recorded in the first nine months of 2008. The Company recorded a reduction to cost of sales and a corresponding accounts receivable insurance recovery of \$2.7, \$6.0, and \$34.0, in the second quarter of 2008, the first quarter of 2008 and the second half of 2007, respectively, for a total of \$42.7 in direct costs associated with the blast furnace outage. Of this amount, \$15.0 was received in 2007 and the balance was received in the first half of 2008.

Interest expense for the three and nine months ended September 30, 2008 was \$11.6 and \$34.9, respectively, compared to \$14.9 and \$56.4, respectively, for the same periods in 2007. The decrease was due primarily to the early retirement during 2007 of the entire \$450.0 of the Company's 7-7/8% senior notes due 2009.

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Other income, net for the three and nine months ended September 30, 2008 was \$0.7 and \$9.7 respectively, compared to \$4.5 and \$12.7, respectively for the corresponding periods in 2007. The decrease was due primarily to interest income as a result of a lower investment returns on cash and cash equivalents.

Income taxes recorded for the year 2008 have been estimated based on year-to-date income and projected financial results for the full year. The final effective tax rate to be applied to 2008 will depend, among other things, on the actual amount of taxable income generated by the Company for the full year.

The Company's net income in the three months ended September 30, 2008 was a quarterly record of \$188.3, or \$1.67 per diluted share. For the nine months ended September 30, 2008, it was \$434.6, or \$3.86 per diluted share. During the comparable three- and nine-month periods in 2007, the Company's net income was \$108.4, or \$0.97 per diluted share, and \$281.0, or \$2.51 per diluted share, respectively. The year-over-year increase with respect to the comparable periods was the result of the items discussed above.

Outlook

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

At the start of the quarter, the Company projected fourth quarter shipments of approximately 1,400,000 tons, but now expects shipments to be closer to 1,200,000 tons unless market conditions return soon to what they were at the beginning of the quarter. The Company's value-added product mix is expected to decrease from its third quarter 2008 level to approximately 77%, reflecting an anticipated continuing decline in shipments to the automotive market and other normal seasonal impacts in the fourth quarter. The Company anticipates lower raw material and energy costs relative to the third quarter. For the fourth quarter of 2008, the Company expects its planned maintenance outage costs to be approximately \$10.0, which would be comparable to the outage costs incurred in the third quarter.

The Company anticipates average selling prices for its products in the fourth quarter to decrease by at least 10%, or approximately \$150 per ton, compared to the third quarter of 2008. This anticipated decrease in average selling price is due primarily to weaker economic conditions in the United States and global economies, which are expected to result in reduced demand and lower spot market prices for steel products, particularly with respect to the Company's automotive and appliance business. Surcharges associated with the raw material input costs are expected to decrease in the fourth quarter as a result of declining raw material costs. Earlier in the quarter, the Company was forecasting an operating profit for the fourth quarter of 2008 of approximately \$100 per ton, but now anticipates that its operating profit will be less than that. At this time, the Company cannot provide more clarity with respect to a modified operating-profit-per ton forecast. Because of the recent significant deterioration in the global and domestic business environment, it has become much more difficult to provide reliable financial forecasts, even on a quarterly basis. The foregoing forecast thus is subject to the possibility of further deterioration in the economy and /or the Company's business during the fourth quarter.

Under its method of accounting for pension and other postretirement benefit plans, the Company recognizes into income (loss), as a fourth quarter adjustment, any unrecognized actuarial gains and losses that exceed 10% of the larger of projected benefit obligations or plan assets (the "corridor"). The Company does not anticipate a fourth quarter 2008 corridor charge related to its other postretirement benefit plans. However, the Company does anticipate such a corridor charge with respect to its pension plans. Based on current assumptions for prevailing interest rates, a reduction in pension plan assets as a result of the weak conditions in the financial markets and other relevant assumptions, the Company currently believes that its pension corridor charge in the fourth quarter of 2008 likely will be significant. However, because factors influencing the determination of plan assets and plan liabilities fluctuate

significantly, the Company cannot yet determine with certainty the actual amount of this non-cash fourth quarter corridor charge related to its pension plans.

Liquidity and Capital Resources

At September 30, 2008, the Company had total liquidity of \$1,139.4 consisting of \$441.4 of cash and cash equivalents and \$698.0 of availability under the Company's \$850.0 five-year revolving credit facility. At September 30, 2008, there were no outstanding borrowings under the credit facility; however, availability was reduced by \$152.0 due to outstanding letters of credit. Availability under the credit facility can fluctuate monthly based on the varying levels of eligible collateral. The Company's obligation is secured by its inventory and accounts receivable.

Cash used by operations totaled \$139.1 for the nine months ended September 30, 2008. The primary source of cash was net income from the Company's operating activities. This was offset by the Company's uses of cash in the first nine months of 2008 related to the Company's initial contribution of \$468.0 to the VEBA Trust, and \$225.0 in early pension contributions, as described in more detail below, and a \$178.3 increase in the Company's working capital. The increase in working capital resulted from higher accounts receivable associated with the level of sales revenue along with higher inventories primarily related to higher raw material costs, partially offset by higher accounts payable related to an increase in raw materials costs.

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The Company made early pension contributions of \$75.0 in each of the first, second and third quarters of 2008 totaling \$225.0 for the year. No additional pension payments are required for 2008. The Company has made \$834.0 in pension fund contributions since 2005. Currently, the Company estimates required annual pension contributions for 2009 through 2011 to average approximately \$200.0 to \$225.0. The calculation of estimated future pension contributions requires the use of assumptions concerning future events. The most significant of these assumptions relate to future investment performance of the pension funds, actuarial data relating to plan participants, and the benchmark interest rate used to discount future benefits to their present value. Because of the variability of factors underlying these assumptions, including the possibility of future pension legislation, the reliability of estimated future pension contributions decreases as the length of time until the contributions must be made increases.

In the first quarter of 2008, the Company reached a settlement with the Middletown Works retirees that requires the Company to make a total of \$663.0 in payments to the VEBA Trust. The Company made the initial contribution of \$468.0 in March 2008 and is required to make three subsequent annual payments of \$65.0.

During the nine months ended September 30, 2008, net cash used by investing activities totaled \$120.7, primarily from capital investments. Capital spending for the year 2008 is expected to total approximately \$180.0.

During the nine months ended September 30, 2008, cash used by financing activities totaled \$12.4, primarily the result of common stock dividends paid of \$16.8 and purchase of treasury stock of \$9.6, partially offset by excess tax benefits from stock-based compensation of \$12.4 and proceeds from the exercise of stock options of \$3.3.

On March 24, 2008, the Company's Board of Directors approved a 20-year supply contract with Middletown Coke Company, Inc. ("Middletown Coke"), an affiliate of SunCoke Energy, Inc. ("SunCoke"), to provide the Company with metallurgical-grade coke and electrical power. The coke and power will come from a new facility to be constructed, owned and operated by Middletown Coke adjacent to the Company's Middletown Works. The proposed new facility will produce about 550,000 tons of coke and 50 megawatts of electrical power annually. The anticipated cost to build the facility is approximately \$340.0. Under the agreement, the Company will purchase all of the coke and electrical power generated from the new plant for at least 20 years, helping the Company achieve its goal of more fully integrating its raw material supply and providing about 25% of the power requirements of Middletown Works. The agreement is contingent upon, among other conditions, Middletown Coke receiving all necessary local, state and federal approvals and permits, as well as available economic incentives, to build and operate the proposed new facility. There are no plans to idle any existing cokemaking capacity if the proposed SunCoke project is consummated.

On July 21, 2008, the Company announced a \$21.0 capital investment to further expand the Company's production capabilities for high value-added, grain-oriented electrical steels that are currently in strong demand in both United States and global markets. The project includes installation of new production equipment at the Company's Butler Works to utilize the Company's proprietary special annealing technology, as well as upgrades to an existing processing line at Butler Works. In addition to enhancing production capacity for higher quality grades of electrical steels, the project also will help improve the Company's product mix flexibility. The Company expects the project to be completed in late 2009. This capital investment is an addition to a previously-announced project currently underway at the Company's Butler and Zanesville Works which was the Company's fourth project in the past four years to expand production of electrical steels.

The Company anticipates that it will use cash to redeem \$12.1 of outstanding industrial bonds in the fourth quarter of this year. As of September 30, 2008, this amount was classified on the balance sheet in the Current portion of long-term debt. As a result of this anticipated redemption a supporting letter of credit will also be eliminated. The redemption will not have an impact on the Company's overall liquidity position.

Forward-Looking Statements

Certain statements made or incorporated by reference in this Form 10-Q, or made in press releases or in oral presentations made by Company employees, reflect management's estimates and beliefs and are intended to be, and are hereby identified as "forward-looking statements" for purposes of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These include, but are not limited to, the paragraphs herein entitled "Outlook," "Liquidity and Capital Resources" and "Risk Factors."

As discussed in its Annual Report on Form 10-K for the year ended December 31, 2007, the Company cautions readers that such forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those currently expected by management. See "Risk Factors" in Part II, Item 1A of this report and in Part I, Item 1A of the Company's Form 10-K for the year ended December 31, 2007.

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Except as required by law, the Company disclaims any obligation to update any forward-looking statements to reflect future developments or events.

Item 3. Quantitative and Qualitative Disclosure about Market Risk.

In the ordinary course of business, the Company is exposed to market risk for price fluctuations of raw materials and energy sources. In 2008, the prices of raw materials and energy, including iron ore, scrap, purchased carbon slabs, chrome, aluminum and natural gas, have been extraordinarily volatile. With respect to most of these items, there have been significant increases during 2008 and current prices are higher than they were at the end of 2007. The Company continues to negotiate with its customers to add and/or expand raw material and energy surcharges in its customer agreements as existing agreements expire and new agreements are negotiated, but the amount of increases in natural gas and raw material costs which the Company will be able to pass on to its customers in the form of a surcharge or increased pricing is uncertain. In certain instances – for example, where a contract was negotiated at a time of unusually high raw material or energy prices – it is possible that subsequent decreases in natural gas or raw material costs will result in a decrease in the total price, including the surcharges, charged to a customer for a particular product compared to the price at the time the contract was entered into.

The Company uses cash settled commodity price swaps and/or options to hedge the market risk associated with the purchase of certain of its raw materials and energy requirements. Such hedges routinely are used with respect to a portion of the Company's natural gas and nickel requirements and are sometimes used with respect to its aluminum and zinc requirements. The Company's hedging strategy is designed to protect it against normal volatility. However, abnormal price increases in any of these commodity markets could negatively impact operating costs. Gains and losses from the use of these instruments are deferred in accumulated other comprehensive income on the condensed consolidated balance sheets and recognized into cost of products sold in the same period as the underlying transaction. At September 30, 2008, accumulated other comprehensive income included \$11.6 in unrealized losses, net of tax, for the fair value of these derivative instruments. The following table presents the negative effect on pretax income of a hypothetical change in the fair value of derivative instruments outstanding at September 30, 2008, due to an assumed 10% and 25% decrease in the market price of each of the indicated commodities.

Commodity Derivative	10% Decrease	25% Decrease
Natural Gas	\$ 16.2	\$ 40.1
Nickel	0.1	0.1
Aluminum	0.3	0.8

Because these instruments are structured and used as hedges, these hypothetical losses would be offset by the benefit of lower prices paid for the physical commodity. The Company currently does not enter into swap or option contracts for trading purposes.

The Company is also subject to risks of exchange rate fluctuations on a small portion of inter-company receivables that are denominated in foreign currencies. The Company occasionally uses forward currency contracts to manage exposures to certain of these currency price fluctuations. At September 30, 2008, the Company had outstanding forward currency contracts with a total notional value of \$23.5 for the sale of euros. Based on the contracts outstanding at September 30, 2008, a 10% increase in the dollar to euro exchange rate would result in a \$2.4 pretax loss in the value of these contracts, which would offset the income benefit of a more favorable exchange rate.

Item 4. Controls and Procedures.

The Company maintains 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 the Company’s disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits 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 SEC’s rules and forms.

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

PART II. OTHER INFORMATION

(dollars in millions, except per share and per ton data)

Item 1. Legal proceedings.

The following are updates to the Company's descriptions of pending legal proceedings and environmental matters reported in its Annual Report on Form 10-K for the calendar year 2007:

As previously reported, on June 29, 2000, the United States filed a complaint on behalf of the EPA against AK Steel in the U.S. District Court for the Southern District of Ohio (the "Court"), Case No. C-1-00530, for alleged violations of the Clean Air Act, the Clean Water Act and the RCRA at the Middletown Works. Subsequently, the State of Ohio, the Sierra Club and the National Resources Defense Council intervened. On April 3, 2006, a proposed Consent Decree in Partial Resolution of Pending Claims (the "Consent Decree"), executed by all parties, was lodged with the Court. After a 30-day notice period, the Consent Decree was entered by the Court on May 15, 2006. Under the Consent Decree, the Company will implement certain RCRA corrective action interim measures to address polychlorinated biphenyls ("PCBs") in sediments and soils relating to Dicks Creek and certain other specified surface waters, adjacent floodplain areas, and other previously identified geographic areas. The Company also will undertake a comprehensive RCRA facility investigation at its Middletown Works and, as appropriate, complete a corrective measures study. Under the Consent Decree, the Company paid a civil penalty of \$0.46 and will perform a supplemental environmental project that will remove ozone-depleting refrigerants from certain equipment at an estimated cost of \$0.85. The Company anticipates that the cost of the remaining work required under the Consent Decree will be approximately \$18.0, consisting of approximately \$3.2 in capital investments and \$14.8 in expenses. The Company has accrued the \$14.8 for anticipated expenses associated with this project. The Company is in the process of completing work to more definitively delineate the soils and sediments which will need to be removed under the Consent Decree. Until that process is complete, the Company cannot reliably determine whether the actual cost of the work required under the Consent Decree will exceed the amount presently accrued. If there are additional costs, the Company does not anticipate at this time that they will have a material financial impact on the Company. The Company cannot reliably estimate at this time the timeframe during which the accrued or potential additional costs would be incurred.

On June 26, 2002, seventeen individuals filed a purported class action against AK Steel in the United States District Court for the Southern District of Ohio, Case No. C-1-02-467. As subsequently amended, the complaint alleges that AK Steel discriminates against African-Americans in its hiring practices and that AK Steel discriminates against all of its employees by preventing its employees from working in a racially integrated environment free from racial discrimination. The named plaintiffs seek various forms of declaratory, injunctive and unspecified monetary relief (including back pay, front pay, lost benefits, lost seniority and punitive damages) for themselves and unsuccessful African-American candidates for employment at AK Steel. On January 19, 2007, the Court conditionally certified two subclasses of unsuccessful African-American candidates. On January 14, 2008, AK Steel filed motions for summary judgment on all claims. On April 9, 2008, the Court granted AK Steel's motion for summary judgment with respect to the disparate treatment claims of four of the named plaintiffs and those claims have been dismissed with prejudice. In addition, the claims of several other plaintiffs were dismissed for various reasons, leaving a total of six plaintiffs, including five with claims as class representatives and one with an individual claim. On May 29, 2008, AK Steel reached a settlement (the "Bert Settlement") with the class representatives (on behalf of themselves and the entire classes) and the one remaining plaintiff whose individual claim was not dismissed. The Bert Settlement was subject

to court approval. On July 8, 2008, the court issued an order giving preliminary approval of the Bert Settlement and scheduling a hearing (the "Fairness Hearing") on final approval for October 21, 2008. On October 21, 2008, the Court held the Fairness Hearing and, having received no timely objections, approved the Bert Settlement on October 23, 2008. Under the terms of the Bert Settlement, AK Steel will no longer use the pre-employment test at issue in the litigation, and will have pre-employment tests used at its Middletown Works and Ashland Works validated by an expert agreed to by the parties. In addition, AK Steel also will pay ten thousand dollars to each of five class representatives and to the one remaining individual plaintiff. AK Steel will contribute to a common fund the amount of three thousand four hundred dollars for each class member who files a timely proof of claim, to be distributed by class counsel. There are an estimated 154 class members. AK Steel will further pay to class counsel \$0.75 in attorneys' fees. None of these payments is due until after judgment from the Court dismissing all claims covered by the Bert Settlement is final (i.e., not subject to any appeals). If the Bert Settlement does not become final, AK Steel will continue to contest this matter vigorously.

Since 1990, AK Steel (or its predecessor, Armco Inc.) has been named as a defendant in numerous lawsuits alleging personal injury as a result of exposure to asbestos. As of December 31, 2007, there were approximately 426 such lawsuits pending against AK Steel. 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 a current or former AK Steel facility. Approximately 40% of these premises suits arise out of claims of exposure at a

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facility in Houston, Texas that has been closed since 1984. When such an asbestos lawsuit initially is filed, the complaint typically does not include a specific dollar claim for damages. Only 135 of the 426 cases pending at December 31, 2007 in which AK Steel is a defendant include specific dollar claims for damages in the filed complaints. Those 135 cases involve a total of almost 2,600 plaintiffs and 17,317 defendants. In these cases, the complaint typically includes a monetary claim for compensatory damages and a separate monetary claim in an equal amount for punitive damages, and does not attempt to allocate the total monetary claim among the various defendants. For example, 120 of the 135 cases involve claims of \$0.2 or less, seven involve claims of between \$0.2 and \$5.0, five involve claims of between \$5.0 and \$15.0, and three involve claims of \$20.0. 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 AK Steel. In fact, it usually is not even possible at the outset to determine which of the plaintiffs actually will pursue a claim against AK Steel. Typically, that can only be determined through written interrogatories or other discovery after a case has been filed. Thus, in a case involving multiple plaintiffs and multiple defendants, AK Steel initially only accounts for the lawsuit as one claim against it. After AK Steel has determined through discovery whether a particular plaintiff will pursue a claim against it, it makes an appropriate adjustment to statistically account for that specific claim. It has been AK Steel's experience to date that only a small percentage of asbestos plaintiffs ultimately identify AK Steel 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. Set forth below is a chart showing the number of new claims filed (accounted for as described above), the number of pending claims disposed of (i.e. settled or otherwise dismissed), and the approximate net amount of dollars paid on behalf of AK Steel in settlement of asbestos-related claims in 2007 and 2006.

	2007	2006
New Claims Filed	71	60
Claims Disposed Of	138	65
Dollars Paid in Settlements	\$ 0.4	\$ 0.4

Since the onset of asbestos claims against AK Steel in 1990, five asbestos claims against it have proceeded to trial in four separate cases. All five concluded with a verdict in favor of AK Steel. AK Steel intends to continue its practice of vigorously defending the asbestos claims asserted against it. Based upon its present knowledge, and the factors set forth above, AK Steel believes it is unlikely that the resolution in the aggregate of the asbestos claims against AK Steel will have a material adverse effect on the Company's consolidated results of operations, cash flows or financial condition. However, predictions as to 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 impact of bankruptcies of other companies currently or historically defending asbestos claims, (3) the uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case, (4) the type and severity of the disease alleged to be suffered by each claimant, and (5) the potential for enactment of legislation affecting asbestos litigation.

As previously reported, on January 2, 2002, John D. West, a former employee, filed a class action in the United States District Court for the Southern District of Ohio against the AK Steel Corporation Retirement Accumulation Pension Plan, or AK RAPP, and the AK Steel Corporation Benefit Plans Administrative Committee. Mr. West claims that the method used under the AK RAPP to determine lump sum distributions does not comply with the Employment Retirement Income Security Act of 1974 ("ERISA") and resulted in underpayment of benefits to him and the other class members. The District Court ruled in favor of the plaintiff class and on March 29, 2006 entered an amended final judgment against the defendants in the amount of \$37.6 in damages and \$7.3 in prejudgment interest, for a total of approximately \$44.9, with post judgment interest accruing at the rate of 4.7% per annum until paid. The defendants appealed to the United States Court of Appeals for the Sixth Circuit. On April 20, 2007, a panel of the Court of Appeals issued an opinion in which it affirmed the decision of the District Court. On August 15, 2007, the defendants

filed a motion to stay the issuance of a mandate pending the filing of a petition for certiorari. On August 28, 2007, the Court of Appeals granted the motion. On November 16, 2007, defendants filed a petition for certiorari with the Supreme Court of the United States. That petition remains pending. The defendants intend to continue to contest this matter vigorously. In the event the plaintiffs ultimately prevail in this litigation, the funds for the payments to class members pursuant to the judgment will come from the AK Steel Master Pension Trust. The Company's pension liability was re-measured as of April 30, 2007 to include the amount of this liability as of that date. That amount was \$47.4. The Company's current estimates of its future funding obligations for its pension liabilities thus include a \$47.4 liability associated with this case. As of September 30, 2008, the amount of the judgment plus total accrued interest in this case was approximately \$50.4. See discussion of future pension funding obligations in Part I, Item 2, Liquidity and Capital Resources.

On October 20, 2005, two individuals filed a purported class action against AK Steel and the AK Steel Corporation Benefit Plans Administrative Committee in the United States District Court for the Southern District of Ohio, Case No. 1:05-cv-681. The complaint alleges that the defendants incorrectly calculated the amount of surviving spouse benefits due to be paid to the plaintiffs under the applicable pension plan. On December 19, 2005, the defendants filed their answer to the complaint. The parties subsequently filed

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cross-motions for summary judgment on the issue of whether the applicable plan language had been properly interpreted. On September 28, 2007, the United States Magistrate Judge assigned to the case issued a Report and Recommendation in which he recommended that the plaintiffs' motion for partial summary judgment be granted and that the defendants' motion be denied. The defendants filed timely objections to the Magistrate's Report and Recommendation. On March 31, 2008, the court issued an order adopting the Magistrate's recommendation and granting partial summary judgment to the plaintiffs on the issue of plan interpretation. The defendants subsequently filed a motion asking the court to certify the case for an immediate appeal to the United States Court of Appeals for the Sixth Circuit and seeking a stay pending appeal. On May 29, 2008, the court denied the defendants' motion seeking an immediate appeal and stay. The case now will proceed forward with respect to discovery on the issue of damages. The plaintiffs have filed a motion for class certification which remains pending. No trial date has been set. The defendants intend to contest this matter vigorously.

On December 12, 2007, two individuals filed a purported class action against AK Holding, AK Steel, Anthem Insurance Companies, Inc. ("Anthem"), and others in the United States District Court for the Southern District of Ohio, Case No. 1:07-cv-01002. The complaint alleges that the plaintiffs are entitled to compensation arising from the demutualization of Anthem in 2001. On March 20, 2008, AK Holding and AK Steel filed their answer to the complaint. No trial date has been set. AK Holding and AK Steel intend to contest this matter vigorously.

In September and October, 2008, several companies filed purported class actions in the United States District Court for the Northern District of Illinois, against nine steel manufacturers, including AK Holding. The Case Nos. for these actions are 08CV5214, 08CV5371, 08CV5468, 08CV5633, 08CV5700, 08CV5942 and 08CV6197. The plaintiffs are companies which claim to have purchased steel products from one or more of the defendants and they purport to file the actions on behalf of all persons and entities who purchased steel products for delivery or pickup in the United States from any of the named defendants at any time from at least as early as January 2005 to the present. The complaints allege that the defendant steel producers have conspired to restrict output and to fix, raise, stabilize and maintain artificially high prices with respect to steel products in the United States. Discovery has not yet commenced and no trial date has been set. AK Holding intends to contest this matter vigorously.

Middletown Works Retiree Healthcare Benefits Litigation

On June 1, 2006, AK Steel notified approximately 4,600 of its current retirees (or their surviving spouses) who formerly were hourly and salaried members of the Armco Employees Independent Federation ("AEIF") that AK Steel was terminating their existing healthcare insurance benefits plan and implementing a new plan more consistent with current steel industry practices which would require the retirees to contribute to the cost of their healthcare benefits, effective October 1, 2006. On July 18, 2006, a group of nine former hourly and salaried members of the AEIF filed a purported class action (the "Retiree Action") in the United States District Court for the Southern District of Ohio (the "Court"), Case No. 1-06CV0468, alleging that AK Steel did not have a right to make changes to their healthcare benefits. The named plaintiffs in the Retiree Action sought, among other things, injunctive relief (including an order retroactively rescinding the changes) for themselves and the other members of the putative class. On August 4, 2006, the plaintiffs in the Retiree Action filed a motion for a preliminary injunction seeking to prevent AK Steel from implementing the previously announced changes to healthcare benefits with respect to the AEIF-represented hourly employees. AK Steel opposed that motion, but on September 22, 2006 the trial court issued an order granting the motion. On that same day, AK Steel filed a notice of appeal to the United States Court of Appeals for the Sixth Circuit seeking a reversal of the decision to grant the preliminary injunction. While the appeal was pending, however, AK Steel announced on October 8, 2007 that it had reached a tentative settlement (the "Settlement") of the claims of the retirees in the Retiree Action. Accordingly, on October 18, 2007, the pending appeal from the preliminary injunction was dismissed at the request of the parties.

The Settlement was subject to approval by the Court. On October 25, 2007, the parties filed a joint motion asking the Court to approve the Settlement. On November 1, 2007, an order was issued by the Court granting the plaintiffs' renewed motion for class certification. On November 2, 2007, the Court issued an order giving preliminary approval of the Settlement and scheduled a hearing (the "Fairness Hearing") on final approval of the Settlement beginning on February 12, 2008. In November 2007, notice of the Settlement was sent to all retirees or their surviving spouses who would be covered by the terms of the Settlement (collectively, the "Class Members"). Between the time the original notification of the benefit changes was sent on June 1, 2006 and the time that membership in the class was determined, the number of Class Members had increased to approximately 4,870. With dependents of the Class Members, the total number of persons covered by the Settlement is approximately 8,300. The Class Members were given the opportunity to object to the Settlement in writing and, if they so objected in writing, to oppose it orally at the Fairness Hearing. A group of retirees did file objections. The Fairness Hearing was conducted on February 12-13, 2008. The objecting retirees were represented by counsel at the Fairness Hearing and did oppose the Settlement. On February 21, 2008, the Court issued a written decision approving the Settlement. The final judgment (the "Judgment") formally approving the Settlement was entered on February 29, 2008. The Settlement became effective on that date. The Class Members who opposed the Settlement have filed appeals from

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the Judgment to the United States Court of Appeals for the Sixth Circuit, Case Nos. 08-3166 and 08-3354. The briefing has not yet been completed and no hearing date has been set in those appeals.

Under terms of the Settlement, AK Steel has transferred to a Voluntary Employees Beneficiary Association trust (the “VEBA Trust”) all postretirement benefit obligations (the “OPEB Obligations”) owed to the Class Members under the Company’s applicable health and welfare plans and will have no further liability for any claims incurred by the Class Members after the effective date of the Settlement relating to their OPEB Obligations. The VEBA Trust will be utilized to fund the future OPEB Obligations to the Class Members. Under the terms of the Settlement, AK Steel was obligated to initially fund the VEBA Trust with a contribution of \$468.0 in cash within two business days of the effective date of the Settlement. AK Steel made this contribution on March 4, 2008. AK Steel further is obligated under the Settlement to make three subsequent annual cash contributions of \$65.0 each, for a total contribution of \$663.0.

As noted above, Class Members who objected to the Settlement have filed an appeal from the Judgment. The Settlement includes terms which contemplate that possibility. During the pendency of the appeal, the VEBA Trust will continue to be responsible for the OPEB Obligations to the Class Members. If the appeal is still pending at the time the next payment is due from AK Steel to the VEBA Trust under the terms of the Settlement, the funds which otherwise would have been paid to the VEBA Trust will be placed into an escrow account to be invested by the Trustees of the VEBA Trust. If the Judgment is affirmed on appeal, the funds placed into the escrow account, including interest or other earnings or losses, will be paid to the VEBA Trust. If, however, the Judgment is reversed, modified or vacated as a result of the appeal in such a way as to place the responsibility on AK Steel for payment of all of the OPEB Obligations to Class Members, then all of the monies placed into the escrow account, including interest or other earnings or losses, will revert to AK Steel. In addition, under those circumstances, AK Steel will be immediately designated as the sole fiduciary controlling the VEBA Trust and all assets of the VEBA Trust will be subject to, and payable in connection with, any health or welfare plans maintained and controlled by AK Steel for the benefit of any of its employees or retirees, not just the Class Members. In the event of a reversal, modification or vacation of the Judgment that results in only part of the OPEB Obligations returning to the responsibility of AK Steel, then AK Steel will be designated as the sole fiduciary with respect to an appropriate pro-rata share of the VEBA Trust assets relative to the portion of the OPEB Obligations for which AK Steel has resumed responsibility.

Once the Settlement becomes final and no longer subject to appeal, the Company’s only remaining liability with respect to the OPEB Obligations to the Class Members will be to contribute whatever portion of the \$663.0 due to the VEBA Trust that has not yet been paid at that time. At the time of the Fairness Hearing, the Company’s total OPEB liability for all of its retirees was approximately \$2.0 billion. Of that amount, approximately \$1.0 billion was attributable to the Class Members. Immediately following the Judgment approving the Settlement, the Company’s total OPEB liability was reduced by approximately \$339.1. This reduction in the Company’s OPEB liability is being treated as a negative plan amendment and amortized as a reduction to net periodic benefit cost over approximately eleven years. This negative plan amendment will result in an annual net periodic benefit cost reduction of approximately \$30.0 in addition to the lower interest costs associated with the lower OPEB liability. Upon payment on March 4, 2008 of the initial \$468.0 contribution by AK Steel to the VEBA Trust in accordance with the terms of the Settlement, the Company’s total OPEB liability was reduced further to approximately \$1.1 billion. The Company’s total OPEB liability will be reduced further by the amount of each subsequent annual \$65.0 payment. In total, it is expected that the \$663.0 Settlement with the Class Members, if the Judgment is upheld on appeal, ultimately will reduce the Company’s total OPEB liability by approximately \$1.0 billion.

Other than as described above, under the terms of the Settlement, the Company will have no other liability or responsibility with respect to OPEB Obligations to the Class Members.

As noted above, if the Judgment approving the Settlement is not affirmed on appeal, the result will be that the Company resumes responsibility, in whole or in part (depending upon the terms of the judicial decision reversing, vacating or modifying the Judgment) for the OPEB Obligations to some or all of the Class Members. Under such circumstances, the Company's total OPEB liability would increase accordingly, but the Company cannot reliably project at this time the amount of that increase because it is dependent upon the specific terms of the judicial decision. At that point, as to any such OPEB Obligations for which the Company has resumed responsibility as a result of the judicial decision, AK Steel would restart the retiree litigation and seek to judicially enforce what it continues to believe is its contractual right to unilaterally reduce, or even completely eliminate, healthcare benefits provided to any Class Members as to whom the Settlement no longer applies.

For accounting purposes, a settlement of the Company's OPEB Obligations related to the Class Members will be deemed to have occurred when AK Steel makes the last \$65.0 payment called for under the Settlement, assuming that there are no legal appeals pending at that time.

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Item 1A. Risk Factors.

The Company cautions readers that its business activities involve risks and uncertainties that could cause actual results to differ materially from those currently expected by management. The following is an update to the Company's descriptions of risk factors reported in its Annual Report on Form 10-K for the calendar year 2007.

- Risks associated with financial, credit, capital and/or banking markets. In the ordinary course of business, the Company's risks include its ability to access competitive financial, credit, capital and/or banking markets. Currently, the Company believes it has adequate access to these markets to meet its reasonably anticipated business needs. The Company both provides and receives normal trade financing to and from its customers and suppliers. To the extent access to competitive financial, credit, capital and/or banking markets by the Company, or its customers or suppliers, is impaired, the Company's operations, financial results and cash flows could be adversely impacted.

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

There were no unregistered sales of equity securities in the quarter ended September 30, 2008.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (2)
July 1 through 31, 2008	1,524	\$ 53.31	—	
August 1 through September 30, 2008	—	—	—	
Total	1,524	\$ 53.31	—	\$150.0

- (1) During the quarter, the Company repurchased shares of common stock owned by participants in its restricted stock awards program under the terms of its Stock Incentive Plan. In order to satisfy the requirement that an amount be withheld that is sufficient to pay federal, state and local taxes due upon the vesting of the restricted stock, employees are permitted to have the Company withhold shares having a fair market value equal to the tax which could be imposed on the transaction. The Company repurchases the withheld shares at the quoted average of high and low prices on the day the shares are withheld.
- (2) On October 21, 2008, the Company announced that its Board of Directors had authorized the Company to repurchase, from time to time, up to \$150.0 of its outstanding equity securities. This stock repurchase plan supersedes and replaces a previous stock repurchase plan announced in 2000.

The payment of cash dividends and the repurchase of the Company's shares are subject to a restrictive covenant contained in the instruments governing most of the Company's outstanding senior debt. The covenant allows the payment of dividends, if declared by the Board of Directors, and the redemption or purchase of shares of its

outstanding capital stock, subject to a formula that reflects cumulative net earnings. During the period from 2001 to the third quarter of 2007, the Company was not permitted under the formula to pay a cash dividend on its common stock or repurchase its shares as a result of cumulative losses recorded before and during that period. During the third quarter of 2007, the cumulative losses calculated under the formula were eliminated due to the improved financial performance of the Company. Accordingly, payment of a cash dividend and repurchase of the Company's shares are now permissible under the senior debt covenants. As of September 30, 2008, the limitation on these restricted payments was approximately \$228.8. Restrictive covenants also are contained in the instruments governing the Company's \$850.0 asset-based revolving credit facility. Under the credit facility covenants, dividends and share repurchases are not restricted unless availability falls below \$150.0, at which point dividends would be limited to \$12.0 annually and share repurchases would be prohibited. Currently, the availability under the asset-based revolving credit facility of \$698.0 significantly exceeds \$150.0. Accordingly, currently none of the covenants prevent the Company from declaring and paying a dividend to its shareholders.

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On July 22, 2008, the Company announced that its Board of Directors declared a quarterly cash dividend of \$0.05 per share of common stock, payable on September 10, 2008, to shareholders of record on August 15, 2008. Also, on October 21, 2008, the Company announced that its Board of Directors declared a quarterly cash dividend of \$0.05 per share of common stock, payable on December 10, 2008, to shareholders of record on November 14, 2008.

The Company made no open market purchases of any of its equity securities during the first nine months of 2008. On October 21, 2008, the Company announced that its Board of Directors had authorized the Company to repurchase, from time to time, up to \$150.0 of its outstanding equity securities. This stock repurchase plan supersedes and replaces a previous stock repurchase plan announced in 2000. The Company's ability to purchase shares under this authorization is subject to the same debt covenant discussed above that can restrict dividend payments.

Item 6. Exhibits.

- | | |
|------------------|---|
| Exhibit
10.1. | First Amendment dated July 18, 2008 to the Executive Minimum and Supplemental Retirement Plan (as amended and restated as of October 18, 2007) (incorporated herein by reference to Exhibit 10.1 to AK Steel Holding Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007, as filed with the Commission on November 6, 2007). |
| Exhibit
10.2. | Form of Indemnification Agreement approved by the Board of Directors on Oct 16, 2008 (incorporated herein by reference to Exhibit 10.1 of AK Steel Holding Corporation's Report on Form 8-K, as filed with the Commission on October 21, 2008). |
| Exhibit
10.3. | AK Steel Holding Corporation Stock Incentive Plan (as amended and restated as of October 16, 2008) (incorporated herein by reference to Exhibit 10.2 of AK Steel Holding Corporation's Report on Form 8-K, as filed with the Commission on October 21, 2008). |
| Exhibit
31.1. | Section 302 Certification of Chief Executive Officer |
| Exhibit
31.2. | Section 302 Certification of Chief Financial Officer |
| Exhibit
32.1. | Section 906 Certification of Chief Executive Officer |
| Exhibit
32.2. | Section 906 Certification of Chief Financial Officer |

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on behalf of the registrant by the following duly authorized persons.

AK STEEL HOLDING CORPORATION
(Registrant)

Dated: November 4, 2008

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

Dated: November 4, 2008

/s/ Roger K. Newport
Roger K. Newport
Controller and Chief Accounting Officer