

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

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2020
OR
☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____
Commission file number: 1-36313



TIMKENSTEEL CORPORATION
(Exact name of registrant as specified in its charter)

Ohio
(State or other jurisdiction of
incorporation or organization)
1835 Dueber Avenue SW, Canton, OH
(Address of principal executive offices)

46-4024951
(I.R.S. Employer
Identification No.)
44706
(Zip Code)

330.471.7000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class	Trading symbol	Name of exchange in which registered
Common shares	TMST	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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

Class	Outstanding at July 31, 2020
Common Shares, without par value	45,036,324

TimkenSteel Corporation
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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

TimkenSteel Corporation
Consolidated Statements of Operations (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
(Dollars in millions, except per share data)				
Net sales	\$ 154.0	\$ 336.7	\$ 413.6	\$ 707.7
Cost of products sold	158.0	321.9	409.8	664.5
Gross Profit	(4.0)	14.8	3.8	43.2
Selling, general and administrative expenses	16.8	20.2	40.2	43.5
Restructuring charges	0.3	3.6	0.9	3.6
Impairment charges and loss (gain) on sale or asset disposals	(0.9)	1.8	(3.2)	1.8
Interest expense	3.0	4.2	6.2	8.4
Other expense (income), net	(8.1)	(0.2)	(5.4)	(2.9)
Income (Loss) Before Income Taxes	(15.1)	(14.8)	(34.9)	(11.2)
Provision (benefit) for income taxes	0.2	(2.9)	0.3	(2.8)
Net Income (Loss)	\$ (15.3)	\$ (11.9)	\$ (35.2)	\$ (8.4)
Per Share Data:				
Basic earnings (loss) per share	\$ (0.34)	\$ (0.27)	\$ (0.78)	\$ (0.19)
Diluted earnings (loss) per share	\$ (0.34)	\$ (0.27)	\$ (0.78)	\$ (0.19)

See accompanying Notes to the unaudited Consolidated Financial Statements.

TimkenSteel Corporation
Consolidated Statement of Comprehensive Income (Loss) (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
(Dollars in millions)				
Net income (loss)	\$ (15.3)	\$ (11.9)	\$ (35.2)	\$ (8.4)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	0.1	(0.6)	(1.7)	(0.2)
Pension and postretirement liability adjustments	(1.4)	66.3	(2.5)	66.4
Other comprehensive income (loss), net of tax	(1.3)	65.7	(4.2)	66.2
Comprehensive Income (Loss), net of tax	\$ (16.6)	\$ 53.8	\$ (39.4)	\$ 57.8

See accompanying Notes to the unaudited Consolidated Financial Statements.

TimkenSteel Corporation
Consolidated Balance Sheets (Unaudited)

	June 30, 2020	December 31, 2019
(Dollars in millions)		
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 75.5	\$ 27.1
Accounts receivable, net of allowances (2020 - \$1.7 million; 2019 - \$1.5 million)	63.6	77.5
Inventories, net	206.4	281.9
Deferred charges and prepaid expenses	1.9	3.3
Assets held for sale	2.1	4.1
Other current assets	5.6	7.8
Total Current Assets	355.1	401.7
Property, plant and equipment, net	595.4	626.4
Operating lease right-of-use assets	18.5	14.3
Pension assets	20.4	25.2
Intangible assets, net	11.2	14.3
Other non-current assets	3.1	3.3
Total Assets	\$ 1,003.7	\$ 1,085.2
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 48.1	\$ 69.3
Salaries, wages and benefits	19.4	13.9
Accrued pension and postretirement costs	3.0	3.0
Current operating lease liabilities	7.0	6.2
Convertible notes, net	81.0	—
Other current liabilities	11.4	19.9
Total Current Liabilities	169.9	112.3
Convertible notes, net	—	78.6
Credit Agreement	60.0	90.0
Non-current operating lease liabilities	11.5	8.2
Accrued pension and postretirement costs	223.0	222.1
Deferred income taxes	0.9	0.9
Other non-current liabilities	11.4	10.0
Total Liabilities	476.7	522.1
Shareholders' Equity		
Preferred shares, without par value; authorized 10.0 million shares, none issued	—	—
Common shares, without par value; authorized 200.0 million shares; issued 2020 and 2019 - 45.7 million shares	—	—
Additional paid-in capital	840.7	844.8
Retained deficit	(336.7)	(301.5)
Treasury shares - 2020 - 0.7 million; 2019 - 0.9 million	(17.5)	(24.9)
Accumulated other comprehensive income (loss)	40.5	44.7
Total Shareholders' Equity	527.0	563.1
Total Liabilities and Shareholders' Equity	\$ 1,003.7	\$ 1,085.2

See accompanying Notes to the unaudited Consolidated Financial Statements.

TimkenSteel Corporation
Consolidated Statements of Shareholders' Equity (Unaudited)

(Dollars in millions)	Common Shares Outstanding	Additional Paid-in Capital	Retained Deficit	Treasury Shares	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2019	44,820,153	\$ 844.8	\$ (301.5)	\$ (24.9)	\$ 44.7	\$ 563.1
Net income (loss)	—	—	(19.9)	—	—	(19.9)
Other comprehensive income (loss)	—	—	—	—	(2.9)	(2.9)
Stock-based compensation expense	—	2.0	—	—	—	2.0
Issuance of treasury shares	215,708	(5.7)	—	5.7	—	—
Shares surrendered for taxes	(70,033)	—	—	(0.2)	—	(0.2)
Balance at March 31, 2020	44,965,828	\$ 841.1	\$ (321.4)	\$ (19.4)	\$ 41.8	\$ 542.1
Net income (loss)	—	—	(15.3)	—	—	(15.3)
Other comprehensive income (loss)	—	—	—	—	(1.3)	(1.3)
Stock-based compensation expense	—	1.6	—	—	—	1.6
Issuance of treasury shares	75,689	(2.0)	—	2.0	—	—
Shares surrendered for taxes	(5,341)	—	—	(0.1)	—	(0.1)
Balance at June 30, 2020	45,036,176	\$ 840.7	\$ (336.7)	\$ (17.5)	\$ 40.5	\$ 527.0

	Common Shares Outstanding	Additional Paid-in Capital	Retained Deficit	Treasury Shares	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2018	44,584,668	\$ 846.3	\$ (191.5)	\$ (33.0)	\$ (8.9)	\$ 612.9
Net income (loss)	—	—	3.5	—	—	3.5
Other comprehensive income (loss)	—	—	—	—	0.5	0.5
Stock-based compensation expense	—	2.2	—	—	—	2.2
Stock option activity	—	0.2	—	—	—	0.2
Issuance of treasury shares	261,130	(7.5)	—	7.5	—	—
Shares surrendered for taxes	(79,889)	—	—	(1.0)	—	(1.0)
Balance at March 31, 2019	44,765,909	\$ 841.2	\$ (188.0)	\$ (26.5)	\$ (8.4)	\$ 618.3
Net income (loss)	—	—	(11.9)	—	—	(11.9)
Other comprehensive income (loss)	—	—	—	—	65.7	65.7
Stock-based compensation expense	—	1.6	—	—	—	1.6
Stock option activity	—	—	—	—	—	—
Issuance of treasury shares	50,185	(1.4)	—	1.4	—	—
Balance at June 30, 2019	44,816,094	\$ 841.4	\$ (199.9)	\$ (25.1)	\$ 57.3	\$ 673.7

See accompanying Notes to the unaudited Consolidated Financial Statements.

TimkenSteel Corporation
Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended June 30,	
	2020	2019
(Dollars in millions)		
CASH PROVIDED (USED)		
Operating Activities		
Net income (loss)	\$ (35.2)	\$ (8.4)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	35.4	35.7
Amortization of deferred financing fees and debt discount	2.7	2.5
Impairment charges and loss (gain) on sale or disposal of assets	(3.2)	1.8
Deferred income taxes	0.3	(0.2)
Stock-based compensation expense	3.6	3.8
Pension and postretirement expense, net	4.9	3.3
Pension and postretirement contributions and payments	(3.2)	(3.5)
Changes in operating assets and liabilities:		
Accounts receivable, net	13.9	17.0
Inventories, net	75.5	3.3
Accounts payable	(17.2)	(50.3)
Other accrued expenses	(2.0)	(22.3)
Deferred charges and prepaid expenses	1.4	0.9
Other, net	3.0	(1.2)
Net Cash Provided (Used) by Operating Activities	79.9	(17.6)
Investing Activities		
Capital expenditures	(9.6)	(12.3)
Proceeds from disposals of property, plant and equipment	8.4	—
Net Cash Provided (Used) by Investing Activities	(1.2)	(12.3)
Financing Activities		
Proceeds from exercise of stock options	—	0.2
Shares surrendered for employee taxes on stock compensation	(0.3)	(1.0)
Repayments on credit agreements	(30.0)	(10.0)
Borrowings on credit agreements	—	40.0
Net Cash Provided (Used) by Financing Activities	(30.3)	29.2
Increase (Decrease) in Cash and Cash Equivalents	48.4	(0.7)
Cash and cash equivalents at beginning of period	27.1	21.6
Cash and Cash Equivalents at End of Period	\$ 75.5	\$ 20.9

See accompanying Notes to the unaudited Consolidated Financial Statements.

TimkenSteel Corporation
Notes to Unaudited Consolidated Financial Statements
(dollars in millions, except per share data)

Note 1 - Basis of Presentation

The accompanying unaudited Consolidated Financial Statements have been prepared by TimkenSteel Corporation (the Company or TimkenSteel) in accordance with generally accepted accounting principles in the United States (U.S. GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) and disclosures considered necessary for a fair presentation have been included. For further information, refer to TimkenSteel's audited Consolidated Financial Statements and Notes included in its Annual Report on Form 10-K for the year ended December 31, 2019.

Customer Receivables

The Company's accounts receivables arise from sales to customers across all end markets. Historically, TimkenSteel's allowance for doubtful accounts write-offs have been immaterial. The allowance for doubtful account reserve has been established using qualitative and quantitative methods. In general, account balances greater than one year of age or sent to third party collection are fully reserved. Account balances for customers that are viewed as higher risk are also analyzed for a reserve. In addition to these methods, the allowance for doubtful accounts in 2020 was adjusted for forward looking uncollectible balances, primarily in the energy and automotive end markets. The amount recorded was based on the Company's assessment of the risk presented to customers in these end markets as a result of the COVID-19 pandemic as well as geo-political factors facing the energy end market. At this time, the full impact of COVID-19 is difficult to predict due to uncertainty surrounding the pandemic and the timeline for economic activities to fully recover.

Change in Accounting Principle

During the fourth quarter of 2019, TimkenSteel elected to change its method for valuing its inventories that previously used the last-in, first-out (LIFO) method to the first-in, first-out (FIFO) method. The Company believes that the FIFO method is preferable as it improves comparability with its peers, more closely resembles the physical flow of its inventory and aligns with how the Company internally manages the business. The effects of the change in accounting principle from LIFO to FIFO were retrospectively applied. As a result of the retrospective application of the change in accounting principle, certain financial statement line items in the Company's consolidated balance sheets as of June 30, 2019 and the consolidated statements of operations, comprehensive income (loss), shareholders' equity and cash flows for the three and six months ended June 30, 2019 were adjusted as necessary. For further information, refer to TimkenSteel's audited Consolidated Financial Statements and Notes included in its Annual Report on Form 10-K for the year ended December 31, 2019.

The following tables reflect the impact to the financial statement line items as a result of the change in accounting principle for the prior periods presented in the accompanying financial statements (dollars in millions, except per share data):

Consolidated Statement of Operations	Three Months Ended June 30, 2019			Six Months Ended June 30, 2019		
	As Reported	Adjustments	As Adjusted	As Reported	Adjustments	As Adjusted
Cost of products sold	\$ 311.3	\$ 10.6	\$ 321.9	\$ 653.2	\$ 11.3	\$ 664.5
Gross profit	25.4	(10.6)	14.8	54.5	(11.3)	43.2
Income (loss) before income taxes	(4.2)	(10.6)	(14.8)	0.1	(11.3)	(11.2)
Provision (benefit) for income taxes	0.2	(3.1)	(2.9)	0.3	(3.1)	(2.8)
Net income (loss)	(4.4)	(7.5)	(11.9)	(0.2)	(8.2)	(8.4)

Per Share Data:

Basic earnings (loss) per share	(0.10)	(0.17)	(0.27)	—	(0.19)	(0.19)
Diluted earnings (loss) per share	(0.10)	(0.17)	(0.27)	—	(0.19)	(0.19)

Consolidated Statement of Comprehensive Income (Loss)	Three Months Ended June 30, 2019			Six Months Ended June 30, 2019		
	As Reported	Adjustments	As Adjusted	As Reported	Adjustments	As Adjusted
Net income (loss)	\$ (4.4)	\$ (7.5)	\$ (11.9)	\$ (0.2)	\$ (8.2)	\$ (8.4)
Pension and postretirement liability adjustments	69.4	(3.1)	66.3	69.5	(3.1)	66.4
Comprehensive income (loss), net of tax	64.4	(10.6)	53.8	69.1	(11.3)	57.8

Consolidated Statement of Cash Flows	Six Months Ended June 30, 2019		
	As Reported	Adjustments	As Adjusted
Net income (loss)	\$ (0.2)	\$ (8.2)	\$ (8.4)
Pension and postretirement expense (benefit), net	6.4	(3.1)	3.3
Changes in operating assets and liabilities:			
Inventories, net	(8.0)	11.3	3.3

Note 2 - Recent Accounting Pronouncements

Adoption of New Accounting Standards

The Company adopted the following Accounting Standard Updates (ASU) in the first quarter of 2020, all of which were effective as of January 1, 2020, except ASU 2020-04, which became effective upon issuance on March 12, 2020. The adoption of these standards did not have a material impact on the unaudited Consolidated Financial Statements or the related Notes to the unaudited Consolidated Financial Statements.

Standards Adopted	Description
ASU 2020-04, Reference Rate Reform (Topic 848)	The standard provides optional expedients and exceptions for applying generally accepted accounting principles (GAAP) to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met.
ASU 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40)	The standard aligns the requirements for capitalizing implementation costs in cloud computing software arrangements with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software.
ASU 2018-13, Fair Value Measurement (Topic 820)	The standard eliminates, modifies and adds disclosure requirements for fair value measurements.
ASU 2016-13, Measurement of Credit Losses on Financial Instruments (Topic 326)	The standard changes how entities will measure credit losses for most financial assets, including trade and other receivables, and replaces the current incurred loss approach with an expected loss model.

Accounting Standards Issued But Not Yet Adopted

The Company has considered the recent ASUs issued by the Financial Accounting Standards Board summarized below:

Standard Pending Adoption	Description	Effective Date	Anticipated Impact
ASU 2019-12, Income Taxes (Topic 740)	The standard simplifies the accounting for income taxes by removing various exceptions.	January 1, 2021	The Company is currently evaluating the impact of the adoption of this ASU on its results of operations and financial condition.
ASU 2018-14, Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20)	The standard eliminates, modifies and adds disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans.	January 1, 2021	The Company is currently evaluating the impact of the adoption of this ASU on its results of operations and financial condition.
ASU 2020-03, Codification Improvements to Financial Instruments	The standard clarifies or improves the Codification. The amendments make the Codification easier to understand and apply by eliminating inconsistencies and providing clarifications.	January 1, 2021	The Company is currently evaluating the impact of the adoption of this ASU on its results of operations and financial condition.

Note 3 - Revenue Recognition

The following table provides the major sources of revenue by end-market sector for the three and six months ended June 30, 2020 and 2019:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Mobile	\$ 36.1	\$ 135.3	\$ 133.8	\$ 279.5
Industrial	98.0	124.3	211.3	271.3
Energy	14.6	54.1	39.8	114.9
Other(1)	5.3	23.0	28.7	42.0
Total Net Sales	\$ 154.0	\$ 336.7	\$ 413.6	\$ 707.7

(1) "Other" sales by end-market sector includes the Company's scrap and oil country tubular goods (OCTG) billet sales.

The following table provides the major sources of revenue by product type for the three and six months ended June 30, 2020 and 2019:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Bar	\$ 92.7	\$ 225.4	\$ 260.8	\$ 465.3
Tube	25.6	40.8	56.0	90.4
Value-add	32.9	63.1	88.4	136.8
Other(2)	2.8	7.4	8.4	15.2
Total Net Sales	\$ 154.0	\$ 336.7	\$ 413.6	\$ 707.7

(2) "Other" sales by product type includes the Company's scrap sales.

Note 4 - Restructuring Charges

During 2019 and the first half of 2020, TimkenSteel made organizational changes to enhance profitable and sustainable growth. These company-wide actions included the restructuring of its business support functions, the reduction of management layers throughout the organization, the closure of the TimkenSteel Material Services (TMS) facility in Houston, Texas and other actions to further improve the Company's overall cost structure. Through these restructuring efforts, to date the Company has eliminated approximately 180 salaried positions and recognized restructuring charges of \$9.5 million, primarily consisting of severance and employee-related benefits. Approximately 20 of these positions were eliminated in the first half of 2020. TimkenSteel recorded reserves for such restructuring charges as other current liabilities on the Consolidated Balance Sheets. The reserve balance at June 30, 2020 is expected to be substantially used in the next twelve months.

The following is a summary of the restructuring reserve for the six months ended June 30, 2020 and 2019:

Balance at December 31, 2019	\$ 6.0
Expenses	0.9
Payments	(5.9)
Balance at June 30, 2020	\$ 1.0
Balance at December 31, 2018	\$ —
Expenses	3.6
Payments	(0.2)
Balance at June 30, 2019	\$ 3.4

Note 5 - Disposition of Non-Core Assets

During the first quarter of 2020, management completed its previously announced plan to close the Company's TMS facility in Houston, and initiated a plan to market and sell the assets at the facility. Accelerated depreciation and amortization of \$1.6 million was recorded in the first quarter to reduce the net book value of the machinery and equipment to its expected fair value. Subsequent to the closure, certain assets were sold and a gain on sale of \$1.0 million and \$4.2 million was recognized for the three and six months ended June 30, 2020, respectively. At June 30, 2020, the remaining associated machinery and equipment, with a net book value of \$2.1 million, was classified as held for sale on the Consolidated Balance Sheet. The land and buildings associated with TMS were not classified as held for sale, as they were not considered available for immediate sale in their present condition. While the Company began selling the inventory associated with TMS in the first quarter of 2020 at prices that were in line with the net realizable value of the inventory established in the fourth quarter of 2019, excess inventory related to our Energy end-market sector resulted in an additional reserve of approximately \$3.1 million being recorded in the second quarter of 2020. The excess inventory is the result of continued weakness in this end-market sector, as well as recent closures of several distributors that were holding considerable amounts of similar inventory.

Note 6 – Other Expense (Income), net

The following table provides the components of other expense (income), net for the three and six months ended June 30, 2020 and 2019:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Pension and postretirement non-service benefit loss (income)	\$ (6.5)	\$ (4.5)	\$ (13.0)	\$ (7.3)
Loss (gain) from remeasurement of benefit plans	(1.9)	4.4	7.6	4.4
Foreign currency exchange loss (gain)	0.3	(0.2)	0.4	(0.1)
Miscellaneous expense (income)	—	0.1	(0.4)	0.1
Total other expense (income), net	\$ (8.1)	\$ (0.2)	\$ (5.4)	\$ (2.9)

Non-service benefit income is derived from the Company's pension and other postretirement plans. The Company's expected return on assets has exceeded the interest cost component, resulting in income for the three and six months ended June 30, 2020 and 2019.

The TimkenSteel Corporation Retirement Plan (Salaried Plan) has a provision that permits employees to elect to receive their pension benefits in a lump sum. In the first quarter of 2020, the cumulative cost of all lump sum payments was projected to exceed the sum of the service cost and interest cost components of net periodic pension cost for the Salaried Plan. As a result, the Company completed a full remeasurement of its pension obligations and plan assets associated with the Salaried Plan as of June 30, 2020 and March 31, 2020, which resulted in a non-cash (gain) loss from remeasurement of (\$1.9) million and \$7.6 million for the three and six months ended June 30, 2020, respectively. For more details on the remeasurement, refer to "Note 11 - Retirement and Postretirement Plans."

Note 7 - Income Tax Provision

TimkenSteel's provision for income taxes in interim periods is computed by applying the appropriate estimated annual effective tax rates to income or loss before income taxes for the period. In addition, non-recurring or discrete items, including interest on prior-year tax liabilities, are recorded during the periods in which they occur.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Provision (benefit) for incomes taxes	\$ 0.2	\$ (2.9)	\$ 0.3	\$ (2.8)
Effective tax rate	(1.1)%	19.6%	(0.8)%	25.0%

In light of TimkenSteel's operating performance in the U.S. and current industry conditions, the Company assessed its U.S. deferred tax assets and concluded, based upon all available evidence, that it was more likely than not that it would not realize the assets. As a result, the Company maintains a full valuation allowance against its deferred tax assets in the U.S. and applicable foreign countries until sufficient positive evidence exists to conclude that a valuation allowance is not necessary. Going forward, the need to maintain valuation allowances against deferred tax assets in the U.S. and other affected countries will cause variability in the Company's effective tax rate. The majority of TimkenSteel's income taxes are derived from foreign operations.

On March 27, 2020, the President of the United States signed the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, an economic stimulus package intended to provide support, principally in the form of tax benefits, to companies and individuals negatively impacted by the COVID-19 pandemic. Although the majority of the provisions included in the CARES Act will not immediately benefit the Company from a cash tax perspective due to its significant net operating losses, the Company has taken advantage of the deferral of the employer share (6.2% of employee wages) of Social Security payroll taxes that would otherwise have been owed from the date of enactment of the legislation through December 31, 2020, as afforded by the Act. Through June 30, 2020, the Company has deferred \$2.0 million in cash payments, and expects additional deferred cash payments of approximately \$4 million to \$5 million for the remainder of 2020, with total deferred amounts to be paid in two equal installments at December 31, 2021 and December 31, 2022. The Company is currently evaluating its eligibility and potential benefit related to the Employee Retention Credit.

Note 8 - Earnings (Loss) Per Share

Basic earnings (loss) per share is computed based upon the weighted average number of common shares outstanding. Diluted earnings (loss) per share is computed based upon the weighted average number of common shares outstanding plus the dilutive effect of common share equivalents calculated using the treasury stock method or if-converted method. For the Convertible Notes, the Company utilizes the if-converted method to calculate diluted earnings (loss) per share. Under the if-converted method, the Company adjusts net earnings to add back interest expense (including amortization of debt discount) recognized on the Convertible Notes and includes the number of shares potentially issuable related to the Convertible Notes in the weighted average shares outstanding. Treasury stock is excluded from the denominator in calculating both basic and diluted earnings (loss) per share.

Common share equivalents for shares issuable for equity-based awards were excluded from the computation of diluted earnings (loss) per share for the three and six months ended June 30, 2020 and 2019 because the effect of their inclusion would have been anti-dilutive. Common share equivalents for shares issuable upon the conversion of outstanding convertible notes were excluded from the computation of diluted earnings (loss) per share for the three and six months ended June 30, 2020 and 2019 because the effect of their inclusion would have been anti-dilutive.

The following table sets forth the reconciliation of the numerator and the denominator of basic and diluted earnings (loss) per share for the three and six months ended June 30, 2020 and 2019:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Numerator:				
Net income (loss)	\$ (15.3)	\$ (11.9)	\$ (35.2)	\$ (8.4)
Denominator:				
Weighted average shares outstanding, basic	45.0	44.8	44.9	44.7
Dilutive effect of stock-based awards	—	—	—	—
Weighted average shares outstanding, diluted	45.0	44.8	44.9	44.7
Basic earnings (loss) per share	\$ (0.34)	\$ (0.27)	\$ (0.78)	\$ (0.19)
Diluted earnings (loss) per share	\$ (0.34)	\$ (0.27)	\$ (0.78)	\$ (0.19)

Note 9 - Inventories

The components of inventories, net of reserves as of June 30, 2020 and December 31, 2019 were as follows:

	June 30, 2020	December 31, 2019
Manufacturing supplies	\$ 43.3	\$ 49.8
Raw materials	12.2	26.0
Work in process	89.6	123.7
Finished products	75.4	93.1
Gross inventory	220.5	292.6
Allowance for inventory reserves	(14.1)	(10.7)
Total Inventories, net	\$ 206.4	\$ 281.9

In the second quarter of 2020, the Company recorded an additional allowance for inventory reserve of approximately \$3.1 million. The additional reserve is associated with the Energy end market and closure of the TMS facility in Houston. For more details, refer to “Note 5 – Disposition of Non-Core Assets.”

Note 10 - Financing Arrangements

For a detailed discussion of the Company's long-term debt and credit arrangements, refer to “Note 14 - Financing Arrangements” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019.

Convertible Notes

The components of the Convertible Notes as of June 30, 2020 and December 31, 2019 were as follows:

	June 30, 2020	December 31, 2019
Principal	\$ 86.3	\$ 86.3
Less: Debt issuance costs, net of amortization	(0.5)	(0.7)
Less: Debt discount, net of amortization	(4.8)	(7.0)
Convertible notes, net	\$ 81.0	\$ 78.6

The initial value of the principal amount recorded as a liability at the date of issuance was \$66.9 million, using an effective interest rate of 12.0%. The remaining \$19.4 million of principal amount was allocated to the conversion feature and recorded as a component of shareholders’ equity at the date of issuance. This amount represents a discount to the debt to be amortized through interest expense using the effective interest method through the maturity of the Convertible Notes. Transaction costs were allocated to the liability and equity components based on their relative values. Transaction costs attributable to the liability component of \$2.4 million are amortized to interest expense over the term of the Convertible Notes, and transaction costs attributable to the equity component of \$0.7 million are included in shareholders’ equity. The Convertible Notes mature on June 1, 2021, and accordingly are classified as a current liability in the Consolidated Balance Sheet as of June 30, 2020.

The following table sets forth total interest expense recognized related to the Convertible Notes:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Contractual interest expense	\$ 1.3	\$ 1.3	\$ 2.6	\$ 2.6
Amortization of debt issuance costs	0.1	0.1	0.2	0.2
Amortization of debt discount	1.1	1.0	2.2	2.0
Total	\$ 2.5	\$ 2.4	\$ 5.0	\$ 4.8

Amended Credit Agreement

On October 15, 2019, the Company, as borrower, and certain domestic subsidiaries of the Company, as subsidiary guarantors, entered into a Third Amended and Restated Credit Agreement (the Amended Credit Agreement), with JP Morgan Chase Bank, N.A., as administrative agent (the Administrative Agent), Bank of America, N.A., as syndication agent, and the other lenders party thereto (collectively, the Lenders), which further amended and restated the Company's Second Amended and Restated Credit Agreement dated as of January 26, 2018. The interest rate under the Amended Credit Agreement was 1.7% as of June 30, 2020. The amount available for borrowings under the credit agreement as of June 30, 2020 was \$176.4 million. As of June 30, 2020, the Company was in compliance with all covenants.

Fair Value Measurement

The fair value of the Convertible Notes was approximately \$72.6 million as of June 30, 2020. The fair value of the Convertible Notes, which falls within Level 1 of the fair value hierarchy as defined by Accounting Standards Codification (ASC) 820, Fair Value Measurements, is based on the last price traded in June 2020.

TimkenSteel's Credit Agreement is variable-rate debt. As such, the carrying value is a reasonable estimate of fair value as interest rates on these borrowings approximate current market rates. This valuation falls within Level 2 of the fair value hierarchy and is based on quoted prices for similar assets and liabilities in active markets that are observable either directly or indirectly.

Interest Paid

The total cash interest paid for the six months ended June 30, 2020 and 2019 was \$4.1 million and \$6.1 million, respectively.

Note 11 - Retirement and Postretirement Plans

The components of net periodic benefit cost (income) for the three and six months ended June 30, 2020 and 2019 were as follows:

	Three Months Ended June 30, 2020		Three Months Ended June 30, 2019	
	Pension	Postretirement	Pension	Postretirement
Service cost	\$ 4.8	\$ 0.3	\$ 4.4	\$ 0.3
Interest cost	10.7	1.0	12.3	1.5
Expected return on plan assets	(16.0)	(0.9)	(16.4)	(1.0)
Amortization of prior service cost	0.1	(1.5)	0.1	(1.0)
Net remeasurement losses (gains)	(1.9)	—	—	4.4
Net Periodic Benefit Cost (Income)	\$ (2.3)	\$ (1.1)	\$ 0.4	\$ 4.2

	Six Months Ended June 30, 2020		Six Months Ended June 30, 2019	
	Pension	Postretirement	Pension	Postretirement
Service cost	\$ 9.7	\$ 0.6	\$ 8.7	\$ 0.6
Interest cost	21.7	2.1	24.5	3.5
Expected return on plan assets	(32.2)	(1.8)	(32.6)	(1.9)
Amortization of prior service cost	0.2	(3.0)	0.2	(1.0)
Net remeasurement losses (gains)	7.6	—	—	4.4
Net Periodic Benefit Cost (Income)	\$ 7.0	\$ (2.1)	\$ 0.8	\$ 5.6

The Salaried Plan has a provision that permits employees to elect to receive their pension benefits in a lump sum. In the first quarter of 2020, the cumulative cost of all lump sum payments was projected to exceed the sum of the service cost and interest cost components of net periodic pension cost for the Salaried Plan. As a result, the Company completed a full remeasurement of its pension obligations and plan assets associated with the Salaried Plan as of June 30, 2020 and March 31, 2020, which resulted in a non-cash (gain) loss from remeasurement of (\$1.9) million and \$7.6 million for the three and six months ended June 30, 2020, respectively.

Note 12 – Stock-Based Compensation

During the six months ended June 30, 2020 the Board of Directors granted 931,244 time-vested restricted stock units, 143,280 performance-vested restricted stock units, and 511,020 stock options.

Time-vested restricted stock units are issued with the fair value equal to the closing market price of TimkenSteel common shares on the date of grant. These restricted stock units do not have any performance conditions for vesting. Expense is recognized over the service period, adjusted for any forfeitures that should occur during the vesting period. The weighted average fair value of the restricted stock units granted during the six months ended June 30, 2020 was \$4.24 per share. The Board of Directors were granted their annual time-vested restricted stock units during the second quarter totalling 332,325 shares.

Performance-vested restricted stock units issued in 2020 vest based on achievement of a total shareholder return (TSR) metric. The TSR metric is considered a market condition, which requires TimkenSteel to reflect it in the fair value on grant date using an advanced option-pricing model. The fair value of each performance share was therefore determined using a Monte Carlo valuation model, a generally accepted lattice pricing model under ASC 718 – Stock-based Compensation. The Monte Carlo valuation model, among other factors, uses commonly-accepted economic theory underlying all valuation models, estimates fair value using simulations of future share prices based on stock price behavior and considers the correlation of peer company returns in determining fair value. The weighted average fair value of the performance-vested restricted stock units granted during the six months ended June 30, 2020 was \$5.23 per share. There were no performance-vested restricted stock units granted in the second quarter of 2020.

Stock options are issued with an exercise price equal to the closing market price of TimkenSteel common shares on the date of grant. The fair value of stock options is determined using a Black-Scholes option pricing model, which incorporates assumptions regarding the expected volatility, the expected option life, the risk-free interest rate and the expected dividend yield. The weighted average exercise price and weighted average fair value of the stock option grants during the six months ended June 30, 2020 were \$5.26 per share and \$2.23 per share, respectively. There were no stock option grants in the second quarter of 2020.

TimkenSteel recognized stock-based compensation expense of \$1.6 million and \$3.6 million for the three and six months ended June 30, 2020, compared to \$1.5 million and \$3.1 for the same periods in 2019, respectively. Future stock-based compensation expense regarding the unvested portion of all awards is approximately \$6.7 million. The future expense is expected to be recognized over the remaining vesting periods through 2024.

Note 13 - Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) for the six months ended June 30, 2020 and 2019 by component were as follows:

	Foreign Currency Translation Adjustments	Pension and Postretirement Liability Adjustments	Total
Balance as of December 31, 2019	\$ (6.8)	\$ 51.5	\$ 44.7
Other comprehensive income before reclassifications, before income tax	(1.7)	—	(1.7)
Amounts reclassified from accumulated other comprehensive income (loss), before income tax	—	(2.8)	(2.8)
Amounts deferred to accumulated other comprehensive income (loss), before income tax	—	—	—
Tax effect	—	0.3	0.3
Net current period other comprehensive income, net of income taxes	(1.7)	(2.5)	(4.2)
Balance as of June 30, 2020	\$ (8.5)	\$ 49.0	\$ 40.5

	Foreign Currency Translation Adjustments	Pension and Postretirement Liability Adjustments	Total
Balance at December 31, 2018	\$ (7.3)	\$ (1.6)	\$ (8.9)
Other comprehensive income before reclassifications, before income tax	(0.2)	—	(0.2)
Amounts reclassified from accumulated other comprehensive loss, before income tax	—	(0.7)	(0.7)
Amounts deferred to accumulated other comprehensive income (loss), before income tax	—	67.1	67.1
Tax effect	—	—	—
Net current period other comprehensive income, net of income taxes	(0.2)	66.4	66.2
Balance as of June 30, 2019	\$ (7.5)	\$ 64.8	\$ 57.3

The amount reclassified from accumulated other comprehensive income (loss) in the six months ended June 30, 2020 for the pension and postretirement liability adjustment was included in other income, net in the unaudited Consolidated Statements of Operations.

Note 14 – Contingencies

TimkenSteel has a number of loss exposures incurred in the ordinary course of business, such as environmental claims, product warranty claims, and litigation. Establishing loss reserves for these matters requires management's estimate and judgment regarding risk exposure and ultimate liability or realization. These loss reserves are reviewed periodically and adjustments are made to reflect the most recent facts and circumstances. Accruals related to environmental claims represent management's best estimate of the fees and costs associated with these claims. Although it is not possible to predict with certainty the outcome of such claims, management believes that their ultimate dispositions should not have a material adverse effect on our financial position, cash flows or results of operations. As of June 30, 2020 and December 31, 2019, TimkenSteel had a \$1.3 million and a \$1.5 million contingency reserve, respectively, related to loss exposures incurred in the ordinary course of business.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(dollars in millions, except per share data)

Business Overview

We manufacture alloy steel, as well as carbon and micro-alloy steel, with an annual melt capacity of approximately 2 million tons and shipment capacity of 1.5 million tons. Our portfolio includes special bar quality (SBQ) bars, seamless mechanical tubing (tubes), value-added solutions such as precision steel components, and billets. In addition, we supply machining and thermal treatment services and manage raw material recycling programs, which are used as a feeder system for our melt operations. Our products and services are used in a diverse range of demanding applications in the following market sectors: automotive; oil and gas; industrial equipment; mining; construction; rail; defense; heavy truck; agriculture; power generation; and oil country tubular goods (OCTG).

SBQ steel is made to restrictive chemical compositions and high internal purity levels and is used in critical mechanical applications. We make these products from nearly 100% recycled steel, using our expertise in raw materials to create custom steel products. We focus on creating tailored products and services for our customers' most demanding applications. Our engineers are experts in both materials and applications, so we can work closely with each customer to deliver flexible solutions related to our products as well as to their applications and supply chains.

The SBQ bar, tube, and billet production processes take place at our Canton, Ohio manufacturing location. This location accounts for all of the SBQ bars, seamless mechanical tubes and billets we produce and includes three manufacturing facilities: the Faircrest, Harrison, and Gambrinus facilities. Our value-added solutions production processes take place at two downstream manufacturing facilities: Tryon Peak (Columbus, North Carolina), and St. Clair (Eaton, Ohio). Many of the production processes are integrated, and the manufacturing facilities produce products that are sold in all of our market sectors. As a result, investments in our facilities and resource allocation decisions affecting our operations are designed to benefit the overall business, not any specific aspect of the business.

In the first quarter of 2020, we closed our TimkenSteel Material Services (TMS) facility in Houston, Texas. See "Note 5 - Disposition of Non-Core Assets" in the Notes to the unaudited Consolidated Financial Statements for additional information.

We conduct our business activities and report financial results as one business segment. The presentation of financial results as one reportable segment is consistent with the way we operate our business and is consistent with the manner in which the Chief Operating Decision Maker (CODM) evaluates performance and makes resource and operating decisions for the business as described above. Furthermore, the Company notes that monitoring financial results as one reportable segment helps the CODM manage costs on a consolidated basis, consistent with the integrated nature of our operations.

Impact of COVID-19 Pandemic

We continue to closely monitor the impact of the COVID-19 pandemic on our Company, employees, customers and supply chain. The full extent to which the COVID-19 pandemic will impact our operations and financial results is uncertain and ultimately will depend on, among many other factors, the duration of the pandemic, further Federal and State government actions and the speed of economic recovery. We estimate the primary impact on our second quarter of 2020 results was lost sales of approximately \$120 million, as compared to expectations established prior to the onset of the pandemic. The negative impact on the remainder of the year and beyond remains unknown but at a minimum, we expect customer demand in the COVID-19 environment to continue to be lower in the third quarter of 2020 in comparison to the prior year third quarter, resulting in periodic production outages as the Company continues to balance production schedules with demand.

In response to the significant reduction in customer demand resulting from the COVID-19 crisis, the Company has taken additional actions to further reduce operating expenses, conserve cash and maximize liquidity, such as:

- Reduced interim CEO and senior executives' base salaries by 20 percent and other executives' base salaries by 10 percent, effective May 1;
- Reduced cash retainer for its board of directors by 20 percent beginning with the second-quarter 2020, and reduced the value of the board's annual equity grant by 20 percent;
- Suspended company's 401(k) plan matching contributions for salaried employees, effective June 1;
- Implemented unpaid rolling furloughs for approximately 90 percent of salaried employees, with an average 5 weeks of unpaid furloughs per employee, beginning in early April and continuing through July; and
- Deferred Social Security payroll tax remittance as permitted by the CARES Act.

In total, the Company's COVID-19 related actions preserved approximately \$7 million in cash and reduced administrative expenses by approximately \$5 million during the second quarter of 2020. Additionally, the Company took the following operational actions:

- Aggressively reduced production schedules at all plants to align operations with customer demand, resulting in the temporary layoff of manufacturing employees;

- Reduced planned 2020 capital expenditures to \$15 million to \$20 million, a \$10 million to \$15 million reduction from the original guidance.

Despite the negative impact on our business, these actions resulted in the Company having total liquidity of \$251.9 million as of June 30, 2020. We believe this level of liquidity is sufficient to meet the Company's needs for at least the next 12 months. The Company will continue to take actions such as those taken during the second quarter in order to preserve liquidity for the duration of this pandemic.

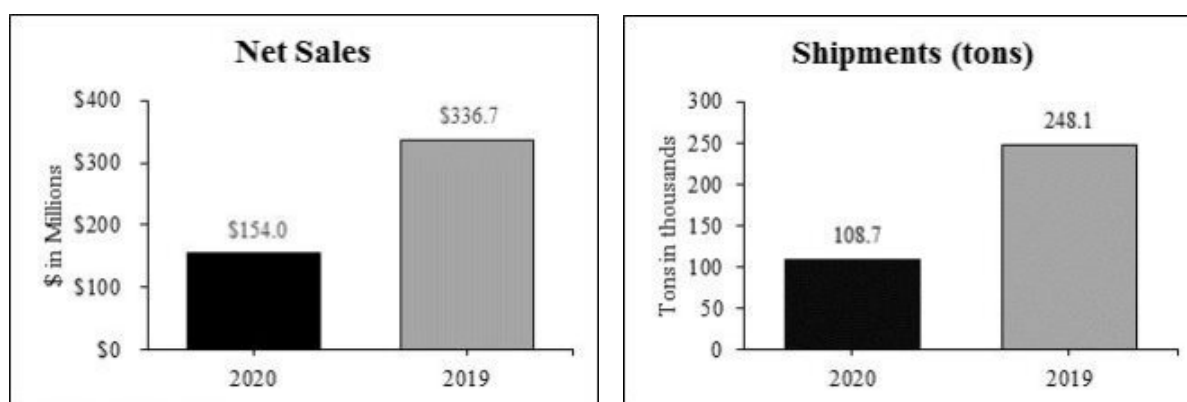
Impact of Raw Material Prices

In the ordinary course of business, we are exposed to the volatility of the costs of our raw materials. Whenever possible, we manage our exposure to commodity risks primarily through the use of supplier pricing agreements that enable us to establish the purchase prices for certain inputs that are used in our manufacturing process. We utilize a raw material surcharge mechanism when pricing products to our customers, which is designed to mitigate the impact of increases or decreases in raw material costs, although generally with a lag effect. This timing effect can result in raw material spread whereby costs can be over- or under-recovered in certain periods. While the surcharge generally protects gross profit, it has the effect of diluting gross margin as a percent of sales.

Results of Operations

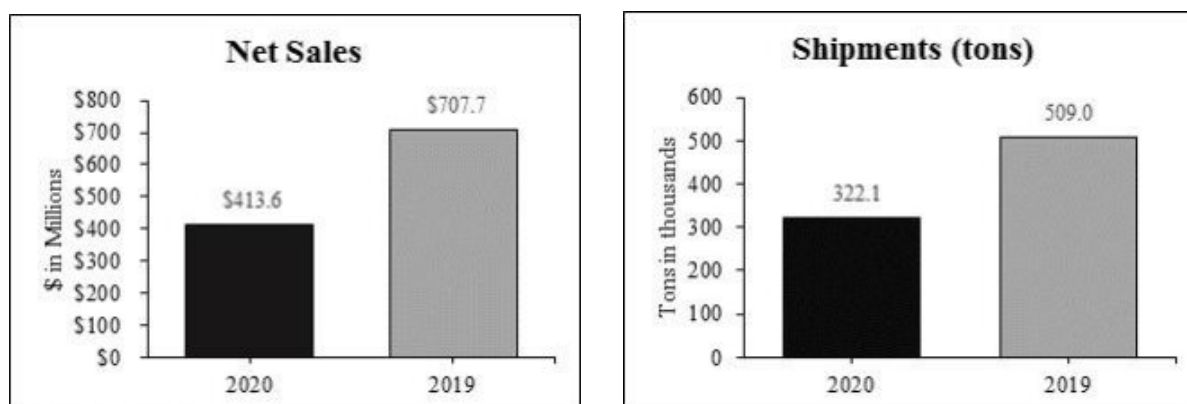
Net Sales

The charts below present net sales and shipments for the three months ended June 30, 2020 and 2019.



Net sales for the three months ended June 30, 2020 were \$154.0 million, a decrease of \$182.7 million, or 54.3%, compared with the three months ended June 30, 2019. The decrease was due to a reduction in volume of approximately 139 thousand ship tons, resulting in a decrease of \$148.4 million of net sales and lower surcharges of \$53.6 million. These decreases in net sales were slightly offset by a positive mix across all end markets resulting in an increase in net sales of \$21.1 million. The primary driver in the decrease in volume was lower customer demand across all end markets primarily as a result of the COVID-19 pandemic and weak energy market. The decrease in surcharges was primarily due to a 28.9% decline in the average surcharge per ton due to lower market prices for scrap and alloys. We estimate the impact of the COVID-19 pandemic on our net sales was a reduction of approximately \$120 million, as compared to our forecast prior to the onset of the pandemic. The majority of this decrease was related to our mobile end-market sector, as production was halted by all major automotive manufacturers for various lengths of time during the second quarter of 2020. Excluding surcharges, net sales decreased \$129.1 million, or 49.9%.

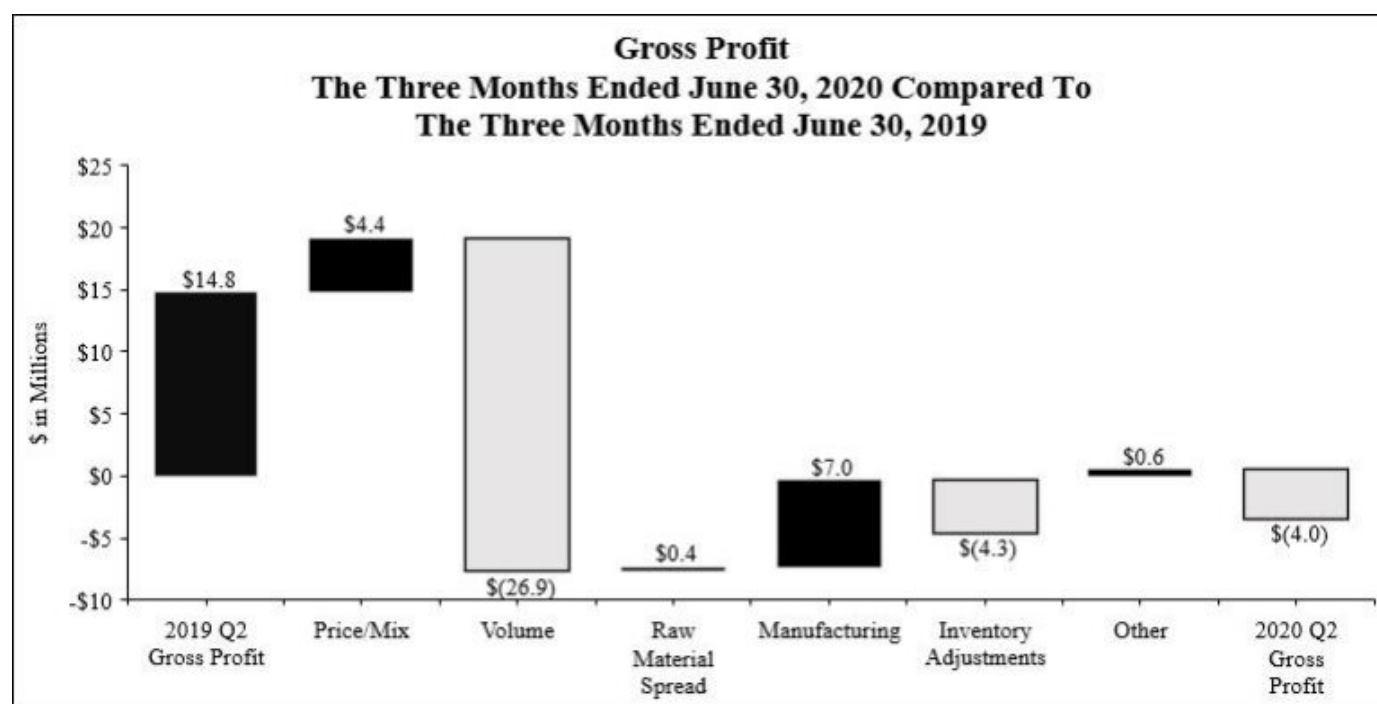
The charts below present net sales and shipments for the six months ended June 30, 2020 and 2019.



Net sales for the six months ended June 30, 2020 were \$413.6 million, a decrease of \$294.1 million, or 41.6%, compared with the six months ended June 30, 2019. The decrease was due to a reduction in volume of approximately 187 thousand ship tons, resulting in a decrease of \$202.5 million of net sales and lower surcharges of \$97.4 million. These decreases in net sales were slightly offset by a positive mix across all end markets resulting in an increase in net sales of \$11.8 million. The primary driver in the decrease in volume was lower customer demand across all end markets. The decrease in surcharges was primarily due to a 33.8% decline in the average surcharge per ton due to lower market prices for scrap and alloys. We estimate the impact of the COVID-19 pandemic on our net sales during the first half of 2020 was a reduction of approximately \$130 million. The majority of this decrease was related to our mobile end-market sector, as production was halted by all major automotive manufacturers for various lengths of time from March through June 2020. Excluding surcharges, net sales decreased \$196.7 million, or 36.4%.

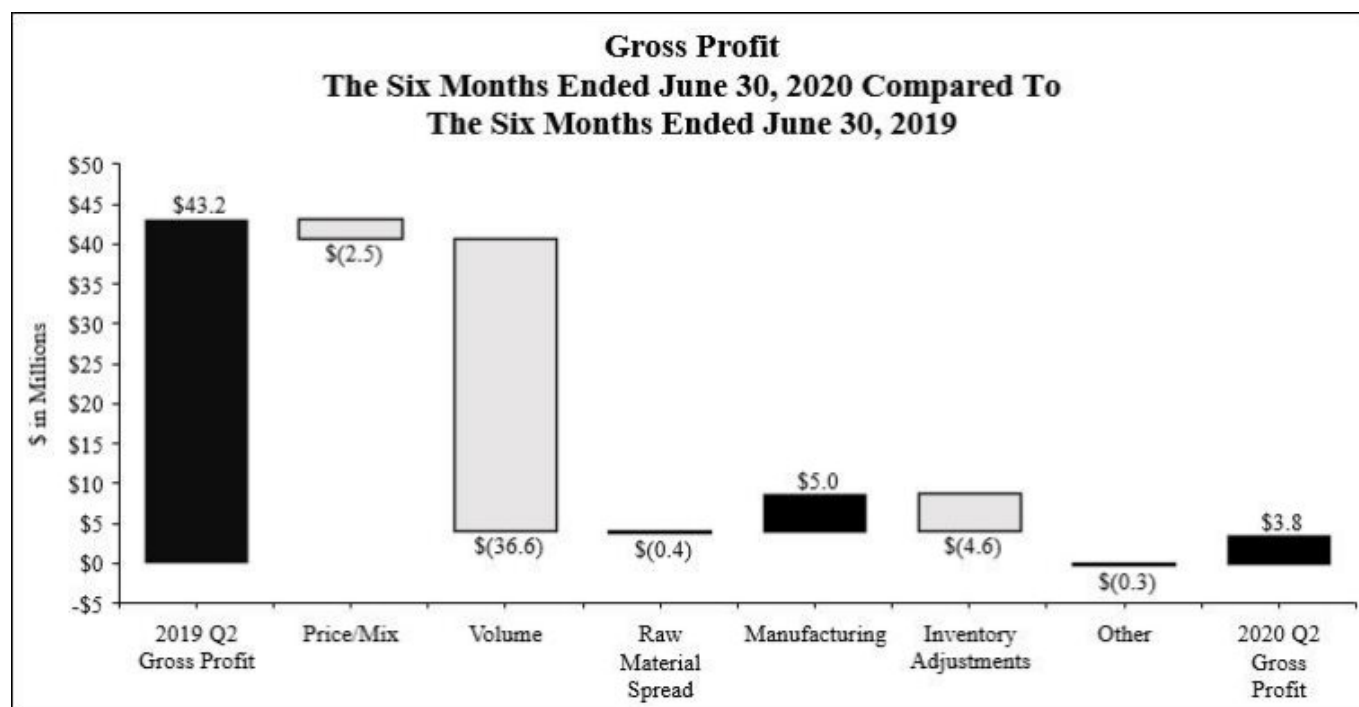
Gross Profit

The chart below presents the drivers of the gross profit variance from the three months ended June 30, 2019 to June 30, 2020.



Gross profit for the three months ended June 30, 2020 decreased \$18.8 million, or 127.0% compared with the three months ended June 30, 2019. The decrease was driven primarily by lower volumes and unfavorable inventory adjustments, partially offset by favorable manufacturing costs and improvements in price/mix. The primary driver in the decrease in volume was lower customer demand across all end markets primarily as a result of the COVID-19 pandemic and a weak energy market. Unfavorable inventory reserve adjustments relate primarily to a lower of cost or net realizable adjustment for inventory at our exited TMS facility. Favorable manufacturing costs in 2020 were primarily due to the Company's significant cost reduction actions, slightly offset by the unfavorable impact of lower production levels in fixed cost leverage. Improvements in price/mix were driven by favorable mix with a lower proportion of mobile and OCTG billet shipments in 2020 in comparison to the prior year, slightly offset by unfavorable pricing across all end markets.

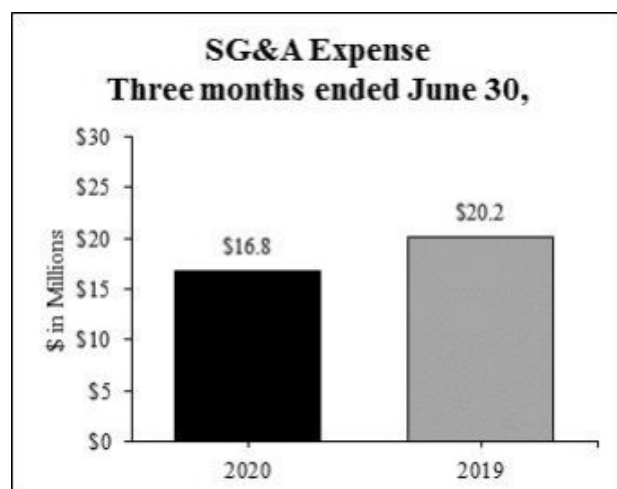
The chart below presents the drivers of the gross profit variance from the six months ended June 30, 2019 to June 30, 2020.



Gross profit for the six months ended June 30, 2020 decreased \$39.4 million, or 91.2%, compared with the six months ended June 30, 2019. The decrease was driven primarily by lower volumes, additional inventory adjustments, and unfavorable price/mix, offset by favorable manufacturing costs. The primary driver in the decrease in volume was lower customer demand across all end markets primarily as a result of the COVID-19 pandemic and a weak energy market. Additional inventory reserve adjustments relate primarily to a lower of cost or net realizable adjustment for inventory at our exited TMS facility. Unfavorable price/mix was driven by lower pricing and favorable mix across all end markets. Favorable manufacturing costs in 2020 were primarily due to the Company's significant cost reduction actions, slightly offset by the unfavorable impact of lower production levels on fixed cost leverage.

Selling, General and Administrative Expenses

The charts below present selling, general and administrative (SG&A) expense for the three and six months ended June 30, 2020 and 2019.



Selling, general and administrative (SG&A) expense for the three and six months ended June 30, 2020 decreased by \$3.4 million, or 16.8%, and \$3.3 million, or 7.6%, respectively, compared with the same periods in 2019. The decreases are primarily due to unpaid furloughs for salaried employees and other COVID-19 related cost reduction actions, as well as lower wages and benefits which are a result of a reduction in employees following the Company's recent restructuring actions. These decreases are slightly offset by increases in variable compensation.

Restructuring Charges

During 2019 and the first half of 2020, TimkenSteel made organizational changes to enhance profitable and sustainable growth. These company-wide actions included the restructuring of its business support functions, the reduction of management layers throughout the organization, the closure of the TMS facility in Houston, Texas and other actions to further improve the Company's overall cost structure. Through these restructuring efforts, to date the Company has eliminated approximately 180 salaried positions and recognized restructuring charges of \$9.5 million, consisting of severance and employee-related benefits. Approximately 20 of these positions were eliminated in the first half of 2020. The Company expects to realize annual savings of approximately \$21 million as a result of these actions. Refer to "Note 4 - Restructuring Charges" in the Notes to the unaudited Consolidated Financial Statements for additional information.

Interest Expense

Interest expense for the three months ended June 30, 2020 was \$3.0 million, a decrease of \$1.2 million, compared with the three months ended June 30, 2019. Interest expense for the six months ended June 30, 2020 was \$6.2 million, a decrease of \$2.2 million, compared with the six months ended June 30, 2019. The decrease in interest expense in both periods was primarily due to a reduction in outstanding borrowings as well as a lower interest rate environment. Refer to "Note 10 - Financing Arrangements" in the Notes to the unaudited Consolidated Financial Statements for additional information.

Other Expense (Income), net

	Three Months Ended June 30,			
	2020	2019	\$ Change	
Pension and postretirement non-service benefit loss (income)	\$ (6.5)	\$ (4.5)	\$	(2.0)
(Gain) loss from remeasurement benefit plan	(1.9)	4.4		(6.3)
Foreign currency exchange loss (gain)	0.3	(0.2)		0.5
Miscellaneous expense (income)	—	0.1		(0.1)
Total other expense (income), net	\$ (8.1)	\$ (0.2)	\$	(7.9)

	Six Months Ended June 30,		
	2020	2019	\$ Change
Pension and postretirement non-service benefit income	\$ (13.0)	\$ (7.3)	\$ (5.7)
Loss from remeasurement of benefit plans	7.6	4.4	3.2
Foreign currency exchange loss (gain)	0.4	(0.1)	0.5
Miscellaneous income (expense)	(0.4)	0.1	(0.5)
Total other expense (income), net	\$ (5.4)	\$ (2.9)	\$ (2.5)

Non-service benefit income is derived from the Company's pension and other postretirement plans. The Company's expected return on assets has exceeded the interest cost component, resulting in income for the three and six months ended June 30, 2020 and 2019.

The TimkenSteel Corporation Retirement Plan (Salaried Plan) has a provision that permits employees to elect to receive their pension benefits in a lump sum. In the first quarter of 2020, the cumulative cost of all lump sum payments was projected to exceed the sum of the service cost and interest cost components of net periodic pension cost for the Salaried Plan. As a result, the Company completed a full remeasurement of its pension obligations and plan assets associated with the Salaried Plan as of June 30, 2020 and March 31, 2020, which resulted in a non-cash loss (gain) from remeasurement of (\$1.9) million and \$7.6 million for the three and six months ended June 30, 2020, respectively. For more details on the remeasurement, refer to "Note 11 - Retirement and Postretirement Plans."

Provision for Income Taxes

	Three Months Ended June 30,		
	2020	2019	\$ Change
Provision (benefit) for income taxes	\$ 0.2	\$ (2.9)	\$ 3.1
Effective tax rate	(2.2)%	19.6%	NM

	Six Months Ended June 30,		
	2020	2019	\$ Change
Provision (benefit) for income taxes	\$ 0.3	\$ (2.8)	\$ 3.1
Effective tax rate	(0.1)%	25.0%	NM

The majority of the Company's income tax expense is derived from foreign operations. The Company remains in a full valuation for the U.S. jurisdiction for the three and six months ended June 30, 2020 and 2019.

NON-GAAP FINANCIAL MEASURES

Net Sales, Excluding Surcharges

The table below presents net sales by end market sector, adjusted to exclude surcharges, which represents a financial measure that has not been determined in accordance with accounting principles generally accepted in the United States (U.S. GAAP). We believe presenting net sales by end market sector adjusted to exclude raw material surcharges provides additional insight into key drivers of net sales such as base price and product mix.

(dollars in millions, tons in thousands)

	Three Months Ended June 30, 2020				
	Mobile	Industrial	Energy	Other	Total
Tons	32.7	63.2	9.1	3.7	108.7
Net Sales	\$ 36.1	\$ 98.0	\$ 14.6	\$ 5.3	\$ 154.0
Less: Surcharges	6.7	14.6	2.2	0.8	24.3
Base Sales	\$ 29.4	\$ 83.4	\$ 12.4	\$ 4.5	\$ 129.7
Net Sales / Ton	\$ 1,104	\$ 1,551	\$ 1,604	\$ 1,432	\$ 1,417
Surcharges / Ton	\$ 205	\$ 231	\$ 241	\$ 216	\$ 224
Base Sales / Ton	\$ 899	\$ 1,320	\$ 1,363	\$ 1,216	\$ 1,193

	Three Months Ended June 30, 2019				
	Mobile	Industrial	Energy	Other	Total
Tons	110.3	86.4	31.0	20.4	248.1
Net Sales	\$ 135.3	\$ 124.3	\$ 54.1	\$ 23.0	\$ 336.7
Less: Surcharges	32.1	27.4	12.0	6.4	77.9
Base Sales	\$ 103.2	\$ 96.9	\$ 42.1	\$ 16.6	\$ 258.8
Net Sales / Ton	\$ 1,227	\$ 1,439	\$ 1,745	\$ 1,127	\$ 1,357
Surcharges / Ton	\$ 291	\$ 317	\$ 387	\$ 313	\$ 314
Base Sales / Ton	\$ 936	\$ 1,122	\$ 1,358	\$ 814	\$ 1,043

	Six Months Ended June 30, 2020				
	Mobile	Industrial	Energy	Other	Total
Tons	121.5	144.4	27.5	28.7	322.1
Net Sales	\$ 133.8	\$ 211.3	\$ 39.8	\$ 28.7	\$ 413.6
Less: Surcharges	23.3	33.4	6.4	7.1	70.2
Base Sales	\$ 110.5	\$ 177.9	\$ 33.4	\$ 21.6	\$ 343.4
Net Sales / Ton	\$ 1,101	\$ 1,463	\$ 1,447	\$ 1,000	\$ 1,284
Surcharges / Ton	\$ 192	\$ 231	\$ 232	\$ 247	\$ 218
Base Sales / Ton	\$ 909	\$ 1,232	\$ 1,215	\$ 753	\$ 1,066

	Six Months Ended June 30, 2019				
	Mobile	Industrial	Energy	Other	Total
Tons	223.1	188.9	62.4	34.6	509.0
Net Sales	\$ 279.5	\$ 271.3	\$ 114.9	\$ 42.0	\$ 707.7
Less: Surcharges	69.6	62.5	24.5	11.0	167.6
Base Sales	\$ 209.9	\$ 208.8	\$ 90.4	\$ 31.0	\$ 540.1
Net Sales / Ton	\$ 1,253	\$ 1,436	\$ 1,841	\$ 1,214	\$ 1,390
Surcharges / Ton	\$ 312	\$ 331	\$ 392	\$ 318	\$ 329
Base Sales / Ton	\$ 941	\$ 1,105	\$ 1,449	\$ 896	\$ 1,061

LIQUIDITY AND CAPITAL RESOURCES

Convertible Notes

In May 2016, the Company issued \$75.0 million aggregate principal amount of Convertible Notes, plus an additional \$11.3 million principal amount to cover over-allotments. The Convertible Notes bear cash interest at a rate of 6.0% per year, payable semiannually on June 1 and December 1, beginning on December 1, 2016. The net proceeds received from the offering were \$83.2 million, after deducting the initial underwriters' discount and fees and paying the offering expenses. The Convertible Notes will mature on June 1, 2021, unless earlier repurchased or converted, and accordingly are classified as a current liability in the Consolidated Balance Sheet as of June 30, 2020. We expect to have adequate liquidity to retire the Convertible Notes using a combination of cash and borrowing capacity on the Amended Credit Agreement, and/or the ability to refinance prior to or at maturity.

Amended Credit Agreement

On October 15, 2019, the Company, entered into a Third Amended and Restated Credit Agreement (the Amended Credit Agreement), with JP Morgan Chase Bank, N.A., as administrative agent, Bank of America, N.A., as syndication agent, and the other lenders party thereto, which further amends and restates the Company's Second Amended and Restated Credit Agreement dated as of January 26, 2018.

The Amended Credit Agreement increases capacity to \$400 million compared to \$300 million in the previous facility and extends the maturity date to October 15, 2024. Furthermore, the Amended Credit Agreement provides for an enhanced asset base with reappraised fixed assets and investment grade foreign accounts receivable collateral in the borrowing base, improves interest rate spread pricing by 50 basis points, and reduces the unused commitment fee to a fixed 25 basis points from the previous 37.5 to 50 basis point range.

Additional Liquidity Considerations

The following represents a summary of key liquidity measures under the Amended Credit Agreement as of June 30, 2020 and December 31, 2019:

	June 30, 2020	December 31, 2019
Cash and cash equivalents	\$ 75.5	\$ 27.1
Credit Agreement:		
Maximum availability	\$ 400.0	\$ 400.0
Suppressed availability ⁽¹⁾	(159.9)	(103.0)
Availability	240.1	297.0
Amount borrowed	(60.0)	(90.0)
Letter of credit obligations	(3.7)	(3.8)
Availability not borrowed	\$ 176.4	\$ 203.2
Total liquidity	\$ 251.9	\$ 230.3

(1) As of June 30, 2020 and December 31, 2019, TimkenSteel had less than \$400 million in collateral assets to borrow against.

Our principal sources of liquidity are cash and cash equivalents, cash flows from operations and available borrowing capacity under our credit agreement. As of June 30, 2020, taking into account our view of automotive, industrial, and energy market demands for our products, and our 2020 operating and long-range plan, we believe that our cash balance as of June 30, 2020, projected cash generated from operations, and borrowings available under the Amended Credit Agreement, will be sufficient to satisfy our working capital needs, capital expenditures and other liquidity requirements associated with our operations, including servicing our debt obligations, for at least the next twelve months.

The full extent to which the COVID-19 pandemic will impact our operations and financial results is uncertain and ultimately will depend on, among many other factors, the duration of the pandemic, further Federal and State government actions and the speed of economic recovery. While the negative impact on our third quarter, remainder of the year and beyond remains unknown, at a minimum, we expect customer demand in the COVID-19 environment continue to be lower in the third quarter of 2020 in comparison to the prior year third quarter. To the extent our liquidity needs prove to be greater than expected or cash generated from operations is less than anticipated, and cash on hand or credit availability is insufficient, we would seek additional financing to provide additional liquidity. We regularly evaluate our potential access to the equity and debt capital markets as sources of liquidity and we believe additional financing would likely be available if necessary, although we can make no assurance as to the form or terms of any such financing. We would also consider additional cost reductions and restructuring, changes in working capital management and further reductions of capital expenditures. Regardless, we will continue to evaluate additional financing or may seek to refinance outstanding borrowings under the Amended Credit Agreement to provide us with additional flexibility and liquidity. Any additional financing beyond that incurred to refinance existing debt would increase our overall debt and could increase interest expense.

On March 27, 2020, the President of the United States signed the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, an economic stimulus package intended to provide support, principally in the form of tax benefits and additional liquidity, to companies and individuals negatively impacted by the COVID-19 pandemic. Although the majority of the provisions included in the CARES Act did not immediately benefit the Company from a cash tax perspective due to its significant net operating losses, the Company has taken advantage of the deferral of the employer share (6.2% of employee wages) of Social Security payroll taxes that would otherwise have been owed from the date of enactment of the legislation through December 31, 2020, as afforded by the Act. Through June 30, 2020, the Company deferred approximately \$2 million of payroll taxes as permitted by the CARES Act. Payroll tax deferrals in the second half of 2020 are expected to total \$4 million to \$5 million, all of which will be paid in two equal installments at December 31, 2021 and December 31, 2022. The Company is currently evaluating its eligibility and potential benefit related to the Employee Retention Credit.

For additional details regarding the Amended Credit Agreement and the Convertible Notes, please refer to "Note 14 - Financing Arrangements" in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

Cash Flows

The following table reflects the major categories of cash flows for the six months ended June 30, 2020 and 2019. For additional details, please refer to the unaudited Consolidated Statements of Cash Flows included in this quarterly report.

	Six Months Ended June 30,	
	2020	2019
Net cash provided (used) by operating activities	\$ 79.9	\$ (17.6)
Net cash provided (used) by investing activities	(1.2)	(12.3)
Net cash provided (used) by financing activities	(30.3)	29.2
Increase (Decrease) in Cash and Cash Equivalents	\$ 48.4	\$ (0.7)

Operating activities

Net cash provided by operating activities for the six months ended June 30, 2020 was \$79.9 million compared to net cash used of \$17.6 million for the six months ended June 30, 2019. The increase in cash provided by operating activities of \$97.5 million was primarily due to management actions to improve working capital as well as the impact of lower customer demand and production levels in the first half of 2020 as compared to the same period in the prior year. Refer to the unaudited Consolidated Statements of Cash Flows for additional information.

Investing activities

Net cash used by investing activities for the six months ended June 30, 2020 was \$1.2 million, as compared to net cash used of \$12.3 million for the six months ended June 30, 2019. Cash used by investing activities in the first half of 2020 primarily relates to the maintenance of machinery and equipment at our plants, partially offset by proceeds from sales of property, plant and equipment.

The Company expects its capital expenditures to be between \$15 million and \$20 million in 2020, a reduction from the previous outlook of a maximum of \$25 million (made up of approximately \$6 million relating to growth initiatives and the remainder related to continuous improvement). The Company has no material capital expenditure plans or commitments beyond 2020 at this time.

Financing activities

Net cash used by financing activities for the six months ended June 30, 2020 was \$30.3 million compared to net cash provided by financing activities of \$29.2 million for the six months ended June 30, 2019, primarily due to changes in borrowings on credit agreements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our financial statements are prepared in accordance with U.S. GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. We review our critical accounting policies throughout the year.

New Accounting Guidance

See “Note 2 - Recent Accounting Pronouncements” in the Notes to the unaudited Consolidated Financial Statements.

FORWARD-LOOKING STATEMENTS

Certain statements set forth in this Quarterly Report on Form 10-Q (including our forecasts, beliefs and expectations) that are not historical in nature are “forward-looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995. In particular, Management’s Discussion and Analysis of Financial Condition and Results of Operations contains numerous forward-looking statements. Forward-looking statements generally will be accompanied by words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “forecast,” “outlook,” “intend,” “may,” “plan,” “possible,” “potential,” “predict,” “project,” “seek,” “should,” “target,” “will,” “would,” or other similar words, phrases or expressions that convey the uncertainty of future events or outcomes. You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this Form 10-Q. We caution readers that actual results may differ materially from those expressed or implied in forward-looking statements made by or on behalf of us due to a variety of factors, such as:

- deterioration in world economic conditions, or in economic conditions in any of the geographic regions in which we conduct business, including additional adverse effects from global economic slowdown, terrorism or hostilities. This includes: political risks associated with the potential instability of governments and legal systems in countries in which we or our customers conduct business, and changes in currency valuations;
- the effects of fluctuations in customer demand on sales, product mix and prices in the industries in which we operate. This includes: our ability to respond to rapid changes in customer demand; the effects of customer bankruptcies or liquidations; the impact of changes in industrial business cycles; and whether conditions of fair trade exist in the U.S. markets;

- the potential impact of the COVID-19 pandemic on our operations, financial results, and liquidity;
- competitive factors, including changes in market penetration; increasing price competition by existing or new foreign and domestic competitors; the introduction of new products by existing and new competitors; and new technology that may impact the way our products are sold or distributed;
- changes in operating costs, including the effect of changes in our manufacturing processes; changes in costs associated with varying levels of operations and manufacturing capacity; availability of raw materials and energy; our ability to mitigate the impact of fluctuations in raw materials and energy costs and the effectiveness of our surcharge mechanism; changes in the expected costs associated with product warranty claims; changes resulting from inventory management, cost reduction initiatives and different levels of customer demands; the effects of unplanned work stoppages; and changes in the cost of labor and benefits;
- the success of our operating plans, announced programs, initiatives and capital investments; and our ability to maintain appropriate relations with unions that represent our associates in certain locations in order to avoid disruptions of business;
- unanticipated litigation, claims or assessments, including claims or problems related to intellectual property, product liability or warranty, and environmental issues and taxes, among other matters;
- the availability of financing and interest rates, which affect our cost of funds and/or ability to raise capital, including our ability to refinance and/or repay prior to or at maturity the Convertible Notes; our pension obligations and investment performance; and/or customer demand and the ability of customers to obtain financing to purchase our products or equipment that contain our products; and the amount of any dividend declared by our Board of Directors on our common shares;
- the overall impact of the pension and postretirement mark-to-market accounting; and
- those items identified under the caption Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2019.

You are cautioned that it is not possible to predict or identify all of the risks, uncertainties and other factors that may affect future results, and that the above list should not be considered to be a complete list. Except as required by the federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our borrowings include both fixed and variable-rate debt. The variable debt consists principally of borrowings under our Credit Agreement. We are exposed to the risk of rising interest rates to the extent we fund our operations with these variable-rate borrowings. As of June 30, 2020, we have \$141.0 million of aggregate debt outstanding, of which \$60.0 million consists of debt with variable interest rates. Based on the amount of debt with variable-rate interest outstanding, a 1% rise in interest rates would result in an increase in interest expense of \$0.6 million annually.

Foreign Currency Exchange Rate Risk

Fluctuations in the value of the U.S. dollar compared to foreign currencies may impact our earnings. Geographically, our sales are primarily made to customers in the United States. Currency fluctuations could impact us to the extent they impact the currency or the price of raw materials in foreign countries in which our competitors operate or have significant sales.

Commodity Price Risk

In the ordinary course of business, we are exposed to market risk with respect to commodity price fluctuations, primarily related to our purchases of raw materials and energy, principally scrap steel, other ferrous and non-ferrous metals, alloys, natural gas and electricity. Whenever possible, we manage our exposure to commodity risks primarily through the use of supplier pricing agreements that enable us to establish the purchase prices for certain inputs that are used in our manufacturing business. We utilize a raw material surcharge as a component of pricing steel to pass through the cost increases of scrap, alloys and other raw materials, as well as natural gas. From time to time, we may use financial instruments to hedge a portion of our exposure to price risk related to natural gas and electricity purchases. In periods of stable demand for our products, the surcharge mechanism has worked effectively to reduce the normal time lag in passing through higher raw material costs so that we can maintain our gross margins. When demand and cost of raw materials are lower, however, the surcharge impacts sales prices to a lesser extent.

ITEM 4. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

As of the end of the period covered by this quarterly report, we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)). Based upon that evaluation, the principal executive officer and

principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

(b) Changes in Internal Control Over Financial Reporting

During the Company's most recent fiscal quarter, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are involved in various claims and legal actions arising in the ordinary course of business. In the opinion of our management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Canton, Ohio U.S. Environmental Protection Agency Notice of Violation

The U.S. Environmental Protection Agency (EPA) issued two related Notices of Violation (NOV) to TimkenSteel on August 5, 2014 and November 2, 2015, respectively. The EPA alleges violations under the Clean Air Act based on purported violations of permitted emission limits and engineering requirements at TimkenSteel's Faircrest and Harrison manufacturing facilities. TimkenSteel disputes many of EPA's allegations but has worked cooperatively with EPA and the U.S. Department of Justice to resolve the government's claims. Negotiations to resolve the NOVs are essentially concluded. The settlement of these matters is expected to include a civil penalty of approximately \$0.4 million and a commitment by the company to make approximately \$1.0 million in clean-air related capital improvements, principally at the Harrison manufacturing facility, within one year after the settlement is finalized.

ITEM 1A. RISK FACTORS

We are subject to various risks and uncertainties in the course of our business. The discussion of such risks and uncertainties may be found under Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC.

Risks Related to COVID-19

The COVID-19 pandemic could have a material, adverse impact on our operations and financial results including cash flows and liquidity.

We continue to closely monitor the impact of the COVID-19 pandemic on our Company, customers, employees and supply chain. The full extent to which the COVID-19 pandemic will impact our operations and financial results is uncertain and ultimately will depend on, among many other factors, the duration of the pandemic, further Federal and State government actions and the speed of economic recovery. The negative impact on our third quarter of 2020, remainder of the year and beyond remains unknown.

The effects of the COVID-19 pandemic also may impact other risk factors previously disclosed in Item 1A. Risk Factors in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019. This impact could be to cause previously disclosed risks to occur or to increase the severity of the negative affect inherent in those other risk factors.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description
10.1*	Form Director Restricted Share Unit Agreement
31.1*	Certification of the Chief Executive Officer pursuant to Rule 13a-14 of the Exchange Act, as adopted, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Chief Financial Officer pursuant to Rule 13a-14 of the Exchange Act, as adopted, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	Inline XBRL Instance Document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document.
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith.

** Furnished herewith.

SIGNATURES

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

TIMKENSTEEL CORPORATION

Date: August 6, 2020

/s/Kristopher R. Westbrooks

Kristopher R. Westbrooks

Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

TIMKENSTEEL CORPORATION**Director Restricted Share Unit Agreement**

WHEREAS, _____ (“Grantee”) is a non-employee Director of TimkenSteel Corporation (the “Company”); and

WHEREAS, the grant of Restricted Share Units evidenced hereby was authorized by a resolution of the Board of Directors and is effective [_____] (the “Date of Grant”), and the execution of a Director Restricted Share Units Agreement in the form hereof (this “Agreement”) was authorized by a resolution of the Board of Directors.

NOW, THEREFORE, pursuant to the TimkenSteel Corporation 2020 Equity and Incentive Compensation Plan (the “Plan”) and subject to the terms and conditions thereof, in addition to the terms and conditions of this Agreement, the Company confirms to Grantee the grant of (1) [_____] Restricted Share Units (the “RSUs”) and (2) dividend equivalents payable in cash on a deferred basis (the “Deferred Cash Dividends”) with respect to the RSUs. All terms used in this Agreement with initial capital letters that are defined in the Plan and not otherwise defined herein shall have the meanings assigned to them in the Plan.

1. General Vesting of Award.

- (a) Normal Vesting: Subject to the terms and conditions of Sections 2 and 3 hereof, Grantee’s right to receive payment for the RSUs and any Deferred Cash Dividends accumulated with respect thereto shall become nonforfeitable on the first anniversary of the Date of Grant if Grantee has been in continuous service to the Company as a non-employee Director from the Date of Grant until the date of such first anniversary.
- (b) For purposes of this Agreement, Grantee’s continuous service to the Company as a non-employee Director shall not be deemed to have been interrupted, and Grantee shall not be deemed to have ceased serving the Company as a non-employee Director, by reason of any commencement of employment with the Company or its Subsidiaries.

2. Alternative Vesting of Award.

Notwithstanding the provisions of Section 1 hereof, and subject to the payment provisions of Section 5 hereof, Grantee’s right to receive payment for the RSUs and any Deferred Cash Dividends then accumulated with respect thereto may become nonforfeitable if any of the following circumstances apply:

- (a) Death or Disability: Grantee’s right to receive payment for the RSUs and any Deferred Cash Dividends then accumulated with respect thereto shall immediately become nonforfeitable if Grantee should die or become permanently disabled while in continuous service to the Company as a non-employee Director. For

purposes of this agreement, “permanently disabled” shall mean the Grantee is “disabled” within the meaning of Section 409A(a)(2)(C) of the Code.

(b) Termination of Service:

- (i) If Grantee’s continuous service to the Company as a non-employee Director terminates for any reason other than Cause (and Section 2(c) does not apply), then a number of RSUs (and any Deferred Cash Dividends then accumulated with respect to such number of RSUs) shall immediately become nonforfeitable with respect to the Grantee, with such number being equal to the product of (i) the number of RSUs that would have become nonforfeitable in accordance with the terms and conditions of Section 1(a) if Grantee had remained in continuous service to the Company as a non-employee Director from the Date of Grant until the first anniversary of the Date of Grant, multiplied by (ii) a fraction (in no case greater than 1) the numerator of which is the number of whole months from the Date of Grant through the date of such termination of service and the denominator of which is 12.
- (ii) For purposes of this Agreement, “Cause” means, with respect to Grantee: any intentional act of fraud, embezzlement or theft in connection with the Grantee’s duties with the Company, any intentional wrongful disclosure of secret processes or confidential information of the Company, or any intentional wrongful engagement in any competitive activity that would constitute a material breach of Grantee’s duty of loyalty to the Company, and no act, or failure to act, on the part of Grantee shall be deemed “intentional” unless done or omitted to be done by Grantee not in good faith and without reasonable belief that Grantee’s action or omission was in or not opposed to the best interest of the Company.

(c) Change in Control:

- (i) Upon a Change in Control occurring during the one-year period described in Section 1(a) above while Grantee is in continuous service to the Company as a non-employee Director, to the extent the RSUs and any Deferred Cash Dividends accumulated with respect thereto have not been forfeited, the RSUs and any Deferred Cash Dividends accumulated with respect thereto shall immediately become nonforfeitable (except to the extent that a Replacement Award is provided to Grantee for such RSUs and Deferred Cash Dividends).
- (ii) For purposes of this Agreement, a “Replacement Award” means an award (A) of service-based restricted share units, (B) that has a value at least equal to the value of the RSUs and any Deferred Cash Dividends accumulated with respect thereto, (C) that relates to publicly traded equity securities of the Company or its successor in the Change in Control (or another entity that is affiliated with the Company or its successor

following the Change in Control), (D) the tax consequences of which, under the Code, if Grantee is subject to U.S. federal income tax under the Code, are not less favorable to Grantee than the tax consequences of the RSUs and any Deferred Cash Dividends accumulated with respect thereto, (E) that vests in full upon a termination of Grantee's service as a non-employee Director to the Company or its successor in the Change in Control (as applicable, the "Successor") due to Grantee's death or disability or without Cause by such Successor, and (F) the other terms and conditions of which are not less favorable to Grantee than the terms and conditions of the RSUs and any Deferred Cash Dividends then accumulated with respect thereto (including the provisions that would apply in the event of a subsequent Change in Control). A Replacement Award may be granted only to the extent it conforms to the requirements of Treasury Regulation 1.409A-3(i)(5)(iv)(B) or otherwise does not result in the RSUs and any Deferred Cash Dividends then accumulated with respect thereto, or Replacement Award, failing to comply with or be exempt from Section 409A of the Code. Without limiting the generality of the foregoing, the Replacement Award may take the form of a continuation of the RSUs and any Deferred Cash Dividends then accumulated with respect thereto if the requirements of the preceding sentence are satisfied. The determination of whether the conditions of this Section 2(c)(ii) are satisfied will be made by the Committee, as constituted immediately before the Change in Control, in its sole discretion. For purposes of this Section 2(c)(ii), "Cause" is as defined in Section 2(b), but the Company will also include the Successor.

- (iii) If a Replacement Award is provided, notwithstanding anything in this Agreement to the contrary, any outstanding RSUs and any Deferred Cash Dividends then accumulated with respect thereto which at the time of the Change in Control are not subject to a "substantial risk of forfeiture" (within the meaning of Section 409A of the Code) will be deemed to be nonforfeitable at the time of such Change in Control.

3. Forfeiture of Awards. Except as provided in Section 2 of this Agreement, Grantee's right to receive the RSUs and any Deferred Cash Dividends accumulated with respect thereto shall be forfeited automatically and without further notice on the date that Grantee's continuous service to the Company as a non-employee Director terminates prior to the first anniversary of the Date of Grant. In the event that Grantee shall intentionally commit an act that the Committee determines to be materially adverse to the interests of the Company or a Subsidiary, Grantee's right to receive the RSUs and any Deferred Cash Dividends accumulated with respect thereto shall be forfeited at the time of that determination notwithstanding any other provision of this Agreement to the contrary.
4. Crediting of Deferred Cash Dividends. With respect to each of the RSUs, Grantee shall be credited on the records of the Company with Deferred Cash Dividends in an amount equal to the amount per share of any cash dividends declared by the Board on the outstanding Common Shares during the period beginning on the Date of Grant and

ending on the date on which Grantee receives payment of the RSUs pursuant to Section 5 hereof or at the time when the RSUs are forfeited in accordance with Section 3 of this Agreement. The Deferred Cash Dividends shall accumulate without interest.

5. Payment of Awards.

- (a) General: Subject to Section 3 and Section 5(b), payment for the RSUs that are nonforfeitable will be made in Common Shares (with 1 Common Share being paid for each nonforfeitable RSU) and any Deferred Cash Dividends accumulated with respect thereto will be made within 10 days following the first anniversary of the Date of Grant.
- (b) Other Payment Events: Notwithstanding Section 5(a), to the extent that the RSUs are nonforfeitable on the dates set forth below, payment with respect to the RSUs that have become nonforfeitable will be made in Common Shares (with 1 Common Share being paid for each nonforfeitable RSU) and any Deferred Cash Dividends accumulated with respect thereto will be made as follows:
 - (i) Change in Control. Upon a Change in Control, Grantee is entitled to receive payment for the RSUs that are nonforfeitable and any Deferred Cash Dividends accumulated with respect thereto on the date of the Change in Control; provided, however, that if such Change in Control would not qualify as a permissible date of distribution under Section 409A(a)(2)(A) of the Code, and the regulations thereunder, and where Section 409A of the Code applies to such distribution, Grantee is entitled to receive the corresponding payment on the date that would have otherwise applied pursuant to Sections 5(a) or 5(b)(ii) as though such Change in Control had not occurred.
 - (ii) Death or Disability. On the date of Grantee's death or the date Grantee becomes permanently disabled (as defined in Section 2(a)), Grantee is entitled to receive payment for the RSUs that are nonforfeitable and any Deferred Cash Dividends accumulated with respect thereto on such date.

6. Compliance with Law. The Company shall make reasonable efforts to comply with all applicable federal and state securities laws; provided, however, notwithstanding any other provision of this Agreement, the Company shall not be obligated to issue any of the RSUs or pay any Deferred Cash Dividends accumulated with respect thereto if the issuance or payment thereof would result in violation of any such law. To the extent that the Ohio Securities Act shall be applicable to this Agreement, the Company shall not be obligated to issue any of the Common Shares or other securities covered by this Agreement or pay any Deferred Cash Dividends accumulated with respect thereto unless such Common Shares and Deferred Cash Dividends are (a) exempt from registration thereunder, (b) the subject of a transaction that is exempt from compliance therewith, (c) registered by description or qualification thereunder or (d) the subject of a transaction that shall have been registered by description thereunder.

7. Transferability. Neither Grantee's right to the RSUs nor Grantee's right to receive any Deferred Cash Dividends shall be transferable by Grantee except by will or the laws of descent and distribution. Any purported transfer in violation of this Section 7 shall be null and void, and the purported transferee shall obtain no rights with respect to such Common Shares.
8. Compliance with or Exemption from Section 409A of the Code. To the extent applicable, it is intended that this Agreement and the Plan comply with or be exempt from the provisions of Section 409A of the Code. This Agreement and the Plan shall be administered in a manner consistent with this intent, and any provision that would cause the Agreement or the Plan to fail to satisfy Section 409A of the Code shall have no force and effect until amended to comply with Section 409A of the Code (which amendment may be retroactive to the extent permitted by Section 409A of the Code and may be made by the Company without the consent of Grantee).
9. Adjustments. Subject to Section 11 of the Plan, the Committee shall make or provide for such adjustments in the number of and kind of Common Shares covered by the RSUs and in other award terms, as the Committee, in its sole discretion, exercised in good faith, determines is equitably required to prevent dilution or enlargement of the rights of Grantee that otherwise would result from (a) any extraordinary cash dividend, stock dividend, stock split, combination of shares, recapitalization or other change in the capital structure of the Company, (b) any merger, consolidation, spin-off, split-off, spin-out, split-up, reorganization, partial or complete liquidation or other distribution of assets, issuance of rights or warrants to purchase securities, or (c) any other corporate transaction or event having an effect similar to any of the foregoing.
10. Withholding Taxes. If the Company is required to withhold federal, state, local or foreign taxes or other amounts in connection with Grantee's right to receive Common Shares or cash under this Agreement, and the amounts available to the Company for such withholding are insufficient, it shall be a condition to the receipt of any such Common Shares or cash (or the realization of any other benefit provided for under this Agreement) that Grantee make arrangements satisfactory to the Company for payment of the balance of such taxes or other amounts. Grantee may satisfy such tax obligation by paying the Company cash via personal check. Alternatively, unless otherwise determined by the Committee, Grantee may elect that all or any part of such tax obligation be satisfied by the Company's retention of a portion of the Common Shares provided for under this Agreement or by Grantee's surrender of a portion of the Common Shares that he or she has owned. In no event, however, shall the Company accept Common Shares for payment of taxes in excess of required tax withholding rates (unless such higher withholding amounts would not result in adverse accounting implications for the Company and the additional withholding amount is authorized by the Committee). If Grantee's benefit is to be received in the form of Common Shares, and Grantee fails to make arrangements for the payment of required taxes or other amounts, then, unless otherwise determined by the Committee, the Company will withhold Common Shares having a value equal to the amount required to be withheld. The Common Shares used for required tax withholding will be valued at an amount equal to the fair market value of

such Common Shares on the date the applicable benefit is to be included in Grantee's income.

11. No Right to Future Awards. This award is a voluntary, discretionary bonus being made on a one-time basis and it does not constitute a commitment to make any future awards.
12. Relation to Other Benefits. Any economic or other benefit to Grantee under this Agreement or the Plan shall not be taken into account in determining any benefits to which Grantee may be entitled under any profit-sharing, retirement or other benefit or compensation plan maintained by the Company and shall not affect the amount of any life insurance coverage available to any beneficiary under any life insurance plan of the Company or a Subsidiary.
13. Processing of Information. Information about Grantee and Grantee's award of RSUs and Deferred Cash Dividends may be collected, recorded and held, used and disclosed for any purpose related to the administration of the award. Grantee understands that such processing of this information may need to be carried out by the Company and its Subsidiaries and by third party administrators whether such persons are located within Grantee's country or elsewhere, including the United States of America. Grantee consents to the processing of information relating to Grantee and Grantee's receipt of the Common Shares and Deferred Cash Dividends in any one or more of the ways referred to above.
14. Amendments. Any amendment to the Plan shall be deemed to be an amendment to this Agreement to the extent that the amendment is applicable hereto; provided, however, that subject to the provisions of Section 8 hereof no amendment shall adversely affect the rights of Grantee with respect to either the RSUs or other securities covered by this Agreement or the Deferred Cash Dividends without Grantee's consent.
15. Severability. If any provision of this Agreement or the application of any provision hereof to any person or circumstances is held invalid or unenforceable, the remainder of this Agreement and the application of such provision in any other person or circumstances shall not be affected, and the provisions so held to be invalid or unenforceable shall be reformed to the extent (and only to the extent) necessary to make it enforceable and valid.
16. Governing Law. This Agreement is made under, and shall be construed in accordance with, the internal substantive laws of the State of Ohio.

[SIGNATURES ON FOLLOWING PAGE]

This Agreement is executed by the Company on this [] day of [], 2020.

TIMKENSTEEL CORPORATION

By:
Frank A. DiPiero
Executive Vice President, General
Counsel and Secretary

The undersigned Grantee hereby acknowledges receipt of an executed original of this Agreement and accepts the right to receive the Common Shares or other securities covered hereby and any Deferred Cash Dividends accumulated with respect thereto, subject to the terms and conditions of the Plan and the terms and conditions herein above set forth.

Grantee

Date:

CERTIFICATION

I, Terry L. Dunlap, certify that:

I have reviewed this quarterly report on Form 10-Q of TimkenSteel Corporation;

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

Date: August 6, 2020

/s/ Terry L. Dunlap

Terry L. Dunlap
Interim Chief Executive Officer and President
(Principal Executive Officer)

CERTIFICATION

I, Kristopher R. Westbrooks, certify that:

I have reviewed this quarterly report on Form 10-Q of TimkenSteel Corporation;

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

Date: August 6, 2020

/s/ Kristopher R. Westbrooks

Kristopher R. Westbrooks
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

CERTIFICATION
Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of TimkenSteel Corporation (the “Company”) on Form 10-Q for the period ended June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to such officer’s knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Date: August 6, 2020

/s/ Terry L. Dunlap

Terry L. Dunlap
Interim Chief Executive Officer and President
(Principal Executive Officer)

Date: August 6, 2020

/s/ Kristopher R. Westbrook

Kristopher R. Westbrook
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)