

1998 **Allegheny Teledyne** Annual Report

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Poised for Growth...

About the cover: Allegheny Teledyne is Poised for Growth in the global markets we serve. Colors from a titanium electrode form a rainbow-like effect on a global map. When the titanium electrode (right) was exposed to air after melting, the rainbow colors resulted from oxidation due to heat.



## Our Mission

Allegheny Teledyne Incorporated is a diversified manufacturing company serving global markets with specialty metals, aerospace, electronic, industrial, and consumer products. The Company is one of the largest and most diversified specialty metals producers in the world. With talented people using innovative technologies and systems, Allegheny Teledyne's goal is to be the low cost, high quality supplier to global markets.

Our objective is to continue earning a premium return on our total invested capital to provide an attractive investment for our stockholders. To achieve our objective we will:

- continue to focus on improving our cost competitiveness;
- fulfill customer requirements for quality, delivery and service;
- seek specialty niches where we have a competitive advantage;
- expand a profitable global presence; and
- sustain profitable growth through internal and external investments aimed at producing high returns on capital and enhancing stockholder value.

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## Specialty Metals

	1998	1997
Sales	\$ 2,053.4	\$ 2,155.5
Operating Profit	\$ 282.3	\$ 320.7
Margin	13.7%	14.9%

Allegheny Ludlum  
Rodney Metals

Allvac  
Allvac-SMP

Oremet-Wah Chang

Titanium Industries

Rome Metals

### Flat-Rolled Products:

- Stainless steel sheet, strip and plate
- Precision Rolled Strip® products
- Nickel-based alloys
- Titanium
- Silicon electrical steels
- Tool steels

### High Performance Metals:

- Nickel- and cobalt-based alloys and superalloys
- Titanium and titanium-based alloys
- Zirconium and zirconium chemicals
- Hafnium and Niobium
- Tantalum
- Other specialty metals

## Aerospace and Electronics

	1998	1997
Sales	\$1,007.0	\$ 927.0
Operating Profit	\$ 110.7	\$ 90.3
Margin	11.0%	9.7%

Teledyne Electronic Technologies (a)

Teledyne Continental Motors (a)

Teledyne Brown Engineering (a)

Teledyne Cast Parts (a)

Teledyne Ryan Aeronautical (b)

- Highly engineered electronic and microwave components and microcircuits
- Aircraft data and communications systems
- General aviation piston engines
- Small gas turbine engines
- Software and engineering systems
- High performance sand and investment castings
- Unmanned aerial vehicles and target drones

## Industrial

	1998	1997
Sales	\$ 515.9	\$ 511.7
Operating Profit	\$ 53.0	\$ 60.2
Margin	10.3%	11.8%

Metalworking Products

Casting Service

Portland Forge

Fluid Systems (b)

Specialty Equipment (b)

- Tungsten powder
- Tungsten mill products
- Tungsten carbide materials and cutting tools
- Carbon, alloy steel and non-ferrous forgings
- Large grey and ductile iron castings
- Nitrogen gas springs
- Pressure relief valves and vehicle control valves
- Hydraulic attachments for mining/construction equipment
- Transportable forklifts

## Consumer

	1998	1997
Sales	\$ 247.6	\$ 253.8
Operating Profit	\$ 23.4	\$ 34.5
Margin	9.5%	13.6%

Water Pik (c)

Laars (c)

- Pulsating water shower heads
- Oral irrigators and automatic toothbrushes
- Electronic faucet filters
- Residential water filtration systems
- Professional dental products
- Residential swimming pool/spa heating systems
- Digital control devices for swimming pools/spas
- Swimming pool/spa accessories including fiber optic lighting, rockfall, aqua gardens, waterfalls, and computer interface programs
- Residential/commercial heating systems and boilers

(a) Allegheny Teledyne has announced its intention to spin-off these four companies as a separate public company.

(b) Allegheny Teledyne has announced its intention to sell these three companies.

(c) Allegheny Teledyne has announced its intention to spin-off these two companies as a separate public company.

## Highlights

## Major Markets Served

- Completed strategic acquisitions of U.K.-based aerospace division of Sheffield Forgemasters and Oregon Metallurgical Corporation (OREMET) in first quarter of 1998
- In November 1998, completed strategic acquisition of certain stainless steel assets from Bethlehem Steel and began to implement related conversion services and hot band supply agreements
- Completed several major strategic capital projects including Oremet-Wah Chang's new electron beam melt facility, Allvac's new vacuum induction melt furnace, and Allegheny Ludlum's new 60-inch wide Sendzimir Mill

- Began limited production at Allegheny Ludlum's joint venture strip finishing plant in Shanghai in early 1999
- In fourth quarter of 1998, U.S. Department of Commerce announced significant preliminary dumping duties on imports of stainless steel sheet, strip, and plate in coils from foreign producers
- Allegheny Ludlum announced price increase on stainless steel products
- Allegheny Ludlum's new three-year labor agreement with the United Steelworkers of America ratified in February 1998, extending current contract through June 30, 2001.

- Commercial aerospace
- Consumer durable goods
- Chemical processing
- Power generation
- Oil and gas
- Food processing
- Automotive
- Industrial manufacturing
- Medical/biomedical
- Government/defense
- Machine/cutting tools
- Chemicals
- Nuclear

- Teledyne Electronic Technologies aircraft data acquisition system approved by Airbus Industrie for use on narrow-body aircraft
- Teledyne Brown Engineering selected by U.S. Air Force to produce cargo loaders for Next Generation Small Loader program
- Four new advanced composite general aviation aircraft received certification for production — all powered by Teledyne Continental Motors piston engines
- Teledyne Continental Motors and its Aerosance business unit continue development of first full authority digital electronic control (FADEC) for piston-powered aircraft
- Teledyne Continental Motors conducted initial development tests of an advanced Jet-A fuel engine, co-sponsored by NASA,

designed to operate on widely available fuel and reduce operating costs

- Teledyne Ryan Aeronautical's Global Hawk unmanned aerial vehicle successfully completed its first flight in March 1998 — by the end of 1998 eight additional flights successfully completed
- Teledyne Ryan Aeronautical received \$110.8 million contract for three additional Global Hawk aircraft
- Richard A. Holloway, who became President of Teledyne Brown Engineering in January 1998, led successful effort to reduce costs and improve company's competitive cost position
- Richard C. Brozek, an experienced manager in the casting industry, named President of Teledyne Cast Parts.

- Government/defense hardware
- Commercial aerospace
- General aviation
- Government/defense services
- Communication
- Chemical processing
- Oil and gas
- Medical

- Metalworking Products completed product and plant rationalization initiatives to position itself for future growth in global markets
- Portland Forge operating income improved 30 percent in 1998 due to cost reductions and improved product mix
- David R. Neil, who has extensive experience

in grey and ductile iron casting industry, named President of Casting Service.

- Automotive
- Machine/cutting tools
- Transportation
- Construction/mining
- Chemical processing
- Consumer durable goods
- Power generation
- Commercial aerospace
- Government/defense

- Michael P. Hoopis, who has broad management experience in consumer products, named President and CEO of Consumer Segment
- Laars completed strategic acquisition of Trianco Heatmaker, a manufacturer of high efficiency gas- and oil-fired boiler and water heating products
- Laars introduced technologically advanced LX swimming pool and spa heater

- Water Pik's new Flexible Shower Massage™ showerhead received prestigious awards for excellence in design, best new product, and good consumer value
- Water Pik introduced first end-of-faucet electronic water filter that automatically monitors itself
- In the first quarter of 1999, Water Pik activated e-commerce site enabling customers to purchase products on-line.

- Major consumer retail, home improvement, hardware and discount outlets
- Swimming pool construction equipment
- Industrial, commercial and residential construction
- Dental professionals

## 1998 Financial Highlights

	1998	1997
Sales	\$3.9 billion	\$4.0 billion
Sales from Continuing Operations	\$3.8 billion	\$3.8 billion
Net Income	\$241.2 million	\$328.8 million
Basic Net Income Per Common Share	\$1.23	\$1.67
Diluted Net Income Per Common Share	\$1.22	\$1.64
Return on Stockholders' Equity (a)	22.6%	26.3%
Return on Average Capital Employed (a, b)	17.7%	20.3%
Net Debt to Total Capitalization (c)	24.7%	16.6%
Actual Number of Shares Outstanding (d)	194,873,151	195,713,604
Book Value Per Common Share	\$6.88	\$6.36
Number of Employees	21,500	23,000

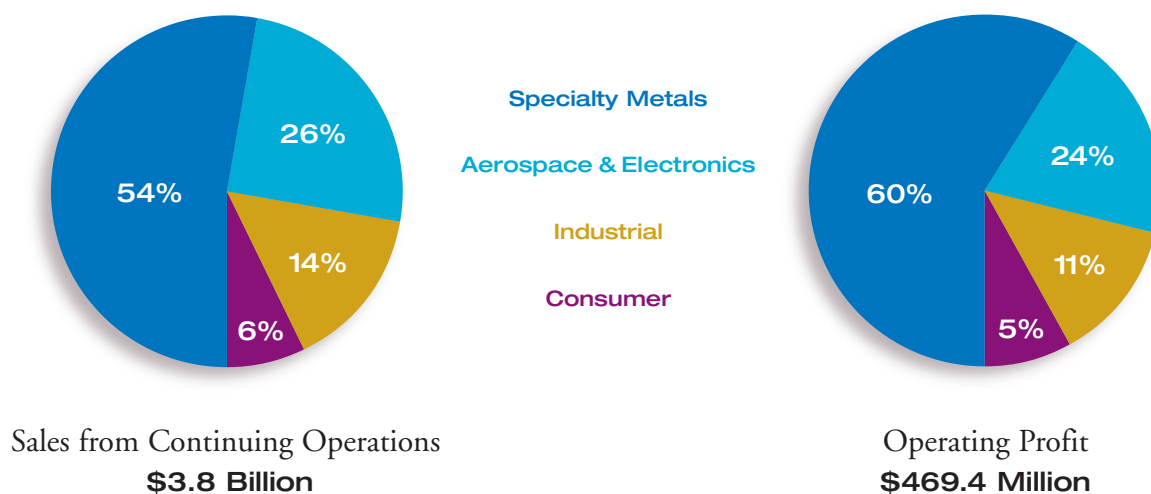
(a) Excluding gains on disposal of assets, restructuring charges and other special items.

(b) Capital employed is defined as stockholders' equity plus all long- and short-term debt. Income is adjusted for after-tax interest expense.

(c) Debt is reduced by cash on hand.

(d) At December 31 of respective period.

## 1998 Segment Results





1998 was a year best described as “the best of years and the worst of years.” Like 1997, your company experienced great changes as we moved to complete the implementation of important management systems which began two years ago with the combination of Allegheny Ludlum and Teledyne, began to integrate our early 1998 acquisitions of OREMET and the aerospace division of Sheffield Forgemasters into our specialty metals businesses, and completed the acquisition of strategic assets from Bethlehem Steel.

items, net earnings declined by 3.8 percent to \$291.8 million from \$303.4 million, and earnings per diluted share declined 2.6 percent to \$1.47 from \$1.51. Operating margins before merger and restructuring costs decreased to 12.3 percent of continuing sales in 1998, compared to 13.1 percent in 1997.

Sales from continuing operations declined slightly to \$3.82 billion from \$3.85 billion in 1997.

Return on capital employed, a key measure to us, remained at a high level but

decreased managed working capital by \$145 million in 1998, excluding the impact of acquisitions. We believe that further working capital reductions are possible in 1999.

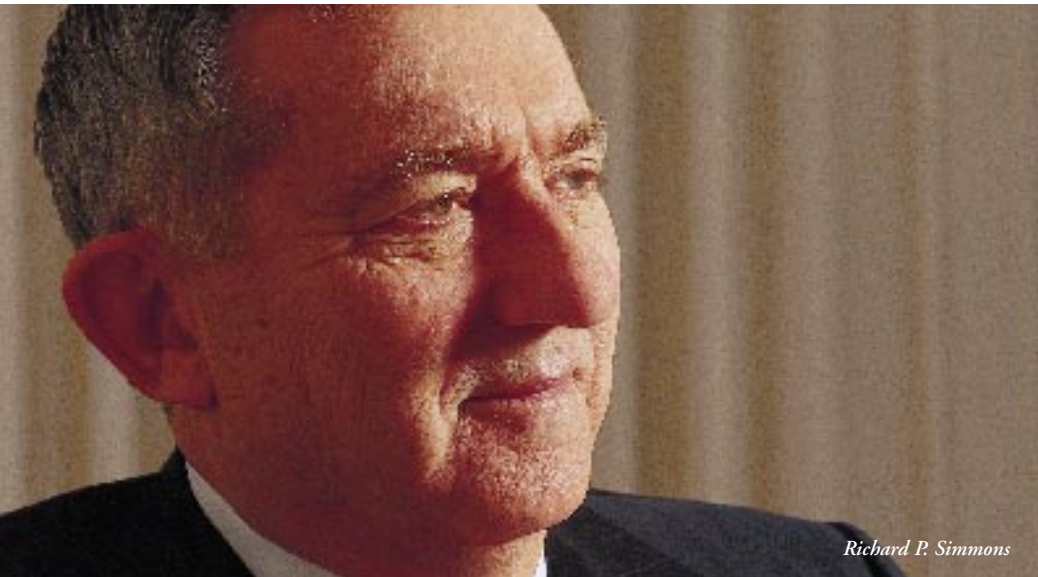
In spite of difficult conditions in some of our businesses, your company finished the year in strong financial condition. At December 31, 1998, net debt as a percent of total capitalization was 24.7 percent, even with higher than normal capital expenditures of \$172.6 million and strategic acquisitions made for cash totaling \$229.1 million.

The Board approved a 20 million-share repurchase program in early October, and we had purchased 2.5 million shares by year-end. We intend to continue the program at approximately this quarterly rate in 1999. As of the end of February 1999, an additional 1.3 million shares have been repurchased.

### Completion of Strategic Review

As a result of the strategic review initiated last summer, this past January we announced that we intend to pursue a course of action that would result in a significant transformation and reconfiguration of your company during 1999.

Assuming legal, tax, financial and other considerations can be resolved successfully, the anticipated transformation would include a tax-free spin-off of four businesses in the Aerospace and Electronics Segment into a new public company and a public offering of the new company's stock. The four former Teledyne businesses to be included in the new company would be Electronic Technologies, Brown Engineering, Continental Motors and Cast Parts. These transactions will enable the new company to focus on its high technology competencies and markets in software engineering systems, communi-



*Richard P. Simmons*

At the same time, we did not achieve our profit or revenue targets in 1998. While profitability and returns on capital may have been acceptable on a relative basis, we did not achieve our goals, particularly in the Specialty Metals Segment.

Including special items, which reflect the disposal of assets and merger and restructuring charges, total 1998 earnings fell to \$241.2 million, or \$1.22 per diluted share, compared to \$328.8 million, or \$1.64 per diluted share in 1997. Before special

declined to 17.7 percent from 20.3 percent in 1997, and return on equity before special items declined to 22.6 percent compared to 26.3 percent in 1997. While the ratios declined, this performance nonetheless reflects our continued focus on efficient use of capital. Cash flow from operating activities for 1998 increased \$114.8 million to \$399.4 million, from \$284.6 million in 1997. This increase was driven by our continuing, successful efforts to reduce working capital in our businesses. We

cations and electronics, and aircraft engines and components. We believe the new company will achieve far more rapid growth and profitability as a freestanding company. Plans are for Dr. Robert Mehrabian, currently a company director and executive vice president and segment executive for our Aerospace and Electronics and Industrial Segments, to be the chief executive officer of this new company, which will be headquartered in Los Angeles.

We are also proceeding simultaneously with the previously announced consideration of a spin-off and public offering of our Consumer Segment. We believe that the Consumer Segment, which consists of Laars and Water Pik, will also achieve far more rapid growth and profitability as a freestanding company. Plans are for Michael P. Hoopis, who joined Allegheny Teledyne in October 1998 after many years in the consumer products field, to be the chief executive officer of the new consumer company.

With independent boards of directors and separate access to the capital markets, Allegheny Teledyne and the two new public companies will be better positioned to focus on their own strategic objectives in their respective areas of expertise.

We plan to submit a request for a private letter ruling to the Internal Revenue Service with respect to the tax-free nature of these proposed spin-offs by the end of the first quarter of 1999.

Also, we are exploring the sale of Ryan Aeronautical and have engaged Bear, Stearns & Co. Inc. to determine levels of interest in this company. Ryan Aeronautical is the prime contractor for the Global Hawk unmanned aerial vehicle (UAV) for the U.S. Air Force. Ryan Aeronautical

also has a contract for the development of an air-launched decoy called MALD and produces target drones for U.S. and foreign governments.

We have also decided to sell two other companies—Fluid Systems, a manufacturer

#### **“ALLEGHENY TELEDYNE WILL BE FOCUSED AS ONE OF THE LARGEST AND MOST DIVERSIFIED SPECIALTY METALS COMPANIES IN THE WORLD...”**

of nitrogen gas springs, pressure relief valves and vehicle control valves headquartered in Brecksville, Ohio; and Specialty Equipment which consists of two divisions—one division, located in Canada, is an assembler of hydraulic attachments for mining and construction equipment, and the other is a manufacturer of transportable forklifts in the U.S. and the Netherlands.

The combined revenues of Ryan Aeronautical, Fluid Systems, and Specialty Equipment were nearly \$400 million in 1998.

After the spin-offs and sales, Allegheny Teledyne will be focused as one of the largest and most diversified specialty metals companies in the world with annual revenues of approximately \$2.5 billion. It would consist of Allegheny Ludlum—a major flat-rolled producer of specialty metals, stainless steel and titanium; Allvac and Allvac-SMP—major long products producers of nickel-based superalloys, titanium alloys, and specialty steels; Oremet-Wah Chang—a diversified producer of zirconium, titanium and other specialty metals including niobium, tantalum and hafnium; Titanium Industries, a titanium distribution company, and Rome Metals, a processor of titanium and other specialty metals; Metalworking Products—a major producer of tungsten mill products, tungsten carbide materials and tungsten carbide

cutting tools; Casting Service—a foundry specializing in large grey and ductile iron castings; and Portland Forge—a custom impression die forging company. This strong base of specialty metals companies provides an excellent foundation for

enhanced operating synergies and for adding strategically complementary acquisitions.

#### **Difficult Market Conditions in 1998**

Operating profits in our Specialty Metals Segment decreased 12 percent in 1998, compared to 1997.

A significant factor in this decrease was the continuing sharp decline in prices for commodity stainless steel sheet which fell by nearly 40 percent from the levels of 1996. In fact, prices of all other stainless steel flat-rolled products have fallen since early 1996, although not as sharply as commodity stainless steel prices.

While the flat-rolled specialty and stainless steel business of Allegheny Ludlum/Rodney remained solidly profitable in 1998, the level of profitability was far below the levels of 1997 and 1996. The business was able to remain profitable despite difficult market conditions because of its good product mix, including its Precision Rolled Strip® products, good order volumes, lower raw material costs, and continued emphasis on cost reduction and productivity improvements.

The decline in the economies of Asia and excess world capacity looking for a home resulted in increased imports of commodity stainless steel products into the U.S. Unlike your company, many stainless steel companies

throughout the world reported losses for the year.

The U.S. specialty steel industry has filed 34 cases against 14 nations since July 1997, alleging dumping and subsidized sales relating to stainless steel sheet, strip, and plate in coils, and rod and round wire. Favorable preliminary findings have been made by the U.S. Government confirming claims of the U.S. companies. Preliminary dumping and subsidy margins as high as 59.37 percent have been levied against 35 companies in 13 nations. In the stainless steel sheet and strip cases involving Allegheny Ludlum's major product lines, we expect that final determinations will be made in May 1999 by the U.S. Government. We are optimistic that some preliminary dumping duty margins may be increased at that time.

As we enter 1999, we are cautiously optimistic that the worst is behind us in our commodity stainless steel business. While commodity stainless steel sheet prices

**“... LARGE LAND-BASED TURBINES... MAY BE THE MOST IMPORTANT NEW APPLICATION FOR OUR NICKEL-BASED SUPERALLOYS IN RECENT YEARS.”**

reached a low point in the second quarter of 1998 and remained at that level through the third quarter, prices increased slightly in the fourth quarter. This occurred as we began to realize the price increases on commodity stainless steel sheet and strip products that were implemented in October 1998.

Specialty Metals Segment revenues and operating profits in 1998 were also negatively impacted by inventory adjustments in the commercial aerospace industry. In our Allvac and Oremet-Wah Chang businesses, demand for titanium and to a lesser extent nickel-based superalloys for jet engines and airframe

structures declined as inventory was reduced throughout the commercial aerospace supply chain. The decline was extended by the reductions in production of aircraft announced during the year by The Boeing Company, resulting in part from impacts of the Asian economic problems.

We anticipate that the aerospace inventory correction will be completed during 1999, and that demand for nickel-based superalloys and titanium alloys should then be in line with the requirements for aircraft build rates and new engine spares and replacement components. The build rate for 1999 announced by Boeing earlier this year is for 620 aircraft, substantially higher than 1998, although they forecast a decline for the year 2000. Airbus Industrie forecasts increases in the build rate in both 1999 and 2000, compared to 1998. In addition, current forecasts by both Boeing and Airbus indicate healthy levels of commercial aircraft deliveries over the next three to four years. Of course, the accuracy of these forecasts

ultimately depends on the condition of the global economy.

#### **Flat-Rolled Products Poised for Growth**

As 1998 concluded, Allegheny Ludlum began initial operation of its new 60-inch wide Sendzimir mill. This mill, together with a modified anneal and pickle line and temper mill which will be completed in the second quarter of 1999, will enable Allegheny Ludlum to participate in the growing market for wide stainless steel sheet. This has been a strategic objective for several years.

In November 1998, Allegheny Ludlum completed the acquisition of the melt shop and hot rolling Steckel mill located in Houston, PA, and the wide anneal and pickle line at Massillon, OH, from Bethlehem Steel. The acquisition of the Houston facility provides Allegheny Ludlum with the additional melting capacity it has needed for several years. The wide anneal and pickle line, together with the contract that provides Allegheny Ludlum with exclusive access to Bethlehem's Steckel mill located at Conshohocken, PA, will enable Allegheny Ludlum to produce continuous mill plate up to 96 inches wide. As part of this agreement, both companies agreed that Bethlehem's Steckel mill would be upgraded to roll wide stainless steel and alloy plate more efficiently. We anticipate that modifications of the mill will be complete in the third quarter 1999.

Allegheny Ludlum also carried out significant restructuring in 1998 which has made the company more responsive to market needs. This reorganization will reduce our annual fixed costs by \$16 million beginning in the fourth quarter of 1998.

In addition, a separate strip business unit was created which brings together Allegheny Ludlum's Waterbury and Wallingford, CT precision strip plants and Rodney Metals' New Bedford, MA plant. All production, technical and commercial activities have been centralized at the New Bedford facility. Also, the strip distribution units of Allegheny Ludlum/Rodney are now under the same management, and we are developing a global distribution strategy for precision strip to be put in place in 1999.

Allegheny Ludlum's Chinese joint venture, which is known as Shanghai STAL Precision Stainless Steel Company Limited,



built for the production of precision stainless steel, began limited production in early 1999. Allegheny Ludlum managed the engineering, construction and installation of the new facility, which was completed on budget. We believe that this joint venture company will further strengthen our ability to compete globally. Allegheny Ludlum will be responsible for marketing products outside of China. With global sourcing by an increasing number of our customers, we believe that this joint venture will aid our objective to grow these highly engineered products world-wide.

These investments and restructurings emphasize the importance of Precision Rolled Strip products to Allegheny Ludlum's present and future strategy. As one of the largest stainless steel strip producers in the world, it is our objective to increase our participation in this high value, specialty niche business throughout the highly competitive global markets.

### Expanding Capabilities

In February 1998, we acquired the U.K.-based aerospace division of Sheffield Forgemasters for cash. This business, now called Allvac-SMP, improves our ability to serve European markets with our nickel-based, specialty steel, and titanium alloys. This acquisition also provides Allvac with additional capacity and capability for the melting and forging of nickel and titanium alloys and specialty steels.

In March 1998, we completed the acquisition of Oregon Metallurgical Corporation (OREMET), one of two fully integrated U.S. titanium producers, for stock on a pooling basis. As a result of this acquisition, Allegheny Teledyne became a fully integrated titanium producer with

critical mass in the titanium business to better serve commercial aerospace, chemical processing, industrial and consumer markets. Since the acquisition, the operations of OREMET have been combined with Wah Chang to form Oremet-Wah Chang. As expected, significant cost and

reduction basis began operating at the end of the 1998. It was immediately used in the production of nickel-based superalloys for large land-based turbines for power generation. We believe this rapidly growing application will offset a large portion of the possible decline in demand from commercial



operating synergies are being achieved.

Allvac, Allvac-SMP, and Oremet-Wah Chang now form the High Performance Metals Group within our Specialty Metals Segment. John V. Andrews, president of Allvac for over 28 years, is also president of the High Performance Metals Group. The objective in creating this group of companies is to achieve a seamless organization to take advantage of technology, marketing and manufacturing synergies in order to meet the changing needs of the global markets served.

These two strategic acquisitions have been complemented in 1998 by significant capital projects. At Allvac, a new vacuum induction furnace capable of producing 50,000 pound heats and justified on a cost-

aerospace beyond the year 2000, and may be the most important new application for our nickel-based superalloys in recent years. According to energy industry experts, for the first time land-based turbines can produce electric power at costs competitive with large fossil fuel plants. We believe this will create a new opportunity for our Specialty Metals Segment.

At Oremet-Wah Chang, a new electron beam melt facility located in Richland, WA was completed and began production in 1998. This unique melt facility contains one of the largest and most advanced electron beam furnaces in the world. The facility began commercial production of titanium ingots and slabs in the fourth quarter of

*Corporate Officers (clockwise, from center seated): Jon D. Walton, Judd R. Cool, Richard J. Harshman, James L. Murdy, Robert S. Park, Dale G. Reid, and Richard P. Simmons.*

1998, and is expected to enhance Allegheny Teledyne's cost position in the production of high quality titanium ingots and slabs.

#### **Good Performance in A&E Segment**

The Aerospace and Electronics Segment had a good year in 1998 with operating profit increasing to \$110.7 million from \$90.3 million in 1997. Revenues were \$1.0 billion compared to \$927.0 million in 1997. The returns on capital of this segment are generally much higher than the Specialty Metals Segment because of lower capital requirements.

Teledyne Electronic Technologies had a good year although it felt some effects of the Asian economic problems. 1998 sales and operating profit were particularly strong compared to 1997 in aircraft data systems, communications equipment for business and commuter aircraft, and circuit board contract manufacturing.

Teledyne Brown Engineering had a good year in 1998 due to increased sales and operating profit in defense systems programs and instrumentation products. Under the leadership of a new president, Richard A. Holloway, this business has significantly reduced its administrative cost structure and improved its competitive position.

Teledyne Continental Motors also had a strong year benefiting from improved operating efficiencies and growing markets. It has been selected to supply the piston engines for four unique new light aircraft designs, which have been certified for production. Continental's Turbine Division has been selected as the engine supplier for several new missile programs.

Teledyne Ryan Aeronautical had an excellent year as it completed its Apache

helicopter airframe contract with Boeing. However, with the conclusion of this contract, Ryan Aeronautical will see a significant decline in both sales and operating profit in 1999.

#### **Industrial Segment**

The Industrial Segment had a mixed year. The revenue and operating profit of Metal-working Products were down as a result of declines in sales in most of its global industrial markets. Most of the other companies that comprise the Industrial Segment had a good year.

#### **Cost Reduction**

Significant cost reductions were achieved at every company continuing the emphasis we announced last year. To succeed in the

**“WE HAVE DOCUMENTED COST REDUCTIONS OF \$69.2 MILLION IN 1998, IN ADDITION TO SYNERGIES RESULTING FROM ACQUISITIONS. WE WILL ATTEMPT TO EXCEED THIS TOTAL IN 1999.”**

fiercely competitive global markets we serve, we are committed to find ways to make our products better and at lower costs. We have documented cost reductions of \$69.2 million in 1998, in addition to synergies resulting from acquisitions. We will attempt to exceed this total in 1999.

#### **Capital Spending**

Capital spending in 1998 before acquisitions was \$172.6 million but should decline sharply in 1999. Our objective is to reduce capital spending, except for cash acquisitions that are not forecasted, to no more than the level of depreciation and goodwill amortization.

#### **Year 2000 Compliance**

We are making progress in completing

programs to make our corporation compliant with Year 2000 computer requirements. We have an ongoing program aimed at accomplishing this goal and avoiding disruptions. We invested about \$11 million in 1998 and anticipate spending another \$7 million in 1999 to complete these programs. We currently believe that Allegheny Teledyne will not face significant operational problems as a result of Year 2000 issues.

#### **Summary and Outlook**

1998 was a year of significant challenge and opportunity, especially in our specialty metals businesses. Several of our largest markets were under great pricing pressure. Illegally dumped and subsidized imports continued to take much of the growth in our domestic commodity stainless steel markets.

At the same time, significant strategic acquisitions were made to strengthen our position in our highly competitive global markets. Investments in new facilities and equipment were completed, which have increased our capabilities to serve our markets. Our Chinese joint venture positioned itself to begin production in 1999. With acquisitions and the completion of major capital projects, our strategic needs for melting capacity and for the production of wide stainless steel sheet and plate coil were fulfilled. A European manufacturing location was acquired to increase sales of our high performance specialty metals in Europe. And significant reorganizations were carried out at each of the specialty metals companies resulting in a stronger, more

efficient organization.

In summary, I believe we accomplished much in 1998. Our strategy to maintain a strong balance sheet has carried us through this difficult period in a position to grow both internally and externally. We continue to seek acquisitions that will strengthen our Specialty Metals Segment.

**“WE BELIEVE THAT THE TRANSFORMATION WE HAVE ANNOUNCED WILL PROVIDE A GREAT OPPORTUNITY TO CREATE SHAREHOLDER VALUE.”**

We view 1999 as a year of continuing challenge and have planned for the year with caution. We face continuing uncertainty in Asia and a possible slowing in Europe, and expect that economic growth in the U.S. will be lower than 1998. Accordingly, we intend to limit capital expenditures and other discretionary spending until we have a better view of each of these conditions.

We believe that the transformation we have announced will provide a great opportunity to create shareholder value. You, our stockholders, would own common stock in three distinct companies, each with a clear business focus and the financial ability to pursue its own individual strategic growth objectives. We believe that each of the separate freestanding public companies we intend to create will be stronger than they would be if we remained as one diversified corporation. These transactions would also provide management in the new companies with stock-based compensation incentives directly tied to their own success.

**Chairman’s Appreciation**

I express sincere thanks to our employees, customers and stockholders.

Much change has occurred since Allegheny Ludlum and Teledyne combined

in August 1996. Our employees have had to embrace change recognizing that with change comes uncertainty. I want to thank each of our employees and managers for their support during this period. We have worked to explain each of our strategic decisions, particularly to those affected by them. I am personally gratified by the over-

whelming support we have received.

We remain a team committed to high quality, excellent service and on-time delivery of our products to every customer. I want to thank our customers for their support in our efforts to improve the ways we serve them. At the highest level, we remain focused on finding ways to serve our customers even better.

I remain indebted to our Board of Directors whose counsel and advice during this period of significant change has been greatly appreciated.

I make notes of special appreciation to Arthur H. Aronson and George A. Roberts. Art retired in December after nearly 40 years in the specialty steel industry and ten years in senior management with Allegheny Ludlum and Allegheny Teledyne. He made significant contributions in managing the Specialty Metals Segment. As a director, former chief executive of Allegheny Ludlum and segment executive of the Specialty Metals Segment he earned the respect of all of us. George retired from the company’s Board of Directors in November after a long and illustrious business career. He joined Henry Singleton, Teledyne’s founder, in 1966 and helped lead Teledyne through its combination with Allegheny Ludlum.

I welcome Ray Groves, Frank Lucchino and Jim Murdy as the newest additions to our Board of Directors. I look forward to their contributions as we work together on the strategic growth objectives for our businesses.

As we implement our important strategic decisions, we will seek ways to grow the company at a faster rate. We remain committed to profitable, focused growth to enhance shareholder value as a global producer and marketer of specialty metals.

**Search Begun For Successor**

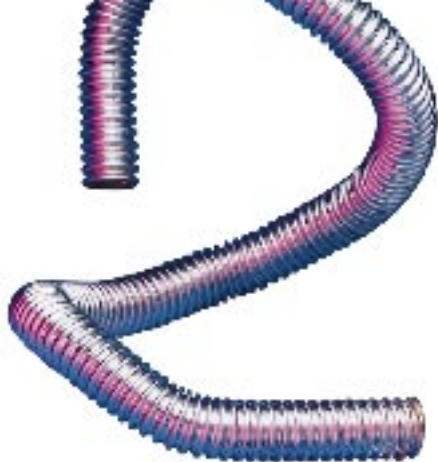
I have asked the Board of Directors to begin a search to identify my successor as chief executive officer. With the completion of the strategic review, I will have accomplished the principal goals established at the time I reassumed the CEO role in February 1997. I am pleased with the progress our company has made in every area during the past two years. The outlook for the future of all three companies is strong.

I will remain CEO until a successor has been appointed. The Board has asked that I remain Chairman of the Board and Chairman of the Executive Committee of Allegheny Teledyne, the positions I held prior to reassuming the additional positions of president and chief executive officer in early 1997. I have agreed to do so, and I look forward to working with the new CEO.



Richard P. Simmons, Chairman  
President and Chief Executive Officer  
March 12, 1999





*Residential natural gas lines are a rapidly growing application for corrugated flexible hose made of Precision Rolled Strip® stainless steel, where it is a cost effective replacement for black iron pipe.*

**Allegheny Teledyne Transformation**

In January 1999, the company announced several initiatives that would result in a major transformation and reconfiguration of Allegheny Teledyne during 1999. After these initiatives are accomplished, Allegheny Teledyne will be focused as one of the largest and most diversified specialty metals

solution for a wide variety of specialty metals needs.

**Flat-Rolled Products**

**Growing Demand for Stainless Steel**

The strength, durability and appearance of stainless steel products have resulted in continued growth in demand. In 1998

To position the company to participate in this growing demand for stainless steel flat-rolled products, Allegheny Ludlum addressed several major strategic needs in 1998. Specifically, through capital investments and agreements with Bethlehem Steel Corporation, which are described below, Allegheny Ludlum increased its melting and



companies in the world. The breadth of the company's specialty metals products is unmatched. With its technical and global manufacturing capabilities and world-wide distribution network, Allegheny Teledyne is uniquely positioned to meet the demands of highly competitive growing markets by offering global customers a single-source

domestic consumption of Allegheny Ludlum's major products, stainless steel sheet and strip, grew by 6 percent. Domestic consumption of these products also increased by 5 percent in 1997. Over the long term, we look for an annual average U.S. market growth of 4-to-6 percent for stainless steel sheet and strip.

rolling capacities and capabilities. The company completed installation of a new \$40 million 60-inch wide Sendzimir cold rolling mill (Z-mill). This new Z-mill gives Allegheny Ludlum the ability to produce 60-inch wide stainless steel sheet and reduces the cost of producing cold-rolled strip products. In recent years, market

*The new 60-inch wide Sendzimir mill is equipped with next-generation process control and shape control systems. Designed to produce high quality products across Allegheny Ludlum's broad product range, it is one of the most productive stainless steel cold rolling mills in the world.*

*Precision Rolled Strip® products are used in a wide array of end uses including new and growing applications such as automotive multi-layer stainless steel gaskets, flexible hose used for natural gas lines in the home, and parts for computers.*



demand has been shifting from 48-inch wide sheet to 60-inch wide sheet because the wider product provides end-users with more design flexibility and requires fewer welds, which reduces costs. A \$20 million upgrade to one of Allegheny Ludlum's existing anneal and pickle lines is expected to be completed in the first half of 1999, which will enable the company to process the wider stainless steel sheet produced on the new Z-mill. This fulfills a key strategic objective.

The company completed the purchase of several strategic assets from Bethlehem Steel. These assets, which Bethlehem had acquired from Lukens Inc. in May 1998, include melting and hot rolling Steckel mill facilities and a wide anneal and pickle line. The acquisition of these facilities fulfills a second key strategic need for additional melting and hot rolling capacity.

The company also entered into a 20-year conversion services agreement with Bethlehem Steel. This agreement provides Allegheny Ludlum with exclusive access to Bethlehem Steel's Coatesville, PA melt shop and caster for the production of stainless steel slabs, and to their Conshohocken, PA 110-inch Steckel mill for rolling slabs of stainless steel and stainless precipitation hardening grades, maraging grades, and nickel and nickel-based alloys. This conversion agreement, along with the assets purchased from Bethlehem Steel, provide Allegheny Ludlum with cost efficient

processes to supply the growing market for wide stainless steel continuous mill plate. In addition, Allegheny Ludlum is now the only domestic producer capable of manufacturing stainless steel coiled plate up to 96 inches wide. This fulfills a third strategic objective.

These three strategic objectives have been accomplished at substantial savings in capital investment.

#### **New Opportunities for Titanium**

The hot rolling Steckel mill, purchased from Bethlehem Steel, is a unique piece of equipment. It is not only capable of rolling stainless steel and other specialty steel alloys—but it can also be used to roll titanium and zirconium coils. In fact, it is the Steckel mill of choice in the U.S. to roll titanium from slab to coil.

Allegheny Ludlum will combine the advantages of this Steckel mill with the ability to melt titanium slabs at a lower cost using Oremet-Wah Chang's new state-of-

product and market opportunities for Allegheny Ludlum.

#### **International Growth of Precision Strip**

Precision Rolled Strip® products represent significant world-wide growth opportunities for Allegheny Ludlum. These highly engineered, high-value specialty metals are less than 24 inches wide and range in thickness from 0.015 inch to less than 0.0015 inch.

Allegheny Ludlum is one of the largest producers of Precision Rolled Strip products in the world. The company produces one of the most diversified selections of Precision Rolled Strip materials, ranging from stainless steel, to nickel-based alloys, to titanium alloys. These products can provide cost effective solutions to a wide range of end-use applications, including automotive multi-layer gaskets, flexible connectors and catalytic converter substrates, flexible hoses used for natural gas lines in the home, aerospace honeycomb, hose clamps, and

### **ALLEGHENY LUDLUM ACCOMPLISHED THREE MAJOR STRATEGIC OBJECTIVES DURING 1998.**

the-art electron beam melt furnace. This positions the company as a low cost producer of titanium flat-rolled products. Flat-rolled titanium products will then be marketed through Allegheny Teledyne's global distribution network. We believe that these capabilities provide significant new

hypodermic needles.

In 1998, Allegheny Ludlum created its Allegheny Rodney Strip Division to focus on the global opportunities for these products. This business unit has centralized all technical, production and commercial activities associated with Precision Rolled



*The induction furnaces at Allegheny Ludlum's Houston, PA plant are uniquely capable of reheating stainless steel, nickel alloys, titanium and zirconium slabs prior to hot rolling on the Steckel mill.*



Strip products in New Bedford, MA. A global distribution strategy for Precision Rolled Strip products will be in place in 1999.

An important part of Allegheny Ludlum's international growth strategy is the company's 60-percent owned Chinese joint venture, Shanghai STAL Precision Stainless Steel Company Limited. The joint venture's facility, built for the production of precision rolled stainless steel strip, began limited production in early 1999. The plant is a

kind in China, and the only specialty metals joint venture by a U. S. company in China.

### High Performance Metals

#### Expanding Capabilities

Allegheny Teledyne, through its Allvac, Allvac-SMP, and Oremet-Wah Chang companies, produces nickel-based alloys and superalloys, titanium and titanium alloys, specialty steels, zirconium, hafnium, niobium, and tantalum. These are often the alloys

production of high performance metals were increased significantly during 1998 with two important strategic acquisitions—Allvac-SMP and OREMET; and the completion of two major capital investments—a new vacuum induction melt furnace at Allvac and Oremet-Wah Chang's new electron beam melt facility.

The acquisition of the U.K.-based aerospace division of Sheffield Forgemasters, now called Allvac-SMP, improves Allegheny Teledyne's ability to serve European markets with nickel-based alloys, specialty steels and titanium alloys. This acquisition also provides the company with additional needed capacity and capability for the melting and forging of nickel, titanium and specialty steel alloys.

The acquisition of OREMET turned Allegheny Teledyne into one of two fully integrated U.S. titanium producers. This is important because the company can now better manage its titanium sponge costs, a key raw material in the production of titanium alloys. The acquisition also provides the company with critical mass in the titanium business. This should enable the company to better serve the highly competitive and growing global markets for titanium.

Two major strategic capital investments were completed in the fourth quarter of 1998. At Allvac, a new vacuum induction furnace capable of producing 50,000 pound



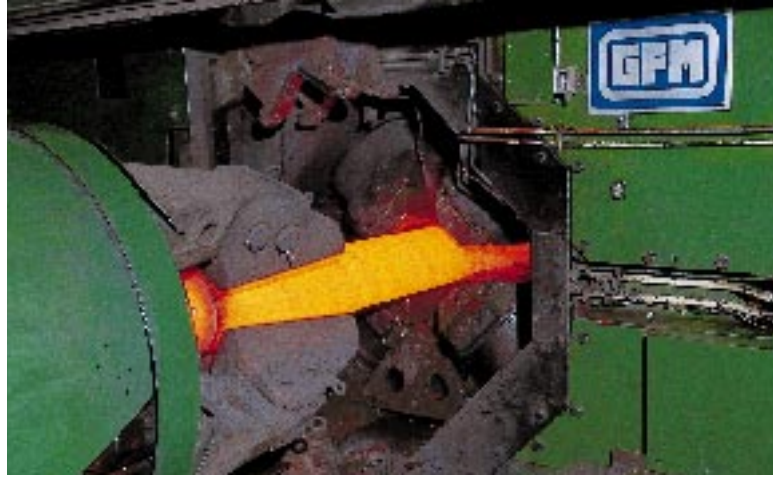
fully integrated finishing facility and is equipped with two Sendzimir mills, a bright anneal line, slitters, a tension leveler and roll grinders. The company believes that this joint venture will further strengthen Allegheny Ludlum's ability to compete globally and to meet customers' needs for Precision Rolled Strip products. It is the only facility of its

of choice when metal components must perform under critical conditions in hostile environments. No other specialty metals producer in the world can surpass Allegheny Teledyne's ability to supply such a wide range of high performance metals to such diversified growing global markets.

Allegheny Teledyne's capabilities in the

*Sophisticated systems installed at Oremet-Wah Chang's new electron beam furnace include a fiber optic network, a beam guidance system and the digital multiplexing of over 20 cameras. Systems like these help operators achieve an unparalleled level of quality and productivity control.*

*The GFM is a precision rotary forge with computer controls designed to produce high-quality billet with consistent quality. The GFM located at the Allvac-SMP facility in Sheffield, England is one of the largest in the world.*



heats, and justified on a cost-reduction basis, began production. This new state-of-the-art furnace also provides needed capacity to meet the growing demands for nickel-based superalloys from several markets, including

### LARGE LAND-BASED TURBINES CREATE A SIGNIFICANT GROWTH OPPORTUNITY FOR NICKEL-BASED SUPERALLOYS.

large land-based turbines for power generation. At Oremet-Wah Chang, a new electron beam melt facility began producing titanium slabs. This unique facility contains one of the largest and most advanced electron beam furnaces in the world. It is expected to enhance Allegheny Teledyne's position as a low cost producer of high quality titanium ingots and slabs.

#### Focused on Growth

With the integration of Allvac-SMP and OREMET largely accomplished, and major strategic capital investments completed, Allegheny Teledyne is better positioned to meet the needs and requirements of the highly competitive global markets for high performance metals. To accomplish this objective, the company created the High Performance Metals Group, placing Allvac, Allvac-SMP, and Oremet-Wah Chang under a single president, John V. Andrews. Sales and marketing of long products, including

billet, bar, rod, and wire, are being consolidated, with the intent that the companies will operate as a seamless organization. Flat-rolled products will continue to be manufactured and marketed by Allegheny Ludlum.

#### Long-Term Aerospace Market Growth

Allegheny Teledyne's High Performance Metals Group is a world-leader in the production of nickel-based superalloys, premium titanium alloys, and premium specialty steel alloys for the aerospace industry. In addition, the company is the only fully integrated producer of both nickel-based superalloys and premium titanium alloys. These are the alloys of choice for critical jet engine rotating parts.

Demand for high performance aerospace metals is driven primarily by the production of new commercial aircraft, new jet engines, spare engines, and jet engine replacement parts and components. A significant part of the nickel-based superalloys and titanium alloys the company supplies to the aerospace market are used for these replacement engines and spares. Based on the consensus

of current market forecasts, we believe aerospace demand for high performance metals will grow by a compound annual rate of 5 percent or more long-term.

#### Land-Based Turbine Market Growth

According to energy industry experts, for the first time, large land-based turbines can produce electric power at costs competitive with large fossil fuel plants. This relatively recent development has created a significant new opportunity, and perhaps the most important new application for Allegheny Teledyne's nickel-based superalloys in recent years.

One of the leading producers of large land-based turbines for power generation now specifies a nickel-based superalloy produced by Allvac for turbine disc applications in its new generation of land-based turbines. At least one other producer of these large land-based turbines is evaluating whether to change from a lower grade specialty steel to a nickel-based superalloy for turbine rotating components. In addition, one producer has begun to use titanium turbine blades in its large land-based turbines.

Demand for the company's nickel-based superalloys for large land-based turbines has increased dramatically over the last two years. We believe this rapidly growing application should offset a significant portion of the possible near-term decline in demand from commercial aerospace.

*This advanced land-based gas turbine built by General Electric Power Systems uses Allvac's nickel-based superalloys for turbine disc applications. The turbine weighs over 400 tons, is 37 feet long, and measures 19 feet high at its widest point.*

*The General Aviation Propulsion (GAP) engine being developed by Teledyne Continental Motors and NASA is a revolutionary engine that integrates advanced technologies to improve engine capabilities.*

### Planned Spin-Off and Asset Sale

We announced in January 1999 our plan to pursue a tax-free spin-off of a new public company and a public offering of the new company's stock. The new company would be comprised of Electronic Technologies, Brown Engineering, Continental Motors, and Cast Parts.

chief executive officer of the new company.

We also announced that we will explore selling Ryan Aeronautical, a producer of unmanned aerial vehicles and target drones.

### Growth at Electronic Technologies

Teledyne Electronic Technologies is a high technology manufacturer serving growing

application provides excellent opportunities for future growth.

The company provides a comprehensive line of data acquisition and communications products for business and regional aircraft. In recent years, demand for such aircraft has been growing rapidly. Bombardier Aerospace recently selected the company to provide a



The new company will be able to focus on its high technology competencies and markets in software and engineering systems, communications and electronics, and aircraft engines and components. Plans are for Dr. Robert Mehrabian, executive vice president responsible for the Aerospace and Electronics and Industrial Segments to be

electronic markets with advanced data acquisition and communications products, precision electronic devices, and high technology contract manufacturing services.

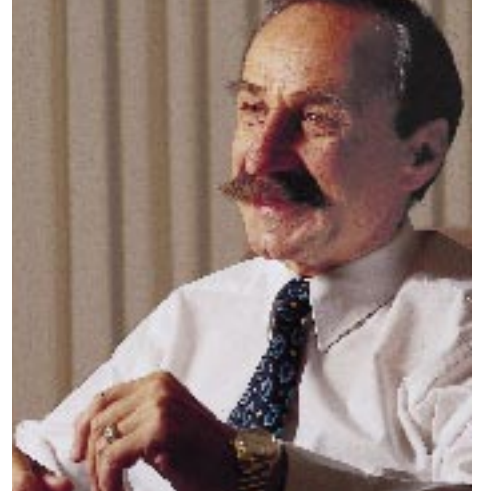
In 1998, the company was selected by Airbus Industrie to be a supplier of the data acquisition system for their narrow-bodied aircraft. The company believes that this new

suite of data acquisition and communications products for its new, ultra long-range Global Express business jet. These products include Teledyne Electronic Technologies' MagnaStar<sup>®</sup> air-to-ground telephone system and TeleLink<sup>™</sup> datalink system that links onboard avionics with ground service providers to facilitate air traffic management

*Bombardier Aerospace selected TeleLink<sup>™</sup> and MagnaStar<sup>®</sup> systems by Teledyne Electronic Technologies for their new ultra long-range Global Express business jet. The TeleLink system is a two-way datalink system between on-board avionics and ground service providers. The MagnaStar system is a digital cellular phone system.*



*Dr. Robert Mehrabian  
Executive Vice President,  
Segment Executive, Aerospace and Electronics  
and Industrial*



and flight operations.

Teledyne Electronic Technologies also supplies components designed to meet the growing world-wide demand for wireless telecommunications and satellite communications systems. The company is investing for future growth through its development of advanced electronic components for the next generation broad band, high-speed satellite and telecommunication systems.

#### **Brown Engineering Pursues Growth**

Teledyne Brown Engineering is a world-class provider of systems engineering solutions and defense and space engineering services. Under the leadership of its president, Richard A. Holloway, the company significantly reduced its cost structure during 1998, and is better positioned for future global growth.

Teledyne Brown Engineering is a member of the team of companies which was awarded the contract as the lead systems integrator for the U.S. Ballistic Missile Defense Organization's National Missile Defense (NMD) program. As part of this contract, the company will provide key support in the areas of system engineering, test and evaluation, deployment and support. The contract, with options, has a potential value to the company of \$200 million over eight years.

The company was also selected by the U.S. Air Force to produce three prototype

aircraft cargo loaders as part of the Next Generation Small Loader program. The prototype units are scheduled to be delivered during 1999 for testing, after which the U.S. Air Force will select a single company for the production of units currently valued at more than \$230 million.

#### **Continental Motors Poised for Growth**

The General Aviation Revitalization Act (GARA) of 1994 sparked significant growth in the general aviation industry. Unit sales of new general aviation aircraft nearly doubled between 1994 and 1997, and rose another 55 percent in 1998. Teledyne Continental Motors, with its new products and manufacturing technologies, appears to be well positioned to participate in this growing market.

In 1998, four new advanced composite aircraft, ranging from a training aircraft to a six seat business aircraft, received certification for production. Each of these new aircraft was certified with a Teledyne Continental Motors engine.

In addition, Teledyne Continental Motors is conducting development tests of an advanced Jet-A fuel engine design. Co-sponsored by NASA, this General Aviation Propulsion (GAP) engine is being designed to use commonly available diesel fuel and reduce overall operating costs. Lighter than most common diesel engines, the GAP engine may have non-aviation applications.

The company, through its Aerosance business unit, is also developing and testing unique full authority digital electronic controls for piston engines. This new product is designed to deliver lower operating costs for the general aviation industry.

#### **Cast Parts Positioning for Growth**

Under the leadership of its new president, Richard C. Brozek, Teledyne Cast Parts is making significant strides in improving quality and on-time delivery and reducing costs. Continued success in these areas should position the company for growth in the markets for precision sand castings and premium investment castings.

#### **Ryan Aeronautical Milestones**

Ryan Aeronautical's two major development projects, Global Hawk and the Miniature Air Launched Decoy (MALD), achieved significant milestones. As of early 1999, the Global Hawk unmanned aircraft had accumulated over 75 hours of flight, reaching altitudes above 64,000 feet. Global Hawk is being developed for the U.S. Air Force by Ryan Aeronautical and a team of suppliers to provide battlefield commanders with intelligence imagery from high altitudes for long periods of time. MALD flew its first test flight in January 1999. MALD is a small jet powered aerial vehicle designed to imitate manned jet fighters in radar images and confuse enemy air defense systems.



*The Diamond Katana C1 Training Aircraft built by Diamond Aircraft Industries Inc. is one of four new advanced composite aircraft that were certified for production in 1998. Each new aircraft was certified with a Teledyne Continental Motors engine.*



*Metalworking Products is recognized for technical excellence in coatings, which improve the performance of cutting tool inserts.*

**Focused on Specialty Metals**

The initiatives announced in January 1999 recognize the important strategic value to Allegheny Teledyne of three metals-related companies included in the Industrial Segment. These three companies are Metalworking Products—a major producer of tungsten powder and tungsten mill

As part of the January announcement, we stated our intention to sell the other two companies in our Industrial Segment—Fluid Systems, a manufacturer of nitrogen gas springs, pressure relief valves and vehicle control valves; and Specialty Equipment, an assembler of hydraulic attachments for mining and construction equipment and a

ducer of tungsten-based products. The company is one of the few tungsten producers in the world that is vertically integrated from raw materials to high value-added finished products. The company’s powder facilities are among the largest and most highly automated in the world, and are capable of producing tungsten powders



products, tungsten carbide materials and carbide cutting tools; Casting Service—a foundry specializing in large grey and ductile iron castings; and Portland Forge—a custom impression die forging company. Each of these companies utilizes technologies and processes that are complementary with our core specialty metals businesses.

manufacturer of transportable forklifts. While these companies have good prospects for growth, they do not fit strategically with Allegheny Teledyne’s specialty metals businesses.

**Metalworking Products Poised for Growth**  
Metalworking Products is a leading pro-

ducer of tungsten-based products. The high quality powders produced in these facilities are sold to global customers in many industries. They are also used in the company’s production of value-added products such as tungsten mill products, tungsten carbide products, and carbide cutting tools. The synergies gained from

*Metalworking Products is an industry leader in offering a wide array of tooling for threading applications to manufacturers in the fastener, bolt, fittings, gear, and automotive industries.*





*Metalworking Products is one of the few vertically integrated companies in the industry, with products ranging from powders through high value-added finished products.*

vertical integration provide cost and product performance advantages for the company's customers.

Metalworking Products serves growing world-wide markets including aerospace,

### DEMAND FOR TUNGSTEN PRODUCTS CONTINUES TO GROW AS MORE APPLICATIONS ARE FOUND FOR THIS UNIQUE METAL.

automotive, off-road equipment, glass production, medical, high-intensity lighting and recreational sports. Many of the company's major markets are forecasted to grow at least 5 percent annually over the next five years.

#### Growing Demand

Demand for tungsten has increased significantly in recent years as more applications are found for the wear and heat resistant properties of this metal. For example, tungsten powder products are used as a base material for tungsten carbide, as an alloying agent for steel products, as filaments in high-intensity lighting products, and in various applications such as furnace elements and welding electrodes.

The unique metallurgical properties of tungsten and its sister metal molybdenum are reflected in the breadth of applications for the company's mill products. These products continue to be used in new applications in industrial, aerospace and medical markets.

#### Global Growth for Cutting Tools

Around the world the global cutting tools industry is changing rapidly—driven by growth of new markets, development of new more advanced cutting applications, and

increased sophistication of manufacturers. Metalworking Products appears to be uniquely positioned to anticipate and serve the needs of these growing global markets.

Today, new materials designed for corrosion resistance, high temperature, or strength-to-weight applications are difficult to machine. Without the proper cutting tools, products ranging from aircraft engines to orthopedic implants would be more costly, if not impractical, to produce. Advances in product design, carbide substrates and the coating applied to perishable cutting tools have contributed significantly to the development of many products taken for granted in today's modern world.

As a technology leader in cutting tools produced from tungsten carbide, a material surpassed only by diamonds in hardness, Metalworking Products holds numerous patents for designs and processes. It has extensive experience designing tools for turning, threading, drilling and milling applications sold under the Stellram™ and

*Advanced design technology is required to supply milling tools to major automotive and component manufacturers.*

Landis™ trademarks. The company reaches its global base of cutting tool customers through a world-wide network of direct sales and distribution, supported by manufacturing operations in France, Germany, Switzerland, the United Kingdom and the United States.

#### Growth at Portland Forge and Casting Service

Portland Forge is a major supplier of custom impression die forgings and precision castings to several industrial markets. Demand is growing for the company's steel-forged pistons for heavy truck diesel engines. Manufacturers are using these pistons to replace cast and aluminum pistons in an effort to realize improved fuel economy and meet emission control requirements.

Casting Service is the only company in the U.S. capable of making large grey and ductile iron castings ranging in size from 1,000 pounds to 160,000 pounds. Growing markets for these large castings include engine blocks for train locomotives, ocean liners and stationary power generators, and air intake housings on land-based gas turbines for power generation.





*Michael P. Hoopis  
President and Chief Executive Officer, Consumer Segment*

## Consumer

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### Planned Spin-Off

In January 1999, we reaffirmed plans to proceed with the previously announced consideration of a spin-off and public offering of the Consumer Segment into a freestanding public company.

We believe that as a freestanding public company, the consumer businesses will be

### Poised For Growth

Our vision is to create a growth-oriented freestanding consumer products company driven by innovative products and industry-leading customer service and to reward stockholders by providing consistent, predictable sales and income growth.

Water Pik and Laars have built a

### New Water Pik Products

Water Pik is the inventor of the massaging showerhead. A recently introduced Water Pik product received accolades in 1998. The Flexible Shower Massage™ showerhead by Water Pik adjusts to a wide array of positions and height settings. This innovative new product received *Good Housekeeping*



better positioned to focus on their own strategic objectives and build on the leading positions of Water Pik and Laars in the marketplace. Michael P. Hoopis, who joined the company in October 1998, would be the chief executive officer of the new company and brings 20 years of broad management experience in consumer products to these businesses.

*Sheer Radiance™ lighting by Laars is a technically advanced patented solid-core fiber optic lighting system that creates the image of a backyard paradise. Designed for pool, spa, waterfall, and landscape lighting, Sheer Radiance lighting provides multiple, changeable color options to provide a unique backyard environment.*

foundation for growth through the development of innovative products and strong brand recognition. In 1998, the companies accelerated their new product development process with a view to identifying consumer needs on an ongoing basis and quickly delivering new products that provide innovative solutions to the marketplace.

magazine's prestigious "Good Buy" award for 1998; was named one of *Today's Homeowner* magazine's "Best New Products for 1998"; and earned top honors in 1998 from *Appliance Manufacturer* magazine—receiving the "Excellence in Design Award" for the best appliance design in the "Personal Care/ Portable Appliances" category.

*The new Teledyne Water Pik Electronic Faucet Filter is one of the most advanced faucet-mount filters available. It is designed to provide consumers with healthier, better-tasting drinking water.*



During 1998, Water Pik also introduced the first end-of-faucet water filter that automatically monitors itself to let the consumer know it is working, and alerts the consumer when it is time to change the

high efficiency, sealed combustion gas- and oil-fired boiler and water heating products. Trianco adds to Laars' heating technology base. This strategic acquisition, coupled with Laars' existing distribution

owners with precise temperature control throughout every zone of their homes while significantly reducing energy consumption. It is the first modulating residential boiler introduced to the North American market.

**“OUR VISION IS TO CREATE A GROWTH-ORIENTED CONSUMER PRODUCTS COMPANY DRIVEN BY INNOVATIVE PRODUCTS AND INDUSTRY-LEADING CUSTOMER SERVICE...”**

filter. This is one of the most advanced faucet-mount filters available. It is designed to reduce certain contaminants with up to 99.95 percent effectiveness and to provide consumers with healthier, better-tasting drinking water.

#### **E-commerce on waterpik.com**

Water Pik has made it even easier for customers to purchase many of the company's products and replacement parts and accessories. At [www.waterpik.com](http://www.waterpik.com), customers can purchase these products on-line without leaving their homes. This new website also offers product information literature, including instructions for product use and service advice, and the locations of retail outlets carrying Water Pik's family of products.

#### **Laars Acquisition of Trianco Heatmaker**

In August 1998, Laars enhanced its capabilities in commercial and residential heating systems with the acquisition of Trianco Heatmaker, a manufacturer of

network, provides opportunities for growth in both domestic and international markets.

#### **New Laars Products**

In January 1999, Laars introduced an innovative residential gas boiler. This new boiler is fully modulating so that the boiler's firing rate can match a home's ever-changing heating load. This special technology is designed to provide home-

#### **New Pool/Spa Heater Introduced**

Jandy, a business unit of Laars, recently introduced a technologically advanced and aesthetically pleasing gas heater for the swimming pool and spa industry. The new Laars LX heater features advanced technology polymer headers, graphic user interface controls with alphanumeric display, fan-assisted combustion and European appliance styling. The unit was introduced at major industry trade shows in late 1998 and generated strong levels of customer interest. Initial shipments of the LX heater began in January 1999.



*The innovative Flexible Shower Message™ showerhead by Water Pik received several new product awards in 1998.*



**Board of Directors**

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*(seated left to right): Diane C. Creel, Ray J. Groves, Charles J. Queenan, Jr., Richard P. Simmons and C. Fred Fetterolf.  
(standing left to right): Frank J. Lucchino, W. Craig McClelland, Robert Mehrabian, James E. Rohr, Frank V. Cabouet,  
James L. Murdy, Paul S. Brentlinger, Robert P. Bozzone and William G. Ouchi.*

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

Certain statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations are forward-looking statements. Actual results could differ materially from those encompassed within such forward-looking statements as a result of various factors, certain of which are described below.

## Financial Overview

During 1998, Allegheny Teledyne Incorporated and its subsidiaries (the "Company") continued to build upon their operational and financial strengths.

- Sales from continuing operations remained strong at \$3.8 billion as improved sales in the Aerospace and Electronics and the Industrial Segments offset difficult economic conditions faced in the commodity stainless steel and titanium businesses of the Specialty Metals Segment.
- Operating profit for 1998 was \$469.4 million, or 12.3 percent of continuing sales.
- Corporate expenses continued to decline in 1998 to \$36.5 million from \$40.4 million in 1997 and \$43.7 million in 1996 as a result of consolidating operations and continuing focus on cost controls.
- Pension income improved and exceeded other postemployment benefits expense by \$44.0 million as a result of favorable investment results.
- Cash flow generated by operations increased 40 percent in 1998 to \$399.4 million primarily as a result of the Company's continuing successful efforts to reduce working capital.
- The Company completed the strategic acquisitions of the aerospace division of Sheffield Forgemasters and Oregon Metallurgical Corporation, and purchased certain stainless steel assets from and entered into a long-term conversion agreement with Bethlehem Steel Corporation. In addition, the Company increased its capital spending to \$172.6 million in 1998, up from \$122.8 million in 1997, as it completed significant investments in capital equipment including a new electron beam melt facility, a new vacuum induction furnace and a new Sendzimir mill for the Specialty Metals Segment.
- In the 1998 fourth quarter, the Company repurchased 2.5 million shares of its common stock at a cost of \$49.4 million.
- Even with the significant increase in acquisitions and capital spending, the Company ended the 1998 year with a strong net debt to total capitalization ratio of 24.7 percent.

The Company expects free cash flow to be consistently strong. This should provide sufficient financial resources for the Company to capitalize on new profitable growth opportunities while keeping its strong credit rating and access to cost efficient capital markets.

## Strategic Transformation

Following extensive studies and strategic analyses initiated in the summer of 1998, the Company announced in January

1999 that it intends to pursue a course of action that would result in a significant transformation and reconfiguration of the Company during 1999. Assuming legal, tax, financial and other considerations can be resolved successfully, the anticipated transformation would include a tax-free spin-off of a new public company and a public offering of the new company's stock. The new company would be comprised of four former Teledyne companies in the Aerospace and Electronics Segment. The four businesses are Electronic Technologies headquartered in Los Angeles, CA; Brown Engineering headquartered in Huntsville, AL; Continental Motors headquartered in Mobile, AL; and Cast Parts located in southern California. Combined 1998 revenues of the businesses in the new company were approximately \$800 million. The new company is expected to be headquartered in Los Angeles.

The Company is proceeding simultaneously with the consideration of a spin-off and public offering of the Consumer Segment, as announced in the 1998 second quarter, into a freestanding public company. This new company is expected to be headquartered in the Los Angeles area. Annual revenues for the Consumer Segment were approximately \$250 million in 1998.

The Company plans to submit a request for a private letter ruling to the Internal Revenue Service with respect to the tax-free nature of the proposed spin-offs by the end of the 1999 first quarter.

Names for the new companies have not yet been selected.

After the spin-offs, Allegheny Teledyne, headquartered in Pittsburgh, will be focused as one of the largest and most diversified specialty metals companies in the world with annual revenues of approximately \$2.5 billion in 1998. It would consist of Allegheny Ludlum/Rodney — a major flat-rolled producer of stainless steel, specialty metals, and titanium; Allvac and Allvac-SMP — major producers of nickel-based superalloys, titanium alloys and specialty steels in billet, bar, rod, wire and coil forms; Oremet-Wah Chang — a diversified producer of zirconium, titanium and other specialty metals including niobium, tantalum and hafnium; Titanium Industries, a titanium distribution company, and Rome Metals, a processor of titanium and other specialty metals; Metalworking Products — a major producer of tungsten mill products, tungsten carbide materials and tungsten carbide cutting tools; Casting Service — a foundry specializing in large grey and ductile iron castings; and Portland Forge — a custom impression die forging company.

In addition, the Company is exploring the sale of Ryan Aeronautical, a producer of unmanned aerial vehicles and target drones, which is located in San Diego, CA. The Company intends to sell its Fluid Systems business, a manufacturer of nitrogen gas springs, pressure relief valves and vehicle control valves headquartered in Brecksville, Ohio, and its Specialty Equipment business which consists of two divisions — one division, located in Canada, is an assembler of hydraulic attachments for mining and construction equipment and the other is a manufacturer of transportable forklifts in the U.S. and the Netherlands. Combined revenues of the three businesses were nearly \$400 million in 1998.



## Acquisitions and Divestitures

### Aerospace Division of Sheffield Forgemasters

In February 1998, the Company acquired the assets of the aerospace division of Sheffield Forgemasters Limited, a private company in the United Kingdom, for approximately \$110 million in an all-cash transaction.

The acquisition of Sheffield Forgemasters' aerospace division, now known as Allvac-SMP, provides significant support to the Company's high performance metals businesses, primarily Allvac, and has enhanced service to customers by improving the sales and distribution network for the Company's nickel-based alloys, specialty steels and titanium in Europe. The acquisition also provides additional vacuum melting, vacuum consumable remelting, electroslag remelting, and forging capacity, which complements Allvac's facilities. Allvac-SMP's rotary forging machine is one of the largest in the world.

### Oregon Metallurgical Corporation ("OREMET")

In October 1997, the Company announced that it had entered into a definitive merger agreement to acquire the stock of OREMET. Under the terms of the merger, which was completed in March 1998, OREMET shareholders received 1.296 shares of Allegheny Teledyne common stock in a tax-free exchange for each share of OREMET common stock. A total of 21.6 million shares of Allegheny Teledyne stock were issued in connection with the merger. The merger was accounted for under the pooling of interests accounting method.

OREMET is an integrated producer and distributor of titanium sponge, ingot, mill products and castings for use in the aerospace, industrial, recreational and military markets. It operates manufacturing and finishing facilities in Oregon, Washington and Pennsylvania and has nine service centers in the United States, with additional service centers in the United Kingdom, Germany, Singapore and Canada.

### Agreements with Bethlehem Steel Corporation

In January 1998, Bethlehem Steel Corporation ("Bethlehem") and the Company jointly announced that they had entered into three agreements that would become effective after Bethlehem closed its previously announced acquisition of Lukens Inc. ("Lukens"). Bethlehem completed its acquisition of Lukens on May 29, 1998.

On November 20, 1998, the asset sale agreement previously signed by both companies was closed and the related conversion services and hot band supply agreements began to be implemented.

Under the asset sale agreement, Allegheny Ludlum Corporation ("Allegheny Ludlum"), a wholly owned subsidiary of Allegheny Teledyne, acquired certain assets which Bethlehem acquired from Lukens. These assets include the melting and hot rolling facilities located at the Houston, PA, plant and the wide anneal and pickle line at the Massillon, OH, plant.

Under the conversion services agreement, Bethlehem agreed, for a 20-year period, to provide Allegheny Ludlum exclusive access to the Coatesville, PA, melt shop and caster for the production of stainless steel slabs, and to the Conshohocken, PA, 110-inch Steckel mill for the rolling of stainless steel slabs and stainless precipitation hardening grades, maraging grades, and nickel and nickel-based alloys.

After jointly conducting due diligence, Allegheny Ludlum and Bethlehem agreed that improvements to Bethlehem's 110-inch Steckel mill would enhance performance for the benefit of both parties, and they will share in the cost of certain of these improvements. Using independent consultants, Allegheny Ludlum and Bethlehem concluded that improvements to the computer control system, increasing the power of the roughing mill and undertaking other projects to improve the mill's capability will enhance performance of the mill for carbon, alloy and stainless steel. Two 8,000 horsepower roughing mill motors will be installed, and Allegheny Ludlum will share in the ownership of the motors up to a maximum investment of \$9 million. The total cost of all improvements to the 110-inch Steckel mill is currently estimated to be about \$25 million.

At the closing of the asset sale and conversion services agreement, Allegheny Ludlum paid Bethlehem \$105 million in cash of the previously announced \$175 million asset purchase price, and issued a non-interest bearing promissory note for the remaining \$70 million. The note will be paid after the improvements to the 110-inch Steckel mill are completed and the mill returns to a regularly scheduled operating basis.

In addition, under the hot band supply agreement, Allegheny Ludlum agreed to supply Bethlehem with up to 150,000 tons annually of stainless bands for further processing at Lukens' stainless cold finishing facilities at its Washington, PA and Massillon, OH plants until Bethlehem sells these facilities. Bethlehem has announced that it plans to cease operations at these two facilities, but that it continues to pursue the sale of the facilities.

## Divestitures

In 1997, the Company sold six businesses which manufactured collapsible metal and laminate packaging tubes, thread cutting and rolling machines, electric heating elements, metal dies and plastic compression molds and welded stainless steel tubular products, and operated job training centers for the U.S. government. Net after-tax proceeds from sales of these non-strategic businesses together with proceeds from sales of investments, surplus real estate and Company aircraft totaled \$82.4 million in 1997.

## Results of Operations

The Company's sales from continuing operations were \$3.8 billion in 1998, 1997 and 1996. Continuing foreign sales represented approximately 20 percent of continuing sales in 1998 and 18 percent of continuing sales in 1997 and 1996, respectively. Continuing sales under contracts with the U.S. Government, which included contracts with the Department of Defense, represented approximately 13 percent, 12 percent and 16 percent of continuing sales in 1998, 1997 and 1996, respectively. Continuing defense sales represented approximately 10 percent, 9 percent and 11 percent of continuing sales in 1998, 1997, and 1996, respectively.

Sales and operating profit for the Company's four business segments are presented separately below and in Note 12 of the Notes to Consolidated Financial Statements. Certain amounts for 1997 and 1996 have been reclassified to conform with the 1998 presentation.

## Specialty Metals

<i>(In millions)</i>	1998	% Change	1997	% Change	1996
Sales from Continuing Operations	\$2,053.4	(5)%	\$2,155.5	3%	\$2,096.3
Operating Profit	282.3	(12)%	320.7	3%	311.1
Operating Profit as a Percentage of Sales	13.7%		14.9%		14.8%
Foreign Sales as a Percentage of Sales	16.8%		13.4%		11.7%

### 1998 Compared to 1997

Sales and operating profit for the Specialty Metals Segment decreased 5 percent and 12 percent, respectively, in 1998 compared to 1997.

Tight operating cost controls and cost reduction efforts continued throughout the Specialty Metals Segment.

### Flat-Rolled Products

Sales and operating profit of Allegheny Ludlum and Rodney Metals, which consist primarily of flat-rolled products, declined 8 percent and 10 percent, respectively, in 1998. Tons shipped remained level at 542,000 tons compared to 1997, but sales and operating profit declined primarily due to the impact on pricing of imports of commodity stainless steel products into the U.S. market from Europe and Asia. Average selling prices of flat-rolled specialty materials declined to \$2,184 per ton in 1998 from \$2,380 in 1997.

Raw material costs were lower for flat-rolled products in 1998 as compared to 1997. Costs of nickel, a key raw material in the manufacture of stainless steel, continued to decline during 1998.

In June 1998, Allegheny Ludlum and other domestic producers of flat-rolled stainless steel sheet and strip products and several unions filed petitions with the International Trade Commission ("ITC") and the U.S. Department of Commerce ("DOC") charging companies in eight foreign countries with violations of U.S. trade laws. In response, on July 7, 1998, the DOC formally initiated antidumping and countervailing duty cases. On July 24, 1998, the ITC found preliminarily that imports of stainless steel sheet and strip in coils from certain countries are materially injuring the domestic industry. As a result, the DOC conducted countervailing duty and antidumping investigations of imports of stainless steel sheet and strip in coils. These investigations were extended 30 days at the request of U.S. producers, and on December 18, 1998, the DOC announced preliminary antidumping duties on imports of stainless steel sheet and strip in coils from companies in eight nations of up to nearly 59 percent. In addition, on October 30, 1998, U.S. producers requested that the DOC apply the "critical circumstances" provision of the U.S. trade laws to combat import surges. An affirmative finding would impose antidumping duties retroactively to September 18, 1998. On November 10, 1998, the DOC announced preliminary countervailing duty rates on imports of stainless steel sheet and strip in coils from France, Italy and South Korea. Final antidumping duties are expected to be set by the DOC in May 1999.

On August 5, 1998, Allegheny Ludlum announced that it would be increasing prices for stainless steel hot rolled and cold rolled sheet, strip and coiled plate effective with shipments on October 5, 1998. This price increase is intended to support additional investment in the flat-rolled products business to further improve product quality and continue the Company's position as a low-cost world-class supplier of specialty steels. The ability to maintain price increases depends on market conditions, including pricing by foreign producers.

The Company invested \$5.2 million in 1998, and has invested \$24.4 million to-date, in a Chinese joint venture, Shanghai STAL Precision Stainless Steel Company Limited, to produce precision rolled stainless steel strip. Allegheny Ludlum owns 60 percent of the venture. The plant constructed by the joint venture is expected to start commercial production in the first half of 1999.

In February 1998, an early settlement was reached on a new three-year labor agreement covering United Steelworkers of America union members working at Allegheny Ludlum plants in Pennsylvania, New York, Indiana, and Connecticut. The collective bargaining agreement is effective through June 30, 2001.

### High Performance Metals

In 1998, sales from high-performance metals businesses increased 1 percent, while operating profit decreased 13 percent compared to 1997. The decline in operating results occurred primarily in titanium products as aircraft and jet engine manufacturers continued to adjust inventory and level off production rates. Titanium sales at Oremet-Wah Chang were also negatively impacted by the Boeing-Timet supply agreements, and reduced demand from chemical processing and recreational markets. In addition, start-up costs associated with Oremet-Wah Chang's new electron beam melt facility and Allvac's new vacuum induction furnace negatively impacted operating margins. These items were partially offset by lower raw material costs and continuing cost reduction efforts.

Operating results for high performance metals include the results of two acquisitions: OREMET, which was accounted for using the pooling of interests method of accounting; and Allvac-SMP, acquired for \$110 million in an all-cash transaction in February 1998. The operating results reflect OREMET and Allegheny Teledyne as if they had been combined for all periods presented.

### 1997 Compared to 1996

Both sales and operating profit for the Specialty Metals Segment increased 3 percent in 1997 compared to 1996, despite an increasingly difficult pricing environment for stainless steel commodity grades and a \$4.9 million charge for environmental expenses. Tight operating cost controls remained in effect throughout the Specialty Metals Segment.

### Flat-Rolled Products

Sales of flat-rolled products declined 6 percent in 1997. Tons shipped increased 1 percent in 1997, but sales declined due to the significant pricing pressure in commodity stainless steel products. Tons shipped in 1997 were 542,000 compared to 535,000 in 1996. Operating profit declined 22 percent

reflecting the impact of pricing pressure from foreign sources, primarily in Europe and Asia, and increased imports in the U.S. markets. Average selling prices of flat-rolled specialty materials declined to \$2,380 per ton in 1997 from \$2,568 in 1996.

### High Performance Metals

Operating profit, excluding the environmental charge, and sales from high performance metals businesses increased 42 percent and 20 percent, respectively, compared to 1996. These results, which include the results of OREMET, reflected strong demand from commercial aerospace and chemical processing industries for specialized metals such as nickel-based superalloys, titanium, niobium and zirconium and further acceptance of titanium for recreational product usage.

## Aerospace and Electronics

<i>(In millions)</i>	1998	% Change	1997	% Change	1996
Sales from Continuing Operations	\$1,007.0	9%	\$927.0	(4)%	\$970.0
Operating Profit	110.7	23%	90.3	(10)%	100.4
Operating Profit as a Percentage of Sales	11.0%		9.7%		10.4%
U.S. Government Sales as a Percentage of Sales	45.5%		46.2%		56.0%
Foreign Sales as a Percentage of Sales	19.4%		18.7%		21.0%

### 1998 Compared to 1997

Sales for the Aerospace and Electronics Segment increased 9 percent and operating profit increased 23 percent in 1998 compared to 1997. Sales and operating profit improved in 1998 for most companies in the Segment compared to 1997. The 1998 results benefited from higher sales and improved margins at Ryan Aeronautical due to the final deliveries on the Apache helicopter airframe contract as well as increased development efforts on the Global Hawk High Altitude Endurance Unmanned Aerial Surveillance/Reconnaissance Vehicle program. With the conclusion of the Apache contract, Ryan expects lower sales and operating income in 1999. At Brown Engineering, improvement in instrumentation products and defense programs resulted in increased sales and operating profit. At Electronic Technologies, improved performance in aircraft data systems and electronic communication products for business and commuter aircraft offset the negative impact on certain businesses resulting from the continuing economic difficulties in Asia. At Continental Motors, sales and operating profits increased on new piston engines and turbine engine programs, offsetting higher costs associated with plant rationalization and new product development. At Cast Parts, sales and operating profits declined due to production inefficiencies and delays in shipments.

### 1997 Compared to 1996

Sales for the Aerospace and Electronics Segment decreased 4 percent and operating profit decreased 10 percent in 1997 compared to 1996. Ryan Aeronautical experienced declines in sales and operating profit primarily due to the scheduled wind-down of the initial phase of the Global Hawk program and the completion in 1996 of a contract to supply mid-range unmanned aerial vehicles. In September 1997, Ryan received authorization from the Pentagon to build two additional Global Hawk vehicles and to begin procuring certain items for a fifth vehicle. In 1997, The Boeing Company notified Ryan that it would terminate the long-standing agreement with Ryan to fabricate the Apache helicopter fuselage. Operating results declined at Brown Engineering in 1997 due to lower shipments and funding levels on defense and NASA contracts and costs associated with restructuring its operations. Nonrecurring expenses, primarily research and development-related expenses for avionics, resulted in declines in operating profit at Controls, a business unit of Electronic Technologies. Electronic Technologies was the largest contributor to the segment's sales and profit for 1997. Demand for electromechanical relays, circuit board contract manufacturing, and microelectronic hybrid products paced these results.

## Industrial

<i>(In millions)</i>	1998	% Change	1997	% Change	1996
Sales from Continuing Operations	\$515.9	1%	\$511.7	3%	\$499.1
Operating Profit	53.0	(12)%	60.2	25%	48.3
Operating Profit as a Percentage of Sales	10.3%		11.8%		9.7%
Foreign Sales as a Percentage of Sales	36.5%		36.8%		37.8%

### 1998 Compared to 1997

Sales for the Industrial Segment increased 1 percent and operating profit decreased 12 percent in 1998 compared to 1997. Decreased sales and operating profit at Metalworking Products primarily resulted from reduced demand and lower prices for tungsten, tungsten carbide and carbide cutting tools due to weaker global economic conditions. Metalworking Products was also negatively impacted by facility rationalization and related start-up costs and increased marketing costs for business expansion. In addition, the General Motors strike negatively impacted the results of Metalworking Products in the first half of 1998. These negative developments were partially offset by continued improvement in results at Casting Service, Portland Forge and Fluid Systems. Segment sales increased in 1998 due to improved sales of forged

products, nitrogen gas springs and construction and mining equipment.

### 1997 Compared to 1996

Sales for the Industrial Segment increased 3 percent and operating profit increased 25 percent in 1997 compared to 1996. Operating profit improved for Metalworking Products, which was the largest revenue and profit producer in the Segment. In addition, sales and operating profit improved at Portland Forge and at Specialty Equipment's mining and construction equipment and material handling businesses. These improvements in results were offset by a decline in operating profit and sales at Casting Service due primarily to discontinuing certain product lines and costs associated with other restructuring activities.

## Consumer

<i>(In millions)</i>	1998	% Change	1997	% Change	1996
Sales from Continuing Operations	\$247.6	(2)%	\$253.8	11%	\$228.3
Operating Profit	23.4	(32)%	34.5	141%	14.3
Operating Profit as a Percentage of Sales	9.5%		13.6%		6.3%
Foreign Sales as a Percentage of Sales	15.2%		18.0%		18.7%

### 1998 Compared to 1997

Sales for the Consumer Segment decreased 2 percent and operating profit decreased 32 percent in 1998 compared to 1997. Sales and operating profit decreased compared to 1997 when the Segment benefited from strong demand for a new Water Pik showerhead product. In addition, operating results in 1998 were adversely affected by development and product costs related to new water filtration products. These negative developments were partially offset by stronger sales and improved margins on Laars swimming pool products.

In August 1998, Laars acquired the assets of Trianco Heatmaker, Inc., a manufacturer of high efficiency gas- and oil-fired boiler and water heating products based in Randolph, MA.

### 1997 Compared to 1996

Sales for the Consumer Segment increased 11 percent and operating profit increased 141 percent in 1997 compared to 1996. The improvement in operating results at Water Pik was particularly strong due to the favorable performance of new products and cost reductions. Sales and operating profit improved at Laars primarily due to the successful integration of the pool products of Laars and Jandy Industries, Inc., a major United States producer of water flow control valves and electronic control systems for the swimming pool industry which was acquired in 1996. The introduction of a new pool heater product also contributed to improved sales and operating profit at Laars.



## Merger and Restructuring Costs

Merger and restructuring costs recorded by the Company were \$67.8 million, \$12.0 million and \$57.5 million in 1998, 1997 and 1996, respectively. The Company recorded charges of \$19.1 million in 1998, \$12.0 million in 1997 and \$57.5 million in 1996 for severance, financial advisory, legal, accounting, and other costs associated with the acquisition of OREMET in 1998 and the combination of Allegheny Ludlum and Teledyne in 1996. The Company also recorded charges of \$19.3 million in 1998 resulting primarily from special termination benefits granted to approximately 300 Allegheny Ludlum employees who were part of a planned salaried workforce reduction completed in the 1998 third quarter. This workforce reduction will result in pretax savings of approximately \$16 million annually. Costs associated with exiting certain product lines in the 1998 third quarter and asset impairments resulting from new capital expenditure programs coming on-line resulted in a charge of \$29.4 million. Sales and operating results for the business being exited were not financially material.

## Corporate Expenses

Corporate expenses continued to decline to \$36.5 million in 1998 from \$40.4 million in 1997 and \$43.7 million in 1996. The decline in 1998 resulted primarily from the continued focus on cost controls. Corporate expenses declined in 1997 primarily from the consolidation of the Allegheny Ludlum and Teledyne corporate operations.

## Investments and Operations Sold or Held for Sale

In 1998, income from investments and operations sold or held for sale of \$1.4 million included pretax gains on the sales of real estate and certain investments offset by losses associated with asset sales activities during the year.

Income from investments and operations sold or held for sale in 1997 included pretax gains of \$18.1 million on the divestitures of businesses which operated job training centers for the U.S. Government and which manufactured collapsible metal and laminate packaging tubes, thread cutting and rolling machines, electric heating elements, metal dies and plastic compression molds, and welded stainless steel tubular products, \$27.6 million on the sale of the Company's investment in Semtech Corporation common stock, and \$17.3 million on the sale of the Company's investment in Nitinol Development Corporation. In addition, operating results for investments and operations sold or held for sale included a charge of \$5.3 million to write off the Company's investment in a research and development venture in 1997 and charges of \$6.8 million in 1997 and \$7.7 million in 1996 to settle certain U.S. Government contracting matters relating to former Teledyne businesses.

Income from investments and operations sold or held for sale in 1996 included pretax gains of \$41.0 million on the sale of the Company's defense vehicle business and \$20.3 million on the sale of surplus California real estate.

These amounts are included in other income on the income statement.

## Income Taxes

The Company's effective income tax rate was 38.3 percent, 37.3 percent and 40.5 percent in 1998, 1997 and 1996, respectively. The 1997 rate includes the effect of favorable adjustments to prior years' tax liabilities. The 1996 rate resulted from non-deductible business combination costs in 1996.

The Company has determined, based on its history of operating earnings, expectations of future operating earnings and potential tax planning strategies, that it is more likely than not that the deferred income tax assets at December 31, 1998 will be realized.

## Financial Condition and Liquidity

In 1998, cash generated from operations of \$399.4 million, borrowings on credit lines of \$113.6 million, proceeds from sales of businesses and investments and disposals of assets of \$48.2 million and proceeds from the sale of short-term investments of \$34.4 million were used to invest \$401.7 million in capital equipment and business expansion, pay dividends of \$122.3 million and purchase treasury stock of \$49.4 million. Cash transactions plus cash on hand at the beginning of the year resulted in a cash position of \$74.8 million at December 31, 1998.

Working capital decreased to \$742.2 million at December 31, 1998 compared to \$842.6 million at the end of 1997. The current ratio decreased to 2.2 in 1998 from 2.4 in 1997. The decrease in working capital was primarily due to reductions in accounts receivable and inventory, even after taking into account the working capital acquired with businesses purchased, and increased short-term debt.

In the 1998 fourth quarter, the Company entered into three short-term credit agreements in connection with the closing of the asset sale agreement with Bethlehem. These agreements provide for borrowings totaling up to \$185.0 million on a revolving credit basis. At December 31, 1998, borrowings outstanding under these agreements were \$65.0 million. Allegheny Ludlum also issued a \$70.0 million non-interest bearing promissory note to Bethlehem in the 1998 fourth quarter in connection with the closing of the asset sale agreement.

The Company's debt to capitalization ratio increased to 27.8 percent in 1998 from 21.2 percent in 1997. The Company's net debt to total capitalization ratio increased to 24.7 percent in 1998 from 16.6 percent in 1997. These increases were primarily due to increased cash outlays for strategic acquisitions and capital spending, primarily in the Specialty Metals Segment.

Total capital expenditures for 1999 are expected to approximate \$128 million. However, as a result of the uncertain business outlook in the U.S. and concern about global economic conditions, the Company intends to continue to closely monitor business conditions and hold tighter than usual reins on capital and discretionary spending until it has a better sense of the economy's strength or weakness.

In 1996, the underfunded defined benefit pension plans of Allegheny Ludlum were merged with overfunded defined benefit pension plans of Teledyne. The resulting pension plan is fully funded with assets significantly in excess of the projected benefit obligations. As a result, for the indefinite future, the Company does not anticipate that it will have to contribute to its defined benefit pension plan. Under current Internal Revenue Code regulations, certain amounts paid for retiree medical expenses may be reimbursed annually from the excess pension plan assets. In 1998, the Company recovered the pre-tax amount of \$37.4 million under these regulations. While not affecting reported operating profit, cash flow increased by the after-tax effect of the recovered amount.

In October 1998, the Company's Board of Directors authorized a stock repurchase program to acquire up to 20 million shares of Allegheny Teledyne common stock. The shares may be purchased from time-to-time in the open market or in negotiated transactions. As of December 31, 1998, the Company had repurchased 2.5 million shares at a cost of \$49.4 million. From the inception of the share repurchase program through February 26, 1999, the Company repurchased 3.8 million shares on the open market for a cost of \$76.0 million.

In 1997, the Company repurchased 3.8 million shares of Allegheny Teledyne common stock at a cost of \$107.7 million. However, average common shares outstanding for 1997 were slightly higher than 1996 because share issuances upon stock option exercises exceeded share repurchases. The 12 million share repurchase program initiated in 1997 was terminated October 31, 1997 in connection with the announced acquisition of OREMET, which was accounted for as a pooling of interests.

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

### **New Accounting Pronouncements**

Financial Accounting Standards Board ("FASB") Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information" was issued in June 1997. This statement was adopted by the Company in 1998. It did not have a material effect on the consolidated financial statements.

FASB Statement No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," was issued in February 1998. This statement revises employers' disclosures about pension and postretirement benefit plans. It does not change the measurement or recognition of those plans. The Company adopted this statement in 1998.

FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" was issued in June 1998. This statement establishes accounting and reporting standards for derivative instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in its statement of financial position and measure those instruments at fair value. This statement is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. The Company is presently evaluating the effect of adopting this statement.

## **Other Matters**

### **Costs and Pricing**

Although inflationary trends in recent years have been moderate, during the same period certain critical raw material costs have been volatile. The Company primarily uses the last-in, first-out method of inventory accounting which reflects current costs in the cost of products sold. The Company considers these costs, the increasing costs of equipment and other costs in establishing its sales pricing policies and has instituted raw material surcharges on certain of its products to the extent permitted by competitive factors in the marketplace. The Company continues to emphasize cost containment in all aspects of its business.

### **Impact of the Introduction of the Eurodollar**

In 1998, the Company initiated an internal analysis to determine the effects of the January 1, 1999 conversion and related transition by 11 member states of the European Union to a common currency, the "euro." The United Kingdom, where a significant portion of the Company's European operations is located, is not currently a participating country. Based on its preliminary findings, the Company does not expect the euro conversion to have a material impact on the Company's results of operation or financial condition. Like other companies with European sales and operations, the Company anticipates that it will face wage and product pricing transparency issues in participating countries; however, the Company does not expect the resolution of these issues to have a material adverse effect on the Company. Additionally, while the Company expects to encounter some technical challenges to adapt information technology and other systems to accommodate euro-denominated transactions, it does not anticipate associated costs to be material. Mostly due to evolving business needs and continuing technological advances, the Company has been modifying and replacing its computer software and hardware at its European operations.

The Company believes that the euro conversion will not have a material adverse effect on its foreign currency activities described below.

### **Hedging**

The Company uses derivative financial instruments from time to time to hedge ordinary business risks regarding foreign currencies on product sales and to partially hedge against volatile raw material cost fluctuations in the Specialty Metals Segment.

Foreign currency exchange contracts are used to limit transactional exposure to changes in currency exchange rates. The Company sometimes purchases foreign currency forward contracts that permit it to sell specified amounts of foreign currencies expected to be received from its export sales for pre-established U.S. dollar amounts at specified dates. The forward contracts are denominated in the same foreign currencies in which export sales are denominated. These contracts, which are not financially material, are designated as hedges of export sales transactions in which settlement will occur in future periods and which otherwise would expose the Company, on the basis of its aggregate net cash flows in respective currencies, to foreign currency risk.

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

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

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

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

#### **Environmental**

The Company is subject to federal, state and local environmental laws and regulations which require that it investigate and remediate the effects of the release or disposal of materials at sites associated with past and present operations, including sites at which the Company has been identified as a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act, commonly known as Superfund, and comparable state laws. The Company is currently involved in the investigation and remediation of a number of sites under these laws. The Company's reserves for environmental remediation totaled approximately \$33.7 million at December 31, 1998. Based on currently available information, management does not believe future environmental costs in excess of those accrued with respect to sites with which the Company has been

identified are likely to have a material adverse effect on the Company's financial condition or liquidity. The resolution in any reporting period of one or more of these matters could have a material adverse effect on the Company's results of operations for that period.

With respect to proceedings brought under the federal Superfund laws, or similar state statutes, the Company has been identified as a potentially responsible party at approximately 37 of such sites, excluding those at which it believes it has no future liability. The Company's involvement is very limited or de minimis at approximately 17 of these sites, and the potential loss exposure with respect to any of the remaining 20 individual sites is not considered to be material.

For additional discussion of environmental matters, see Notes 1 and 15 of the Notes to Consolidated Financial Statements.

#### **Government Contracts**

Several of the Company's subsidiaries perform work on contracts with the U.S. Government. Many of these contracts include price redetermination clauses, and most are terminable at the convenience of the government. Certain of these contracts are fixed-price or fixed-price incentive development contracts which involve a risk that costs may exceed those expected when the contracts were negotiated. Absent modification of these contracts, any costs incurred in excess of the fixed or ceiling prices must be borne by the Company. In addition, virtually all defense programs are subject to curtailment or cancellation due to the year-to-year nature of the government appropriations and allocations process. A material reduction in U.S. Government appropriations may have an adverse effect on the Company's business, depending upon the specific programs affected by any such reduction. Since certain contracts extend over a long period of time, all revisions in cost and funding estimates during the progress of work have the effect of adjusting the current period earnings on a cumulative catch-up basis. When the current contract estimate indicates a loss, provision is made for the total anticipated loss. The Company obtains many U.S. Government contracts through the process of competitive bidding. There can be no assurance that the Company will continue to be successful in having its bids accepted.

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

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

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

For additional discussion of government contract matters, see Note 15 of the Notes to Consolidated Financial Statements.

#### **Year 2000 Readiness Disclosure**

Over the past several years, the Company has put in place management task forces at its operating companies to identify whether its computer systems, which include business computers, mill equipment and process control computers and other devices using a microprocessor, as well as telecommunication and payroll and employee benefit processing systems, would function properly with respect to dates in the Year 2000 and thereafter. These task forces report to the Executive Resource Information Committee, a senior management committee charged with reviewing and establishing priorities for information technology-related matters, including Year 2000 issues, and which reports to the Audit and Finance Committee of the Company's Board of Directors. Through these efforts, Year 2000 identification, solution development, testing and implementation initiatives and contingency planning initiatives are in process at Allegheny Teledyne and each of the operating companies.

In part as a result of its Year 2000 initiatives, but mostly due to evolving business needs and continuing technological advancements, the Company has been modifying and replacing portions of its computer software and hardware systems. The Company estimates, based on dollars expended, that installation of solutions to identified Year 2000 issues relating to its information technology systems is approximately 90 percent complete. While the Company estimates that based on dollars expended, about 95 percent of solutions have been implemented for its non-information technology systems, the Company continues to work to

resolve various manufacturing-related Year 2000 issues. The Company continues to target having substantially all internal solutions relating to Year 2000 functionality of its computer systems developed and implemented by June 1999. This targeted completion date depends, however, on numerous assumptions, including continued availability of trained personnel in this area. In addition, efforts continue to be made to identify and resolve customer- and supplier-based Year 2000 issues that could affect the Company and its operating and support systems. The Company believes that it has identified substantially all material customer- and supplier-based Year 2000 issues. Efforts also continue to be made to identify whether products produced and sold by Allegheny Teledyne's operating companies have Year 2000 issues. The Company believes that it has identified substantially all products that have Year 2000 issues and is working to resolve such issues. The Company believes that it does not have any significant product-related Year 2000 issues. The Company has not conducted any review of products manufactured and sold by discontinued businesses or businesses it has sold.

Excluding expenditures necessitated by ordinary business needs and continuing technological advancements in the computer industry, the Company spent approximately \$11 million in 1998 and anticipates spending another estimated \$7 million in 1999 to address Year 2000 issues. These expenditures do not include expenditures that may be required to address Year 2000 issues associated with some products. Substantially all costs related to the Company's Year 2000 initiatives are expensed as incurred and funded through operating cash flows. Additional amounts may be spent in subsequent years.

Based upon internal assessments, formal communications with suppliers and customers with which the Company exchanges electronic data, and work completed to date, the Company believes that Year 2000 issues should not pose significant operational problems or have a material impact on the Company's consolidated financial position, results of operations or cash flow. A failure of third party vendors or customers to be Year 2000 ready, however, could adversely affect these beliefs and is not quantifiable. Such failure could have a material adverse effect on the Company's consolidated financial position, results of operations or cash flow in a given period, but probably not over the long-term. The most reasonably likely worst case scenario of failure by the Company or its suppliers or customers to resolve Year 2000 problems would be a temporary slowdown or cessation of manufacturing operations at one or more of the Company's facilities and a temporary inability on the part of the Company to timely process orders and to deliver finished products to customers. Delays in meeting customers' orders would affect the timing of billings to and payments received from customers with respect to orders and could result in other liabilities. Customers' Year 2000 problems could also delay the timing of payments to the Company for orders. Efforts are underway to identify contingency plans should unplanned situations arise on January 1, 2000.



While the Company has been conducting a comprehensive Year 2000 review of its computer systems and products, there may be Year 2000-related matters that have not been identified. Actual dollar amounts spent by the Company to address Year 2000 issues could materially differ from the estimates for a number of reasons, including changes in the availability or costs of personnel trained in this area, changes made to the Company's remediation plans, the ability of the Company's significant suppliers, customers and others with which it conducts business, including governmental agencies, to identify and resolve their own Year 2000 issues or identification of other Year 2000-related matters.

#### **Forward Looking and Other Statements**

From time to time, the Company has made and may continue to make "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. This annual report contains many forward looking statements. These statements, which represent the Company's expectations or beliefs concerning various future events, include statements concerning: anticipated effects of the proposed strategic transformation of and dispositions by the Company; anticipated effects of the acquisitions of OREMET and Allvac-SMP and the agreements with Bethlehem Steel Corporation on earnings, cost savings and operations of the Company; cash flow; aviation and aerospace industry trends; cost reductions; certain expected capital expenditures; computer software modification or replacement; anticipated expenditures to address the impact of Year 2000 issues; anticipated effects of the euro currency conversion; the outcome of any government inquiries, litigation or other proceedings related to government contracts or other matters; and future environmental costs. These statements are based on current expectations that involve a number of risks and uncertainties, including those described under the captions "Other Matters — Environmental" and "Other Matters — Government Contracts." Actual results may differ materially from results anticipated in forward looking statements. The Company assumes no duty to update its forward looking statements. Other important factors that could cause actual results to differ from those in such forward looking statements include the following:

*Uncertainties Relating to Proposed Strategic Transformation.* The Company has identified anticipated benefits expected to result from the transformation and dispositions described under the caption "Strategic Transformation." Completing the transactions and achieving the anticipated results involves inherent uncertainties, including those relating to whether legal, tax, financial and other considerations applicable to the spin-offs and public offerings can be successfully resolved, and whether the contemplated dispositions can be accomplished on terms acceptable to the Company, as well as business and other risks affecting the businesses of the Company, the two new companies expected to result from the transformation and the businesses the Company intends to sell. Consummation of the transactions and realization of the anticipated results could take longer than expected and implementation difficulties and market factors could change the anticipated results.

Accordingly, there can be no assurance that the Company will be able to realize, or do so within any particular time frame, the expected benefits anticipated to be achieved as a result of the proposed transformation and dispositions.

*Cyclical Demand for Specialty Metals.* The Company's specialty metals businesses accounted for a significant portion of the Company's 1998 total sales and its 1998 total income. Demand for products of these businesses is cyclical because the industries in which customers of such businesses operate are cyclical. Various changes in general economic conditions affect these industries, including decreases in the rate of consumption or use of their products due to economic recessions.

Significant downturns in the domestic economy are believed to have adversely affected the results of operations of Allegheny Ludlum, Teledyne and OREMET from time to time during their respective histories. Other factors causing fluctuation in market demand and volatile pricing include national and international overcapacity, currency fluctuations, lower priced imports and increases in use or decreases in prices of substitute materials.

The current trend of price deflation for many commodity products may also adversely affect prices for commodity grades of specialty metals. As a result of these factors, the Company's operating results could be subject to significant fluctuation. For example, an adverse pricing environment for commodity grades of stainless steel in 1998 and 1997 and an adverse pricing environment for titanium products in 1998 negatively affected sales and operating profit of the Company's specialty metals businesses.

*Unavailability of Raw Materials for Specialty Metals.* Certain important raw materials used to produce specialty metals must be acquired from foreign sources. Some of these sources operate in countries that may be subject to unstable political and economic conditions. These conditions may disrupt supplies or affect the prices of these materials. Purchase prices of certain critical raw materials are volatile. As a result, the Company's operating results could be subject to significant fluctuation. The Company enters into raw material future contracts from time to time to hedge its exposure to price fluctuation. The Company believes that it has adequate controls to monitor such activities which are not financially material.

*Risks of Export Sales.* Export sales will continue to account for a significant percentage of the Company's sales. Risks associated with export sales include: political and economic instability, including the current prevailing weak conditions in several of the world's economies; accounts receivable collection; export controls; changes in legal and regulatory requirements; policy changes affecting the markets for the Company's products; changes in tax laws and tariffs; euro currency conversion; and exchange rate fluctuations (which may affect sales to international customers and the value of and profits earned on export sales when converted into dollars). Any of these factors could materially adversely affect the Company's results.

*Risks Associated with Acquisition and Disposition Strategy.* The Company intends to continue to strategically position its businesses in order to improve its ability to compete.

The Company plans to do this by seeking specialty niches, expanding its global presence, acquiring businesses complementary to existing strengths and continually evaluating the performance and strategic fit of existing businesses. The Company regularly considers acquisition and business combination opportunities as well as possible business dispositions. Its management from time to time holds discussions with management of other companies to explore such opportunities and possible dispositions. As a result, the relative makeup of the businesses comprising the Company are subject to change. Acquisitions involve various inherent risks, such as: assessing accurately the value, strengths, weaknesses, contingent and other liabilities and potential profitability of acquisition candidates; the potential loss of key personnel of an acquired business; the Company's ability to achieve identified financial and operating synergies anticipated to result from an acquisition; and unanticipated changes in business and economic conditions affecting an acquired business. International acquisitions could be affected by export controls, exchange rate fluctuations, the euro conversion, domestic and foreign political conditions and further deterioration in domestic and foreign economic conditions.

*Uncertainties Relating to Synergies.* There can be no assurance that the Company will be able to realize, or do so within any particular time frame, the cost reductions, cash flow increases or other synergies expected to result from acquisitions and other transactions the Company has made or may make or generate additional revenue to offset any unanticipated inability to realize such expected synergies. Realization of the anticipated benefits of acquisitions and other transactions, including the OREMET and Allvac-SMP acquisitions and the agreements with Bethlehem Steel Corporation, could take longer than expected and implementation difficulties, market factors and further deterioration in domestic or global economic conditions could alter the anticipated benefits.

*Labor Matters.* The Company employs approximately 21,500 persons, 9,400 of whom are employed at companies in the Specialty Metals Segment. Approximately 32 percent of the Company's workforce is covered by various collective bargaining agreements, principally with the United Steelworkers of America ("USWA"), and certain of which are highlighted below.

Approximately 400 OREMET employees are covered by a collective bargaining agreement with the USWA which is effective through July 31, 2000. Approximately 700 Wah Chang employees are covered by a collective bargaining agreement with the USWA which is effective through October 1, 2000. Approximately 400 employees of Continental Motors are covered by a collective bargaining agreement with the United Automobile, Aerospace and Agricultural Implement Workers of America which is effective through December 16, 2000. Approximately 400 employees at Allegheny Ludlum's Washington Plant are covered by a collective bargaining agreement with the USWA which is effective through September 30, 1999. Substantially all of Allegheny Ludlum's 3,600 other production and maintenance employees are covered by collective bargaining agreements between Allegheny Ludlum and the USWA, which are effective through June 30, 2001.

In 1994, following the expiration of a prior collective bargaining agreement between Allegheny Ludlum and the USWA, the USWA authorized a strike by its members that lasted 10 weeks and materially adversely affected Allegheny Ludlum's operating results. There can be no assurance that the Company will succeed in concluding collective bargaining agreements with the USWA or other unions to replace those that expire.

Additional factors are described from time to time in the Company's filings with the Securities and Exchange Commission.

## Allegheny Teledyne Incorporated and Subsidiaries Consolidated Statements of Income

(In millions except per share amounts)

For the Years Ended December 31,	1998	1997	1996
<b>Sales</b>	<b>\$ 3,923.4</b>	<b>\$ 4,030.1</b>	<b>\$ 4,052.6</b>
Costs and expenses:			
Cost of sales	2,950.2	3,039.6	3,081.0
Selling and administrative expenses	503.6	510.3	538.2
Merger and restructuring costs	67.8	12.0	57.5
Interest expense, net	19.3	16.9	35.1
	<b>3,540.9</b>	<b>3,578.8</b>	<b>3,711.8</b>
Earnings before other income	382.5	451.3	340.8
Other income	8.7	72.9	77.6
<b>Income before income taxes and extraordinary loss</b>	<b>391.2</b>	<b>524.2</b>	<b>418.4</b>
Provision for income taxes	150.0	195.4	169.6
<b>Income before extraordinary loss</b>	<b>241.2</b>	<b>328.8</b>	<b>248.8</b>
Extraordinary loss on redemption of debt, net of income tax benefit	—	—	(13.5)
<b>Net Income</b>	<b>241.2</b>	<b>328.8</b>	<b>235.3</b>
Dividends on preferred stock	—	—	2.0
<b>Net Income Available to Common Stockholders</b>	<b>\$ 241.2</b>	<b>\$ 328.8</b>	<b>\$ 233.3</b>
Basic net income per common share:			
Income before extraordinary loss	\$ 1.23	\$ 1.67	\$ 1.29
Extraordinary loss	—	—	(0.07)
<b>Basic Net Income per Common Share</b>	<b>\$ 1.23</b>	<b>\$ 1.67</b>	<b>\$ 1.22</b>
Diluted net income per common share:			
Income before extraordinary loss	\$ 1.22	\$ 1.64	\$ 1.27
Extraordinary loss	—	—	(0.07)
<b>Diluted Net Income per Common Share</b>	<b>\$ 1.22</b>	<b>\$ 1.64</b>	<b>\$ 1.20</b>

The accompanying notes are an integral part of these statements.

# Allegheny Teledyne Incorporated and Subsidiaries

## Consolidated Balance Sheets

(In millions except share and per share amounts)

	December 31, 1998	December 31, 1997
<b>Assets</b>		
Cash and cash equivalents	\$ 74.8	\$ 53.7
Short-term investments available for sale	—	34.4
Accounts receivable	534.7	576.0
Inventories	659.9	697.9
Deferred income taxes	59.3	40.3
Tax refund	5.9	9.4
Prepaid expenses and other current assets	29.9	32.3
<b>Total Current Assets</b>	<b>1,364.5</b>	<b>1,444.0</b>
Property, plant and equipment	1,003.6	753.8
Prepaid pension cost	418.6	379.7
Cost in excess of net assets acquired	256.0	186.5
Other assets	132.8	134.2
<b>Total Assets</b>	<b>\$ 3,175.5</b>	<b>\$ 2,898.2</b>
<b>Liabilities and Stockholders' Equity</b>		
Accounts payable	\$ 227.0	\$ 267.9
Accrued liabilities	327.1	328.8
Short-term debt and current portion of long-term debt	68.2	4.7
<b>Total Current Liabilities</b>	<b>622.3</b>	<b>601.4</b>
Long-term debt	446.8	330.4
Accrued postretirement benefits	582.6	574.5
Other	183.9	147.3
<b>Total Liabilities</b>	<b>1,835.6</b>	<b>1,653.6</b>
Stockholders' Equity:		
Preferred stock, par value \$0.10: authorized - 50,000,000 shares; issued - none	—	—
Common stock, par value \$0.10: authorized - 600,000,000 shares; issued - 197,937,664 in 1998 and 197,730,720 in 1997; outstanding - 194,873,151 shares in 1998 and 195,713,604 shares in 1997	19.8	19.8
Additional paid-in capital	467.3	463.5
Retained earnings	923.9	822.6
Treasury stock: 3,064,513 shares in 1998 and 2,017,116 shares in 1997	(67.6)	(60.2)
Foreign currency translation losses	(5.9)	(2.4)
Unrealized gains on securities	2.4	1.3
<b>Total Stockholders' Equity</b>	<b>1,339.9</b>	<b>1,244.6</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 3,175.5</b>	<b>\$ 2,898.2</b>

The accompanying notes are an integral part of these statements.



# Allegheny Teledyne Incorporated and Subsidiaries

## Consolidated Statements of Cash Flows

(In millions)

For the Years Ended December 31,	1998	1997	1996
<b>Operating Activities:</b>			
Net income	\$ 241.2	\$ 328.8	\$ 235.3
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	109.0	104.4	109.7
Non-cash restructuring costs	50.9	—	—
Deferred income taxes	(7.3)	(4.3)	19.1
Gains on sales of businesses and investments	(1.6)	(69.2)	(64.5)
Extraordinary loss on redemption of debt	—	—	13.5
Change in operating assets and liabilities:			
Accounts payable	(57.4)	11.1	26.6
Accounts receivable	57.0	(25.5)	1.6
Prepaid pension cost	(50.2)	(24.7)	(41.8)
Inventories	49.5	(64.8)	(120.6)
Accrued liabilities	7.0	(48.6)	(3.1)
Tax refund	6.1	37.7	—
Accrued income taxes	0.1	36.4	17.9
Other	(4.9)	3.3	27.2
<b>Cash provided by operating activities</b>	<b>399.4</b>	<b>284.6</b>	<b>220.9</b>
<b>Investing Activities:</b>			
Short-term investments – sales	34.4	31.5	6.1
Short-term investments – purchases	—	(2.5)	(73.8)
Net (increase) decrease in short-term investments	34.4	29.0	(67.7)
Purchases of businesses and investment in ventures	(229.1)	(40.4)	(23.6)
Purchases of property, plant and equipment	(172.6)	(122.8)	(92.2)
Proceeds from the sales of businesses and investments	28.9	112.1	124.8
Disposals of property, plant and equipment	19.3	30.7	16.0
Other	(9.4)	(5.8)	(9.1)
<b>Cash provided by (used in) investing activities</b>	<b>(328.5)</b>	<b>2.8</b>	<b>(51.8)</b>
<b>Financing Activities:</b>			
Increase in long-term debt	123.3	4.4	290.7
Payments on long-term debt and capital leases	(9.7)	(117.6)	(456.0)
Net increase (decrease) in long-term debt	113.6	(113.2)	(165.3)
Dividends paid	(122.3)	(112.2)	(106.1)
Purchases of common stock	(49.4)	(107.7)	(23.7)
Exercises of stock options	8.3	35.4	13.9
Issuance of OREMET common stock	—	—	103.2
Redemption of Teledyne preferred stock	—	—	(41.4)
Other	—	—	1.1
<b>Cash used in financing activities</b>	<b>(49.8)</b>	<b>(297.7)</b>	<b>(218.3)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>21.1</b>	<b>(10.3)</b>	<b>(49.2)</b>
Cash and cash equivalents at beginning of year	53.7	64.0	113.2
<b>Cash and cash equivalents at end of year</b>	<b>\$ 74.8</b>	<b>\$ 53.7</b>	<b>\$ 64.0</b>
<b>Non-cash transactions:</b>			
Assets acquired under promissory note	\$ 65.9	\$ —	\$ —
Preferred stock dividends on common stock	—	—	8.3

Amounts presented on the Consolidated Statements of Cash Flows may not agree to the corresponding changes in balance sheet items due to the accounting for purchases and sales of businesses and the effects of foreign currency translation.

The accompanying notes are an integral part of these statements.

## Allegheny Teledyne Incorporated and Subsidiaries Consolidated Statements of Stockholders' Equity

(In millions except per share amounts)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Stockholders' Equity
<b>Balance, December 31, 1995</b>	\$ 18.8	\$303.8	\$514.6	\$ —	\$ 14.5	\$ 851.7
Net income	—	—	235.3	—	—	235.3
Other comprehensive income, net of tax:						
Foreign currency translation losses	—	—	—	—	(1.7)	(1.7)
Unrealized holding losses arising during period	—	—	—	—	(1.6)	(1.6)
Comprehensive income	—	—	235.3	—	(3.3)	232.0
Cash dividends on common and preferred stock (Allegheny Teledyne \$0.16 per common share, Allegheny Ludlum \$0.42 per common share, Teledyne \$0.44 per common share and \$1.20 per preferred share)	—	—	(106.1)	—	—	(106.1)
OREMET common stock offering	0.6	102.6	—	—	—	103.2
Employee stock plans	0.1	26.5	—	—	—	26.6
Purchase and cancellation of common stock	—	(23.7)	—	—	—	(23.7)
Preferred stock dividends on common stock (Teledyne \$0.08 per share)	—	—	(8.3)	—	—	(8.3)
<b>Balance, December 31, 1996</b>	19.5	409.2	635.5	—	11.2	1,075.4
Net income	—	—	328.8	—	—	328.8
Other comprehensive income, net of tax:						
Foreign currency translation losses	—	—	—	—	(5.0)	(5.0)
Unrealized losses on securities:						
Unrealized holding gains arising during period	—	—	—	—	9.7	9.7
Less: realized gain included in net income	—	—	—	—	(17.0)	(17.0)
Comprehensive income	—	—	328.8	—	(12.3)	316.5
Cash dividends on common stock (\$0.64 per common share)	—	—	(112.2)	—	—	(112.2)
Purchase of common stock	—	—	—	(107.7)	—	(107.7)
Employee stock plans	0.3	54.3	(29.5)	47.5	—	72.6
<b>Balance, December 31, 1997</b>	19.8	463.5	822.6	(60.2)	(1.1)	1,244.6
Net income	—	—	241.2	—	—	241.2
Other comprehensive income, net of tax:						
Foreign currency translation losses	—	—	—	—	(3.5)	(3.5)
Unrealized gains on securities:						
Unrealized holding gains arising during period	—	—	—	—	2.2	2.2
Less: realized gain included in net income	—	—	—	—	(1.1)	(1.1)
Comprehensive income	—	—	241.2	—	(2.4)	238.8
Cash dividends on common stock (\$0.64 per common share)	—	—	(122.3)	—	—	(122.3)
Purchase of common stock	—	—	—	(49.4)	—	(49.4)
Employee stock plans	—	3.8	(17.6)	42.0	—	28.2
<b>Balance, December 31, 1998</b>	\$ 19.8	\$467.3	\$923.9	\$(67.6)	\$ (3.5)	\$1,339.9

The accompanying notes are an integral part of these statements.

## Report of Ernst & Young LLP, Independent Auditors

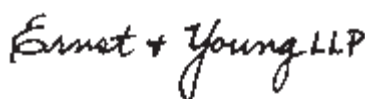
### Board of Directors Allegheny Teledyne Incorporated

We have audited the accompanying consolidated balance sheets of Allegheny Teledyne Incorporated and subsidiaries as of December 31, 1998 and 1997 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the 1997 and 1996 financial statements of Oregon Metallurgical Corporation, a wholly owned subsidiary, which statements reflect total assets constituting 10.1 percent of the consolidated total as of December 31, 1997, and total revenues constituting 7.1 percent and 5.8 percent of the related consolidated totals for the years ended December 31, 1997 and 1996, respectively. Those statements were audited by other auditors whose report dated January 23, 1998 has been furnished to us and our opinion, insofar as it relates to data included for Oregon Metallurgical Corporation, is based solely on the report of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material

misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Allegheny Teledyne Incorporated at December 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.



Pittsburgh, Pennsylvania  
January 26, 1999

# Notes to Consolidated Financial Statements

## Note 1. Summary of Significant Accounting Policies —

### Principles of Consolidation

The consolidated financial statements include the accounts of Allegheny Teledyne Incorporated (“Allegheny Teledyne”) and its subsidiaries. As described in Note 2, on August 15, 1996, Allegheny Ludlum Corporation (“Allegheny Ludlum”) and Teledyne, Inc. (“Teledyne”) combined to form Allegheny Teledyne. As described in Note 3, on March 24, 1998, Allegheny Teledyne acquired the stock of Oregon Metallurgical Corporation (“OREMET”) in a merger transaction. Both of these combinations were accounted for under the pooling of interests method of accounting and the consolidated financial statements reflect the combined financial position, operating results and cash flows of Allegheny Ludlum, Teledyne and OREMET as if they had been combined for all periods presented. Significant intercompany accounts and transactions have been eliminated. Unless the context requires otherwise, the “Company” refers to Allegheny Teledyne and its subsidiaries.

### Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates. Management believes that the estimates are reasonable.

### Cash Equivalents

Marketable securities with original maturities of three months or less are included in cash equivalents. The carrying amounts approximate market.

### Accounts Receivable

Receivables are presented net of a reserve for doubtful accounts of \$13.3 million at December 31, 1998 and \$18.4 million at December 31, 1997. The Company markets its products to a diverse customer base, principally throughout the United States. Trade credit is extended based upon evaluations of each customer’s ability to perform its obligations, which are updated periodically.

### Inventories

Inventories are stated at the lower of cost (last-in, first-out; first-in, first-out and average cost methods) or market, less progress payments. Costs include direct material, direct labor and applicable manufacturing and engineering overhead, and other direct costs.

### Property and Equipment

Property, plant and equipment are carried at cost. The principal method of depreciation adopted for all property placed into service after July 1, 1996 is the straight-line method. For buildings and equipment acquired prior to July 1, 1996, depreciation is computed using a combination of accelerated and straight-line methods. The Company believes the straight-line method more appropriately reflects

its financial results by better allocating costs of new property over the useful lives of these assets. In addition, the method more closely conforms with that prevalent in the industries in which the Company operates and with that used by Allegheny Ludlum. The effect of this change on net income for 1996 was not material.

### Cost in Excess of Net Assets Acquired

Cost in excess of net assets acquired related to businesses purchased after November 1970 is being amortized on a straight-line basis over periods not exceeding 40 years. Goodwill amortization expense was \$8.1 million, \$7.0 million and \$5.5 million in 1998, 1997 and 1996, respectively.

### Financial Instruments

The fair values of financial instruments approximated their carrying values at December 31, 1998. Fair values have been determined through information obtained from quoted market sources and management estimates.

The Company’s investments in debt and equity securities are classified as available-for-sale and are reported at fair values, with net unrealized appreciation and depreciation on investments reported as a component of accumulated other comprehensive income. The Company’s short-term investments available for sale at December 31, 1997 consisted of corporate debt securities and certificates of deposit which had maturities of less than one year.

### Environmental

Costs that mitigate or prevent future environmental contamination or extend the life, increase the capacity or improve the safety or efficiency of property utilized in current operations are capitalized. Other costs that relate to current operations or an existing condition caused by past operations are expensed. Environmental liabilities are recorded when the Company’s liability is probable and the costs are reasonably estimable, but generally not later than the completion of the feasibility study or the Company’s recommendation of a remedy or commitment to an appropriate plan of action. The accruals are reviewed periodically and, as investigations and remediations proceed, adjustments are made as necessary. Accruals for losses from environmental remediation obligations do not consider the effects of inflation, and anticipated expenditures are not discounted to their present value. The accruals are not reduced by possible recoveries from insurance carriers or other third parties, but do reflect anticipated allocations among potentially responsible parties at federal Superfund sites or similar state-managed sites and an assessment of the likelihood that such parties will fulfill their obligations at such sites. The measurement of environmental liabilities by the Company is based on currently available facts, present laws and regulations, and current technology. Such estimates take into consideration the Company’s prior experience in site investigation and remediation, the data concerning cleanup costs available from other companies and regulatory authorities, and the professional judgment of the Company’s environmental experts in consultation with outside environmental specialists, when necessary.



### Revenue Recognition

Commercial sales and revenue from U.S. Government fixed-price type contracts are generally recorded as deliveries are made or as services are rendered. For certain fixed-price type contracts that require substantial performance over a long time period before deliveries begin, sales are recorded based upon attainment of scheduled performance milestones. Sales under cost-reimbursement contracts are recorded as costs are incurred and fees are earned.

Since certain contracts extend over a long period of time, all revisions in cost and funding estimates during the progress of work have the effect of adjusting the current period earnings on a cumulative catch-up basis. When the current contract estimate indicates a loss, provision is made for the total anticipated loss.

### Research and Development

Company-funded research and development costs (\$57.5 million in 1998, \$63.1 million in 1997 and \$68.1 million in 1996), which include bid and proposal costs, are expensed as incurred. Costs related to customer-funded research and development contracts are charged to costs and expenses as the related sales are recorded. A portion of the costs incurred for Company-funded research and development is recoverable through overhead cost allowances on government contracts.

### Income Taxes

Provision for income taxes includes deferred taxes resulting from temporary differences in income for financial and tax purposes using the liability method. Such temporary differences result primarily from differences in the carrying value of assets and liabilities.

### Net Income Per Common Share

Basic earnings per share is calculated by dividing net income available to common stockholders by the weighted average of common shares outstanding during the year. Diluted earnings per share is calculated by using the weighted average of common shares outstanding adjusted to include the potentially dilutive effect of outstanding stock options.

### New Accounting Pronouncements

Financial Accounting Standards Board (“FASB”) Statement No. 131, “Disclosures about Segments of an Enterprise and Related Information,” was issued in June 1997. This statement was adopted by the Company in 1998. It did not have a material effect on the consolidated financial statements.

FASB Statement No. 132, “Employers’ Disclosures about Pensions and Other Postretirement Benefits,” was issued in February 1998. This statement revises employers’ disclosures about pension and postretirement benefit plans. It does not change the measurement or recognition of those plans. The Company adopted this statement in 1998.

FASB Statement No. 133, “Accounting for Derivative Instruments and Hedging Activities,” was issued in June 1998. This statement establishes accounting and reporting standards for derivative instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or

liabilities in the statement of financial position and measure those instruments at fair value. This statement is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. The Company is presently evaluating the effect of adopting this statement.

### Reclassifications

Certain amounts from prior years have been reclassified to conform with the 1998 presentation.

### Note 2. Combination of Allegheny Ludlum and Teledyne —

On August 15, 1996, Allegheny Ludlum and Teledyne became wholly owned subsidiaries of Allegheny Teledyne. Allegheny Ludlum shareholders received one share of Allegheny Teledyne common stock for each one of their Allegheny Ludlum common shares. Teledyne stockholders received 1.925 shares of Allegheny Teledyne common stock for each one of their Teledyne common shares. There were 174.2 million shares of Allegheny Teledyne common stock issued in the tax-free combination of the two companies.

The Company recorded merger and restructuring costs of \$11.2 million (\$6.8 million net of tax) and \$57.5 million (\$42.9 million net of tax) in 1997 and 1996, respectively, for financial advisory, legal, accounting, severance and other costs associated with the combination of the companies.

### Note 3. Acquisition of OREMET —

On March 24, 1998, Allegheny Teledyne completed its acquisition of the stock of OREMET. Under the terms of the merger agreement, OREMET shareholders received 1.296 shares of Allegheny Teledyne common stock in a tax-free exchange for each share of OREMET common stock. A total of 21.6 million shares of Allegheny Teledyne stock were issued in the merger. The merger was accounted for under the pooling of interests accounting method. Revenues and net income for the year ended December 31, 1997 (the most recent period prior to the pooling) were \$3,745.1 million and \$297.6 million, respectively, for Allegheny Teledyne and \$285.0 million and \$31.2 million, respectively, for OREMET. Intercompany transactions prior to the merger were not material. The effect of conforming accounting policies was not material.

The Company recorded merger and restructuring charges of \$19.1 million (\$15.7 million net of tax) in 1998 for financial advisory, legal, accounting, severance and other costs associated with the merger.

OREMET is an integrated producer and distributor of titanium sponge, ingot, mill products and castings for use in the aerospace, industrial, recreational and military markets. It operates manufacturing and finishing facilities in Oregon, Washington and Pennsylvania and has nine service centers in the United States, with additional service centers in the United Kingdom, Germany, Singapore and Canada.

## Note 4. Inventories —

<i>(In millions)</i>	<b>December 31, 1998</b>	December 31, 1997
Raw materials and supplies	<b>\$ 196.1</b>	\$ 212.8
Work-in-process	<b>471.6</b>	561.2
Finished goods	<b>133.4</b>	145.5
Total inventories at current cost	<b>801.1</b>	919.5
Less allowances to reduce current cost values to LIFO basis	<b>(128.7)</b>	(206.4)
Progress payments	<b>(12.5)</b>	(15.2)
Total inventories	<b>\$ 659.9</b>	\$ 697.9

Inventories, before progress payments, determined on the last-in, first-out method were \$456.4 million at December 31, 1998 and \$531.4 million at December 31, 1997. The remainder of the inventory was determined using the first-in, first-out and average cost methods. These inventory values do not differ materially from current cost.

During 1997 and 1996, inventory usage resulted in liquidations of last-in, first-out inventory quantities. These inventories were carried at the lower costs prevailing in prior years as compared with the cost of current purchases. The effect of these last-in, first-out liquidations was to increase net income by \$7.3 million in 1997 and \$4.9 million in 1996.

The Company enters into raw material (principally nickel) future contracts from time to time to hedge its exposure to price fluctuations. Gains and losses on hedged contracts are deferred and recognized in cost of sales upon expiration of the contract period. These contracts are not significant to the Company's total raw material purchases and are not material to the Company from a financial point of view.

Inventories, before progress payments, related to long-term contracts were \$2.0 million and \$16.2 million at December 31, 1998 and 1997, respectively. Progress payments related to long-term contracts were \$0.1 million and \$5.7 million at December 31, 1998 and 1997, respectively.

## Note 5. Long-Term Debt —

### Credit Agreements

The Company has entered into a credit agreement with a group of banks that provides for borrowings of up to \$500 million on a revolving credit basis. The agreement, as extended, is scheduled to expire in August 2002. Interest is payable at prime or other alternative interest rate bases, at the Company's option. The agreement provides for an annual facility fee of 0.075 percent. The agreement has various covenants that limit the Company's ability to dispose of properties and merge with another corporation. The Company is also required to maintain certain financial ratios as defined in the agreement that can limit the amount of dividend payments and share repurchases. Under the most restrictive requirement, approximately 64 percent of the Company's retained earnings is currently free of restrictions pertaining to cash dividend distributions and share repurchases.

In the 1998 fourth quarter, the Company entered into three short-term credit agreements that provide for borrowings totaling up to \$185.0 million on a revolving credit basis. One of these agreements is a committed line of \$75.0 million with an annual facility fee of 0.07 percent. The remaining two credit agreements are uncommitted lines with no annual facility fees. The agreements have terms for up to one year. Interest rates are determined at the time of borrowing based on current market conditions. At December 31, 1998, borrowings under the agreements were \$65.0 million at a weighted average annual interest rate of 6.3 percent.

The Company's subsidiaries also maintain credit agreements with various foreign banks which provide for additional borrowings of up to \$69.5 million. These agreements provide for annual facility fees of up to 0.15 percent.

Borrowings outstanding under the credit agreements are unsecured.

Commitments under separate standby letters of credit outstanding were \$46.1 million at December 31, 1998 and \$45.4 million at December 31, 1997.

### Promissory Note

In November 1998, Allegheny Ludlum issued a \$70.0 million non-interest bearing promissory note to Bethlehem Steel Corporation ("Bethlehem") in conjunction with the acquisition of certain of its stainless steel assets. This note is due after the improvements to Bethlehem's 110-inch Steckel mill are completed and the mill returns to a regularly scheduled operating basis, which must be accomplished prior to December 31, 2000.

### Debentures

In 1997, Allegheny Teledyne redeemed the Teledyne 7 percent subordinated debentures. Payment was made in an amount equal to 100 percent of the principal amount of the debentures, in the aggregate amount of \$19.5 million, plus accrued interest to the redemption date.

In 1996, Allegheny Teledyne guaranteed the outstanding Allegheny Ludlum 6.95 percent debentures. In addition, utilizing \$250 million from the credit agreement discussed above and \$107 million from cash on hand, the Company redeemed Teledyne's 10 percent subordinated debentures. As a result, an extraordinary loss of \$13.5 million, net of a tax benefit of \$8.8 million, was recognized to write off the unamortized original issue discount.

Debt at December 31, 1998 and 1997 was as follows:

<i>(In millions)</i>	<b>December 31, 1998</b>	December 31, 1997
Credit agreements	<b>\$ 270.9</b>	\$ 150.4
Allegheny Ludlum 6.95% debentures, due 2025	<b>150.0</b>	150.0
Allegheny Ludlum promissory note	<b>65.9</b>	—
Industrial revenue bonds, due 1999 through 2007	<b>14.0</b>	15.2
Capitalized leases and other	<b>14.2</b>	19.5
	<b>515.0</b>	335.1
Short-term debt and current portion of long-term debt	<b>(68.2)</b>	(4.7)
Total long-term debt	<b>\$ 446.8</b>	\$ 330.4

The weighted average interest rate of borrowings outstanding under the credit agreements was 5.3 percent at December 31, 1998 and 5.5 percent at December 31, 1997.

Scheduled maturities of long-term borrowings during the next five years are \$3.2 million in 1999, \$67.2 million in 2000, \$1.4 million in 2001, \$13.3 million in 2002, and \$1.8 million in 2003. Scheduled repayments under revolving

credit agreements are \$65.0 million in 1999, \$45.9 million in 2000 and \$160.0 million in 2002.

Interest expense was \$29.9 million in 1998, \$29.4 million in 1997 and \$50.5 million in 1996. Interest and commitment fees paid were \$30.0 million in 1998, \$30.9 million in 1997 and \$50.5 million in 1996.

## Note 6. Supplemental Balance Sheet Information —

Cash and cash equivalents were as follows:

<i>(In millions)</i>	<b>December 31, 1998</b>	December 31, 1997
Cash (gross of outstanding checks: 1998 - \$16.1; 1997 - \$22.5)	<b>\$ 54.8</b>	\$ 14.5
Other short-term investments, at cost which approximates market	<b>20.0</b>	39.2
Total cash and cash equivalents	<b>\$ 74.8</b>	\$ 53.7

Property, plant and equipment were as follows:

<i>(In millions)</i>	<b>December 31, 1998</b>	December 31, 1997
Land	<b>\$ 43.5</b>	\$ 38.6
Buildings	<b>293.5</b>	330.8
Equipment and leasehold improvements	<b>1,685.6</b>	1,339.5
	<b>2,022.6</b>	1,708.9
Accumulated depreciation and amortization	<b>(1,019.0)</b>	(955.1)
Total property, plant and equipment	<b>\$1,003.6</b>	\$ 753.8

Accrued liabilities included salaries and wages of \$89.4 million and \$91.4 million in 1998 and 1997, respectively,

and accrued severance costs of \$4.5 million and \$5.6 million in 1998 and 1997, respectively.

## Note 7. Comprehensive Income —

On January 1, 1998, the Company adopted FASB Statement No. 130, "Reporting Comprehensive Income." This statement establishes new rules for the reporting and display of comprehensive income and its components. This statement requires unrealized gains or losses on the

Company's available-for-sale securities and foreign currency translation gains or losses, which are reported separately in stockholders' equity, to be included in other comprehensive income. The adoption of this statement had no impact on the Company's net income or stockholders' equity.

The components of comprehensive income, net of tax, for the years ended December 31, 1998, 1997 and 1996 were as follows:

<i>(In millions)</i>	1998	1997	1996
Net income (net of taxes of \$150.0, \$195.4 and \$160.8, respectively)	<b>\$241.2</b>	\$328.8	\$235.3
Foreign currency translation losses	<b>(3.5)</b>	(5.0)	(1.7)
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during period (net of taxes of \$1.4, \$6.0 and \$(1.0), respectively)	<b>2.2</b>	9.7	(1.6)
Less: realized gain included in net income (net of taxes of \$0.7 and \$10.6 in 1998 and 1997, respectively)	<b>(1.1)</b>	(17.0)	—
	<b>1.1</b>	(7.3)	(1.6)
Comprehensive income	<b>\$238.8</b>	\$316.5	\$232.0

## Note 8. Stockholders' Equity —

### Preferred Stock

Authorized preferred stock may be issued in one or more series, with designations, powers and preferences as shall be designated by the Board of Directors. At December 31, 1998, there were no shares of preferred stock issued.

### OREMET Common Stock Offering

On August 26, 1996, OREMET completed a public offering of shares of its common stock. Proceeds from the offering, net of underwriting fees and expenses, amounted to \$103.2 million. All of the outstanding shares of OREMET common stock were exchanged for Allegheny Teledyne common stock on March 24, 1998 using a conversion factor of 1.296.

### Common Stock

In connection with the combination of Allegheny Ludlum and Teledyne and the acquisition of OREMET, Allegheny Teledyne assumed stock options and awards, as well as purchase and designation rights and related awards outstanding under stock-based compensation plans maintained by Allegheny Ludlum and Teledyne prior to the 1996 combination, and by OREMET prior to the 1998

acquisition. In addition, in 1996, Allegheny Teledyne's Board of Directors adopted the Allegheny Teledyne Incorporated Incentive Plan and the Non-Employee Director Stock Compensation Plan, which were approved by the stockholders on August 15, 1996. The Incentive Plan provides for awards of up to 9,000,000 shares of Allegheny Teledyne common stock to officers and key employees of the Company.

The Company accounts for its stock option plans in accordance with APB Opinion 25, "Accounting for Stock Issued to Employees," and related Interpretations. Under APB Opinion 25, no compensation expense is recognized because the exercise price of the Company's employee stock options equals the market price of the underlying stock at the date of the grant. If compensation cost for these plans had been determined using the fair-value method prescribed by FASB Statement No. 123, "Accounting for Stock-based Compensation," net income would have been reduced by \$3.8 million, or \$0.02 per diluted share, \$3.0 million, or \$0.01 per diluted share, and \$2.1 million, or \$0.01 per diluted share, for the years ended December 31, 1998, 1997 and 1996, respectively. Under FASB Statement No. 123, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	1998	1997	1996
Expected dividend yield	<b>2.8%</b>	2.5%	3.6%
Expected volatility	<b>31%</b>	31%	31%
Risk-free interest rate	<b>5.0%</b>	6.4%	6.5%
Expected lives	<b>8.0</b>	8.0	8.0
Weighted-average fair value of options granted during year	<b>\$7.27</b>	\$8.26	\$5.45



Stock option transactions under the Company's employee plans are summarized as follows:

	1998		1997		1996	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Outstanding beginning of year	4,730,915	\$15.18	8,869,182	\$12.81	7,937,884	\$10.90
Granted	3,442,500	\$22.93	174,022	\$23.03	2,384,792	\$17.50
Exercised	(700,400)	\$10.67	(3,626,713)	\$10.21	(1,074,512)	\$ 9.35
Cancelled	(317,180)	\$17.56	(685,576)	\$12.83	(378,982)	\$12.07
Outstanding end of year	7,155,835	\$19.23	4,730,915	\$15.18	8,869,182	\$12.81
Exercisable at end of year	2,458,803	\$14.57	1,987,947	\$12.47	4,003,054	\$10.49

Exercise prices for options outstanding as of December 31, 1998 ranged from \$8.51 to \$28.25. The weighted-average remaining contractual life of those options is 7.9 years.

In addition to the Company's stock option plans, at December 31, 1998, a maximum of 113,200 shares were issuable to 41 employees under the Allegheny Ludlum Performance Share Plan based on units awarded to such participants for the 1995-1996 award period, which were payable in three annual installments beginning in 1997.

Compensation expense related to the various stock-based plans was \$7.8 million in 1998, \$10.9 million in 1997 and \$11.1 million in 1996.

#### Stockholders' Rights Plan

On March 12, 1998, the Company's Board of Directors unanimously adopted a stockholder rights plan under which preferred share purchase rights were distributed as a dividend on shares of Allegheny Teledyne common stock.

The rights will be exercisable only if a person or group acquires 15 percent or more of the Company's common stock or announces a tender offer, the consummation of which would result in ownership by a person or group of 15 percent or more of the common stock. Each right will entitle stockholders to then buy one one-hundredth of a share of a new series of junior participating preferred stock at an exercise price of \$100.

The dividend distribution was made on March 23, 1998, payable to stockholders of record on that date. The rights will expire on March 12, 2008, subject to earlier redemption or exchange by Allegheny Teledyne as described in the plan. The rights distribution is not taxable to stockholders.

#### Redemption of Preferred Stock

On August 14, 1996, all of the outstanding shares of the Teledyne Series E Cumulative Preferred Stock were redeemed at \$15.60 per share.

## Note 9. Income Taxes —

Provision for income taxes was as follows:

(In millions)	1998	1997	1996
Current			
- Federal	\$119.6	\$149.5	\$124.0
- State	14.3	26.8	19.6
- Foreign	10.2	9.7	6.9
- Total	144.1	186.0	150.5
Deferred			
- Federal	4.2	2.3	11.9
- State	0.7	6.7	7.0
- Foreign	1.0	0.4	0.2
- Total	5.9	9.4	19.1
Provision for income taxes	\$150.0	\$195.4	\$169.6
Income taxes paid	\$142.3	\$131.1	\$118.6

Income before income taxes and extraordinary loss included income from domestic operations of \$363.1 million in 1998, \$498.1 million in 1997 and \$397.7 million in 1996.

The following is a reconciliation of the statutory federal income tax rate to the actual effective income tax rate:

	1998	1997	1996
Federal tax rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal tax benefit	3.2	4.3	4.6
Capitalization of merger and restructuring costs	1.1	—	1.7
Other	(1.0)	(2.0)	(0.8)
Effective income tax rate	38.3%	37.3%	40.5%

Deferred income taxes result from temporary differences in the recognition of income and expense for financial and income tax reporting purposes, and differences between the fair value of assets acquired in business combinations accounted for as purchases for financial reporting purposes

and their corresponding tax bases. Deferred income taxes represent future tax benefits or costs to be recognized when those temporary differences reverse. The categories of assets and liabilities that have resulted in differences in the timing of the recognition of income and expense were as follows:

<i>(In millions)</i>	1998	1997
<b>Deferred Income Tax Assets</b>		
Postretirement benefits other than pensions	<b>\$228.0</b>	\$226.5
Deferred compensation and other benefit plans	<b>30.4</b>	34.1
Self-insurance reserves	<b>20.1</b>	21.9
Inventory valuation	<b>4.8</b>	—
Long-term contracts	<b>4.5</b>	3.3
Other items	<b>97.4</b>	83.5
Total deferred income tax assets	<b>385.2</b>	369.3
<b>Deferred Income Tax Liabilities</b>		
Pension asset	<b>161.4</b>	154.7
Bases of property, plant and equipment	<b>121.5</b>	119.0
Inventory valuation	<b>—</b>	15.8
Other items	<b>57.5</b>	10.1
Total deferred income tax liabilities	<b>340.4</b>	299.6
Net deferred income tax asset	<b>\$ 44.8</b>	\$ 69.7

### **Note 10. Pension Plans and Other Postemployment Benefits —**

FASB Statement No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," was issued in February 1998. This statement revises employers' disclosures about pension and postretirement benefit plans. It does not change the measurement or recognition of those plans. The Company adopted this statement in 1998.

In 1996, the underfunded defined benefit pension plans of Allegheny Ludlum were merged with overfunded defined benefit pension plans of Teledyne, and Allegheny Teledyne became the plan sponsor.

The Company has defined benefit pension plans and defined contribution plans covering substantially all of its employees. Benefits under the defined benefit pension plans are generally based on years of service and/or final average pay. The Company funds the pension plans in accordance with the requirements of the Employee Retirement Income Security Act of 1974, as amended, and the Internal Revenue Code.

The Company also sponsors several defined benefit postretirement plans covering certain salaried and hourly employees. The plans provide health care and life insurance benefits for eligible retirees. In certain plans, Company contributions towards premiums are capped based on the cost as of a certain date thereby creating a defined contribution.

Components of pension expense (income) for the Company's defined benefit plans and components of

postretirement benefit expense included the following:

<i>(In millions)</i>	Expense (Income)					
	Pension Benefits			Other Postretirement Benefits		
	1998	1997	1996	1998	1997	1996
Service cost - benefits earned during the year	\$ 37.3	\$ 37.0	\$ 34.4	\$ 8.9	\$ 7.8	\$ 7.9
Interest cost on benefits earned in prior years	132.2	131.9	125.1	44.5	43.5	46.2
Expected return on plan assets	(230.8)	(207.8)	(203.7)	(12.8)	(8.4)	(6.5)
Amortization of prior service cost	12.5	10.4	9.5	(2.3)	(2.3)	1.2
Amortization of unrecognized transition asset	(30.5)	(30.5)	(30.5)	—	—	—
Amortization of net actuarial (gain) loss	(2.0)	0.4	(1.2)	1.4	1.6	1.1
Recognition of curtailment gain	—	—	—	(2.4)	—	—
Total benefit (income) expense	\$ (81.3)	\$ (58.6)	\$ (66.4)	\$ 37.3	\$ 42.2	\$ 49.9

In addition, the Company recorded charges of \$17.0 million in 1998 resulting from special termination benefits granted to approximately 300 Allegheny Ludlum employees who were part of a planned salaried workforce reduction completed in the 1998 third quarter.

Actuarial assumptions used to develop the components of pension expense (income) and postretirement benefit expense were as follows:

	Pension Benefits			Other Postretirement Benefits		
	1998	1997	1996	1998	1997	1996
Discount rate	7.0%	7.25%	7.5%	7.0%	7.25%	7.5%
Rate of increase in future compensation levels	3%-4.5%	3%-4.5%	3%-4.5%	—	—	—
Expected long-term rate of return on assets	9.0%	9.0%	8.6%	9%-15%	9%-15%	9%-15%

Discount rates of 7.0 percent at December 31, 1998 and 1997 were used for the valuation of pension and postretirement obligations.

The prepaid (accrued) benefit cost at December 31, 1998 and 1997 was as follows:

<i>(In millions)</i>	<b>Pension Benefits</b>		<b>Other Postretirement Benefits</b>	
	<b>1998</b>	<b>1997</b>	<b>1998</b>	<b>1997</b>
<b>Change in benefit obligation:</b>				
Benefit obligation at beginning of year	\$1,940.3	\$1,851.5	\$ 669.8	\$ 637.4
Service cost	37.3	37.0	8.9	7.8
Interest cost	132.2	131.9	44.5	43.5
Benefits paid	(218.3)	(133.1)	(41.0)	(37.6)
Special termination benefits	15.0	—	2.0	—
Net actuarial losses	103.2	53.0	16.7	18.7
Benefit obligation at end of year	<b>2,009.7</b>	<b>1,940.3</b>	<b>700.9</b>	<b>669.8</b>
<b>Change in plan assets:</b>				
Fair value of plan assets at beginning of year	2,631.8	2,372.9	79.6	52.5
Actual return on plan assets	444.5	426.7	25.0	21.7
Section 420 transfer	(37.4)	(31.9)	—	—
Benefits paid	(217.0)	(133.1)	—	—
Other	—	(2.8)	—	5.4
Fair value of plan assets at end of year	<b>2,821.9</b>	<b>2,631.8</b>	<b>104.6</b>	<b>79.6</b>
Funded status of the plan	812.2	691.5	(596.3)	(590.2)
Unrecognized net actuarial (gain) loss	(403.5)	(278.0)	26.8	32.4
Unrecognized transition asset	(100.7)	(131.2)	—	—
Unrecognized prior service cost	90.9	86.2	(13.1)	(16.7)
<b>Prepaid (accrued) benefit cost</b>	<b>\$ 398.9</b>	<b>\$ 368.5</b>	<b>\$ (582.6)</b>	<b>\$ (574.5)</b>

Amounts recognized in the balance sheet consist of:

<i>(In millions)</i>	<b>Pension Benefits</b>		<b>Other Postretirement Benefits</b>	
	<b>1998</b>	<b>1997</b>	<b>1998</b>	<b>1997</b>
Prepaid pension cost	\$ 418.6	\$ 379.7	\$ —	\$ —
Accrued postretirement benefits	—	—	(582.6)	(574.5)
Other long-term liabilities	(19.7)	(11.2)	—	—
Net amount recognized	<b>\$ 398.9</b>	<b>\$ 368.5</b>	<b>\$ (582.6)</b>	<b>\$ (574.5)</b>

The plan assets for the pension plan at December 31, 1998 include 1.7 million shares of Allegheny Teledyne common stock with a fair value of \$33.8 million. Dividends of \$0.2 million were received by the plan in 1998 on the Allegheny Teledyne common shares held by the plan. No shares of Allegheny Teledyne common stock were held by the plan in 1997.

At the end of 1998, approximately 75 percent of the plan assets for the postretirement benefit plans were invested in marketable securities and 25 percent in limited partnership funds. The Company's Chairman, President and Chief Executive Officer serves on the advisory boards of the limited partnership funds.

Any reversion of pension plan assets to the Company would be subject to federal and state income taxes, substantial excise tax and other possible claims.

Pension costs for defined contribution plans were \$24.5 million in 1998, \$20.7 million in 1997 and \$20.3 million in 1996.

On behalf of OREMET's union employees, OREMET contributes to a pension plan which is administered by the USWA and funded pursuant to a collective bargaining agreement. Pension expense and contributions to this plan were \$1.4 million in 1998, \$1.5 million in 1997 and \$1.1 million in 1996.



The annual assumed rate of increase in the per capita cost of covered benefits (the health care cost trend rate) for health care plans was 8.5 percent in 1999 and was assumed to decrease to 5.0 percent in the year 2005 and remain at that level thereafter. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percentage point change in assumed health care cost trend rates would have the following effects:

<i>(In millions)</i>	One Percentage Point Increase	One Percentage Point Decrease
Effect on total of service and interest cost components for the year ended December 31, 1998	\$ 7.8	\$ (6.1)
Effect on postretirement benefit obligation at December 31, 1998	\$85.6	\$(71.5)

Cash from excess pension assets of \$37.4 million in 1998, \$31.9 million in 1997 and \$30.5 million in 1996 was transferred pre-tax under Section 420 of the Internal Revenue Code from the Company's defined benefit pension plans to the Company. The Internal Revenue Code permits transfers annually of an amount not to exceed the Company's actual expenditures on retiree health care benefits. While not affecting reported operating profit, cash flow increased by the after-tax effect of the transferred amount.

The Company intends to make transfers of excess pension assets to the extent and for each year permitted under Section 420 of the Internal Revenue Code. Under the assumptions set forth above and assuming that the expiration date of Section 420 of the Internal Revenue Code is deferred, the present value of excess pension assets available for transfer under Section 420 is sufficient to fund more than 50 percent of the present value of the accumulated postretirement benefit cost of the Company as a whole including those attributable to each of its subsidiaries.

## Note 11. Acquisitions and Divestitures —

In February 1998, the Company acquired the assets of the aerospace division of Sheffield Forgemasters Limited, a private company in the United Kingdom, for approximately \$110 million in an all-cash transaction.

The acquisition of Sheffield Forgemasters' aerospace division, now known as Allvac-SMP, provides significant support to the Company's high performance metals businesses, primarily Allvac, and has enhanced service to customers by improving the sales and distribution network for the Company's nickel-based alloys, specialty steels and titanium in Europe. The acquisition provides additional vacuum melting, vacuum consumable remelting, electroslog remelting, and forging capacity, which complements Allvac's facilities. Allvac-SMP's rotary forging machine is one of the largest in the world.

In January 1998, Bethlehem and the Company entered into three agreements that would become effective after Bethlehem closed its previously announced acquisition of Lukens Inc. ("Lukens"). Bethlehem completed its acquisition of Lukens on May 29, 1998.

On November 20, 1998, the asset sale agreement previously signed by both companies was closed and the related conversion services and hot band supply agreements began to be implemented.

Under the asset sale agreement, Allegheny Ludlum acquired certain assets which Bethlehem acquired from Lukens. These assets include the melting and hot rolling facilities located at the Houston, PA, plant and the wide anneal and pickle line at the Massillon, OH, plant.

Under the conversion services agreement, Bethlehem agreed, for a 20-year period, to provide Allegheny Ludlum exclusive access to the Coatesville, PA, melt shop and caster for the production of stainless steel slabs, and to the Conshohocken, PA, 110-inch Steckel mill for the rolling of stainless steel slabs and stainless precipitation hardening grades, maraging grades, and nickel and nickel-based alloys.

After jointly conducting due diligence, Allegheny Ludlum and Bethlehem agreed that improvements to Bethlehem's 110-inch Steckel mill would enhance performance for the benefit of both parties, and they will share in the cost of certain of these improvements. Using independent consultants, Allegheny Ludlum and Bethlehem concluded that improvements to the computer control system, increasing the power of the roughing mill and undertaking other projects to improve the mill's capability will enhance performance of the mill for carbon, alloy and stainless steel. Two 8,000 horsepower roughing mill motors will be installed, and Allegheny Ludlum will share in the ownership of the motors up to a maximum investment of \$9 million. The total cost of all improvements to the 110-inch Steckel mill is currently estimated to be about \$25 million.

At the closing of the asset sale and conversion services agreement, Allegheny Ludlum paid Bethlehem \$105 million in cash of the previously announced \$175 million asset purchase price, and issued a non-interest bearing promissory note for the remaining \$70 million. The note will be paid after the improvements to the 110-inch Steckel mill are completed and the mill returns to a regularly scheduled operating basis.

In addition, under the hot band supply agreement, Allegheny Ludlum agreed to supply Bethlehem with up to 150,000 tons of stainless bands for further processing at Lukens' stainless cold finishing facilities at its Washington, PA and Massillon, OH plants until Bethlehem sells these facilities. Bethlehem has announced that it plans to cease operations at these two facilities, but that it continues to pursue the sale of the facilities.

In 1997, the Company sold businesses which manufactured collapsible metal and laminate packaging tubes, thread cutting and rolling machines, electric heating elements, metal dies and plastic compression molds and welded stainless steel tubular products, and operated job training centers for the U.S. government. In addition, the Company sold its equity interest in Nitinol Development Corporation. The pretax gain recognized on the sales of these non-strategic businesses was \$35.4 million. The pretax proceeds from these sales totaled \$77.2 million in 1997.

In July 1997, OREMET acquired substantially all of the assets and business of Rome Metals, Inc. ("Rome"), a privately owned corporation for approximately \$25 million. Rome, with operations in Western Pennsylvania, is a leading provider of finishing services to the titanium, zirconium and specialty metals flat products industries. The acquisition of

Rome was accounted for as a purchase and Rome's results are included in the consolidated financial statements since the date of acquisition.

In 1996, the Company sold its defense vehicle business. The pretax gain and proceeds on the sale of this business were \$41.0 million and \$59.2 million, respectively. In May 1996, the Company acquired Jandy Industries, Inc., a United States producer of water flow control valves and electronic control systems for the swimming pool industry. The business was purchased for \$13.5 million in cash.

## Note 12. Business Segments —

Allegheny Teledyne is a diversified manufacturing company serving global markets with specialty metals, aerospace, electronic, industrial and consumer products.

Information on the Company's business segments was as follows:

<i>(In millions)</i>	1998	1997	1996
Sales:			
Specialty metals	<b>\$2,053.4</b>	\$2,155.5	\$2,096.3
Aerospace and electronics	<b>1,007.0</b>	927.0	970.0
Industrial	<b>515.9</b>	511.7	499.1
Consumer	<b>247.6</b>	253.8	228.3
Total continuing operations	<b>3,823.9</b>	3,848.0	3,793.7
Operations sold or held for sale	<b>99.5</b>	182.1	258.9
Total sales	<b>\$3,923.4</b>	\$4,030.1	\$4,052.6

The Company's backlog of confirmed orders was approximately \$1.2 billion at December 31, 1998 and \$1.4 billion at December 31, 1997. Backlog of the Specialty

Metals Segment was \$618.7 million at December 31, 1998 and \$760.4 million at December 31, 1997.

<i>(In millions)</i>	1998	1997	1996
Sales to the U.S. Government including direct sales as prime contractor and indirect sales as subcontractor:			
Specialty metals	<b>\$ 46.1</b>	\$ 50.1	\$ 69.5
Aerospace and electronics	<b>458.5</b>	428.1	543.1
Industrial and consumer	<b>1.5</b>	2.1	2.3
Operations sold or held for sale	<b>—</b>	32.6	70.4
Total sales to U.S. Government	<b>\$ 506.1</b>	\$ 512.9	\$ 685.3

Sales to the U.S. Government included sales to the Department of Defense of \$375.2 million in 1998, \$346.4 million in 1997 and \$453.2 million in 1996.

Total foreign sales were \$768.3 million in 1998, \$710.8 million in 1997 and \$698.2 million in 1996.

Of these amounts, sales by operations in the United States to customers in other countries were \$489.7 million in 1998, \$510.5 million in 1997 and \$462.5 million in 1996. Sales between business segments, which were not material, generally were priced at prevailing market prices.

<i>(In millions)</i>	1998	1997	1996
Operating profit:			
Specialty metals	<b>\$ 282.3</b>	\$ 320.7	\$ 311.1
Aerospace and electronics	<b>110.7</b>	90.3	100.4
Industrial	<b>53.0</b>	60.2	48.3
Consumer	<b>23.4</b>	34.5	14.3
Total operating profit	<b>469.4</b>	505.7	474.1
Merger and restructuring costs	<b>(67.8)</b>	(12.0)	(57.5)
Corporate expenses	<b>(36.5)</b>	(40.4)	(43.7)
Interest expense, net	<b>(19.3)</b>	(16.9)	(35.1)
Investments and operations sold or held for sale	<b>1.4</b>	71.4	64.1
Excess pension income	<b>44.0</b>	16.4	16.5
Income before income taxes and extraordinary loss	<b>\$ 391.2</b>	\$ 524.2	\$ 418.4

Operating results for investments and operations sold or held for sale included pretax gains on the divestiture of certain non-strategic businesses and the related operating profit of those businesses. Also included was a gain in 1997 of \$27.6 million on the sale of the Company's investment in Semtech Corporation common stock and a gain of \$20.3 million in 1996 on the sale of surplus real estate in California. These amounts are included with other income in the statements of income for the respective periods. In addition, operating results for investments and operations sold or held for sale included a charge of \$5.3 million to write off the Company's investment in a research and development venture in 1997 and charges of \$6.8 million in 1997 and \$7.7 million in 1996 to settle certain U.S. Government contracting matters relating to former Teledyne businesses.

The Company recorded charges of \$19.1 million in 1998, \$12.0 million in 1997 and \$57.5 million in 1996 for

severance, financial advisory, legal, accounting, and other costs associated with the acquisition of OREMET in 1998 and the combination of Allegheny Ludlum and Teledyne in 1996. The Company also recorded charges of \$19.3 million in 1998 resulting primarily from special termination benefits granted to approximately 300 Allegheny Ludlum employees who were part of a planned salaried workforce reduction completed in the 1998 third quarter. Costs associated with exiting certain product lines in the 1998 third quarter and asset impairments resulting from new capital expenditure programs coming on-line resulted in a charge of \$29.4 million. Sales and operating results for the business being exited were not financially material.

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

<i>(In millions)</i>	1998	1997	1996
Depreciation and amortization:			
Specialty metals	\$ 72.2	\$ 66.0	\$ 69.2
Aerospace and electronics	14.6	12.2	13.5
Industrial	11.9	12.4	13.7
Consumer	7.3	5.9	4.5
Corporate and operations sold or held for sale	3.0	7.9	8.8
	<b>\$ 109.0</b>	<b>\$ 104.4</b>	<b>\$ 109.7</b>
Capital expenditures:			
Specialty metals	\$ 119.8	\$ 74.7	\$ 46.2
Aerospace and electronics	18.5	15.2	16.1
Industrial	24.0	20.7	16.5
Consumer	9.4	7.4	7.0
Corporate and operations sold or held for sale	0.9	4.8	6.4
	<b>\$ 172.6</b>	<b>\$ 122.8</b>	<b>\$ 92.2</b>
Identifiable assets:			
Specialty metals	\$1,806.2	\$1,556.0	\$1,479.6
Aerospace and electronics	289.0	274.5	276.6
Industrial	241.6	245.5	246.1
Consumer	123.9	116.8	120.5
Corporate:			
Pension asset	418.6	379.7	352.5
Other	272.8	272.3	301.2
Operations sold or held for sale	23.4	53.4	87.9
	<b>\$3,175.5</b>	<b>\$2,898.2</b>	<b>\$2,864.4</b>

**Note 13.**  
**Summarized Financial Information of Allegheny Ludlum and Teledyne —**

Summarized financial information for Allegheny Ludlum and Teledyne is presented below:

**Balance Sheets:**

<i>(In millions)</i>	Allegheny Ludlum December 31,		Teledyne December 31,	
	1998	1997	1998	1997
Current assets	\$ 403.2	\$ 450.8	\$ 822.6	\$ 796.5
Non-current assets	1,220.7	945.0	506.2	371.2
Current liabilities	164.4	171.1	376.9	383.5
Non-current liabilities	599.6	491.1	669.7	572.8

**Statements of Operations:**

<i>(In millions)</i>	1998	Allegheny Ludlum		1998	Teledyne	
		1997	1996		1997	1996
Sales	\$1,072.2	\$1,194.9	\$1,277.8	\$2,598.9	\$2,554.5	\$2,551.5
Gross profit	171.9	168.9	223.5	715.7	730.8	676.6
Net income before extraordinary loss on redemption of debt	29.4	62.0	73.2	170.0	222.9	144.1
Net income	29.4	62.0	73.2	170.0	222.9	130.6

In 1996, the underfunded defined benefit pension plans of Allegheny Ludlum were merged with overfunded defined benefit pension plans of Teledyne, and Allegheny Teledyne became the plan sponsor. As a result, the summarized balance sheet information presented for Allegheny Ludlum and Teledyne does not include the Allegheny Teledyne net prepaid pension asset or the related deferred taxes. Solely for

purposes of this presentation, pension income has been allocated to Allegheny Ludlum and Teledyne to offset pension and postretirement expenses which may be funded with pension assets. This allocated pension income has not been recorded in the financial statements of Allegheny Ludlum or of Teledyne.



## Note 14. Earnings Per Share —

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

*(In millions except per share amounts)*

For the Years Ended December 31,	1998	1997	1996
<b>Numerator:</b>			
Income before extraordinary loss	<b>\$241.2</b>	\$328.8	\$248.8
Extraordinary loss on redemption of debt	—	—	(13.5)
Dividends on preferred stock	—	—	(2.0)
Numerator for basic and diluted net income per common share —			
Net income available to common stockholders	<b>\$241.2</b>	\$328.8	\$233.3
<b>Denominator:</b>			
Weighted average shares	<b>196.5</b>	196.4	190.9
Contingent issuable stock	<b>0.3</b>	0.2	0.3
Denominator for basic net income per common share			
Effect of dilutive securities:			
Employee stock options	<b>1.4</b>	3.3	3.7
Dilutive potential common shares			
	<b>1.4</b>	3.3	3.7
Denominator for diluted net income per common share - adjusted weighted average shares and assumed conversions			
	<b>198.2</b>	199.9	194.9
<b>Basic net income per common share:</b>			
Income before extraordinary loss	<b>\$ 1.23</b>	\$ 1.67	\$ 1.29
Extraordinary loss	—	—	(0.07)
Basic net income per common share			
	<b>\$ 1.23</b>	\$ 1.67	\$ 1.22
<b>Diluted net income per common share:</b>			
Income before extraordinary loss	<b>\$ 1.22</b>	\$ 1.64	\$ 1.27
Extraordinary loss	—	—	(0.07)
Diluted net income per common share			
	<b>\$ 1.22</b>	\$ 1.64	\$ 1.20

For additional disclosures regarding the employee stock options and contingent stock-acquisition arrangements, see Note 8.

Weighted average shares issuable upon the exercise of stock options which were not included in the calculation were 2.2 million in 1998 and 0.9 million in 1996 because they were antidilutive.

## Note 15. Commitments and Contingencies —

Rental expense under operating leases was \$35.4 million in 1998, \$30.4 million in 1997 and \$32.1 million in 1996. Future minimum rental commitments under operating leases with non-cancelable terms of more than one year as of December 31, 1998, were as follows: \$17.5 million in 1999, \$13.3 million in 2000, \$11.4 million in 2001, \$10.2 million in 2002, \$7.3 million in 2003 and \$26.8 million thereafter.

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

In accordance with the Company's accounting policy disclosed in Note 1, environmental liabilities are recorded when the Company's liability is probable and the costs are reasonably estimable. In many cases, however, investigations are not yet at a stage where the Company has been able to determine whether it is liable or, if liability is probable, to reasonably estimate the loss or range of loss, or certain components thereof. Estimates of the Company's liability are further subject to uncertainties regarding the nature and extent of site contamination, the range of remediation alternatives available, evolving remediation standards, imprecise engineering evaluations and estimates of appropriate cleanup technology, methodology and cost, the extent of corrective actions that may be required, and the number and financial condition of other potentially responsible parties, as well as the extent of their responsibility for the remediation. Accordingly, as investigation and remediation of these sites proceeds, it is likely that adjustments in the Company's accruals will be necessary to reflect new information. The amounts of any such adjustments could have a material adverse effect on the Company's results of operations in a given period, but the amounts, and the possible range of loss in excess of the amounts accrued, are not reasonably estimable. Based on currently available information, however, management does not believe that future environmental costs in excess of those accrued with respect to sites with which the Company has been identified are likely to have a material adverse effect on the Company's financial condition or liquidity. However, there can be no assurance that additional future developments, administrative actions or liabilities relating to environmental matters will not have a material adverse effect on the Company's financial condition or results of operations.

At December 31, 1998, the Company's reserves for environmental remediation obligations totaled approximately \$33.7 million, of which approximately \$9.2 million were included in other current liabilities. The reserve includes estimated probable future costs of \$13.1 million for federal Superfund and comparable state-managed sites; \$4.2 million for formerly owned or operated sites for which the Company has remediation or indemnification obligations; \$8.3 million for owned or controlled sites at which Company operations have been discontinued; and \$8.1 million for sites utilized by the Company in its ongoing operations. The Company is evaluating whether it may be able to recover a portion of future costs for environmental liabilities from its insurance carriers and from third parties other than participating potentially responsible parties.

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

Various claims (whether based on U.S. Government or Company audits and investigations or otherwise) have been or may be asserted against the Company related to its U.S. Government contract work, including claims based on business practices and cost classifications and actions under the False Claims Act. Although such claims are generally resolved by detailed fact-finding and negotiation, on those occasions when they are not so resolved, civil or criminal legal or administrative proceedings may ensue. Depending on the circumstances and the outcome, such proceedings could result in fines, penalties, compensatory and treble damages or the cancellation or suspension of payments under one or more U.S. Government contracts. Under government regulations, a company, or one or more of its operating divisions or units, can also be suspended or debarred from government contracts based on the results of investigations. However, although the outcome of these matters cannot be predicted with certainty, management does not believe there is any audit, review or investigation currently pending against the Company of which management is aware that is likely to result in suspension or debarment of the Company, or that is otherwise likely to have a material adverse effect on the Company's financial condition or liquidity, although the resolution in any reporting period of one or more of these matters could have a material adverse effect on the Company's results of operations for that period.

In October 1996, the Company reached an agreement in principle with the U.S. Government for a joint settlement of two cases (one involving the Company's former Teledyne Neosho unit, divested in 1992 and the other involving the Company's former Thermatics unit, divested in 1996) for an aggregate of \$11.5 million. The settlement was finalized and the Company made payment in December 1996. The matter involving the former Neosho unit involved an action brought in 1991 under the False Claims Act in the U.S. District Court for the Western District of Missouri and related to alleged misappropriations of government-owned aircraft parts and falsification of inventory control documents. The matter involving the former Thermatics unit commenced in 1993 when Thermatics sought admission into the Department of Defense Voluntary Disclosure Program with respect to testing practices at variance from military specifications. Established reserves for these matters in 1994 amounted to \$3.8 million.

The Company learns from time to time that it has been named as a defendant in civil actions filed under seal pursuant to the False Claims Act. Generally, since such cases are under seal, the Company does not in all cases possess sufficient information to determine whether the Company could sustain a material loss in connection with such cases, or to reasonably estimate the amount of any loss attributable to such cases. A number of other lawsuits, claims and proceedings have been or may be asserted against the Company relating to the conduct of its business, including those pertaining to product liability, patent infringement, commercial, employment, employee benefits and stockholder matters. While the outcome of litigation cannot be predicted with certainty, and some of these lawsuits, claims or proceedings may be determined adversely to the Company, management does not believe that the disposition of any such pending matters is likely to have a material adverse effect on the Company's financial condition or liquidity, although the resolution in any reporting period of one or more of these matters could have a material adverse effect on the Company's results of operations for that period.

#### **Note 16.** **Subsequent Events —**

Following extensive studies and strategic analyses initiated in the summer of 1998, the Company announced in January 1999 that it intends to pursue a course of action that would result in a significant transformation and reconfiguration of the Company during 1999. Assuming legal, tax, financial and other considerations can be resolved successfully, the anticipated transformation would include a tax-free spin-off of a new public company and a public offering of the new company's stock. The new company would be comprised of four former Teledyne

companies in the Aerospace and Electronics Segment. The four businesses are Electronic Technologies headquartered in Los Angeles, CA; Brown Engineering headquartered in Huntsville, AL; Continental Motors headquartered in Mobile, AL; and Cast Parts located in southern California. Combined 1998 revenues of the businesses in the new company were approximately \$800 million. The new company is expected to be headquartered in Los Angeles.

The Company is proceeding simultaneously with the consideration of a spin-off and public offering of the Consumer Segment, as announced in the 1998 second quarter, into a freestanding public company. This new company is expected to be headquartered in the Los Angeles area. Annual revenues for the Consumer Segment were approximately \$250 million in 1998.

The Company plans to submit a request for a private letter ruling to the Internal Revenue Service with respect to the tax-free nature of the proposed spin-offs by the end of the 1999 first quarter.

Names for the new companies have not yet been selected.

After the spin-offs, Allegheny Teledyne, headquartered in Pittsburgh, will be focused as one of the largest and most diversified specialty metals companies in the world with annual revenues of approximately \$2.5 billion in 1998. It would consist of Allegheny Ludlum/Rodney — a major flat-rolled producer of stainless steel, specialty metals, and titanium; Allvac and Allvac-SMP — major producers of nickel-based superalloys, titanium alloys and specialty steels in billet, bar, rod, wire and coil forms; Oremet-Wah Chang — a diversified producer of zirconium, titanium and other specialty metals including niobium, tantalum and hafnium; Titanium Industries, a titanium distribution company, and Rome Metals, a processor of titanium and other specialty metals; Metalworking Products — a major producer of tungsten mill products, tungsten carbide materials and tungsten carbide cutting tools; Casting Service — a foundry specializing in large grey and ductile iron castings; and Portland Forge — a custom impression die forging company.

In addition, the Company is exploring the sale of Ryan Aeronautical, a producer of unmanned aerial vehicles and target drones, which is located in San Diego, CA. The Company intends to sell its Fluid Systems business, a manufacturer of nitrogen gas springs, pressure relief valves and vehicle control valves headquartered in Brecksville, Ohio, and its Specialty Equipment business which consists of two divisions — one division, located in Canada, is an assembler of hydraulic attachments for mining and construction equipment and the other is a manufacturer of transportable forklifts in the U.S. and the Netherlands. Combined revenues of the three businesses were nearly \$400 million in 1998.

**Note 17.**  
**Quarterly Data (Unaudited) —**

<i>(In millions except share and per share amounts)</i>	Quarter Ended			
	March 31	June 30	September 30	December 31
<b>1998 —</b>				
Sales	\$1,002.2	\$1,019.1	\$927.1	\$975.0
Gross profit	228.9	251.4	219.3	273.6
Net income	26.9	75.5	65.5	73.3
Basic net income per common share	\$ 0.14	\$ 0.38	\$ 0.33	\$ 0.37
Diluted net income per common share	\$ 0.14	\$ 0.38	\$ 0.33	\$ 0.37
Average shares outstanding	196,120,442	196,685,384	197,017,983	196,036,314
<b>1997 —</b>				
Sales	\$1,029.9	\$1,024.5	\$984.2	\$991.5
Gross profit	244.4	258.4	231.5	256.2
Net income	71.1	94.6	73.6	89.5
Basic net income per common share	\$ 0.36	\$ 0.48	\$ 0.37	\$ 0.46
Diluted net income per common share	\$ 0.35	\$ 0.47	\$ 0.37	\$ 0.45
Average shares outstanding	196,096,468	196,883,337	196,765,735	195,728,828

The 1998 first quarter included after-tax costs of \$40.9 million related to the acquisition of OREMET, salaried workforce reductions, costs associated with exiting certain product lines and asset impairments resulting from new capital expenditure programs coming on-line.

The 1998 second quarter included an after-tax charge of \$4.9 million primarily attributable to the planned salaried workforce reduction at Allegheny Ludlum.

The 1998 fourth quarter included an after-tax charge of \$4.8 million related to losses associated with asset sales activities during the quarter.

Net income for the 1997 first quarter included an after-tax gain of \$9.2 million on the sale of a Company investment partially offset by after-tax charges of \$7.9 million from merger and restructuring costs and the write-off of a research and development venture.

The 1997 second quarter net income included after-tax gains of \$17.0 million on the sale of a Company investment. These gains were partially offset by after-tax merger and restructuring costs of \$2.6 million.

Net income for the 1997 third quarter included a net after-tax gain of \$3.9 million on the sale of a business which operated job training centers for the U.S. Government partially offset by a charge relating to legal matters.

The 1997 fourth quarter net income included a net after-tax gain of \$5.8 million on divestitures of businesses which manufactured collapsible metal and laminate packaging tubes, electric heating elements and metal dies and plastic compression molds offset by merger and restructuring charges.

The Company paid a cash dividend of \$0.16 per share on its common stock in each of the 1998 and 1997 quarters.



## Common Stock Price

(Per quarter)

1998	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
Allegheny Teledyne Incorporated				
High	\$29 <sup>7</sup> / <sub>16</sub>	\$28	\$22 <sup>15</sup> / <sub>16</sub>	\$22 <sup>5</sup> / <sub>8</sub>
Low	\$22 <sup>7</sup> / <sub>8</sub>	\$19	\$14	\$16 <sup>1</sup> / <sub>16</sub>
OREMET (through March 24)				
High	\$37 <sup>7</sup> / <sub>8</sub>	—	—	—
Low	\$28 <sup>1</sup> / <sub>2</sub>	—	—	—
1997	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
Allegheny Teledyne Incorporated				
High	\$29 <sup>1</sup> / <sub>2</sub>	\$28 <sup>7</sup> / <sub>8</sub>	\$32 <sup>13</sup> / <sub>16</sub>	\$29 <sup>7</sup> / <sub>8</sub>
Low	\$21	\$25 <sup>5</sup> / <sub>8</sub>	\$25 <sup>7</sup> / <sub>8</sub>	\$23 <sup>5</sup> / <sub>8</sub>
OREMET				
High	\$34 <sup>1</sup> / <sub>2</sub>	\$29 <sup>3</sup> / <sub>4</sub>	\$28 <sup>5</sup> / <sub>8</sub>	\$34 <sup>1</sup> / <sub>4</sub>
Low	\$17 <sup>1</sup> / <sub>2</sub>	\$18	\$21	\$20 <sup>5</sup> / <sub>8</sub>

On March 24, 1998, Allegheny Teledyne Incorporated (“Allegheny Teledyne”) acquired Oregon Metallurgical Corporation (“OREMET”). OREMET shareholders received 1.296 shares of Allegheny Teledyne common stock for each of their OREMET common shares.

Allegheny Teledyne common stock is listed on the New York Stock Exchange, under the symbol “ALT.” As of December 31, 1998, there were approximately 9,879 record holders of Allegheny Teledyne common stock.

## Management's Report

The accompanying consolidated financial statements of Allegheny Teledyne Incorporated and subsidiaries have been prepared in accordance with generally accepted accounting principles and include some amounts that are based upon Management's best estimates and judgments. Management has the primary responsibility for the information contained in the financial statements and in other sections of this Annual Report and for their integrity and objectivity.

The Company has a system of internal controls designed to provide reasonable assurance that assets are safeguarded and transactions are properly executed and recorded for the preparation of financial information. The concept of reasonable assurance is based on the recognition that there are inherent limitations in all systems of internal accounting control and that the cost of such systems should not exceed the benefits to be derived.

The Company maintains a staff of professional internal auditors, who assist in audit coverage with the independent accountants and conduct operational and special audits. The independent accountants express their opinion on the Company's financial statements based on procedures, including an evaluation of internal controls, which they consider to be sufficient to form their opinion.

The Audit and Finance Committee of the Board of Directors is composed of six non-employee members.

Among its principal duties, the Committee is responsible for recommending the independent accountants to conduct the annual audit of the Company's financial statements and for reviewing the financial reporting and accounting practices.



R. P. Simmons  
Chairman, President and Chief Executive Officer



J. L. Murdy  
Executive Vice President,  
Finance and Administration and Chief Financial Officer



D. G. Reid  
Vice President,  
Controller and Chief Accounting Officer

## Selected Financial Data

(In millions except per share amounts)

For the Years Ended December 31,	1998
Sales:	
Continuing	\$3,823.9
Operations sold or held for sale	99.5
	\$3,923.4
Income after tax, before extraordinary loss and cumulative effect of accounting change	\$ 241.2
Extraordinary loss on redemption of debt	—
Cumulative effect of accounting change	—
Net income (loss)	\$ 241.2
Basic income (loss) per common share:	
Income after tax, before extraordinary loss and cumulative effect of accounting change	\$ 1.23
Extraordinary loss on redemption of debt	—
Cumulative effect of accounting change	—
Basic net income (loss) per common share	\$ 1.23
Diluted income (loss) per common share:	
Income after tax, before extraordinary loss and cumulative effect of accounting change	\$ 1.22
Extraordinary loss on redemption of debt	—
Cumulative effect of accounting change	—
Diluted net income (loss) per common share	\$ 1.22
Dividends declared:	
Allegheny Teledyne	\$ 0.64
Allegheny Ludlum	\$ —
Teledyne	\$ —
Working capital	\$ 742.2
Total assets	\$3,175.5
Long-term debt	\$ 446.8
Redeemable preferred stock	\$ —
Stockholders' equity	\$1,339.9

The historical selected financial data reflects the results of Allegheny Ludlum, Teledyne and OREMET as if they had been combined for all periods presented.

Net income included after-tax gains of \$34.1 million on the divestitures of certain non-strategic businesses and the sale of investments in 1997, \$37.6 million on the sale of the Teledyne defense vehicle business and surplus California real estate in 1996, \$30.3 million on the sale of the Teledyne

defense electronic systems business in 1995 and \$24.2 million on the sale of an investment in Litton Industries common stock in 1993.

Net income was adversely affected by after-tax merger and restructuring charges of \$45.8 million in 1998, \$7.6 million in 1997, \$42.9 million in 1996 and \$3.9 million in 1995. The 1996 and 1995 amounts also include proxy contest charges.

1997	1996	1995	1994	1993
\$3,848.0	\$3,793.7	\$3,721.2	\$2,994.2	\$2,967.7
182.1	258.9	473.7	534.3	649.7
\$4,030.1	\$4,052.6	\$4,194.9	\$3,528.5	\$3,617.4
\$ 328.8	\$ 248.8	\$ 274.3	\$ 7.8	\$ 139.5
—	(13.5)	(2.9)	—	(3.7)
—	—	—	—	(185.6)
\$ 328.8	\$ 235.3	\$ 271.4	\$ 7.8	\$ (49.8)
\$ 1.67	\$ 1.29	\$ 1.44	\$ 0.04	\$ 0.74
—	(0.07)	(0.02)	—	(0.02)
—	—	—	—	(0.99)
\$ 1.67	\$ 1.22	\$ 1.42	\$ 0.04	\$ (0.27)
\$ 1.64	\$ 1.27	\$ 1.39	\$ 0.04	\$ 0.74
—	(0.07)	(0.01)	—	(0.02)
—	—	—	—	(0.96)
\$ 1.64	\$ 1.20	\$ 1.38	\$ 0.04	\$ (0.24)
\$ 0.64	\$ 0.16	\$ —	\$ —	\$ —
\$ —	\$ 0.42	\$ 0.49	\$ 0.48	\$ 0.47
\$ —	\$ 0.52	\$ 0.52	\$ —	\$ 0.42
\$ 842.6	\$ 794.5	\$ 743.6	\$ 589.2	\$ 672.3
\$2,898.2	\$2,864.4	\$2,758.9	\$2,590.3	\$2,615.9
\$ 330.4	\$ 447.6	\$ 587.8	\$ 506.9	\$ 496.9
\$ —	\$ —	\$ 33.1	\$ —	\$ —
\$1,244.6	\$1,075.4	\$ 851.7	\$ 722.7	\$ 753.4

Results of operations included after-tax charges of \$4.1 million in 1997, \$4.7 million in 1996, \$88.0 million in 1994 and \$10.7 million in 1993 related to Teledyne's settlement of certain legal matters with the U.S. Government.

Results for 1994 were adversely affected by a ten-week strike at Allegheny Ludlum called by the United Steelworkers of America.

Net losses for 1993 included charges of \$185.6 million for the cumulative effect of changing the accounting for postretirement health care and life insurance benefits for Teledyne in 1993.

Teledyne dividends declared included \$0.08 per equivalent share in 1996 and \$0.31 per equivalent share in 1995 paid in face amount of Teledyne's Series E Cumulative Preferred Stock. The Teledyne Series E Cumulative Preferred Stock was redeemed for cash in 1996.

## Corporate Officers

### **Richard P. Simmons**

*Chairman, President and Chief Executive Officer*

### **Robert P. Bozzone**

*Vice Chairman*

### **Robert Mehrabian**

*Executive Vice President and  
Segment Executive,  
Aerospace and Electronics and Industrial*

### **James L. Murdy**

*Executive Vice President,  
Finance and Administration and Chief Financial Officer*

### **Judd R. Cool**

*Senior Vice President, Human Resources*

### **Jon D. Walton**

*Senior Vice President, General Counsel and Secretary*

### **Richard J. Harshman**

*Vice President,  
Investor Relations and Corporate Communications*

### **Robert S. Park**

*Vice President, Treasurer*

### **Dale G. Reid**

*Vice President, Controller and Chief Accounting Officer*

## Operating Company Management

### **Specialty Metals**

Allegheny Ludlum Corporation

Jack W. Shilling, *President*

Allvac

John V. Andrews, *President and  
President, High Performance Metals Group*

Oremet-Wah Chang

Ralph A. Nauman, *President*

Titanium Industries

James S. Paddock, *President*

Rome Metals

John A. Dioguardi, *President*

### **Aerospace and Electronics**

Teledyne Electronic Technologies

Marvin H. Fink, *President*

Teledyne Brown Engineering

Richard A. Holloway, *President*

Teledyne Ryan Aeronautical

Robert A.K. Mitchell, *President*

Teledyne Continental Motors

Bryan L. Lewis, *President*

Teledyne Cast Parts

Richard C. Brozek, *President*

### **Industrial**

Metalworking Products

David M. Hogan, *President*

Fluid Systems and Specialty Equipment

Michael A. Gaudiani, *President*

Portland Forge

Charles W. Freel, *President*

Casting Service

David R. Neil, *President*

### **Consumer**

Michael P. Hoopis, *President  
and Chief Executive Officer, Consumer Segment*

Water Pik

Wayne S. Brothers, *President*

Laars

Robert J. Rasp, *President*



## Board of Directors

### Richard P. Simmons

Age 67, is Chairman, President and Chief Executive Officer of Allegheny Teledyne Incorporated. (1)

### Robert P. Bozzone

Age 65, is Vice Chairman of the Board of Allegheny Teledyne Incorporated. (1) (3)

### Paul S. Brentlinger

Age 71, is a Partner in Morgenthaler Ventures, a venture capital group headquartered in Cleveland, OH. (2) (6)

### Frank V. Cahouet

Age 66, is the Retired Chairman and Chief Executive Officer of Mellon Bank Corporation, a bank holding company, and Mellon Bank, N.A. (2) (3)

### Diane C. Creel

Age 50, is Chief Executive Officer and President of EarthTech, an international consulting engineering firm. (3) (4) (5)

### C. Fred Fetterolf

Age 70, Retired President and Chief Operating Officer of Alcoa, Inc. (4) (5)

### Ray J. Groves

Age 63, is Chairman of Legg Mason Merchant Banking, Inc. (2) (3)

### Frank J. Lucchino

Age 60, is a Senior Partner in Grogan, Graffam, McGinley & Lucchino, P.C., attorneys-at-law and serves as Controller of Allegheny County, PA. (2)

### W. Craig McClelland

Age 64, is the Chairman and Chief Executive Officer of Union Camp Corporation, a manufacturer of paper products. (3) (4) (5)

### Robert Mehrabian

Age 57, is Executive Vice President of Allegheny Teledyne Incorporated. Previously, he served as President of Carnegie Mellon University. (6)

### James L. Murdy

Age 60, is Executive Vice President, Finance and Administration and Chief Financial Officer of Allegheny Teledyne Incorporated.

### William G. Ouchi

Age 55, is the Sanford and Betty Sigoloff Professor in Corporate Renewal in the Anderson Graduate School of Management at the University of California at Los Angeles. (2) (4) (5)

### Charles J. Queenan, Jr.

Age 68, is Senior Counsel to Kirkpatrick & Lockhart LLP, attorneys-at-law. (1) (4)

### James E. Rohr

Age 50, is President and Chief Operating Officer of PNC Bank Corp., a bank holding company. (1) (2) (6)

### Standing Committees of the Board:

- (1) Executive Committee
- (2) Audit and Finance Committee
- (3) Committee on Governance
- (4) Personnel and Compensation Committee
- (5) Stock Incentive Award Subcommittee
- (6) Technology Committee

## Corporate Self-Governance: Ethics, Compliance & Quality

Allegheny Teledyne is committed to uncompromising ethical standards, strict adherence to law, and continuous attention to customer satisfaction.

These commitments constitute the foundation upon which Allegheny Teledyne conducts its business.

The *Allegheny Teledyne Incorporated Corporate Objectives and Guidelines for Employee Conduct* sets forth clear standards to guide all employees in the conduct of everyday business. Its objective is to have all employees reflect the highest level of integrity and ethics in their dealings with customers, suppliers, and stockholders, with the public and government agencies, as well as with fellow employees.

Allegheny Teledyne encourages employees to communicate concerns before they become problems. The corporate ombudsman at Allegheny Teledyne has been extremely effective in allowing employees to surface important concerns. Building and maintaining trust, respect and communications between employees and management and between fellow employees is critical to the overriding goal of efficiently producing high quality products, providing the maximum level of customer satisfaction, and ultimately fueling profitability and growth.

Training is an important part of the Allegheny Teledyne self-governance effort. Programs include ethics refresher sessions, export compliance training, government contract compliance training and environmental compliance training, as well as training in various human resources areas. Our goal is to optimize every training hour.

In order to monitor the effectiveness of its compliance efforts, Allegheny Teledyne conducts regular audits throughout the organization to confirm adherence to internal compliance procedures.

The management and employees of Allegheny Teledyne are committed to a strong self-governance program. This commitment is aligned with our corporate goal to enhance stockholder value. Maintaining our reputation for quality, reliability, integrity, and customer responsiveness is critical to achieving this goal.

## Investor Information

### Corporate Headquarters

1000 Six PPG Place  
Pittsburgh, PA 15222-5479  
412-394-2800

### Annual Meeting

The Annual Meeting of Stockholders will be held on May 13, 1999 at 11:00 a.m. in:  
Room 1000 Auditorium  
10th Floor  
Two Mellon Bank Center (Union Trust Building)  
435 Fifth Avenue  
Pittsburgh, PA

### Transfer Agent and Registrar

ChaseMellon Shareholder Services  
Overpeck Centre  
85 Challenger Road  
Ridgefield Park, NJ 07660  
1-800-406-4850

(Information about dividend checks, dividend tax information, and stock certificates, including lost or unexchanged certificates)

### Investor Services Program

ChaseMellon Shareholder Services offers an Investor Services Program for current stockholders and interested investors which includes:

- Dividend reinvestment
- Direct deposit of dividends into your personal checking, savings or other account
- Voluntary purchases of Allegheny Teledyne common stock for new investors and current stockholders
- Safekeeping of stock certificates at no charge.

To request a Program brochure and enrollment forms, call:

1-800-842-7629

To ask about the Program or your Program account, contact:

ChaseMellon Shareholder Services  
P.O. Box 3338  
South Hackensack, NJ 07606-1938  
1-800-406-4850

### Stockholder Publications

Annual reports, proxy statements and other information are mailed to all stockholders of record. For additional information contact:  
Investor Relations and Corporate Communications at corporate headquarters, or by calling 412-394-2819.

### Independent Auditors

Ernst & Young LLP  
Pittsburgh, PA

### Form 10-K

Allegheny Teledyne Incorporated's Annual Report on Form 10-K for fiscal year 1998 (without exhibits) is available upon written request to the Senior Vice President, General Counsel and Secretary at the corporate headquarters.

### Stock Exchange Listing

The common stock of Allegheny Teledyne Incorporated is traded on the New York Stock Exchange (symbol ALT). Options on the Company's stock are traded on the Chicago Board of Options Exchange.



### Internet Home Page

Allegheny Teledyne's Internet home page can be found at <http://www.alleghenyteledyne.com>.



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