

CARPENTER TECHNOLOGY CORP

Form 10-K

August 22, 2012

[Table of Contents](#)

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

---

**FORM 10-K**

---

(Mark One)

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

For the fiscal year ended June 30, 2012

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 1-5828

# CARPENTER TECHNOLOGY CORPORATION

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**23-0458500**

(I.R.S. Employer Identification No.)

**P.O. Box 14662**

**Reading, Pennsylvania**

(Address of principal executive offices)

**19610**

(Zip Code)

**610-208-2000**

(Registrant's telephone number, including area code)

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

**Common Stock, \$5 Par Value**

Title of each class

**New York Stock Exchange**

Name of each exchange on which registered

Securities registered pursuant to 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. **Yes** x **No** o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. **Yes** o **No** x

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 the filing requirements for at least the past 90 days. **Yes** x **No** o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted 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 and post such files) **Yes** x **No** o

Edgar Filing: CARPENTER TECHNOLOGY CORP - Form 10-K

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 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**

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

The aggregate market value of the registrant's voting common stock held by non-affiliates at December 31, 2011 was \$2,262,752,126, based on the closing price per share of the registrant's common stock on that date of \$51.48 as reported on the New York Stock Exchange.

As of August 10, 2012, 52,592,042 shares of the registrant's common stock were outstanding

**DOCUMENTS INCORPORATED BY REFERENCE**

Selected portions of the Company's fiscal year 2012 definitive Proxy Statement are incorporated by reference into Part III of this Report.

---

Table of Contents

## TABLE OF CONTENTS

		<b>Page Number</b>
<b><u>PART I</u></b>		
<u>Item 1</u>	<u>Business</u>	2 7
<u>Item 1A</u>	<u>Risk Factors</u>	7 14
<u>Item 1B</u>	<u>Unresolved Staff Comments</u>	14
<u>Item 2</u>	<u>Properties</u>	14
<u>Item 3</u>	<u>Legal Proceedings</u>	14 15
<u>Item 4</u>	<u>Mine Safety Disclosures</u>	15
<b><u>PART II</u></b>		
<u>Item 5</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	16 17
<u>Item 6</u>	<u>Selected Financial Data</u>	18 19
<u>Item 7</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19 47
	<u>Forward-Looking Statements</u>	47
<u>Item 7A</u>	<u>Quantitative and Qualitative Disclosures about Market Risk Future Outlook</u>	47 48
<u>Item 8</u>	<u>Financial Statements and Supplementary Data</u>	49 101
<u>Item 9</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	102
<u>Item 9A</u>	<u>Controls and Procedures</u>	102
<u>Item 9B</u>	<u>Other Information</u>	102
<b><u>PART III</u></b>		
<u>Item 10</u>	<u>Directors, Executive Officers and Corporate Governance</u>	103 104
<u>Item 11</u>	<u>Executive Compensation</u>	104
<u>Item 12</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	105
<u>Item 13</u>	<u>Certain Relationships, Related Transactions and Director Independence</u>	105
<u>Item 14</u>	<u>Principal Accounting Fees and Services</u>	105
<b><u>PART IV</u></b>		
<u>Item 15</u>	<u>Exhibits, Financial Statement Schedules</u>	106 110
<b><u>SIGNATURES</u></b>		111 112
<b><u>SCHEDULE II</u></b>	<u>Valuation and Qualifying Accounts</u>	113

Table of Contents

**PART I**

**Item 1. Business**

**(a) General Development of Business:**

Carpenter Technology Corporation, incorporated in 1904, is engaged in the manufacturing, fabrication and distribution of specialty metals. As used throughout this report, unless the context requires otherwise, the terms Carpenter, the Company, Registrant, Issuer, we and our refer to Carpenter Technology Corporation.

**(b) Financial Information About Segments:**

We are organized in three reportable business segments: Specialty Alloys Operations, Latrobe, and Performance Engineered Products. See Note 18 to our consolidated financial statements included in Item 8 Financial Statements and Supplementary Data for additional segment reporting information.

**(c) Narrative Description of Business:**

**(1) General:**

We develop, manufacture and distribute cast/wrought and powder metal stainless steels and special alloys including high temperature (iron-nickel-cobalt base), stainless, superior corrosion resistant, controlled expansion alloys, ultra high strength and implantable alloys, tool and die steels and other specialty metals, as well as cast/wrought titanium alloys.

We provide material solutions to the changing needs of the aerospace and defense, energy, transportation, medical, industrial and consumer industries. We have continued to increase our global manufacturing capacity as well as expand our operations to provide customers with solutions to today's changing materials challenges. We acquired Latrobe Specialty Metals, Inc. (Latrobe) in February 2012 and Amega West Services, LLC, (Amega West) in December 2010. Latrobe manufactures and distributes high-performance materials for aerospace and defense, energy, and other applications. Amega West is a manufacturer and service provider of high-precision components for measurement while drilling (MWD) and logging while drilling (LWD), drill collars, stabilizers and other down-hole tools used for directional drilling. MWD and LWD technology is used to ensure critical data is obtained and transmitted to the surface to monitor progress of the drilling and to characterize the various formations.

In the first quarter of fiscal year 2012, we announced plans to construct a new 400,000 square foot state-of-the-art manufacturing facility in response to strong customer demand for premium products primarily in the fast-growing aerospace and defense, and energy industries. We expect that the new facility will ultimately be capable of producing approximately 27,000 tons per year of additional premium product and be operational by April 2014. We began construction of the facility on a 230 acre greenfield site located in Limestone County, Alabama with the total cost expected of approximately \$500 million. The new facility will include forge, remelting and associated finishing and testing capabilities and will play a key role in further developing our capabilities in the production of our premium products.

Table of Contents

*Reportable Segments*

Our reportable segments align with our operating model in which our integrated steel mill operations are managed distinctly from the collection of other differentiated business unit operations. We have three reportable segments, Specialty Alloys Operations ( SAO ), Latrobe and Performance Engineered Products ( PEP ). Previously, the Company s reportable segments consisted of Premium Alloys Operations, Advanced Metals Operations and Emerging Ventures. For more detailed segment information, including the restatement of corresponding segments for the fiscal years ended June 30 2011 and 2010, please see Note 18 to the consolidated financial statements included in Item 8, Financial Statements and Supplementary Data .

The SAO segment, which we also refer to as our mill operations, is comprised of the Company s major premium alloy and stainless steel manufacturing operations. This includes operations performed at mills primarily in Reading, Pennsylvania and the surrounding area, South Carolina, and the new premium products manufacturing facility being built in Limestone County, Alabama. The combined assets of the SAO operations will be managed in an integrated manner to optimize efficiency and profitability across the total system.

The Latrobe segment is comprised of the manufacturing and distribution operations of the Latrobe business acquired effective February 29, 2012. The Latrobe segment provides management with the focus and visibility into the business performance of these newly acquired operations. The Latrobe segment also includes the results of Carpenter s distribution business in Mexico.

The PEP segment is comprised of the Company s differentiated operations. This includes the Dynamet titanium business, the Carpenter Powder Products business, and the Amega West business. The businesses in the PEP segment will be managed with an entrepreneurial structure to promote speed and flexibility and drive overall revenue and profit growth.

**(2) Classes of Products:**

Our major classes of products are:

Special alloys

Our special alloys are used in critical components such as rings, discs and fasteners and include heat resistant alloys that range from slight modifications of stainless steels to complex nickel and cobalt base alloys as well as alloys for electronic, magnetic and electrical applications with controlled thermal expansion characteristics, or high electrical resistivity or special magnetic characteristics.

Stainless steels

Our stainless products include a broad range of corrosion resistant alloys including conventional stainless steels and many proprietary grades for special applications.

#### Titanium products

Our titanium products include corrosion resistant, highly specialized metal with a combination of high strength and low density. Most common uses are in aircraft fasteners, medical devices, sporting equipment and chemical and petroleum processing.

#### Powder metals

Our powder metals include spherical gas atomized powders produced via air, vacuum, or pressurized melting with Argon or Nitrogen Atomization in fine, medium and coarse powder distributions.

Table of Contents

Alloy and Tools Steels

Our alloy and tools steels are sold across a wide range of industries in long forms as well as rounds, plates and sheets.

Distribution and other

Our distribution sales represent sales of globally sourced corrosion resistant steels, tool steels and powder metals for a wide range of industries.

**(3) Raw Materials:**

Our business depends on continued delivery of critical raw materials for our day-to-day operations. These raw materials include nickel, cobalt, chromium, manganese, molybdenum, titanium, iron and scrap containing iron and nickel. Some of the sources of these raw materials, many of which are international, could be subject to potential interruptions of supply as a result of political events, labor unrest or other reasons. These potential interruptions could cause material shortages and affect availability and price. We have arrangements with certain vendors to provide consigned materials at our manufacturing facilities available for our consumption as necessary.

We have long-term relationships with major suppliers who provide availability of material at competitive prices. Purchase prices of certain raw materials have historically been volatile. We use pricing surcharges, indexing mechanisms, base price adjustments and raw material forward contracts to reduce the impact of increased costs for the most significant of these materials. There can be delays between the time of the increase in the price of raw materials and the realization of the benefits of such mechanisms or actions that could have a short-term impact on our results and could affect the comparability of our results from period to period.

**(4) Patents and Licenses:**

We own a number of United States and international patents and have granted licenses under some of them. In addition, certain products that we produce are covered by patents held or owned by other companies from whom licenses have been obtained. The duration of a patent issued in the United States is between 14 and 20 years from the date of filing a patent application or issuance of the patents. The duration of patents issued outside of the United States vary from country to country. Generally, patent licenses are structured to match the duration of the underlying patent. Although these patents and licenses are believed to be of value, we do not consider our business to be materially dependent upon any single such item or related group of such items.

Table of Contents**(5) Seasonality of Business:**

Our sales are normally influenced by seasonal factors. Historically, our sales in the first two fiscal quarters (the respective three months ending September 30 and December 31) are typically the lowest principally because of annual plant vacation and maintenance shutdowns by us as well as by many of our customers. However, the timing of major changes in the general economy or the markets for certain products can alter this historical pattern.

The chart below summarizes the percent of net sales by quarter for the past three fiscal years:

Quarter Ended	2012*	2011	2010
September 30,	20%	21%	19%
December 31,	21	22	22
March 31,	27	28	28
June 30,	32	29	31
	100%	100%	100%

\* Fiscal year 2012 net sales by quarter reflect the Latrobe acquisition effective February 29, 2012.

**(6) Customers:**

On a consolidated basis, we are not dependent upon a single customer, or a very few customers, such that the loss of any one or more particular customers would have a materially adverse effect on our consolidated statement of operations. No customers accounted for 10 percent of net sales during fiscal year 2012. One customer, Precision Castparts Corporation ( Precision Castparts ), accounted for 10 percent of our net sales during fiscal years 2011 and 2010. The sales to Precision Castparts represent an aggregation of sales to several independently managed Precision Castparts subsidiaries. See Note 18 to our consolidated financial statements included in Item 8 Financial Statements and Supplementary Data for additional information.

**(7) Backlog:**

As of June 30, 2012, we had a backlog of orders, believed to be firm, of approximately \$896 million, substantially all of which is expected to be shipped within fiscal year 2013. Our backlog as of June 30, 2011 was approximately \$623 million.

**(8) Competition:**

## Edgar Filing: CARPENTER TECHNOLOGY CORP - Form 10-K

Our business is highly competitive. We supply materials to a wide variety of end-use market sectors and compete with various companies depending on end-use market, product or geography. We are leaders in specialty materials for critical applications with over 120 years of metallurgical and manufacturing expertise. A significant portion of the products we produce are highly engineered materials for demanding applications. There are a limited number of companies producing one or more similar products that we consider our major competitors for our high value products used in demanding applications, particularly in our aerospace and defense and energy end-use markets. These products are generally required to meet complex customer product specifications and often require the materials to be qualified prior to supplying the customer orders. Our experience, technical capabilities, product offerings and research and development efforts that we have in our niche markets represent barriers to existing and potential competitors.

Table of Contents

For other products, there are several dozen smaller producing companies and converting companies that are also competitors as well as several hundred independent distributors of products similar to those distributed by us. Additionally, numerous foreign companies produce various specialty metal products similar to those produced by us. Furthermore, a number of different products may, in certain instances, be substituted for our finished products.

**(9) Research, Product and Process Development:**

Our expenditures for company-sponsored research and development were \$20.5 million, \$18.9 million and \$17.8 million in fiscal years 2012, 2011 and 2010, respectively. We believe that our ability to be an innovator in special material development and manufacturing processes has been and will continue to be an important factor in the success of the Company. The ability to commercialize radical new technology to drive the next major increment of organic growth is a key element of our strategic path to success. Our strong commitment to developing continuous streams of new products to meet customers' needs has been supported by increased research and development resources and investments over the last several years and by actively acquiring game changing technologies. Our worldwide staff of expert metallurgists, research and development scientists, engineers and service professionals work closely with our customers to identify and provide innovative solutions to specific product requirements and has led to the establishment of worldwide partnerships for materials and process development and innovation. We believe that the alloys under development will redefine our business in the future.

**(10) Environmental Regulations:**

We are subject to various stringent federal, state, local and international environmental laws and regulations relating to pollution, protection of public health and the environment, natural resource damages and occupational safety and health. Management evaluates the liability for future environmental remediation costs on a quarterly basis. We accrue amounts for environmental remediation costs representing management's best estimate of the probable and reasonably estimable costs relating to environmental remediation. For further information on environmental remediation, see the Contingencies section included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and the notes to our consolidated financial statements included in Item 8, Financial Statements and Supplementary Data.

Our costs of maintaining and operating environmental control equipment were \$14.1 million, \$12.7 million and \$10.7 million for fiscal years 2012, 2011 and 2010, respectively. The capital expenditures for environmental control equipment were \$0.4 million, \$0.4 million and \$0.1 million for fiscal years 2012, 2011 and 2010, respectively. We anticipate spending approximately \$4.4 million on major domestic environmental capital projects over the next five fiscal years. This includes approximately \$1.6 million in fiscal year 2013 and fiscal year 2014. Due to the possibility of future regulatory developments, the amount of future capital expenditures may vary from these estimates.

**(11) Employees:**

As of June 30, 2012, our total workforce consisted of approximately 4,800 employees, which included approximately 115 production employees in Washington, Pennsylvania who are covered under a collective bargaining agreement which expires on August 31, 2013, approximately 360 employees in Latrobe, Pennsylvania who are covered under a collective bargaining agreement which expires August 1, 2014, and three employees in the Detroit, Michigan warehouse who are covered under a collective bargaining agreement which expires March 31, 2014.



Table of Contents

**(d) Financial information about foreign and domestic operations and export sales:**

Sales outside of the United States, including export sales, were \$664.5 million, \$511.3 million and \$369.1 million in fiscal years 2012, 2011 and 2010, respectively. Long lived assets held outside of the United States were \$22.9 million, \$16.1 million and \$6.0 million as of June 30, 2012, 2011 and 2010, respectively. For further information on domestic and international sales, see Note 18 to our consolidated financial statements included in Item 8 Financial Statements and Supplementary Data .

**(e) Available Information:**

Our Board of Directors has adopted a Code of Ethics for the Chief Executive Officer and Senior Financial Officers of Carpenter Technology Corporation, which is also applicable to our other executive officers. There were no waivers of the Code of Ethics in fiscal year 2012. The Code of Ethics and any information regarding any waivers of the Code of Ethics are disclosed on Carpenter's website at [www.carttech.com](http://www.carttech.com). Our annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge through our website as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the Securities and Exchange Commission ( SEC ). Our website and the content contained therein or connected thereto are not intended to be incorporated into this Annual Report on Form 10-K.

The public may read and copy any materials the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and other information regarding issuers that file electronically. Such information can be accessed through the Internet at [www.sec.gov](http://www.sec.gov).

**Item 1A. Risk Factors**

There are inherent risks and uncertainties associated with all businesses that could adversely affect operating performances or financial conditions. The following discussion outlines the risks and uncertainties that management believes are the most material to our business. However, these are not the only risks or uncertainties that could affect our business. Certain risks are associated specifically with our business, industry or customer base, while others have a broader effect.

***The demand for certain products we produce may be cyclical.***

Demand in our end-use markets, including companies in the aerospace and defense, energy, transportation, medical, industrial and consumer markets, can be cyclical in nature and sensitive to general economic conditions, competitive influences and fluctuations in inventory levels throughout the supply chain. As a result, our results of operations, financial condition, cash flows and availability of credit could fluctuate significantly from period to period.

*A significant portion of our sales represents products sold to customers in the commercial aerospace and defense and energy markets. The cyclicity of those markets can adversely affect our current business and our expansion objectives.*

The commercial aerospace and defense market is historically cyclical due to both external and internal market factors. These factors include general economic conditions, airline profitability, consumer demand for air travel, varying fuel and labor costs, price competition, and international and domestic political conditions such as military conflict and the threat of terrorism. The length and degree of cyclical fluctuation can be influenced by any one or combination of these factors and therefore are difficult to predict with certainty. A downturn in the commercial aerospace and defense industry would adversely

Table of Contents

affect the demand for our products and/or the prices at which we are able to sell our products, and our results of operations, business and financial condition could be materially adversely affected.

The energy market has also been historically cyclical, principally as a result of volatile oil prices that impact demand for our products. Our future success requires us to, among other things, expand in key international energy markets by successfully adding to our customer base, distribution channels and product portfolio. The volatility of oil prices and other factors that contribute to the cyclicity of the energy market will impact our ability to expand successfully in this area. If we are not able to be successful in this regard, our results of operations, business and financial condition could be adversely affected.

*The anticipated benefits of the Latrobe acquisition may not be fully realized and may take longer to realize than expected.*

The Latrobe acquisition involves the integration of Latrobe's operations with our existing operations, and there are uncertainties inherent in such an integration. We have devoted and will continue to devote significant management attention and resources to integrating Latrobe's operations. Delays, unexpected difficulties in the integration process or failure to retain key management personnel could adversely affect our business, financial results and financial condition. Even if we are able to integrate Latrobe's operations successfully, this integration may not result in the realization of the full benefits of synergies, cost savings and operational efficiencies that we expect or the achievement of these benefits within a reasonable period of time.

In addition, we may have not discovered during the due diligence process, all known and unknown factors regarding Latrobe that could produce unintended and unexpected consequences for us. Undiscovered factors could cause us to incur potentially material financial liabilities, and prevent us from achieving the expected benefits from the proposed Merger within our desired time frames, if at all.

*Any significant delay or inability to successfully expand our operations in a timely and cost effective manner could materially adversely affect our business, financial condition and results of operations.*

We are undertaking several large capital expansion projects in the near-term such as our recently announced expansion of our Reading facility targeting premium remelt, forge finishing and annealing operations. We are also undertaking longer term projects associated with the next major increment of our premium products capability, including our \$500 million state-of-the-art manufacturing facility focused on premium products. These projects place a significant demand on management and operational resources. Our success in expanding our operations in a cost effective manner will depend upon numerous factors including the ability of management to ensure the necessary resources are in place to properly execute this project on time and in accordance with planned costs, the ability of key suppliers to deliver the necessary equipment according to schedule and our ability to implement these project with minimal impacts to our existing operations. If we are not able to achieve the anticipated results from our capital expansion projects, or if we incur unanticipated excess costs, our results of operations and financial position may be materially adversely affected.

*Periods of reduced demand and excess supply as well as the availability of substitute lower cost materials can adversely affect our ability to price and sell our products at the profitability levels we require to be successful.*

Edgar Filing: CARPENTER TECHNOLOGY CORP - Form 10-K

Additional worldwide capacity and reduced demand for our products could significantly impact future worldwide pricing which would adversely impact our results of operations and financial condition. In addition, continued availability of lower cost, substitute materials may also cause significant fluctuations in future results as our customers opt for a lower cost alternative.

Table of Contents

We change prices on our products as we deem necessary. In addition to the above general competitive impact, other market conditions and various economic factors beyond our control can adversely affect the timing of our pricing actions. The effects of any pricing actions may be delayed due to long manufacturing lead times or the terms of existing contracts. There is no guarantee that the pricing actions we implement will be effective in maintaining the Company's profit margin levels.

***We rely on third parties to supply certain raw materials that are critical to the manufacture of our products and we may not be able to access alternative sources of these raw materials if the suppliers are unwilling or unable to meet our demand.***

Costs of certain critical raw material, such as nickel, cobalt, chromium, manganese, molybdenum, titanium, iron, and scrap containing iron and nickel have been volatile due to factors beyond our control. We are able to mitigate most of the adverse impact of rising raw material costs through raw material surcharges, indices to customers and raw material forward contracts, but changes in business conditions could adversely affect our ability to recover rapid increases in raw material costs and may adversely affect our results of operations.

In addition, the availability of these critical raw materials is subject to factors that are not in our control. In some cases, these critical raw materials are purchased from suppliers operating in countries that may be subject to unstable political and economic conditions. At any given time, we may be unable to obtain an adequate supply of these critical raw materials on a timely basis, at prices and other terms acceptable to us, or at all.

If suppliers increase the price of critical raw materials or are unwilling or unable to meet our demand, we may not have alternative sources of supply. In addition, to the extent that we have quoted prices to customers and accepted customer orders for products prior to purchasing necessary raw materials, or have existing contracts, we may be unable to raise the price of products to cover all or part of the increased cost of the raw materials to our customers.

The manufacture of some of our products is a complex process and requires long lead times. As a result, we may experience delays or shortages in the supply of raw materials. If unable to obtain adequate and timely deliveries of required raw materials, we may be unable to timely manufacture sufficient quantities of products. This could cause us to lose sales, incur additional costs, delay new product introductions or suffer harm to our reputation.

***We provide benefits to active and retired employees throughout most of our Company, most of which are not covered by insurance; and thus, our financial condition can be adversely affected if our investment returns are insufficient to meet these obligations.***

We have obligations to provide substantial benefits to active and current employees, and most of the associated costs are paid by the Company and are not covered by insurance. In addition, certain employees are covered by defined benefit pension plans, with the majority of our plans covering employees in the United States. Many domestic and international competitors do not provide defined benefit plans and/or retiree health care plans, and other international competitors operate in jurisdictions with government sponsored health care plans that may offer them a cost advantage. We currently expect to make approximately \$82 million in required contributions to our US defined benefit pension plans during fiscal year 2013. A decline in the value of plan investments in the future, an increase in costs or liabilities, unfavorable changes in laws or regulations that govern pension plan funding or the impacts of underfunded plans acquired in connection with the consummation of the Latrobe merger could materially change the timing and amount of required pension funding. A requirement to accelerate or increase pension

contributions in the future could have a material adverse effect on our results of operations and financial condition.

Table of Contents

*The extensive environmental, health and safety regulatory regimes applicable to our manufacturing operations create the potential exposure to significant liabilities.*

The nature of our manufacturing business subjects our operations to numerous and varied federal, state, local and international laws and regulations relating to pollution, protection of public health and the environment, natural resource damages and occupational safety and health. We have used, and currently use and manufacture, substantial quantities of substances that are considered hazardous, extremely hazardous or toxic under worker safety and health laws and regulations. Although we implement controls and procedures designed to reduce continuing risk of adverse impacts and health and safety issues, we could incur substantial cleanup costs, fines and civil or criminal sanctions, third party property damage or personal injury claims as a result of violations, non-compliance or liabilities under these regulatory regimes required at our facilities.

We have environmental remediation liabilities at some of our owned operating facilities and have been designated as a potentially responsible party ( PRP ) with respect to certain third-party Superfund or similar waste disposal sites and other third party owned sites. Additionally, we have been notified that we may be a PRP with respect to other Superfund sites as to which no proceedings have been instituted against us. From time-to-time, we are a party to lawsuits and other proceedings involving alleged violations of, or liabilities arising from, environmental laws.

When our liability is probable and we can reasonably estimate our costs, we record environmental liabilities in our financial statements. However, in many cases, we are not able to determine whether we are liable, or if liability is probable, in order to reasonably estimate the loss or range of loss which could result from such environmental liabilities. Estimates of our liability remain subject to additional uncertainties, including the nature and extent of site contamination, available remediation alternatives, the extent of corrective actions that may be required, and the number and financial condition of other PRP s, as well as the extent of their responsibility for the remediation. We adjust our accruals to reflect new information as appropriate. Future adjustments could have a material adverse effect on our results of operations in a given period, but we cannot reliably predict the amounts of such future adjustments. Future developments, administrative actions or liabilities relating to environmental matters could have a material adverse effect on our financial condition or results of operations.

*Our manufacturing processes, and the manufacturing processes of many of our suppliers and customers, are energy intensive and generate carbon dioxide and other Greenhouse Gases , and pending legislation or regulation of Greenhouse Gases, if enacted or adopted in an onerous form, could have a material adverse impact on our results of operations, financial condition and cash flows.*

Political and scientific debates related to the impacts of emissions of greenhouse gases on the global climate are prevalent. Regulation or some form of legislation aimed at reducing the greenhouse gas emissions is currently being considered both in the United States and globally. As a specialty alloy manufacturer, we will be affected, both directly and indirectly, if proposed climate change legislation, such as use of a cap and trade , is enacted. Such legislation could have a material adverse impact on our results of operations, financial condition and cash flows.

Table of Contents

***Product liability and product quality claims could adversely affect our operating results.***

We produce ultra high-strength, high temperature and corrosion-resistant alloys designed for our customers' demanding applications particularly in our aerospace and defense, energy and medical end use markets. Failure of the materials that are included in our customers' applications could give rise to substantial product liability claims. There can be no assurance that our insurance coverage will be adequate or continue to be available on terms acceptable to us. We have a complex manufacturing process necessary to meet our customers' stringent product specifications. We are also required to adhere to various third party quality certifications and perform sufficient internal quality reviews to ensure compliance with established standards. If we fail to meet the customer specifications for their products, we may be subject to product quality costs and claims. These costs are generally not insured. The impacts of product liability and quality claims could have a material adverse impact on the results of our operations, financial condition and cash flows.

***Our business subjects us to risks of litigation claims, as a routine matter, and this risk increases the potential for a loss that might not be covered by insurance.***

Litigation claims relate to the conduct of our currently and formerly owned businesses, including claims pertaining to product liability, commercial disputes, employment actions, employee benefits, compliance with domestic and federal laws, personal injury, patent infringement and tax issues. Due to the uncertainties of litigation, we can give no assurance that we will prevail on claims made against us in the lawsuits that we currently face or that additional claims will not be made against us in the future. The outcome of litigation cannot be predicted with certainty, and some of these lawsuits, claims or proceedings may be determined adversely to us. The resolution in any reporting period of one or more of these matters could have a material adverse effect on our results of operations for that period. We can give no assurance that any other matters brought in the future will not have a material effect on our financial condition, liquidity or results of operations.

***A portion of our workforce is covered by a collective bargaining agreement and union attempts to organize our other employees may cause work interruptions or stoppages.***

Approximately 100 production employees at our Dynamet business unit located in Washington, PA are covered by a collective bargaining agreement. This agreement expires in August 2013. Approximately 360 production employees at our Latrobe business unit located in Latrobe, Pennsylvania are covered by a collective bargaining agreement. This agreement expires in August 2014. Approximately 3 employees at our Latrobe business unit located in Detroit, Michigan are covered by a collective bargaining agreement that expires in March 2014. There can be no assurance that we will succeed in concluding collective bargaining agreements with the unions to replace those that expire. From time to time, the employees at our primary manufacturing facility in Reading, Pennsylvania, participate in election campaigns or union organizing attempts. There is no guarantee that future organization attempts will not result in union representation.

***Our manufacturing processes are complex and depend upon critical, high cost equipment for which there may be only limited or no production alternatives.***

It is possible that we could experience prolonged periods of reduced production due to unplanned equipment failures, and we could incur significant repair or replacement costs in the event of those failures. It is also possible that operations could be disrupted due to other unforeseen circumstances such as power outages, explosions, fires, floods, accidents and severe weather conditions. We must make regular, substantial

capital investments and changes to our manufacturing processes to lower production costs, improve productivity, manufacture new or improved products and remain competitive. We may not be in a position to take advantage of business opportunities or respond to competitive pressures if we fail to update, replace or make additions to our equipment or our manufacturing processes in a timely manner. The cost to repair or replace much of our equipment or facilities would be significant. We cannot be

Table of Contents

certain that we will have sufficient internally generated cash or acceptable external financing to make necessary capital expenditures in the future.

***A significant portion of our manufacturing and production facilities are located in Reading, Pennsylvania, which increases our exposure to significant disruption to our business as a result of unforeseeable developments in a single geographic area.***

It is possible that we could experience prolonged periods of reduced production due to unforeseen catastrophic events occurring in or around our manufacturing facilities in Reading, Pennsylvania. As a result, we may be unable to shift manufacturing capabilities to alternate locations, accept materials from suppliers, meet customer shipment needs or address other severe consequences that may be encountered. Our financial condition and results of our operations could be materially adversely affected.

***We rely on third parties to supply energy consumed at each of our energy-intensive production facilities.***

The prices for and availability of electricity, natural gas, oil and other energy resources are subject to volatile market conditions. These market conditions often are affected by political and economic factors beyond our control. Disruptions or lack of availability in the supply of energy resources could temporarily impair the ability to operate our production facilities. Further, increases in energy costs, or changes in costs relative to energy costs paid by competitors, has affected and may continue to adversely affect our profitability. To the extent that these uncertainties cause suppliers and customers to be more cost sensitive, increased energy prices may have an adverse effect on our results of operations and financial condition.

***We consider acquisition, joint ventures and other business combination opportunities, as well as possible business unit dispositions, as part of our overall business strategy, which opportunities involve uncertainties and potential risks that we cannot predict or anticipate fully.***

From time-to-time, management holds discussions with management of other companies to explore such aforementioned opportunities. As a result, the relative makeup of the businesses comprising our Company is subject to change. Acquisitions, joint ventures and other business combinations involve various inherent risks. Such risks include difficulties in integrating the operations, technologies, products and personnel of the acquired companies, diversion of management's attention from existing operations, difficulties in entering markets in which we have limited or no direct prior experience, dependence on unfamiliar supply chains, insufficient revenues to offset increased expenses associated with acquisitions, loss of key employees of the acquired companies, inaccurate assessment of undisclosed liabilities, difficulties in realizing projected efficiencies, synergies and cost savings, and increases in our debt or limitation on our ability to access additional capital when needed.

***Our business may be impacted by external factors that we may not be able to control.***

War, civil conflict, terrorism, natural disasters and public health issues including domestic or international pandemic have caused and could cause damage or disruption to domestic or international commerce by creating economic or political uncertainties. Additionally, the volatility in the financial markets, as we have experienced recently following the concerns about the S&P's downgrade of the United States' credit rating, the European debt crisis and fears of a new U.S. recession, could negatively impact our business. These events could result in a decrease in demand

for our products, make it difficult or impossible to deliver orders to customers or receive materials from suppliers, affect the availability or pricing of energy sources or result in other severe consequences that may or may not be predictable. As a result, our business, financial condition and results of operations could be materially adversely affected.

Table of Contents

*We believe that international sales, which are associated with various risks, will continue to account for a significant percentage of our future revenues.*

Risks associated with international sales include without limitation: political and economic instability, including weak conditions in the world's economies; difficulty in collecting accounts receivable; unstable or unenforced export controls; changes in legal and regulatory requirements; policy changes affecting the markets for our products; changes in tax laws and tariffs; and exchange rate fluctuations (which may affect sales to international customers and the value of profits earned on international sales when converted into dollars). In addition, we will need to invest in building our capabilities and infrastructure to meet our international growth goals. Any of these factors could materially adversely affect our results for the period in which they occur.

*We value most of our inventory using the LIFO method, which could be repealed resulting in adverse effects on our cash flows and financial condition.*

The cost of our inventories is primarily determined using the Last-In First-Out ( LIFO ) method. Under the LIFO inventory valuation method, changes in the cost of raw materials and production activities are recognized in cost of sales in the current period even though these materials and other costs may have been incurred at significantly different values due to the length of time of our production cycle. Generally in a period of rising prices, LIFO recognizes higher costs of goods sold, which both reduces current income and assigns a lower value to the year-end inventory. Recent proposals have been initiated aimed at repealing the election to use the LIFO method for income tax purposes. According to these proposals, generally taxpayers that currently use the LIFO method would be required to revalue their LIFO inventory to its first-in, first-out ( FIFO ) value. As of June 30, 2012, if the FIFO method of inventory had been used instead of the LIFO method, our inventories would have been about \$330 million higher. This increase in inventory would result in a one-time increase in taxable income which would be taken into account over the following several taxable years. The repeal of LIFO could result in a substantial tax liability which could adversely impact our cash flows and financial condition.

*We depend on the retention of key personnel.*

Much of our future success depends on the continued service and availability of skilled personnel, including members of our executive management team, management, metallurgists and production positions. The loss of key personnel could adversely affect our ability to perform until suitable replacements are found.

*We could be adversely impacted if our information technology and computer systems do not perform properly or if we fail to protect the integrity of confidential data.*

Management relies on IT infrastructure, including hardware, network, software, people and processes, to provide useful information to conduct our business and support assessments and conclusions about operating performance. Our inability to produce relevant and/or reliable measures of operating performance in an efficient, cost-effective and well-controlled fashion may have significant negative impacts on our future operations. In addition, any material failure, interruption of service, or compromised data security could adversely affect our operations. Security breaches in our information technology could result in theft, destruction, loss, misappropriation or release of confidential data or intellectual property which could adversely impact our future results.



Table of Contents

*The carrying value of goodwill and other intangible assets may not be recoverable.*

Goodwill and other intangible assets are recorded at fair value on the date of acquisition. We review these assets at least annually for impairment. Impairment may result from, among other things, deterioration in performance, adverse market conditions, adverse changes in applicable laws or regulations, and a variety of other factors. Any future impairment of goodwill or other intangible assets could have a material adverse effect on our results of operations.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

The locations of our primary manufacturing plants are: Reading, Pennsylvania; Hartsville, South Carolina; Washington, Pennsylvania; Orangeburg, South Carolina; Bridgeville, Pennsylvania; Orwigsburg, Pennsylvania; Clearwater, Florida; Elyria, Ohio; Woonsocket, Rhode Island; Latrobe, Pennsylvania; Franklin, Pennsylvania; Wauseon, Ohio and Torshalla, Sweden. The Reading, Hartsville, Washington, Orangeburg, Bridgeville, Orwigsburg, Elyria, Woonsocket, Latrobe, Franklin, Wauseon and Torshalla plants are owned. The Clearwater plant is owned, but the land is leased. Two administrative buildings in Torshalla are leased.

The Amega West operations include leased rental warehouses and service centers located in Houston, Texas; Oklahoma City, Oklahoma; Casper, Wyoming; Lafayette, Louisiana; West Alexander, Pennsylvania; Nisku Alberta, Canada and Singapore. The primary manufacturing facility in Tyler, Texas is owned.

The Latrobe operations include leased warehouses and service centers located in Vienna, Ohio; Detroit, Michigan; Chicago, Illinois; Pinehurst, Texas; Prichard, Alabama; Sheffield, United Kingdom; Ludwigshafen, Germany; Blenheim, Ontario, Canada. The service centers in White House, Tennessee and Northborough, Massachusetts are owned.

Our corporate offices, located in Wyomissing, Pennsylvania, are leased.

We also operate regional customer service and distribution centers, most of which are leased, at various locations in several states and foreign countries.

Our plants, customer service centers, and distribution centers were acquired or leased at various times over several years. There is an active maintenance program to ensure a safe operating environment and to keep facilities in good condition. In addition, we have had an active capital spending program to replace equipment as needed to keep it technologically competitive on a world-wide basis. We believe our facilities are in good condition and suitable for our business needs.

### **Item 3. Legal Proceedings**

From time-to-time, we are a party to lawsuits and other proceedings involving alleged violations of, or liabilities arising from, environmental laws. We have environmental remediation liabilities at some of our owned operating facilities and have been designated as a potentially responsible party ( PRP ) with respect to certain third-party Superfund or similar waste disposal sites and other third party owned sites. Additionally, we have been notified that we may be a PRP with respect to other Superfund sites as to which no proceedings have been instituted against us. Estimates of the amount and timing of future costs of environmental remediation requirements are inherently imprecise because of the continuing evolution of environmental laws and regulatory requirements, the availability and application of technology, the identification of currently unknown remediation sites and the allocation of costs among the PRP s. Based upon information currently available, such future costs are not expected to have a material effect on our financial position, results of operations or cash flows over the

Table of Contents

long-term. However, such costs could be material to our financial position, results of operations or cash flows in a particular future quarter or year.

In June 2002, we were named as a defendant in a lawsuit filed by a group of plaintiffs in the District Court for the Eastern District of Pennsylvania titled Boarhead Farm Agreement Group v. Advanced Environmental Technology Corporation et. al. (since amended to include the individual members). The suit alleges that we and the other named defendants contributed to damages caused at Boarhead Farms, a Superfund site located in Bridgeton, Pennsylvania. The Boarhead Farms site was the home of a now defunct chemical and waste hauling company that we and many other companies engaged to dispose of certain wastes during the 1970 s. The plaintiff group was individually named as PRP s for the Boarhead site in the EPA s Record of Decision in November 1998. Their June 2002 lawsuit against various defendants, including Carpenter, sought contributions for a portion of costs incurred for various site cleanup activities as well as contributions to future cleanup efforts. The suit went to trial in June 2008. Prior to trial, all of the named co-defendants, except for Carpenter, reached an out of court settlement with the plaintiffs. We denied the claims made by the plaintiff group. On August 18, 2008, the Court awarded the plaintiffs judgment against us for 80 percent of the plaintiffs past costs of remediating the site, including prejudgment interest from June 18, 2002 to January 1, 2008, and held us liable for 80 percent of future costs of the cleanup activities at the site. We appealed the Court s decision and oral arguments took place before the United States Court of Appeals for the Third Circuit on December 17, 2009. On April 12, 2010, the Court of Appeals for the Third Circuit vacated the previous judgment by the District Court and remanded the case for further proceedings. As of June 30, 2011, we had a liability recorded related to this case of \$21.8 million. On July 19, 2011, we entered into a settlement agreement providing for a dismissal of the lawsuit against us and a complete release in our favor by all parties to the litigation, in exchange for a payment by us of \$21.8 million which we paid during September 2011. We expect no additional material liabilities will be incurred related to this matter.

In addition, from time to time, we are a party to certain routine claims and legal actions and other contingent liabilities incident to the normal course of business which pertain to litigation, product claims, commercial disputes, employment actions, employee benefits, compliance with domestic and foreign laws, personal injury claims and tax issues. Based on information currently available, the ultimate resolution of our known contingencies, individually or in the aggregate and including the matters described in Note 11 to the consolidated financial statements in this Form 10-K, is not expected to have a material adverse effect on our financial position, liquidity, or results of operations. However, there can be no assurance that an increase in the scope of pending matters or that any future lawsuits, claims, proceedings or investigations will not be material to our financial position, results of operations or cash flows in a particular future quarter or year.

See the Contingencies section included in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operation, and the Contingencies and Commitments section included in Note 11 to our consolidated financial statements included in Item 8, Financial Statements and Supplementary Data, included in this Form 10-K, the contents of which are incorporated by reference to this Item 3.

**Item 4. Mine Safety Disclosures**

Not applicable

Table of Contents**PART II****Item 5. Market for the Registrant's Common Equity Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common stock is listed on the New York Stock Exchange ( NYSE ) and traded under the symbol CRS . The following table sets forth, for the periods indicated, the high and low closing prices for our common stock as reported by the NYSE.

Quarter Ended:	Fiscal Year 2012				Fiscal Year 2011			
	High	Low	High	Low	High	Low	High	Low
September 30,	\$ 58.18	\$ 43.04	\$ 38.11	\$ 30.58				
December 31,	\$ 59.53	\$ 41.32	\$ 41.90	\$ 34.30				
March 31,	\$ 56.65	\$ 49.46	\$ 44.94	\$ 38.78				
June 30,	\$ 56.81	\$ 42.27	\$ 57.68	\$ 40.69				
Annual	\$ 59.53	\$ 41.32	\$ 57.68	\$ 30.58				

The range of our common stock price on the NYSE from July 1, 2012 to August 10, 2012 was \$44.11 to \$50.96. The closing price of the common stock was \$50.96 on August 10, 2012.

We have paid quarterly cash dividends on our common stock for over 100 consecutive years. We paid a quarterly dividend of \$0.18 per common share during each quarter of fiscal years 2012 and 2011.

As of August 10, 2012, there were 2,546 common stockholders of record.

Information regarding Securities Authorized for Issuance under Equity Compensation Plans is set forth Item 12 hereto.

**Cumulative Total Stockholder Return**

The graph below compares the cumulative total stockholder return on our common stock to the cumulative total return of the S&P MidCap Index, our New Peer Group and our Old Peer Group for each of the last five fiscal years ended June 30, 2012. The cumulative total return assumes an investment of \$100 on June 30, 2007 and the reinvestment of any dividends during the period. The S&P MidCap 400 Index is the most widely used index for mid-sized companies. The companies in our Old Peer Group are: AK Steel Holding Corp., Allegheny Technologies, Inc., Daido Steel Company Limited, Gloria Material Technology Corp., Haynes International Inc., Kennametal Inc., Parker-Hannifin Corp., Precision Industries Castparts Corp., Reliance Steel and Aluminum Company, RTI International Metals Inc., Sandvik AB, Schmolz + Bickenbach AG, Steel Dynamics Inc., The Timken Company, Titanium Metals Corp., Universal Stainless & Alloy Products, Voestalpine AG. The Companies in our New Peer Group are: AK Steel Holding Corp., Allegheny Technologies, Inc., Daido Steel Company Limited, Gloria Material Technology Corp., Haynes International Inc., Hexcel Corp., Kennametal Inc., Precision Castparts Corp., Reliance Steel

## Edgar Filing: CARPENTER TECHNOLOGY CORP - Form 10-K

and Aluminum Company, RTI International Metals Inc., Sandvik AB, Schmolz + Bickenbach AG, Steel Dynamics Inc., The Timken Company, Titanium Metals Corp., Universal Stainless & Alloy Products, Voestalpine AG and Worthington Industries Inc. We believe the companies included in our New Peer Group, taken as a whole, provide a more meaningful comparison in terms of product offerings, markets served, competition and other relevant factors. The total stockholder return for the peer groups is weighted according to the respective issuer's stock market capitalization at the beginning of each period.

Table of Contents

	6/07	6/08	6/09	6/10	6/11	6/12
Carpenter Technology Corporation	100.00	67.70	33.37	54.13	96.89	81.48
S&P Midcap 400	100.00	92.66	66.70	83.32	116.14	113.43
Old Peer Group	100.00	89.82	47.80	62.78	97.66	77.64
New Peer Group	100.00	87.70	45.80	60.16	92.87	73.79

**Recent Sales of Unregistered Securities**

On February 29, 2012, in connection with our acquisition of Latrobe, we issued 8.1 million shares of our common stock to Latrobe's shareholders pursuant to exemptions from registration under Section 4(2) of the Securities Act of 1933, as amended, and Rule 506 of Regulation D thereof. 1,235,226 of the shares issued as merger consideration were placed into escrow to secure Latrobe's indemnification obligations and to account for Latrobe's pension funding issues. In May, 2012, 300,000 of the shares placed in escrow, representing the portion relating to Latrobe's pension funding issues, were released to Latrobe's shareholders pursuant to the Merger Agreement.

Table of Contents**Item 6. Selected Financial Data**

## Five-Year Financial Summary

In millions, except per share data

(Fiscal years ended June 30,)

	2012(a)	2011(b)	2010	2009(c)	2008(d)
<b>Summary of Operations:</b>					
Net sales	\$ 2,028.7	\$ 1,675.1	\$ 1,198.6	\$ 1,362.3	\$ 1,953.5
Operating income	210.1	96.4	11.7	64.0	293.6
Income from continuing operations	121.6	71.7	2.1	47.9	200.5
Income from discontinued operations, net					77.2
Net income	\$ 121.6	\$ 71.7	\$ 2.1	\$ 47.9	\$ 277.7
Net income attributable to Carpenter	\$ 121.2	\$ 71.0	\$ 2.1	\$ 47.9	\$ 277.7
<b>Financial Position at Year-End:</b>					
Cash and cash equivalents	\$ 211.0	\$ 492.5	\$ 265.4	\$ 340.1	\$ 403.3
Marketable securities, current	\$	\$ 30.5	\$ 105.2	\$ 15.0	\$ 5.3
Total assets	\$ 2,627.8	\$ 1,991.9	\$ 1,583.2	\$ 1,497.4	\$ 1,712.2
Long-term obligations, net of current portion (including convertible preferred stock)	\$ 305.9	\$ 407.8	\$ 259.6	\$ 258.6	\$ 276.7
<b>Per Common Share:</b>					
Net earnings:					
Basic					
Continuing operations	\$ 2.55	\$ 1.59	\$ 0.04	\$ 1.08	\$ 4.11
Discontinued operations	\$	\$	\$	\$	\$ 1.59
	\$ 2.55	\$ 1.59	\$ 0.04	\$ 1.08	\$ 5.70
Diluted					
Continuing operations	\$ 2.53	\$ 1.59	\$ 0.04	\$ 1.08	\$ 4.11
Discontinued operations	\$	\$	\$	\$	\$ 1.58
	\$ 2.53	\$ 1.59	\$ 0.04	\$ 1.08	\$ 5.69
Cash dividend-common	\$ 0.72	\$ 0.72	\$ 0.72	\$ 0.72	\$ 0.63
<b>Weighted Average Common Shares</b>					
<b>Outstanding:</b>					
Basic	47.1	44.1	43.9	43.9	48.5
Diluted	47.8	44.7	44.4	44.2	48.7

(a) Fiscal year 2012 included \$11.7 million of acquisition-related costs incurred in connection with the Latrobe Acquisition that was consummated on February 29, 2012 and more fully discussed in Note 2 to our consolidated financial statements included in Item 8. Financial Statements and Supplementary Data.

Edgar Filing: CARPENTER TECHNOLOGY CORP - Form 10-K

(b) Fiscal year 2011 included \$2.4 million of Latrobe acquisition-related costs and \$0.7 million of Amega West acquisition-related costs incurred in connection with the Latrobe Acquisition and Amega West acquisition that more fully discussed in Note 2 to our consolidated financial statements included in Item 8. Financial Statements and Supplementary Data.

(c) Fiscal year 2009 included \$9.4 million of restructuring charges related to the shutdown and closure of our U.K. metal strip manufacturing operations.

Table of Contents

(d) Fiscal year 2008 included a \$109.6 million pre-tax gain on the sale of our ceramics and metals shapes businesses. The results of operations of the divested business units prior to the divestitures are presented as discontinued operations.

See Item 7. - Management's Discussion and Analysis of Financial Condition and Results of Operations for discussion of factors that affect the comparability of the Selected Financial Data .

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

***Background and General***

Our discussions below in this Item 7 should be read in conjunction with our consolidated financial statements, including the notes thereto, included in this annual report on Form 10-K.

We are engaged in the manufacturing, fabrication, and distribution of specialty metals. We primarily process basic raw materials such as nickel, cobalt, titanium, manganese, chromium, molybdenum, iron scrap and other metal alloying elements through various melting, hot forming and cold working facilities to produce finished products in the form of billet, bar, rod, wire and narrow strip in many sizes and finishes. We also produce certain metal powders. Our sales are distributed directly from our production plants and distribution network as well as through independent distributors. Unlike many other specialty steel producers, we operate our own worldwide network of service/distribution centers. These service centers, located in the United States, Canada, Mexico, Europe and Asia allow us to work more closely with customers and to offer various just-in-time stocking programs. We are also a manufacturer and service provider of high-precision components for measurement while drilling ( MWD ) and logging while drilling ( LWD ), drill collars, stabilizers and other down-hole tools used for directional drilling. MWD and LWD technology is used to ensure critical data is obtained and transmitted to the surface to monitor progress of the well.

On February 29, 2012, following approval by the U.S. Federal Trade Commission ( FTC ), we completed the acquisition of Latrobe Specialty Metals, Inc. ( Latrobe ) through the merger of a wholly-owned subsidiary of the Company with and into Latrobe (the Latrobe Acquisition ). In connection with the Latrobe Acquisition, former owners of Latrobe received 8.1 million shares of Carpenter stock. In addition, pursuant to the terms of the related merger agreement, Carpenter paid \$11.5 million in cash at closing, net of \$2.5 million of cash acquired, in addition to a payment of approximately \$154 million in order to pay off Latrobe debt. A key benefit of the Latrobe Acquisition is a substantial increase in production which will increase Carpenter's capacity to meet strong customer demand for premium products. As a condition of the FTC approval, Carpenter entered into a consent decree (the Consent Decree ) to transfer certain assets and technical knowledge to Eramet S.A and its subsidiaries, Aubert & Duval and Brown Europe (collectively, the Transferees ), which will allow the Transferees, as a group, to become a second manufacturer of two specific alloys in order to provide customers with a supply alternative in the marketplace. The alloys have minimal sales impact and will cause no material change to the economics of the Latrobe Acquisition. As part of the Consent Decrees, we agreed to transfer certain assets as well as fund the cost of acquiring assets in an amount up to approximately \$5 million; we recorded a charge for this liability in the quarter ended March 31, 2012.

In the first quarter of fiscal year 2012, we announced our plans to construct a new 400,000 square foot state-of-the-art manufacturing facility in response to strong customer demand for premium products primarily in the fast-growing aerospace and defense and energy industries. We expect that the new facility will ultimately be capable of producing approximately 27,000 tons per year of additional premium product and be

## Edgar Filing: CARPENTER TECHNOLOGY CORP - Form 10-K

operational by April 2014. We began construction of the facility on a 230 acre greenfield site located in Limestone County, Alabama at a total cost of approximately \$500 million. The site selection process included analyzing state, county and local incentives, utility costs, and labor resources. The state of Alabama and local government entities put together a compelling package, including various tax initiatives, infrastructure grants, and training programs. The new facility will include forge, remelting and associated finishing and testing capabilities and will play a key role in further developing our capabilities in the production of our premium products.

Table of Contents

As part of our overall business strategy, we have sought out and considered opportunities related to strategic acquisitions and joint collaborations as well possible business unit dispositions aimed at broadening our offering to the marketplace. We have participated with other companies to explore potential terms and structure of such opportunities and we expect that we will continue to evaluate these opportunities.

**Business Trends**

Selected financial results for the past three fiscal years are summarized below:

(\$ in millions, except per share data)	Fiscal Year		
	2012	2011	2010
Net sales	\$ 2,028.7	\$ 1,675.1	\$ 1,198.6
Net sales excluding surcharges (1)	\$ 1,569.6	\$ 1,231.1	\$ 921.7
Operating income excluding pension earnings, interest and deferrals ( pension EID ) expense(1)	\$ 225.4	\$ 131.6	\$ 49.6
Net income	\$ 121.6	\$ 71.7	\$ 2.1
Diluted earnings per share	\$ 2.53	\$ 1.59	\$ 0.04
Net pension expense per diluted share (1)	\$ 0.55	\$ 0.84	\$ 0.85
Purchases of property, equipment and software	\$ 171.9	\$ 79.6	\$ 44.2
Free cash flow (1)	\$ (58.8)	\$ (88.9)	\$ 40.1
Pounds sold (in thousands) (2)	235,532	216,834	172,974

(1) See the section Non-GAAP Financial Measures below for further discussion of these financial measures.

(2) Includes specialty and titanium alloys, stainless steel and powder materials

Our sales are across a diversified list of end-use markets. During fiscal year 2012, we changed the manner in which sales are classified by end use market so that we could better evaluate our sales results from period to period. In order to make the discussion of sales by end-use market more meaningful, we have reclassified the fiscal year 2011 and 2010 sales by end-use market to conform to the fiscal year 2012 presentation. The table below summarizes our estimated sales by market over the past three fiscal years.

(\$ in millions)	Fiscal Year					
	2012		2011		2010	
Aerospace and defense	\$ 901.1	44%	\$ 697.6	42%	\$ 535.0	44%

Edgar Filing: CARPENTER TECHNOLOGY CORP - Form 10-K

Industrial and consumer	478.2	24	486.6	29	346.6	29
Energy	268.3	13	194.6	12	79.6	7
Medical	141.0	7	122.1	7	107.2	9
Transportation	142.2	7	135.5	8	97.6	8
Distribution	97.9	5	38.7	2	32.6	3
Total net sales	\$ 2,028.7	100%	\$ 1,675.1	100%	\$ 1,198.6	100%

Table of Contents

During fiscal year 2012, we changed the manner in which sales are classified by product class so that we could better evaluate our sales results from period to period. The changes are intended to better segregate growth areas of premium products such as high temperature nickel-based special alloys, titanium products and powder metals, while also reflecting the anticipated product classes and businesses gained through the Latrobe acquisition. In order to make the discussion of sales by product class more meaningful, we have reclassified the fiscal year 2011 and 2010 sales by product class to conform to the fiscal year 2012 presentation. The table below shows our net sales by major product class for the past three fiscal years:

(\$ in millions)	2012		Fiscal Year 2011		2010				
Special alloys	\$	931.4	47%	\$	831.8	49%	\$	611.6	52%
Stainless steels		637.3	31		564.9	34		373.4	31
Titanium products		156.6	8		135.3	8		108.0	9
Alloy & tool steel		108.6	5		27.2	2		29.9	2
Powder metals		64.3	3		61.4	4		33.8	3
Distribution & other		130.5	6		54.5	3		41.9	3
Total net sales	\$	2,028.7	100%	\$	1,675.1	100%	\$	1,198.6	100%

**Impact of Raw Material Prices and Product Mix**

We value most of our inventory utilizing the last-in, first-out ( LIFO ) inventory costing methodology. Under the LIFO inventory costing method, changes in the cost of raw materials and production activities are recognized in cost of sales in the current period even though these materials may have been acquired at potentially significantly different values due to the length of time from the acquisition of the raw materials to the sale of the processed finished goods to the customers. In a period of rising raw material costs, the LIFO inventory valuation normally results in higher costs of sales. Conversely, in a period of decreasing raw material costs, the LIFO inventory valuation normally results in lower costs of sales.

The volatility of the costs of raw materials has impacted our operations over the past several years. We, and others in our industry, generally have been able to pass cost increases on major raw materials through to our customers using surcharges that are structured to recover increases in raw material costs. Generally, the formula used to calculate a surcharge is based on published prices of the respective raw materials for the previous month which correlates to the prices we pay for our raw material purchases. However, a portion of our surcharges to customers may be calculated using a different surcharge formula or may be based on the raw material prices at the time of order, which creates a lag between surcharge revenue and corresponding raw material costs recognized in costs of sales. The surcharge mechanism protects our net income on such sales except for the lag effect discussed above. However, surcharges have had a dilutive effect on our gross margin and operating margin percentages as described later in this report.

Approximately 40 percent our net sales are sales to customers under firm price sales arrangements. Firm price sales arrangements involve a risk of profit margin fluctuations, particularly when raw material prices are volatile. In order to reduce the risk of fluctuating profit margins on these sales, we enter into commodity forward contracts to purchase certain critical raw materials necessary to produce the related products sold. Firm price sales arrangements generally include certain annual purchasing commitments and consumption schedules agreed to by the customers at selling prices based on raw material prices at the time the arrangements are established. If a customer fails to meet the volume commitments (or the consumption schedule deviates from the agreed-upon terms of the firm price sales arrangements), the Company may need to absorb the gains or losses associated with the commodity forward contracts on a temporary basis. Gains or losses associated with commodity forward contracts are reclassified to earnings/loss when earnings are impacted by the hedged transaction. Because we value most of our inventory under the LIFO costing methodology, changes in the cost of raw materials and production activities are recognized in cost of sales in the current period attempting to match the most recently incurred costs with revenues. Gains or losses on the commodity forward contracts are reclassified from

other

Table of Contents

comprehensive income together with the actual purchase price of the underlying commodities when the underlying commodities are purchased and recorded in inventory. To the extent that the total purchase price of the commodities, inclusive of the gains or losses on the commodity forward contracts, are higher or lower relative to the beginning of year costs, our costs of goods sold reflect such amounts. Accordingly, the gains and/or losses associated with commodity forward contracts may not impact the same period that the firm price sales arrangements revenue is recognized, and comparisons of gross profit from period to period may be impacted. These firm price sales arrangements are expected to continue as we look to strengthen our long-term customer relationships by expanding, renewing and in certain cases extending to a longer term, our customer long-term arrangements.

We produce hundreds of grades of materials, with a wide range of pricing and profit levels depending on the grade. In addition, our product mix within a period is subject to the fluctuating order patterns of our customers as well as decisions we may make on participation in certain products based on available capacity including the impacts of capacity commitments we may have under existing customer agreements. While we expect to see positive contribution from a more favorable product mix in our margin performance over time, the impact by period may fluctuate, and period-to-period comparisons may vary.

**Net Pension Expense**

Net pension expense, as we define it below, includes the net periodic benefit costs related to both our pension and other postretirement plans. See further discussion of net pension expense in the **Non-GAAP Financial Measures** below. Net pension expense is recorded in accounts that are included in both the cost of sales and selling, general and administrative expenses lines of our statements of income. The fiscal year 2012 net pension expense includes \$2.5 million of net pension expense associated the pension and postretirement plans assumed in connection with the Latrobe Acquisition. The following is a summary of the classification of net pension expense included in our statements of income during fiscal years 2012, 2011 and 2010:

(\$ in millions)	2012		Fiscal Year		2011		2010	
Cost of sales	\$	31.2	\$	45.8	\$	44.6		
Selling, general and administrative expenses		10.9		15.0		16.7		
Net pension expense	\$	42.1	\$	60.8	\$	61.3		

Net pension expense is determined annually based on beginning of year balances, and is recorded ratably throughout the fiscal year, unless a significant re-measurement event occurs. The following is a summary of the components of net pension expense during fiscal years 2012, 2011 and 2010:

(\$ in millions)	2012		Fiscal Year		2011		2010	
Service cost	\$	26.8	\$	25.6	\$	23.3		
Pension earnings, interest and deferrals		15.3		35.2		38.0		
Net pension expense	\$	42.1	\$	60.8	\$	61.3		

The service cost component of net pension expense represents the estimated cost of future pension liabilities earned associated with active employees. The pension earnings, interest and deferrals expense is comprised of the expected return on plan assets, interest costs on the projected benefit obligations of the plans, and amortization of actuarial gains and losses and prior service costs. Pension earnings, interest and

deferrals expenses is impacted by the financial markets and decreased significantly during fiscal year 2012 principally due to the increase in market value of the securities held by the plans as well as slightly higher interest rates as of June 30, 2011.

Table of Contents**Latrobe Acquisition Impacts**

We closed the Latrobe Acquisition on February 29, 2012. The Latrobe business is already accretive to earnings, excluding the transaction costs and short-term impacts associated with fair value cost adjustments in connection with the acquisition accounting. The following is a summary of the impacts that the Latrobe Acquisition has had on our results. The measures below have not been determined in accordance with U.S. GAAP. See further discussion of these measures in the Non-GAAP Financial Measures discussion below.

(Per Diluted Share)	Fiscal Year	
	2012	2011
Net income attributable to Carpenter before adjusted Latrobe operating results, share dilution and total acquisition related costs	\$ 2.74	\$ 1.64
Adjusted Latrobe operating results *	0.30	
Dilution from additional outstanding shares**	(0.16)	
Net income attributable to Carpenter before total acquisition related costs	2.88	1.64
Total acquisition related costs *	(0.35)	(0.05)
Net income attributable to Carpenter	\$ 2.53	\$ 1.59

\* Detailed schedule included in Non-GAAP Financial Measures below.

\*\* In connection with the Latrobe Acquisition, we issued 8.1 million shares of common stock to the former owners. For the fiscal year 2012, the issuance of these shares resulted in an additional 2.7 million weighted average diluted shares.

**Operating Performance Overview**

Fiscal year 2012 results reflect the benefits of strong, sustained demand across all our end use markets. We have made progress during fiscal year 2012 in the following important areas:

- We exceeded our financial goals based on solid execution against our strategies of premium product growth, mix management and pricing.
- We finalized our acquisition of Latrobe. The integration process is going extremely well and we are even more excited about the strategic value and synergies from this transaction.

**Results of Operations Fiscal Year 2012 Compared to Fiscal Year 2011**

For fiscal year 2012, we reported net income of \$121.2 million, or \$2.53 per diluted share, compared with income of \$71.0 million, or \$1.59 per diluted share, a year earlier. Our fiscal year 2012 results reflect a trend of improving revenues and profit throughout the fiscal year.

**Net Sales**

Net sales for fiscal year 2012 were \$2,028.7 million, which was a 21 percent increase from fiscal year 2011. Excluding surcharge revenues, sales were 27 percent higher than fiscal year 2011 on 9 percent higher volume.

Geographically, sales outside the United States increased 30 percent from fiscal year 2011 to \$664.5 million. International sales as a percentage of our total net sales, represented 33 percent and 31 percent for fiscal year 2012 and fiscal year 2011, respectively.

Table of Contents**Sales by End-Use Markets**

We sell to customers across diversified end-use markets. The following table includes comparative information for our estimated net sales, which includes surcharge revenues, by principal end-use markets which we believe is helpful supplemental information in analyzing the performance of the business from period to period:

(\$ in millions)	Fiscal Year		\$ Increase (Decrease)	% Increase (Decrease)
	2012	2011		
Aerospace and defense	\$ 901.1	\$ 697.6	\$ 203.5	29%
Industrial and consumer	478.2	486.6	(8.4)	(2)
Energy	268.3	194.6	73.7	38
Medical	141.0	122.1	18.9	15
Transportation	142.2	135.5	6.7	5
Distribution	97.9	38.7	59.2	153
Total net sales	\$ 2,028.7	\$ 1,675.1	\$ 353.6	21%

The following table includes comparative information for our estimated net sales by the same principal end-use markets, but excluding surcharge revenues:

(\$ in millions)	Fiscal Year		\$ Increase	% Increase
	2012	2011		
Aerospace and defense	\$ 668.8	\$ 512.1	\$ 156.7	31%
Industrial and consumer	346.7	324.9	21.8	7
Energy	227.4	156.0	71.4	46
Medical	125.7	104.4	21.3	20
Transportation	104.0	95.0	9.0	9
Distribution	97.0	38.7	58.3	151
Total net sales excluding surcharge revenues	\$ 1,569.6	\$ 1,231.1	\$ 338.5	27%

Sales to the aerospace and defense market increased 29 percent from fiscal year 2011 to \$901.1 million. Excluding surcharge revenue, such sales increased 31 percent on 43 percent higher shipment volume. The aerospace and defense results reflect strength in all areas as build rates remain high and mix shifts to larger planes and new platforms that favor higher use of our products as well as the addition of the Latrobe business during fiscal year 2012.

Industrial and consumer market sales decreased 2 percent from fiscal year 2011 to \$478.2 million. Adjusted for surcharge revenue, such sales increased approximately 7 percent while volumes decreased 9 percent. The results reflect the continued impact of mix management and pricing actions. The percentage of volume in differentiated product applications with strategically important customers continues to increase as a result of these actions.

Sales to the energy market of \$268.3 million reflected a 38 percent increase from fiscal year 2011. Excluding surcharge revenue, such sales increased 46 percent on 35 percent higher shipment volume. The sales results reflect the growth led by oil and gas which continues to benefit

from the Amega West acquisition which is leading to share gains and international expansion. Directional rig activity remains high with increased offshore drilling and movement of rigs from gas to oil.

Table of Contents

Sales to the medical market increased 15 percent to \$141.0 million from fiscal year 2011. Adjusted for surcharge revenue, such sales increased 20 percent, while volumes increased 7 percent. The overall volume growth is consistent with expected long term industry growth rates. The higher growth is attributable to customer shifts to tighter specification medical grade alloys which creates increased demand for Carpenter premium products.

Transportation market sales increased 5 percent from the fiscal year 2011 to \$142.2 million. Excluding surcharge revenue, such sales increased 9 percent on 5 percent lower shipment volume. Revenue growth far exceeded volume growth which reflects Carpenter's focus on higher value material solutions to increase fuel efficiency and lightweight vehicles.

Sales to the distribution market increased 153 percent to \$97.9 million from fiscal year 2011. The increase is primarily attributable to the addition of Latrobe distribution business which globally sources and distributes corrosion resistant steels, tool steels and powder metals for a wide range of industries.

**Sales by Product Class**

The following table includes comparative information for our net sales by major product class:

(\$ in millions)	Fiscal Year		\$ Increase	% Increase
	2012	2011		
Special alloys	\$ 931.4	\$ 831.8	\$ 99.6	12%
Stainless steels	637.3	564.9	72.4	13
Titanium products	156.6	135.3	21.3	16
Powder metals	64.3	61.4	2.9	5
Alloy and Tool steel	108.6	27.2	81.4	299
Distribution and other	130.5	54.5	76.0	139
Total net sales	\$ 2,028.7	\$ 1,675.1	\$ 353.6	21%

The following table includes comparative information for our net sales by the same major product class, but excluding surcharge revenues:

(\$ in millions)	Fiscal Year		\$ Increase	% Increase
	2012	2011		
Special alloys	\$ 626.2	\$ 548.0	\$ 78.2	14%
Stainless steels	512.4	414.8	97.6	24
Titanium products	156.6	135.3	21.3	16
Powder metals	59.7	56.9	2.8	5
Alloy and Tool steel	85.7	21.6	64.1	297
Distribution and other	129.0	54.5	74.5	137
Total net sales excluding surcharge revenues	\$ 1,569.6	\$ 1,231.1	\$ 338.5	27%

## Edgar Filing: CARPENTER TECHNOLOGY CORP - Form 10-K

Sales of special alloys products increased 12 percent in fiscal year 2012 as compared with a year ago to \$931.4 million. Excluding surcharge revenue, sales increased 14 percent on a 6 percent increase in shipment volume. The sales results principally reflect the increased demand in our higher value alloys used in the aerospace and energy markets as well as the positive impacts of our mix management initiatives.

Sales of stainless steels increased 13 percent as compared with fiscal year 2011. Excluding surcharge revenues, such sales increased by 24 percent on a 1 percent lower shipment volume. The results reflect the benefits of strengthening product mix and pricing actions in the energy, medical, industrial, automotive and consumer markets.

Table of Contents

Sales of titanium products increased 16 percent as compared with fiscal year 2011 on 5 percent higher shipment volume. The results reflect the benefits of shifts in product mix to higher value materials used in medical applications as well as the impacts of strengthening demand for aerospace fasteners.

Sales of powder metals increased 5 percent in fiscal year 2012 on 2 percent lower shipment volume. The results reflect unfavorable performance in Europe, offset by pricing and mix management efforts.

Sales of alloy and tool steel increased 299 percent in fiscal year 2012 on 221 percent higher shipment volume. The results reflect the addition of the Latrobe business.

**Gross Profit**

Gross profit in fiscal year 2012 increased to \$391.0 million, or 19.3 percent of net sales (24.9 percent of net sales excluding surcharges), from \$249.0 million, or 14.9 percent of net sales (20.2 percent of net sales excluding surcharges), for fiscal year 2011. The results primarily reflect the higher volumes in fiscal year 2012, an improved product mix, price increases and better operating performance.

Our surcharge mechanism is structured to recover increases in raw material costs, although generally with a lag effect. While the surcharge generally protects the absolute gross profit dollars, it does have a dilutive effect on gross margin as a percent of sales. The following represents a summary of the dilutive impact of the surcharges on gross margin for fiscal years 2012 and 2011. See the section **Non-GAAP Financial Measures** below for further discussion of these financial metrics.

(\$ in millions)	Fiscal Year	
	2012	2011
Net sales	\$ 2,028.7	\$ 1,675.1
Less: surcharge revenue	459.1	444.0
Net sales excluding surcharges	\$ 1,569.6	\$ 1,231.1
Gross profit	\$ 391.0	\$ 249.0
Gross margin	19.3%	14.9%
Gross margin excluding dilutive effect of surcharges	24.9%	20.2%

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses in fiscal year 2012 were \$169.2 million, or 8.3 percent of net sales (10.7 percent of net sales excluding surcharges), compared to \$149.5 million, or 8.9 percent of net sales (12.1 percent of net sales excluding surcharges), in fiscal year 2011. The increase in fiscal year 2012 is due principally to the additional overhead costs related to the Latrobe and Amega businesses and the

impact of general inflationary increases in costs.

#### **Acquisition Related Costs**

In connection with the Latrobe Acquisition, we incurred approximately \$11.7 million of acquisition-related costs during fiscal year 2012. These costs represent direct incremental legal, accounting and investment banking fees incurred in connection with the Latrobe Acquisition as well as approximately \$5.2 million of liability for costs associated with the sale of certain Latrobe assets necessary to obtain FTC approval for the transaction.

Table of Contents

During fiscal year 2011, we incurred \$3.1 million of acquisition related costs associated with the Latrobe and Amega West acquisitions. These costs consist primarily of fees paid to financial, legal and other professional advisors in connection with the acquisition activities.

**Operating Income**

Our operating income in fiscal year 2012 increased to \$210.1 million as compared with \$96.4 million in fiscal year 2011. Operating income has been significantly impacted by our pension earnings, interest and deferrals ( pension EID ) portion of our net pension expense, which may be volatile based on conditions in the financial markets. The following presents our operating income and operating margin, in each case excluding the impact of surcharges on net sales and excluding the impacts of pension EID expense and acquisition related costs from operating income. We present and discuss these financial measures because management believes removing the impact of volatile and restructuring charges provides a more consistent and meaningful basis for comparing results of operations from period to period. See the section Non-GAAP Financial Measures below for further discussion of these financial measures.

(\$ in millions)	Fiscal Year	
	2012	2011
Net sales	\$ 2,028.7	\$ 1,675.1
Less: surcharge revenue	459.1	444.0
Net sales excluding surcharges	\$ 1,569.6	\$ 1,231.1
Operating income	\$ 210.1	\$ 96.4
Add back: Pension EID expense	15.3	35.2
Operating income excluding pension EID expense	\$ 225.4	\$ 131.6
Acquisition related costs (from transaction)	11.7	3.1
Operating income excluding pension EID expense and acquisition related costs (from transaction)	\$ 237.1	\$ 134.7
Operating margin excluding surcharges and pension EID expense	14.4%	10.7%
Operating margin excluding surcharges and pension EID expense and acquisition related costs (from transaction)	15.1%	10.9%

In addition to the impact of the surcharge mechanism and pension EID expense, fluctuations in raw material prices (combined with fluctuations in inventory levels) and the lag effect of the surcharge mechanism have impacted our operating income from year to year. We estimate that the effect of such combined fluctuations negatively impacted our operating margin by approximately 30 basis points during fiscal year 2012 and negatively impacted our operating margin by approximately 90 basis points during fiscal year 2011.

**Interest Expense**

Fiscal year 2012 interest expense of \$23.8 million increased 39 percent from \$17.1 million in fiscal year 2011. The increase in interest expense, excluding the gains on interest swaps, reflects the net impact of a higher debt level albeit at a lower average interest rate. Interest on substantially all of our debt was at a fixed rate. We have used interest rate swaps to achieve a level of floating rate debt to fixed rate debt where appropriate. Fiscal year 2012 interest expense includes net gains from interest rate swaps of \$1.4 million as compared with net gains from the interest rate swaps of \$2.8 million in fiscal year 2011.



Table of Contents**Other Income, Net**

Other income for fiscal year 2012 was \$2.3 million as compared with \$8.5 million a year ago. The decrease principally reflected less receipts from the Continued Dumping and Subsidy Offset Act of 2000, unfavorable market return on company owned life insurance and lower equity in earnings of our joint ventures.

**Income Taxes**

Our effective tax rate (income tax expense as a percent of income before taxes) for fiscal year 2012 was 35.5 percent as compared to 18.3 percent in fiscal year 2011. The fiscal year 2012 tax rate was higher than the statutory rate of 35 percent, primarily due to the nondeductible expenses related to the Latrobe acquisition.

The fiscal year 2011 tax rate was lower than the statutory rate of 35 percent, primarily due to the benefits associated with foreign source income, the domestic manufacturing deduction and the research and development credit.

See Note 16 to the consolidated financial statements in Item 8. Financial Statements and Supplementary Data for a full reconciliation of the statutory federal tax rate to the effective tax rates.

**Business Segment Results**

Summary information about our operating results on a segment basis is set forth below. For more detailed segment information, see Note 18 to the consolidated financial statements included in Item 8. - Financial Statements and Supplementary Data.

The following tables include selected information by business segment:

(Pounds sold, in thousands)	Fiscal Year		Increase Decrease	% Increase
	2012	2011		
Specialty Alloys Operations	207,560	207,246	314	
Performance Engineered Products	14,182	14,134	48	
Latrobe	22,970		22,970	N/A
Intersegment	(9,180)	(4,546)	(4,634)	102
Consolidated pounds sold	235,532	216,834	18,698	9%

Edgar Filing: CARPENTER TECHNOLOGY CORP - Form 10-K

(\$ in millions)	Fiscal Year		Increase Decrease	% Increase
	2012	2011		
Specialty Alloys Operations	\$ 1,566.6	\$ 1,431.3	135.3	9%
Performance Engineered Products	347.0	248.3	98.7	40
Latrobe	217.7	38.7	179.0	463
Intersegment	(102.6)	(43.2)	(59.4)	138
Total net sales	\$ 2,028.7	\$ 1,675.1	\$ 353.6	21%

Table of Contents

(\$ in millions)	Fiscal Year		Increase Decrease	% Increase
	2012	2011		
Specialty Alloys Operations	\$ 1,126.8	\$ 990.4	136.4	14
Performance Engineered Products	342.1	243.2	98.9	41
Latrobe	193.2	38.7	154.5	399
Intersegment	(92.5)	(41.2)	(51.3)	125
Total net sales excluding surcharge revenues	\$ 1,569.6	\$ 1,231.1	\$ 338.5	27%

***Specialty Alloys Operations Segment***

Net sales in fiscal year 2012 for the Specialty Alloys Operations ( SAO ) segment were \$1,566.6 million, as compared with \$1,431.3 million in fiscal year 2011. Excluding surcharge revenues, sales increased 14 percent from a year ago. The fiscal year 2012 net sales reflected flat pounds shipped as compared to fiscal year 2011. The results reflects the benefits of shift in our product mix to more premium products through our limited capacity as well as the positive impacts of our pricing actions and mix management efforts.

Operating income for the SAO segment in fiscal year 2012 was \$229.4 million, or 14.6 percent of net sales (20.4 percent of net sales excluding surcharge revenues), compared to \$139.3 million, or 9.7 percent of net sales (14.1 percent of net sales excluding surcharge revenues), for fiscal year 2011. The increase in operating income reflects the impacts our pricing actions and a strong product mix as well as the benefits of our operating cost performance improvements.

***Performance Engineered Products Segment***

Net sales for fiscal year 2012 for the Performance Engineered Products ( PEP ) segment increased 40 percent to \$347.0 million as compared with \$248.3 million for fiscal year 2011. Excluding surcharge revenues, net sales increased 41 percent on flat shipment volumes. The increase in net sales is due to the contribution of the Amega West business acquired December 31, 2010 as well as strong demand in high value materials used in aerospace and medical markets in our titanium business.

Operating income for the PEP segment for fiscal year 2012 was \$41.7 million, or 12.0 percent of net sales, as compared with \$35.0 million, or 14.1 percent of net sales for fiscal year 2011. The operating income performance compared to last year reflects unfavorable manufacturing performance, weakness in powder sales in Europe and the impacts of investments in infrastructure necessary to support growth initiatives.

***Latrobe Segment***

The Latrobe segment includes the operations of the manufacturing and distribution operations of the business beginning upon closing of the Latrobe Acquisition in February 2012. Prior to the Latrobe Acquisition, the Latrobe segment included the result of our distribution business in Mexico. Net sales for fiscal year 2012 for the Latrobe segment increased 463 percent to \$217.7 million as compared with \$38.7 million for fiscal year 2011. Excluding surcharge revenues, net sales increased 399 percent. The sales in the Latrobe segment are concentrated in the aerospace and defense, industrial and consumer, and energy end use markets as well as distribution sales.

Operating income for the Latrobe segment for fiscal year 2012 was \$13.3 million, or 6.1 percent of net sales (6.9 percent of net sales excluding surcharge revenues), as compared with \$2.2 million, or 5.7 percent of net sales (5.7 percent of net sales excluding surcharge revenues) for fiscal year 2011. The operating income for fiscal year 2012 includes approximately \$11.6 million of inventory fair value adjustments expensed in connection with acquisition accounting. Excluding these adjustments, segment operating income would have been \$24.9 million in fiscal year 2012 or 11.4 percent of sales (12.9 percent of net sales excluding surcharge revenue).

Table of Contents**Results of Operations Fiscal Year 2011 Compared to Fiscal Year 2010**

For fiscal year 2011, we reported net income attributable to Carpenter of \$71.0 million, or \$1.59 per diluted share, compared with net income attributable to Carpenter of \$2.1 million, or \$0.04 per diluted share, a year earlier. Our fiscal year 2011 results reflect a trend of improving revenues and profit throughout the fiscal year driven by increased demand across all our end-use markets as well as the benefits of our pricing and mix management efforts, particularly in the second half of fiscal year 2011.

**Net Sales**

Net sales for fiscal year 2011 were \$1,675.1 million, which was a 40 percent increase from fiscal year 2010. Excluding surcharge revenues, sales were \$1,231.1 million, an increase of 34 percent from a year earlier on 25 percent higher volume.

Geographically, sales outside the United States increased 39 percent from a year ago to \$511.4 million. International sales remained fairly consistent as a percentage of our total net sales, representing 31 percent for fiscal years 2011 and 2010.

***Sales by End-Use Markets***

We sell to customers across diversified end-use markets. Although we are not organized to report other than sales by end-use market, the following table includes comparative information for our estimated net sales by principal end-use markets which we believe is helpful supplemental information in analyzing the performance of the business from period to period:

(\$ in millions)	Fiscal Year		\$ Increase	% Increase
	2011	2010		
Aerospace and defense	\$ 697.6	\$ 535.0	\$ 162.6	30%
Industrial and consumer	486.6	346.6	140.0	40
Energy	194.6	79.6	115.0	144
Medical	122.1	107.2	14.9	14
Transportation	135.5	97.6	37.9	39
Distribution	38.7	32.6	6.1	19
Total net sales	\$ 1,675.1	\$ 1,198.6	\$ 476.5	40%

The following table includes comparative information for our estimated net sales by the same principal end-use markets, but excluding surcharge revenues:

(\$ in millions)	Fiscal Year		\$ Increase	% Increase
	2011	2010		

Edgar Filing: CARPENTER TECHNOLOGY CORP - Form 10-K

Aerospace and defense	\$	512.1	\$	409.2	\$	102.9	25%
Industrial and consumer		324.9		249.6		75.3	30
Energy		156.0		65.2		90.8	139
Medical		104.4		89.3		15.1	17
Transportation		95.0		75.8		19.2	25
Distribution		38.7		32.6		6.1	19
Total net sales excluding surcharge revenues	\$	1,231.1	\$	921.7	\$	309.4	34%

Sales to the aerospace and defense market increased 30 percent from fiscal year 2010 to \$697.6 million. Excluding surcharge revenue, such sales increased 25 percent on 25 percent higher shipment volume. Aerospace and defense results reflect continuing strong demand for engine components driven by high build rates.

Table of Contents

Industrial and consumer market sales increased 40 percent from fiscal year 2010 to \$486.6 million. Adjusted for surcharge revenue, such sales increased approximately 30 percent while volumes increased 22 percent. The results reflect the impact of mix management and pricing actions as well as demand growth for higher value materials for fittings. In addition, powder metal sales used for tool steel products were up significantly.

Sales to the energy market of \$194.6 million reflected a 144 percent increase from the fiscal year 2010. Excluding surcharge revenue, such sales increased 139 percent on 79 percent higher shipment volume. The results reflect a significant increase in the oil and gas segment due in part to increases in directional drilling activity, the Amega West acquisition and higher pricing. In addition, increased demand for materials used in industrial gas turbines contributed to the growth.

Sales to the medical market increased 14 percent to \$122.1 million from a year ago. Adjusted for surcharge revenue, such sales increased 17 percent, on 8 percent higher volume. The results reflect increased demand particularly in our high-end stainless products. Transportation market sales increased 39 percent from the fiscal year 2010 to \$135.5 million. Excluding surcharge revenue, such sales increased 25 percent on 18 percent higher shipment volume. The revenue growth is attributable to mix management efforts that caused increased participation in higher value turbo charger and fuel system components, with a corresponding reduction in lower value products. These efforts are expected to better position us to participate in the trend toward premium stainless and high-temp alloys used in the next generation technologies that support higher fuel economy.

Sales to the distribution market increased 19 percent to \$38.7 million from a year ago.

**Sales by Product Class**

The following table includes comparative information for our net sales by major product class:

(\$ in millions)	Fiscal Year		\$ Increase (Decrease)	% Increase (Decrease)
	2011	2010		
Special alloys	\$ 831.8	\$ 611.6	\$ 220.2	36%
Stainless steels	564.9	373.4	191.5	51
Titanium products	135.3	108.0	27.3	25
Powder metals	61.4	33.8	27.6	82
Alloy and Tool steel	27.2	29.9	(2.7)	(9)
Distribution and other	54.5	41.9	12.6	30
Total net sales	\$ 1,675.1	\$ 1,198.6	476.5	40%

The following table includes comparative information for our net sales by the same major product class, but excluding surcharge revenues:

\$ %

Edgar Filing: CARPENTER TECHNOLOGY CORP - Form 10-K

(\$ in millions)	Fiscal Year		Increase		Increase	
	2011	2010	(Decrease)	(Decrease)	(Decrease)	(Decrease)
Special alloys	\$ 548.0	\$ 425.0	\$ 123.0		29%	
Stainless steels	414.8	288.2	126.6		44	
Titanium products	135.3	108.0	27.3		25	
Powder metals	56.9	32.6	24.3		75	
Alloy and Tool steel	21.6	26.0	(4.4)		(17)	
Distribution and other	54.5	41.9	12.6		30	
Total net sales excluding surcharge revenues	\$ 1,231.1	\$ 921.7	\$ 309.4		34%	

Table of Contents

Sales of special alloys products increased 36 percent in fiscal year 2011 as compared with a year ago to \$831.8 million. Excluding surcharge revenue, sales increased 29 percent on a 24 percent increase in shipment volume. The sales results principally reflect the increase in demand from the higher value aerospace and defense and energy market products.

Sales of stainless steels increased 51 percent as compared with a year ago. Excluding surcharge revenues, such sales increased by 44 percent on a 2 percent higher shipment volume. The results reflect increased demand in materials used in the automotive, industrial and consumer markets as well as the impacts of pricing and mix management actions.

Sales of titanium products increased 25 percent as compared with a year ago on 24 percent higher shipment volume. The results reflect the impact of increased demand for titanium products used in the aerospace and defense and medical end-use markets.

Sales of powder metals increased 82 percent as compared with a year ago. Excluding surcharge revenues, such sales increased by 75 percent on a 61 percent higher shipment volume.

Sales of alloy and tool steel decreased 9 percent as compared with a year ago. Excluding surcharge revenues, such sales decreased by 17 percent on a 4 percent lower shipment volume.

**Gross Profit**

Gross profit in fiscal year 2011 increased to \$249.0 million, or 14.9 percent of net sales (20.2 percent of net sales excluding surcharges), from \$144.8 million, or 12.1 percent of net sales (15.7 percent of net sales excluding surcharges), a year ago. The results primarily reflect the higher volumes in fiscal year 2011, an improved product mix, price increases and better operating performance.

Our surcharge mechanism is structured to recover increases in raw material costs, although generally with a lag effect. While the surcharge generally protects the absolute gross profit dollars, it does have a dilutive effect on gross margin as a percent of sales. The following represents a summary of the dilutive impact of the surcharges on gross margin for fiscal years 2011 and 2010. See the section Non-GAAP Financial Measures below for further discussion of these financial metrics.

(\$ in millions)	Fiscal Year	
	2011	2010
Net sales	\$ 1,675.1	\$ 1,198.6
Less: surcharge revenue	444.0	276.9
Net sales excluding surcharges	\$ 1,231.1	\$ 921.7
Gross profit	\$ 249.0	\$ 144.8
Gross margin	14.9%	12.1%

Gross margin excluding dilutive effect of surcharges	20.2%	15.7%
--	-------	-------

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses in fiscal year 2011 were \$149.5 million, or 8.9 percent of net sales (12.1 percent of net sales excluding surcharges), compared to \$133.1 million, or 11.1 percent of net sales (14.4 percent of net sales excluding surcharges), in fiscal year 2010. The increase in fiscal year 2011 is principally related to higher compensation costs associated with increased headcount and the addition of Amega West overhead costs.

Table of Contents**Acquisition Related Costs**

During fiscal year 2011, we incurred \$3.1 million of acquisition related costs associated with the Latrobe and Amega West acquisitions. These costs consist primarily of fees paid to financial, legal and other professional advisors in connection with the acquisition activities.

**Operating Income**

Our operating income in fiscal year 2011 increased to \$96.4 million as compared with \$11.7 million in fiscal year 2010. Operating income has been significantly impacted by our pension earnings, interest and deferrals ( pension EID ) portion of our net pension expense, which may be volatile based on conditions in the financial markets. The following presents our operating income and operating margin, in each case excluding the impact of surcharges on net sales and excluding the impacts of pension EID expense from operating income. We present and discuss these financial measures because management believes removing the impact of volatile charges provides a more consistent and meaningful basis for comparing results of operations from period to period. See the section Non-GAAP Financial Measures below for further discussion of these financial measures.

(\$ in millions)	Fiscal Year	
	2011	2010
Net sales	\$ 1,675.1	\$ 1,198.6
Less: surcharge revenue	444.0	276.9
Net sales excluding surcharges	\$ 1,231.1	\$ 921.7
Operating income	\$ 96.4	\$ 11.7
Add back: Pension EID expense	35.2	37.9
Operating income excluding pension EID expense	\$ 131.6	\$ 49.6
Acquisition related costs (from transaction)	3.1	
Operating income excluding pension EID expense and acquisition related costs (from transaction)	\$ 134.7	\$ 49.6
Operating margin excluding surcharges and pension EID expense	10.7%	5.4%
Operating margin excluding surcharges and pension EID expense and acquisition related costs (from transaction)	10.9%	5.4%

In addition to the impact of the surcharge mechanism and pension EID expense, fluctuations in raw material prices (combined with fluctuations in inventory levels) and the lag effect of the surcharge mechanism have impacted our operating income from year to year. We estimate that the effect of such combined fluctuations negatively impacted our operating margin by approximately 60 basis points during fiscal year 2011 and negatively impacted our operating margin by approximately 150 basis points during fiscal year 2010.

**Interest Expense**

Fiscal year 2011 interest expense of \$17.1 million compared from \$17.8 million in fiscal year 2010. Interest on substantially all of our debt was at a fixed rate. We have used interest rate swaps to achieve a level of floating rate debt to fixed rate debt where appropriate. Fiscal year 2011

## Edgar Filing: CARPENTER TECHNOLOGY CORP - Form 10-K

interest expense includes net gains from interest rate swaps of \$2.8 million as compared with net gains from the interest rate swaps of \$2.4 million in fiscal year 2010. The decrease in interest expense, excluding the gains on the interest swaps, is attributable to reductions in outstanding debt offset by decrease in the amount of interest capitalized associated with ongoing construction projects during fiscal year 2011.

Table of Contents

**Other Income, Net**

Other income for fiscal year 2011 was \$8.5 million as compared with \$10.8 million a year ago. The decrease principally reflected less receipts from the Continued Dumping and Subsidy Offset Act of 2000 offset by favorable market return on company owned life insurance and higher equity in earnings from our joint ventures.

**Income Taxes**

Our effective tax rate (income tax expense as a percent of income before taxes) for fiscal year 2011 was 18.3 percent as compared to 55.3 percent in fiscal year 2010. The fiscal year 2011 tax rate was lower than the statutory rate of 35 percent, primarily due to benefits associated with foreign source income, the domestic manufacturing deduction and the research and development credit.

The fiscal year 2010 tax rate was higher than the statutory rate of 35 percent, primarily due to the following items. We recorded an income tax expense charge in the amount of \$5.9 million to reduce the value of the Company's deferred tax asset previously established for anticipated retiree health care liabilities. Offsetting this amount, there was a reduction in income tax expense in the amount of \$3.2 million due to the reversal of certain unrecognized tax benefits as a result of the completion of certain tax examinations. Our lower taxable income level also resulted in our permanent book to tax differences having a more significant impact on the effective tax rate.

See Note 16 to the consolidated financial statements in Item 8. Financial Statements and Supplementary Data for a full reconciliation of the statutory federal tax rate to the effective tax rates.

Table of Contents**Business Segment Results**

Summary information about our operating results on a segment basis is set forth below. For more detailed segment information, see Note 18 to the consolidated financial statements included in Item 8. - Financial Statements and Supplementary Data.

(Pounds sold, in thousands)	Fiscal Year		Increase Decrease	% Increase
	2011	2010		
Specialty Alloys Operations	207,246	163,158	44,088	27
Performance Engineered Products	14,134	10,348	3,786	37
Intersegment	(4,546)	(532)	(4,014)	755
Consolidated pounds sold	216,834	172,974	43,860	25%

(\$ in millions)	Fiscal Year		Increase Decrease	% Increase
	2011	2010		
Specialty Alloys Operations	\$ 1,431.3	\$ 1,017.6	413.7	41%
Performance Engineered Products	248.3	157.7	90.6	57
Latrobe	38.7	32.6	6.1	19
Intersegment	(43.2)	(9.3)	(33.9)	365
Total net sales	\$ 1,675.1	\$ 1,198.6	\$ 476.5	40%

(\$ in millions)	Fiscal Year		Increase Decrease	% Increase
	2011	2010		
Specialty Alloys Operations	\$ 990.4	\$ 742.7	247.7	33
Performance Engineered Products	243.2	155.6	87.6	56
Latrobe	38.7	32.6	6.1	19
Intersegment	(41.2)	(9.2)	(32.0)	348
Total net sales excluding surcharge revenues	\$ 1,231.1	\$ 921.7	\$ 309.4	34%

***Specialty Alloys Operations Segment***

Net sales in fiscal year 2011 for the SAO segment were \$1,431.3 million, as compared with \$1,017.6 million in fiscal year 2010. Excluding surcharge revenues, sales increased 33 percent on 27 percent higher volume. The results reflect increased shipment volumes due to higher demand combined with the impacts of pricing actions.

Operating income for the SAO segment in fiscal year 2011 was \$139.3 million, or 9.7 percent of net sales (13.7 percent of net sales excluding surcharge revenues), compared to \$65.2 million, or 6.4 percent of net sales (8.8 percent of net sales excluding surcharge revenues), a year ago. The increase in operating income reflects the impacts of higher volumes, pricing actions and a favorable shift in product mix.

***Performance Engineered Products Segment***

Net sales for fiscal year 2011 for the PEP segment increased 57 percent to \$248.3 million as compared with \$157.7 million for fiscal year 2010. Excluding surcharge revenues, net sales increased 56 on 37 percent higher shipment volumes. The results reflect increased demand in the aerospace and energy markets as well as the addition of the Amega West business that was acquired December 31, 2010.

Table of Contents

Operating income for the PEP segment for fiscal year 2011 was \$35.0 million, or 14.1 percent of net sales (14.4 percent of net sales excluding surcharge revenues), as compared with \$17.1 million, or 10.8 percent of net sales (11.0 percent of net sales excluding surcharge revenues) for fiscal year 2010. The increase in operating income principally reflects increase in volumes, the impacts of pricing and mix management actions as well as the addition of the Amega West business.

***Latrobe***

During fiscal year 2011 and 2010, the Latrobe segment consisted of our distribution business in Mexico. Our distribution business was added to the Latrobe business when the Latrobe Acquisition was completed in February 2012.

**Liquidity and Capital Resources**

During the fiscal year 2012, our free cash flow, which we define under *Non-GAAP Financial Measures* below, was negative \$58.8 million as compared to negative \$88.9 million for the same period a year ago. The increase in free cash flow in fiscal year 2012 as compared with the prior year principally reflects higher net income levels in fiscal year 2012, lower working capital levels and less cash used in acquisitions offset by increased investments in capital expenditures.

Purchases of property, plant and equipment and software were \$171.9 million for fiscal year 2012 as compared with \$79.6 million for the prior year. The increase in fiscal year 2012 purchases of property, plant and equipment represents spending on capacity expansion projects and investments in the growth of the PEP businesses, particularly Amega West.

Dividends for the fiscal year 2012 were \$33.7 million, as compared with \$32.1 million in the prior year, and were paid at the same quarterly rate of \$0.18 per share of common stock in both periods.

For fiscal years 2012, 2011 and 2010, interest cost totaled \$25.0 million, \$17.6 million, and \$18.8 million, respectively, of which \$1.2 million, \$0.5 million, and \$1.0 million, respectively, were capitalized as part of the cost of plant, equipment and software.

We have demonstrated the ability to generate cash to meet our needs through cash flow from operations, management of working capital and the availability of outside sources of financing to supplement internally generated funds. We believe that our cash and cash equivalents of approximately \$211 million as of June 30, 2012, together with cash generated from operations and available borrowing capacity of approximately \$344 million under our credit facilities, will be sufficient to fund our cash needs for the foreseeable future.

In June 2011, we issued \$250 million of 5.20% senior notes due 2021 to take advantage of an attractive opportunity to refinance \$100 million of notes that were due in August 2011. The issuance of these notes, together with the Credit Agreement entered into in June 2011 further discussed

## Edgar Filing: CARPENTER TECHNOLOGY CORP - Form 10-K

below, were completed in anticipation of our significant growth investments. We expect our current capital structure will be sufficient to support our business needs with minimal need to rely on borrowing under the Credit Agreement.

We currently expect that our free cash flow will be about negative \$125 million in fiscal year 2013 and about negative \$50 million in fiscal year 2014. Once we are beyond our peak capital expenditure spending levels principally associated with the new \$500 million premium products facility, we expect to generate consistently positive annual free cash flow. Our expected cash flow projections include assumptions related to the impacts of capital expenditures, pension contributions, investments in working capital, as well as the impacts of additional potential investment opportunities. We believe we will continue to maintain a strong balance sheet with adequate liquidity throughout the current investment phase and beyond. We also believe we have additional financing opportunities as credit markets remain attractive for corporate investment grade debt.

Table of Contents

After more than two decades of no required contributions to our pension plans, we contributed \$30 million of cash in to our pension plans during fiscal year 2012 and expect to contribute another \$82 million of cash contributions to our pension plans during fiscal year 2013. Over the next five years, current estimates indicate that we will contribute about \$400 million to our pension plans, subject to market returns and interest rate assumptions. We continue to look at options to proactively deal with the pension plan funding impacts as well as the earnings impacts associated with our pension plans. These plans would be tied in to a strategy that also considers the \$101 million current portion of long-term debt that matures in May 2013.

We generally target minimum liquidity, consisting of cash and cash equivalents added to available borrowing capacity under our credit agreement, of \$150 million. Our revolving credit facility contains a revolving credit commitment of \$350 million and expires in June 2016. As of June 30, 2012, we had \$5.9 million of issued letters of credit under the revolving credit facility. The balance of the revolving credit facility (\$344.1 million) remains available to us. As of June 30, 2012, we had total liquidity of approximately \$555 million, of which, we expect to fund the maturity of \$101 million of long-term debt in fiscal year 2013, if necessary. We also evaluate liquidity needs for alternative uses including funding external growth opportunities as well as funding consistent dividend payments to stockholders. Over the last three fiscal years, we declared and paid quarterly cash dividends of \$0.18 per share. We have historically authorized share repurchase programs. There are no current authorized share repurchase programs in order to preserve flexibility for our current priority to invest in attractive growth investments.

As of June 30, 2012, we had cash and cash equivalents of approximately \$89 million held at various foreign subsidiaries. Our global cash deployment considers, among other things, the geographic location of our subsidiaries' cash balances, the locations of our anticipated liquidity needs, and the cost to access international cash balances, as necessary. The repatriation of cash from certain foreign subsidiaries could have adverse tax consequences as we may be required to pay and record U.S. income taxes and foreign withholding taxes in various tax jurisdictions on these funds to the extent they were previously considered permanently reinvested. From time to time, we evaluate opportunities to repatriate cash from foreign jurisdictions. Our current plans consider repatriating cash only at levels that would result in minimal or no net adverse tax consequences in the near term.

We are subject to certain financial and restrictive covenants under the Credit Agreement, which, among other things, require the maintenance of a minimum interest coverage ratio (3.5 to 1.0 as of June 30, 2012). The interest coverage ratio is defined in the Credit Agreement as, for any period, the ratio of consolidated earnings before interest, taxes, depreciation and amortization ( EBITDA ) to consolidated interest expense for such period. The Credit Agreement also requires the Company to maintain a debt to capital ratio of less than 55%. The debt to capital ratio is defined in the Credit Agreement as the ratio of consolidated indebtedness, defined as total long-term debt added to outstanding capital lease obligations and outstanding letters of credit, to consolidated capitalization, defined as consolidated indebtedness added to total equity. As of June 30, 2012, the Company was in compliance with all of the covenants of the Credit Agreement.

The following table shows our actual ratio performance with respect to the financial covenants, as of June 30, 2012:

	<b>Covenant Requirement</b>	<b>Actual Ratio</b>
Consolidated interest coverage	3.5 to 1.00 (minimum)	14.68 to 1.00
Consolidated debt to capital	55% (maximum)	27%

We continue to believe that we will maintain compliance with the financial and restrictive covenants in future periods. To the extent that we do not comply with the covenants under the Credit Agreement, this could reduce our liquidity and flexibility due to potential restrictions on borrowings available to us unless we are able to obtain waivers or modification of the covenants.



Table of Contents**Non-GAAP Financial Measures**

The following provides additional information regarding certain non-GAAP financial measures. Our definitions and calculations of these items may not necessarily be the same as those used by other companies.

***Net Pension Expense Per Diluted Share***

(\$ in millions, except per share data)	Fiscal Year		
	2012	2011	2010
Net periodic benefit costs			
Pension plans	\$ 38.5	\$ 54.0	\$ 54.3
Other postretirement benefit plans	3.6	6.8	7.0
	42.1	60.8	61.3
Income tax benefit	(15.9)	(23.2)	(23.7)
Net pension expense	\$ 26.2	\$ 37.6	\$ 37.6
Weighted average diluted common shares	47.8	44.7	44.4
Net pension expense per diluted share	\$ 0.55	\$ 0.84	\$ 0.85

Management believes that net pension expense per diluted share is helpful in analyzing the operational performance of the Company from period to period as net pension expense has been volatile due to changes in the financial markets, which may result in significant fluctuations in operating results from year to year.

***Net Sales and Gross Margin Excluding Surcharges***

This report includes discussions of net sales and gross margin as adjusted to exclude the impact of raw material surcharges, which represent financial measures that have not been determined in accordance with U.S. GAAP. We present and discuss these financial measures because management believes removing the impact of raw material surcharges from net sales and gross margin provides a more consistent basis for comparing results of operations from period to period for the reasons discussed earlier in this report. See our earlier discussion of gross profit for a reconciliation of net sales and gross margin excluding surcharges to net sales as determined in accordance with U.S. GAAP.

***Operating Income and Operating Margin Excluding Surcharges, Pension EID Expense and Acquisition Related Costs***

This report includes discussions of operating income and operating margin as adjusted to exclude the impact of raw material surcharges, pension EID expense and acquisition related costs, which represent financial measures that have not been determined in accordance with U.S. GAAP.

## Edgar Filing: CARPENTER TECHNOLOGY CORP - Form 10-K

We present and discuss these financial measures because management believes removing the impact of raw material surcharges from net sales provides a more consistent and meaningful basis for comparing results of operations from period to period for the reasons discussed earlier in this report. In addition, management believes that excluding pension earnings, interest and deferrals expense and acquisition costs from operating income and operating margin is helpful in analyzing our operating performance particularly as pension EID expense may be volatile due to changes in the financial markets. See our earlier discussion of operating income for a reconciliation of operating income and operating margin excluding pension EID expense and acquisition costs to operating income and operating margin determined in accordance with U.S. GAAP.

Table of Contents**Free Cash Flow**

The following provides a reconciliation of free cash flow, as used in this annual report, to its most directly comparable U.S. GAAP financial measures.

(\$ in millions)	Fiscal Year		
	2012	2011	2010
Net cash provided from operating activities	\$ 160.3	\$ 64.2	\$ 115.2
Purchases of property, equipment and software	(171.9)	(79.6)	(44.2)
Dividends paid	(33.7)	(32.1)	(31.9)
Proceeds from disposals of plant and equipment	1.2	1.1	1.0
Proceeds received from sale of non-controlling interest		9.1	
Capital contribution to equity method investment	(1.8)	(6.2)	
Acquisition of businesses, net of cash acquired	(12.9)	(45.4)	
Free cash flow	\$ (58.8)	\$ (88.9)	\$ 40.1

Management believes that the presentation of free cash flow provides useful information to investors regarding our financial condition because it is a measure of cash generated which management evaluates for alternative uses. It is management's current intention to use excess cash to fund investments in capital equipment, acquisition opportunities and consistent dividend payments. Free cash flow is not a U.S. GAAP financial measure and should not be considered in isolation of, or as a substitute for, cash flows calculated in accordance with U.S. GAAP.

Table of Contents***Impacts of Latrobe Acquisition***

This report includes discussions of net income attributable to Carpenter as adjusted to exclude the impact of Latrobe operating results and total acquisition-related costs, which represent financial measures that have not been determined in accordance with U.S. GAAP. We present and discuss these financial measures because management believes that removing the impacts of the adjusted Latrobe operating results and the total acquisition-related costs is useful when comparing results of operations from period to period. The following provides a reconciliation of the measures used in the *Impacts of Latrobe Acquisition* discussion and reconciliation to its most directly comparable U.S. GAAP financial measures:

(in millions)	<b>Fiscal Year Ended June 30, 2012</b>
Latrobe segment operating income	\$ 13.3
Inventory fair value cost adjustments included in Latrobe segment operating income	11.6
Carpenter distribution business operating income in Mexico included in Latrobe segment results	(1.9)
Latrobe pension EID included in pension EID expense	(0.9)
Adjusted Latrobe operating results before income taxes	22.1
Income taxes	(7.7)
Adjusted Latrobe operating results	\$ 14.4
Adjusted Latrobe operating results per diluted share	\$ 0.30
Weighted average shares outstanding	47.8

(in millions)	<b>Fiscal Year Ended June 30, 2012</b>
Acquisition related costs (from transaction)	\$ 11.7
Inventory fair value cost adjustments	11.6
Total acquisition related costs before income taxes	23.3
Income taxes	(6.8)
Total acquisition related costs	\$ 16.5
Total acquisition related costs per diluted share	\$ 0.35
Weighted average shares outstanding	47.8

Management believes that removing the impacts of the adjusted Latrobe operating results and the total acquisition related costs is useful when comparing results of operations from period to period.

Table of Contents

**Critical Accounting Policies and Estimates**

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. On an on-going basis, we evaluate our estimates, including those related to bad debts, customer claims, inventories, goodwill, intangible assets, income taxes, pensions and other postretirement benefits, contingencies and litigation, environmental liabilities, and derivative instruments and hedging activities.

We believe the following are the critical accounting policies and areas affected by significant judgments and estimates impacting the preparation of our consolidated financial statements.

***Allowance for Doubtful Accounts***

We maintain an allowance for doubtful accounts for estimated losses resulting from the failure of our customers to make required payments. We perform ongoing credit evaluations of our customers and monitor their payment patterns. Should the financial condition of our customers deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

***Inventories***

Inventories are stated at the lower of cost or market. The cost of inventories is primarily determined using the LIFO method. Costs include direct materials, direct labor and applicable manufacturing overhead, and other direct costs. Under the LIFO inventory valuation method, changes in the cost of raw materials and production activities are recognized in cost of sales in the current period even though these materials and other costs may have been incurred at significantly different values due to the length of time of our production cycle. The prices for many of the raw materials we use have been volatile. Since we value most of our inventory utilizing the LIFO inventory costing methodology, rapid changes in raw material costs have an impact on our operating results. In a period of rising prices, cost of sales expense recognized under LIFO is generally higher than the cash costs incurred to acquire the inventory sold. Conversely, in a period of declining raw material prices, cost of sales recognized under LIFO is generally lower than cash costs incurred to acquire the inventory sold.

Since the LIFO inventory valuation methodology is designed for annual determination, interim estimates of the annual LIFO valuation are required. We recognize the effects of the LIFO inventory valuation method on an interim basis by estimating the expected annual LIFO cost based on cost changes to date. These projections of annual LIFO inventory valuation reserve changes are updated quarterly and are evaluated based upon material, labor and overhead costs.

***Pension and Other Postretirement Benefits***

## Edgar Filing: CARPENTER TECHNOLOGY CORP - Form 10-K

The amount of the pension expense, which is determined annually, is based upon the value of the assets in the pension trust at the beginning of the fiscal year as well as actuarial assumptions, such as the discount rate and the expected long-term rate of return on plan assets. The assumed long-term rate of return on pension plan assets is reviewed at each year end based on the plan's investment policies, an analysis of the historical returns of the capital markets, and current interest rates. The plan's current allocation policy is to have approximately 60 percent U.S. and international equities and 40 percent fixed income. The discount rate for the U.S. plan is determined by reference to the Bond:Link interest rate model based upon a portfolio of highly rated U.S. corporate bonds with individual bonds that are theoretically purchased to settle the plan's anticipated cash outflows. The fluctuations in stock and bond markets could cause actual investment results to be significantly different from those assumed, and therefore, significantly impact the valuation of the assets in our pension trust. Changes in actuarial assumptions could significantly impact the accounting for the pension assets and liabilities. If the assumed long-term rate of return on plan assets was changed by 0.25 percent, the net pension expense would change by approximately \$2.2 million. If the discount rate was changed by 0.25 percent, the net pension expense would change by approximately \$2.8 million.

Table of Contents

*Long-Lived Assets*

Long-lived assets are reviewed for impairment and written down to fair value whenever events or changes in circumstances indicate that the carrying value may not be recoverable through estimated future undiscounted cash flows. The amount of the impairment loss is the excess of the carrying amount of the impaired assets over the fair value of the assets based upon estimated future discounted cash flows. We evaluate long-lived assets for impairment by individual business unit. Changes in estimated cash flows could have a significant impact on whether or not an asset is impaired and the amount of the impairment.

*Goodwill*

Goodwill is not amortized, but instead is tested for impairment, at least annually. Potential impairment is identified by comparing the fair value of a reporting unit to its carrying value, including goodwill. The fair value is estimated based principally upon discounted cash flow analysis and using market multiples for comparable companies as well as recently completed transactions. If the carrying value of the reporting unit exceeds its fair value, any impairment loss is measured by comparing the carrying value of the reporting unit's goodwill to its implied fair value. We tested our goodwill for impairment as of June 30, 2012 and determined that goodwill had not been impaired. If global economic conditions worsen or are prolonged, changes in anticipated discounted cash flows and comparable market multiples could have significant impact on whether or not goodwill is impaired and the amount of impairment.

*Environmental Expenditures*

Environmental expenditures that pertain to current operations or to future revenues are expensed or capitalized consistent with Carpenter's capitalization policy for property, plant and equipment. Expenditures that result from the remediation of an existing condition caused by past operations and that do not contribute to current or future revenues are expensed. Liabilities are recognized for remedial activities when the remediation is probable and the cost can be reasonably estimated. Recoveries of expenditures for environmental remediation are recognized as assets only when recovery is deemed probable. Estimated liabilities are not discounted to present value, but estimated assets are measured on a discounted basis.

*Income Taxes*

Deferred income taxes result from temporary differences in the recognition of income and expense for financial and income tax reporting purposes, or differences between the fair value of assets acquired in business combinations accounted for as purchases for financial reporting purposes and their corresponding tax bases. Deferred income taxes represent future tax benefits (assets) or costs (liabilities) to be recognized when those temporary differences reverse. We evaluate on a quarterly basis whether, based on all available evidence, we believe that our deferred income tax assets will be realizable. Valuation allowances are established when it is estimated that it is more likely than not that the tax benefit of the deferred tax assets will not be realized. The evaluation includes the consideration of all available evidence, both positive and negative, regarding historical operating results including recent years with reported losses, the estimated timing of future reversals of existing taxable temporary differences, estimated future taxable income exclusive of reversing temporary differences and carryforwards, and potential tax planning strategies which may be employed to prevent an operating loss or tax credit carryforward from expiring unused. Future realization of deferred income tax assets ultimately depends upon the existence of sufficient taxable income within the carryback, carryforward period

available under tax law.

Management determines whether a tax position should be recognized in the financial statements by evaluating whether it is more-likely-than-not that the tax position will be sustained upon examination by the tax authorities based upon the technical merits of the position. For those tax positions which should be recognized, the measurement of a tax position is determined as being the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Interest and penalties on estimated liabilities for uncertain tax positions are recorded as components of the provision for income taxes.

Table of Contents

*Derivative Financial Instruments*

Our current risk management strategies include the use of derivative instruments to reduce certain risks. The critical strategies include: (1) the use of commodity forward contracts to fix the price of a portion of anticipated future purchases of certain raw materials and energy to offset the effects of changes in the costs of those commodities; and (2) the use of foreign currency forward contracts to hedge a portion of anticipated future sales denominated in foreign currencies, principally the Euro and Pound Sterling, in order to offset the effect of changes in exchange rates. The commodity forwards and foreign currency forwards have been designated as cash flow hedges and unrealized net gains and losses are recorded in the accumulated other comprehensive (loss) income component of stockholders' equity. The unrealized gains or losses are reclassified to the income statement when the hedged transaction affects earnings or if the anticipated transactions were no longer expected to occur. We have used interest rate swaps to maintain a certain level of floating rate debt relative to fixed rate debt. Interest rate swaps have been designated as fair value hedges. Accordingly, the mark-to-market values of both the interest rate swap and the underlying debt obligations were recorded as equal and offsetting gains and losses in the interest expense component of the consolidated statement of income. We have also used forward interest rate swaps to manage the risk of cash flow variability associated with fixed interest debt expected to be issued. We evaluate all derivative instruments each quarter to determine that they are highly effective. Any ineffectiveness is recorded in our consolidated statement of income. We also use foreign currency forward contracts to protect certain short-term asset positions denominated in foreign currency against the effect of changes in exchange rates. These positions do not qualify for hedge accounting and accordingly are marked-to-market at each reporting date through charges to other income and expense.

*New Accounting Pronouncements*

For information with respect to new accounting pronouncements and the impact of these pronouncements on our consolidated financial statements, see Note 1, Summary of Significant Accounting Policies, to Notes to Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data.

**Off Balance Sheet Arrangements**

We had no off balance sheet arrangements during the periods presented.

Table of Contents**Contractual Obligations**

At June 30, 2012, we had the following contractual obligations and other commercial commitments and contingencies:

(\$ in millions)	Total	2013	2014	Fiscal Year 2015	2016	2017	Thereafter
Long-term debt (1)	\$ 406.0	\$ 101.0	\$	\$	\$	\$	\$ 305.0
Estimated interest payments(2)	145.5	22.7	16.9	16.9	16.9	16.9	55.2
Operating leases	31.2	11.5	8.0	4.8	2.6	1.1	3.2
Pension plan contributions(3)	490.1	81.5	68.8	86.2	85.0	75.2	93.4
Accrued post-retirement benefits(4)	180.7	16.0	16.6	17.2	17.7	18.1	95.1
Purchase obligations (5)	422.3	241.3	45.1	43.9	45.2	46.8	
Pension benefits (6)	34.5	3.4	3.4	3.5	3.7	3.5	17.0
Total	\$ 1,710.3	\$ 477.4	\$ 158.8	\$ 172.5	\$ 171.1	\$ 161.6	\$ 568.9

(1) Refer to Note 8 of Notes to Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data. In addition, we had \$5.9 million of outstanding letters of credit as of June 30, 2012.

(2) Estimated interest payments for long-term debt were calculated based on the applicable rates and payment dates.

(3) Pension plan contributions represent required minimum contributions for the plan year beginning January 1, 2012 and quarterly installment contributions for plan year beginning January 1, 2013. These amounts were calculated based on actuarial valuations as prescribed by pension funding regulations in the United States. Estimated fiscal year contributions have been included through fiscal year 2019. The actual required pension contributions in future periods are dependent on actuarial valuations to be prepared in future periods.

(4) Postretirement benefits for certain plans are paid from corporate assets. There is no guarantee that future payments will be paid from corporate assets rather than plan assets.

(5) We have entered into purchase commitments primarily for various key raw materials and equipment purchases at market related prices, all made in the normal course of business. The commitments include both fixed and variable price provisions. We used June 30, 2012 raw material prices for commitments with variable pricing.

(6) Pension benefits for certain plans are paid from corporate assets. There is no guarantee that future payments will be paid from corporate assets rather than plan assets.

As of June 30, 2012, the noncurrent portion of our income tax liabilities, including accrued interest and penalties related to unrecognized tax benefits was approximately \$1.2 million. The settlement period for these income tax liabilities cannot be determined and were therefore excluded from the table above.

Table of Contents

**Market Sensitive Instruments and Risk Management**

See Item 7A. Quantitative and Qualitative Disclosures About Market Risk for discussion of market sensitive instruments and associated market risk for Carpenter.

**Contingencies**

***Environmental***

We are subject to various federal, state, local and international environmental laws and regulations relating to pollution, protection of public health and the environment, natural resource damages and occupational safety and health. Although compliance with these laws and regulations may affect the costs of our operations, compliance costs to date have not been material. We have environmental remediation liabilities at some of our owned operating facilities and have been designated as a potentially responsible party ( PRP ) with respect to certain third-party Superfund waste disposal sites and other third party owned sites. Additionally, we have been notified that we may be a PRP with respect to other Superfund sites as to which no proceedings have been instituted against us. Neither the exact amount of remediation costs nor the final method of their allocation among all designated PRP s at these Superfund sites has been determined. The liability for future environmental remediation costs is evaluated on a quarterly basis. We accrue amounts for environmental remediation costs that represent our best estimate of the probable and reasonably estimable costs related to environmental remediation. During fiscal years 2012 and 2011, there were no changes to the environmental liability. During fiscal year 2010, we decreased the liabilities recorded for environmental remediation costs by approximately \$2.0 million for two environmental remediation sites. The liabilities recorded for environmental remediation costs at Superfund sites, at other third party-owned sites and at company-owned current or former operating facilities remaining at June 30, 2012 and 2011, were \$4.9 million.

Estimates of the amount and timing of future costs of environmental remediation requirements are inherently imprecise because of the continuing evolution of environmental laws and regulatory requirements, the availability and application of technology, the identification of currently unknown remediation sites and the allocation of costs among the PRP s. Based upon information currently available, such future costs are not expected to have a material effect on our financial position, results of operations or cash flows over the long-term. However, such costs could be material to our financial position, results of operations or cash flows in a particular future quarter or year.

***Boarhead Farm***

In June 2002, we were named as a defendant in a lawsuit filed by a group of plaintiffs in the District Court for the Eastern District of Pennsylvania titled *Boarhead Farm Agreement Group v. Advanced Environmental Technology Corporation et. al.* (since amended to include the individual members). The suit alleges that we and the other named defendants contributed to damages caused at Boarhead Farms, a Superfund site located in Bridgeton, Pennsylvania. The Boarhead Farms site was the home of a now defunct chemical and waste hauling company that we and many other companies engaged to dispose of certain wastes during the 1970 s. The plaintiff group was individually named as PRP s for the Boarhead site in the EPA s Record of Decision in November 1998. Their June of 2002 lawsuit against various defendants, including Carpenter, sought contributions for a portion of costs incurred for various site cleanup activities as well as contributions to future cleanup efforts. The suit went to trial in June 2008. Prior to trial, all of the named co-defendants, except for Carpenter, reached an out of court settlement with the plaintiffs. We denied the claims made by the plaintiff group. On August 18, 2008, the Court awarded the plaintiffs judgment against us for 80

## Edgar Filing: CARPENTER TECHNOLOGY CORP - Form 10-K

percent of the plaintiffs' past costs of remediating the site, including prejudgment interest from June 18, 2002 to January 1, 2008, and held us liable for 80 percent of future costs of the cleanup activities at the site. We appealed the Court's decision and oral arguments took place before the United States Court of Appeals for the Third Circuit on December 17, 2009. On April 12, 2010, the Court of Appeals for the Third Circuit vacated the previous judgment by the District Court and remanded the case for further proceedings. As of June 30, 2011, we had a liability recorded related to this case of \$21.8 million. On July 19, 2011, we entered into a settlement agreement providing for a dismissal of the

Table of Contents

lawsuit against us and a complete release in our favor by all parties to the litigation, in exchange for a payment by us of \$21.8 million which we paid during in September 2011. We expect that no additional material liabilities will be incurred related to this matter.

***Duty Drawback***

Historically, we have participated in a program offered by U.S. Customs and Border Protection ( U.S. Customs ) known as duty drawback. Under the program, we claimed a refund of import duties on items manufactured and exported to customers in foreign countries. Certain vendors prepared certificates authorizing us to claim duty drawback refunds against imported goods purportedly shipped by the vendor to us. Because of the complexity of the program, we engaged a licensed U.S. customs broker specializing in duty drawback claims. The customs broker was responsible for performing the administration of the process which included maintaining and collecting various forms of supporting evidence for each claim including collecting appropriate certificates from vendors, as well as preparing and submitting the refund claims.

In fiscal year 2008, we received notice from U.S. Customs that we were under investigation related to claims previously filed by the customs broker on our behalf. The investigation alleged certain discrepancies and a lack of supporting documentation for the claims that had been filed by the broker. We initiated an internal review of the claims filed with U.S. Customs to determine the extent of claims that may have inadequate supporting documentation. We also engaged a new licensed U.S. customs broker. We have cooperated fully with the investigation of this matter and are currently engaged in settlement discussions with U.S. Customs.

Following discussions with U.S. Customs Houston Office, we negotiated a settlement offer of \$1.1 million to resolve this matter. This settlement offer along with the \$1.1 million in advance payments has been presented to U.S. Customs National Headquarters for approval with the endorsement of the Houston Office. In December 2011, we were notified that the settlement offer was accepted by U.S. Customs. We do not expect that any additional liabilities will be incurred related to this matter.

***Export Regulations Violations***

In fiscal year 2008, we became aware of potential violations of federal export regulations at a business unit that had been divested. Upon investigation, we discovered that approximately 40 foreign nationals employed over time at the business unit's facility may have been exposed to protected technical data related to the production of various products for military applications. An export license from the Department of State and the Department of Commerce is required prior to the exporting of technical data for military applications. We have applied for and received similar applications for other business units, but did not have such a license for the divested business unit. Violations of federal export regulations can be subject to civil penalties depending upon the severity of the violation. We filed voluntary disclosures with the Department of State and the Department of Commerce before the divestiture of the business unit on March 31, 2008. The Department of State responded to the voluntary disclosure without assessing civil penalties. The Department of Commerce has not yet responded to the voluntary disclosure. It is not possible to determine the amount, if any, of civil penalties that may be assessed by the Department of Commerce. As a result, we have not recorded any liability for potential penalties as of June 30, 2012.

***Other***

## Edgar Filing: CARPENTER TECHNOLOGY CORP - Form 10-K

We are defending various routine claims and legal actions that are incidental to our business, and we are subject to contingencies that are common to our operations, including those pertaining to product claims, commercial disputes, employment actions, employee benefits, compliance with domestic and foreign laws, personal injury claims and tax issues. Like many other manufacturing companies in recent years, from time to time, we have been named as a defendant in lawsuits alleging personal injury as a result of exposure to chemicals and substances in the workplace. We provide for costs relating to these matters when a loss is probable and the amount of the loss is reasonably estimable. The effect of the outcome of these matters on our

Table of Contents

future results of operations and liquidity cannot be predicted because any such effect depends on future results of operations and the amount and timing (both as to recording future charges to operations and cash expenditures) of the resolution of such matters. While it is not feasible to determine the outcome of these matters, we believe that the total liability from these matters will not have a material effect on our financial position, results of operations or cash flows over the long-term. However, there can be no assurance that an increase in the scope of pending matters or that any future lawsuits, claims, proceedings or investigations will not be material to our financial position, results of operations or cash flows in a particular future quarter or year.

Forward Looking Statements

This Annual Report on Form 10-K contains various Forward-looking Statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements, which represent our expectations or beliefs concerning various future events, include statements concerning future revenues, earnings and liquidity associated with continued growth in various market segments and cost reductions expected from various initiatives. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ from those projected, anticipated or implied. The most significant of these uncertainties are described in this Form 10-K and they include but are not limited to: (1) expectations with respect to the synergies, costs and other anticipated financial impacts of the Latrobe Acquisition could differ from actual synergies realized and financial impacts experienced as a result of the transaction; (2) the cyclical nature of the specialty materials business and certain end-use markets, including aerospace and defense, industrial and consumer, medical, transportation and energy, or other influences on Carpenter's business such as new competitors, the consolidation of competitors, customers, and suppliers or the transfer of manufacturing capacity from the United States to foreign countries; (3) the ability of Carpenter to achieve cost savings, productivity improvements or process changes; (4) the ability to recoup increases in the cost of energy, raw materials, freight or other factors; (5) domestic and foreign excess manufacturing capacity for certain metals; (6) fluctuations in currency exchange rates; (7) the degree of success of government trade actions; (8) the valuation of the assets and liabilities in Carpenter's pension trusts and the accounting for pension plans; (9) possible labor disputes or work stoppages; (10) the potential that our customers may substitute alternate materials or adopt different manufacturing practices that replace or limit the suitability of our products; (11) the ability to successfully acquire and integrate acquisitions, including the Latrobe Acquisition; (12) the availability of credit facilities to Carpenter, its customers or other members of the supply chain; (13) the ability to obtain energy or raw materials, especially from suppliers located in countries that may be subject to unstable political or economic conditions; (14) Carpenter's manufacturing processes are dependent upon highly specialized equipment located primarily in one geographic area for which there may be limited alternatives if there are significant equipment failures or catastrophic event; and (15) Carpenter's future success depends on the continued service and availability of key personnel, including members of our executive management team, management, metallurgists and other skilled personnel and the loss of these key personnel could affect our ability to perform until suitable replacements are found. Any of these factors could have an adverse and/or fluctuating effect on Carpenter's results of operations. The forward-looking statements in this document are intended to be subject to the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Carpenter undertakes no obligation to update or revise any forward-looking statements.

**Item 7A. Quantitative and Qualitative Disclosures about Market Risk**

We use derivative financial instruments to reduce certain types of financial risk. Firm price sales arrangements involve a risk of profit margin fluctuations particularly as raw material prices have been volatile. Firm price sales arrangements generally include certain annual purchasing commitments and consumption schedules agreed to by the customers at selling prices based on raw material prices at the time the arrangements are established. As discussed in Note 15 to the consolidated financial statements included in Part I, Item 1, Financial Statements, in order to reduce the risk of fluctuating profit margins on these sales, we enter into commodity forward contracts to purchase certain critical raw materials necessary to produce the products sold under the firm price sales arrangements. If a customer fails to perform its obligations under the firm price sales arrangements, we may realize losses as a result of the related commodity forward contracts. As of June 30, 2012, we had approximately \$43.7 million of deferred losses related to commodity forward contracts to purchase certain



Table of Contents

raw materials. A large portion of this balance is related to commodity forward contracts to support firm price sales arrangements associated with many customers. However, approximately 62 percent of these deferred losses relate to commodity forward contracts entered into to support sales under firm price sales arrangements with one customer in addition to the credit already extended to this customer in connection with outstanding trade receivables. Our customers have historically performed under these arrangements and we believe that they will honor such obligations in the future.

We are actively involved in managing risks associated with energy resources. Risk containment strategies include interaction with primary and secondary energy suppliers as well as obtaining adequate insurance coverage to compensate us for potential business interruption related to lack of availability of energy resources. In addition, we have used forwards and options to fix the price of a portion of our anticipated future purchases of certain energy requirements to protect against the impact of significant increases in energy costs. We also use surcharge mechanisms to offset a portion of these charges where appropriate.

Fluctuations in foreign currency exchange rates could subject us to risk of losses on anticipated future cash flows from our international operations or customers. Foreign currency forward contracts are used to hedge certain foreign exchange risk.

We have used interest rate swaps to achieve a level of floating rate debt relative to fixed rate debt where appropriate.

All hedging strategies are reviewed and approved by senior financial management before being implemented. Senior financial management has established policies regarding the use of derivative instruments that prohibit the use of speculative or leveraged derivatives. Market valuations are performed at least quarterly to monitor the effectiveness of our risk management programs.

Our pension plan assets are invested in different asset classes including large-, mid- and small-cap growth and value funds, index and international equity funds, short-term and medium-term duration fixed-income funds and high yield funds. The plan's current allocation policy is to invest approximately 60 percent of plan assets in U.S. and international equities and 40 percent of plan assets in fixed income securities.

The status of our financial instruments as of June 30, 2012 is provided in Note 15 to the consolidated financial statements included in Item 8., Financial Statements and Supplementary Data. Assuming on June 30, 2012, (a) an instantaneous 10 percent decrease in the price of raw materials and energy for which we have commodity forward contracts, and (b) a 10 percent strengthening of the U.S. dollar versus foreign currencies for which foreign exchange forward contracts existed, our results of operations would not have been materially affected in either scenario.

**Future Outlook**

We are beginning fiscal year 2013 with strong momentum in our business in spite of various global economic pressures in our industry. Our key end markets of Aerospace and Energy continue to show strength. Within oil and gas, directional drilling activity remains strong. We continue to expect further increase in operating income, excluding pension EID and Latrobe acquisition related costs, of at least 30 percent or \$70 million in fiscal year 2013. This represents a \$110 million improvement in year-to-year EBITDA including Latrobe.

Free cash flow is expected to be negative, about \$125M, with capital spending of about \$350 million, due in large part to our new Alabama facility investment which comes on line in April 2014. The state of the art facility will support our growth through the remainder of the decade with capacity to produce 27,000 tons of premium products and reduce lead times.

Table of Contents

**Item 8. Financial Statements and Supplementary Data**

**Index to Consolidated Financial Statements and Supplementary Data**

	<b>Page</b>
<b>Consolidated Financial Statements:</b>	
<u>Management's Responsibilities for Financial Reporting</u>	50
<u>Management's Report on Internal Control Over Financial Reporting</u>	50
<u>Report of Independent Registered Public Accounting Firm</u>	51
<u>Consolidated Statements of Income for the Years Ended June 30, 2012, 2011 and 2010</u>	52
<u>Consolidated Statements of Comprehensive (Loss) Income for the Years Ended June 30, 2012, 2011 and 2010</u>	53
<u>Consolidated Statements of Cash Flows for the Years Ended June 30, 2012, 2011 and 2010</u>	54
<u>Consolidated Balance Sheets as of June 30, 2012 and 2011</u>	55
<u>Consolidated Statements of Changes in Equity for the Years Ended June 30, 2012, 2011 and 2010</u>	56 - 57
<u>Notes to Consolidated Financial Statements</u>	58 - 99
<b>Supplementary Data:</b>	
<u>Quarterly Financial Data (Unaudited)</u>	100 - 101
<b>Schedule II</b>	113

Table of Contents

**Management's Responsibilities for Financial Reporting**

Management prepared the financial statements included in this Annual Report on Form 10-K and is responsible for their integrity and objectivity. The statements were prepared in conformity with accounting principles generally accepted in the United States of America and, as such, include amounts based on management's best judgments and estimates. Financial information elsewhere in this Annual Report is consistent with that in the financial statements.

Carpenter maintains a system of internal controls, supported by a code of conduct, designed to provide reasonable assurance that assets are safeguarded and transactions are properly executed and recorded for the preparation of financial information. We believe Carpenter's system of internal controls provides this appropriate balance. The system of internal controls and compliance is continually monitored by Carpenter's internal audit staff.

The Audit/Finance Committee of the Board of Directors, composed of independent directors, meets regularly with management, Carpenter's internal auditors and our independent registered public accounting firm to consider audit results and to discuss significant internal control, auditing and financial reporting matters. Both the independent registered public accounting firm and internal auditors have unrestricted access to the Audit/Finance Committee.

**Management's Report on Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of Carpenter's internal control over financial reporting as of June 30, 2012. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control - Integrated Framework*. Based on its assessment, management concluded that, as of June 30, 2012, Carpenter's internal control over financial reporting is effective based on those criteria.

The scope of management's assessment of the effective of Carpenter's internal control over financial reporting included the consolidated operations except for the operations of Latrobe Specialty Metals, Inc. ( Latrobe ), which was acquired on February 29, 2012. Latrobe's operations represent 31 percent of consolidated total assets as of June 30, 2012 and 9 percent of consolidated net sales for the year ended June 30, 2012.

The effectiveness of Carpenter's internal control over financial reporting as of June 30, 2012 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report appearing herein.

/s/ William A. Wulfsohn  
William A. Wulfsohn  
President and Chief Executive Officer

/s/ K. Douglas Ralph  
K. Douglas Ralph  
Senior Vice President and Chief Financial Officer

Table of Contents

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and

Shareholders of Carpenter Technology Corporation

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Carpenter Technology Corporation and its subsidiaries at June 30, 2012 and June 30, 2011, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2012 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(1) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2012, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Control Over Financial Reporting appearing on page 50 of Form 10-K, management has excluded Latrobe Specialty Metals Inc. ( Latrobe ) from its assessment of internal control over financial reporting as of June 30, 2012 because it was acquired by the Company in a purchase business combination in February 2012. We have also excluded Latrobe from our audit of internal control over financial reporting. Latrobe is a wholly-owned subsidiary whose total assets and total revenues represent 31% and 9%, respectively,

Edgar Filing: CARPENTER TECHNOLOGY CORP - Form 10-K

of the related consolidated financial statement amounts as of and for the year ended June 30, 2012.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP  
Philadelphia, Pennsylvania  
August 22, 2012

Table of Contents**CARPENTER TECHNOLOGY CORPORATION****CONSOLIDATED STATEMENTS OF INCOME****For the Years Ended June 30, 2012, 2011 and 2010**

(\$ in millions, except per share data)	2012	2011	2010
NET SALES	\$ 2,028.7	\$ 1,675.1	\$ 1,198.6
Cost of sales	1,637.7	1,426.1	1,053.8
Gross profit	391.0	249.0	144.8
Selling, general and administrative expenses	169.2	149.5	133.1
Acquisition-related costs	11.7	3.1	
Operating income	210.1	96.4	11.7
Interest expense	(23.8)	(17.1)	(17.8)
Other income, net	2.3	8.5	10.8
Income before income taxes	188.6	87.8	4.7
Income tax expense	67.0	16.1	2.6
Net income	121.6	71.7	2.1
Less: net income attributable to noncontrolling interest	(0.4)	(0.7)	
NET INCOME ATTRIBUTABLE TO CARPENTER	\$ 121.2	\$ 71.0	\$ 2.1
<b>EARNINGS PER COMMON SHARE:</b>			
Basic	\$ 2.55	\$ 1.59	\$ 0.04
Diluted	\$ 2.53	\$ 1.59	\$ 0.04
<b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:</b>			
Basic	47.1	44.1	43.9
Diluted	47.8	44.7	44.4

See accompanying notes to consolidated financial statements.

Table of Contents**CARPENTER TECHNOLOGY CORPORATION****CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME**

For the Years ended June 30, 2012, 2011 and 2010

(\$ in millions)	2012	2011	2010
Net income	\$ 121.6	\$ 71.7	\$ 2.1
Other comprehensive (loss) income, net of tax			
Pension and post-retirement benefits, net of tax of \$75.8, \$(71.5), and \$23.5, respectively	(126.4)	116.8	(29.7)
Net (loss) gain on derivative instruments, net of tax of \$21.6, \$(3.1), and \$(9.2), respectively	(35.4)	5.0	14.9
Unrealized loss on marketable securities, net of tax of \$0.1, \$(0.1), \$0.3 respectively	(0.2)		(0.5)
Foreign currency translation	(18.6)	16.5	(9.3)
Other comprehensive (loss) income, net of tax	(180.6)	138.3	(24.6)
Comprehensive (loss) income, net of tax	(59.0)	210.0	(22.5)
Less: Comprehensive income (loss) attributable to the noncontrolling interest	(1.0)	1.2	
Comprehensive (loss) income attributable to Carpenter	\$ (58.0)	\$ 208.8	\$ (22.5)

See accompanying notes to consolidated financial statements.

Table of Contents

**CARPENTER TECHNOLOGY CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the Years Ended June 30, 2012, 2011 and 2010

(\$ in millions)	2012	2011	2010
<b>OPERATING ACTIVITIES</b>			
Net income	\$ 121.6	\$ 71.7	\$ 2.1
Adjustments to reconcile net income to net cash provided from operating activities:			
Depreciation and amortization	83.8	66.5	59.1
Deferred income taxes	36.8	(5.0)	(0.9)
Net pension expense	42.1	60.8	61.3
Net loss on disposal of property and equipment	2.0	0.8	2.0
Changes in working capital and other:			
Accounts receivable	(31.1)	(56.9)	(62.5)
Inventories	(77.3)	(116.1)	(19.1)
Other current assets	1.6	6.4	24.2
Accounts payable	10.2	34.5	60.8
Accrued liabilities	20.1	4.6	13.4
Boarhead settlement	(21.8)		
Pension contributions	(30.0)	(3.9)	
Other, net	2.3	0.8	(25.2)
Net cash provided from operating activities	160.3	64.2	115.2
<b>INVESTING ACTIVITIES</b>			
Purchases of property, equipment and software	(171.9)	(79.6)	(44.2)
Proceeds from disposals of property and equipment	1.2	1.1	1.0
Acquisition of businesses, net of cash acquired	(12.9)	(45.4)	
Capital contributions to equity method investment	(1.8)	(6.2)	
Purchases of marketable securities		(91.3)	(145.0)
Proceeds from sales and maturities of marketable securities	30.5	166.0	55.3
Net cash used for investing activities	(154.9)	(55.4)	(132.9)
<b>FINANCING ACTIVITIES</b>			
Proceeds from issuance of long-term debt, net of offering costs		247.4	
Payments on long-term debt assumed in acquisition of business	(153.7)	(12.4)	
Payments on long-term debt	(100.0)		(20.0)
Proceeds received from sale of noncontrolling interest		9.1	
Dividends paid	(33.7)	(32.1)	(31.9)
Payments of debt issue costs		(1.4)	(2.0)
Tax benefits on share-based compensation	2.2	1.7	0.2
Proceeds from stock options exercised	1.8	1.6	0.2
Net cash (used for) provided from financing activities	(283.4)	213.9	(53.5)
Effect of exchange rate changes on cash and cash equivalents	(3.5)	4.4	(3.5)
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(281.5)</b>	<b>227.1</b>	<b>(74.7)</b>
Cash and cash equivalents at beginning of year	492.5	265.4	340.1
Cash and cash equivalents at end of year	\$ 211.0	\$ 492.5	\$ 265.4

See accompanying notes to consolidated financial statements.



Table of Contents**CARPENTER TECHNOLOGY CORPORATION****CONSOLIDATED BALANCE SHEETS**

June 30, 2012 and 2011

(\$ in millions, except share data)	2012	2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 211.0	\$ 492.5
Marketable securities		30.5
Accounts receivable, net of allowance for doubtful accounts of \$4.9 and \$2.7 million at June 30, 2012 and 2011	354.2	259.4
Inventories	642.0	328.6
Deferred income taxes	10.6	14.9
Other current assets	31.9	31.7
Total current assets	1,249.7	1,157.6
Property, plant and equipment, net	924.6	662.9
Goodwill	260.5	44.9
Other intangibles, net	109.9	30.0
Other assets	83.1	96.5
Total assets	\$ 2,627.8	\$ 1,991.9
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 236.1	\$ 170.5
Accrued liabilities	217.1	124.9
Current portion of long-term debt	101.0	100.0
Total current liabilities	554.2	395.4
Long-term debt, net of current portion	305.9	407.8
Accrued pension liabilities	377.3	188.5
Accrued postretirement benefits	179.8	108.7
Deferred income taxes	31.4	48.3
Other liabilities	66.1	67.2
Total liabilities	1,514.7	1,215.9
Contingencies and commitments (see Note 11)		
<b>STOCKHOLDERS EQUITY</b>		
Common stock authorized 100,000,000 shares; issued 54,809,735 shares at June 30, 2012 and 54,730,291 shares at June 30, 2011; outstanding 52,412,967 shares at June 30, 2012 and 44,107,380 shares at June 30, 2011	274.0	273.7
Capital in excess of par value	252.7	235.4
Reinvested earnings	1,109.6	1,022.1
Common stock in treasury (2,396,768 shares and 10,622,911 shares at June 30, 2012 and 2011, respectively), at cost	(120.0)	(532.2)
Accumulated other comprehensive loss	(412.5)	(233.3)
Total Carpenter stockholders equity	1,103.8	765.7
Noncontrolling interest	9.3	10.3
Total equity	1,113.1	776.0
Total liabilities and equity	\$ 2,627.8	\$ 1,991.9

See accompanying notes to consolidated financial statements.

Table of Contents

## CARPENTER TECHNOLOGY CORPORATION

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Years Ended June 30, 2012, 2011 and 2010

(\$ in millions, except per share data)	Carpenter Stockholders Equity				Accumulated Other Comprehensive Loss	Noncontrolling interest	Total Equity
	Common Stock Par Value Of \$5	Capital in Excess of Par Value	Reinvested Earnings	Common Stock in Treasury			
<b>Balances at June 30, 2009</b>	<b>273.1</b>	<b>208.9</b>	<b>1,013.0</b>	<b>(531.5)</b>	<b>(346.5)</b>		<b>617.0</b>
Net income			2.1				2.1
Pension and post-retirement benefits, net of tax					(29.7)		(29.7)
Net gain on derivative instruments, net of tax					14.9		14.9
Unrealized loss on marketable securities, net of tax					(0.5)		(0.5)
Foreign currency translation					(9.3)		(9.3)
Cash Dividends:							
Common @ \$0.72 per share			(31.9)				(31.9)
Share-based compensation plans		10.2		(3.7)			6.5
Uncertain tax positions adjustments		5.0					5.0
Stock options exercised	0.1	0.1					0.2
Tax shortfall on share-based compensation		(0.9)					(0.9)
<b>Balances at June 30, 2010</b>	<b>273.2</b>	<b>223.3</b>	<b>983.2</b>	<b>(535.2)</b>	<b>(371.1)</b>		<b>573.4</b>
Net income			71.0			0.7	71.7
Pension and post-retirement benefits, net of tax					116.8		116.8
Net gain on derivative instruments, net of tax					5.0		5.0
Foreign currency translation					16.0	0.5	16.5
Proceeds received from sale of non-controlling interest						9.1	9.1
Cash Dividends:							
Common @ \$0.72 per share			(32.1)				(32.1)
Share-based compensation plans		8.3		3.0			11.3
Uncertain tax positions adjustments		1.4					1.4
Stock options exercised	0.5	1.1					1.6
Tax windfall on share-based compensation		1.3					1.3
<b>Balances at June 30, 2011</b>	<b>273.7</b>	<b>235.4</b>	<b>1,022.1</b>	<b>(532.2)</b>	<b>(233.3)</b>	<b>10.3</b>	<b>776.0</b>
Net income			121.2			0.4	121.6
Pension and post-retirement benefits, net of tax					(126.4)		(126.4)
Net loss on derivative instruments, net of tax					(35.4)		(35.4)

Edgar Filing: CARPENTER TECHNOLOGY CORP - Form 10-K

Unrealized loss on marketable securities, net of tax					(0.2)				(0.2)					
Foreign currency translation					(17.2)		(1.4)		(18.6)					
Cash Dividends:														
Common @ \$0.72 per share				(33.7)					(33.7)					
Share-based compensation plans		3.7				6.2			9.9					
Uncertain tax positions adjustments			0.4						0.4					
Treasury shares issued in connection with acquisition of business			9.6				406.0		415.6					
Stock options exercised	0.3		1.5						1.8					
Tax windfall on share-based compensation			2.1						2.1					
<b>Balances at June 30, 2012</b>	<b>\$</b>	<b>274.0</b>	<b>\$</b>	<b>252.7</b>	<b>\$</b>	<b>1,109.6</b>	<b>\$</b>	<b>(120.0)</b>	<b>\$</b>	<b>(412.5)</b>	<b>\$</b>	<b>9.3</b>	<b>\$</b>	<b>1,113.1</b>

See accompanying notes to consolidated financial statements.

Table of Contents**CARPENTER TECHNOLOGY CORPORATION****CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)**

For the Years Ended June 30, 2012, 2011 and 2010

	<b>Common Shares</b>		<b>Net</b>
	<b>Issued</b>	<b>Treasury</b>	<b>Outstanding</b>
Balances at June 30, 2009	54,614,842	(10,585,817)	44,029,025
Stock options exercised	29,559		29,559
Share-based compensation plans		(91,500)	(91,500)
Balances at June 30, 2010	54,644,401	(10,677,317)	43,967,084
Stock options exercised	85,890		85,890
Share-based compensation plans		54,406	54,406
Balances at June 30, 2011	54,730,291	(10,622,911)	44,107,380
Treasury shares issued in connection with acquisition of business		8,100,000	8,100,000
Stock options exercised	79,444		79,444
Share-based compensation plans		126,143	126,143
Balances at June 30, 2012	54,809,735	(2,396,768)	52,412,967

See accompanying notes to consolidated financial statements.

Table of Contents

**CARPENTER TECHNOLOGY CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Summary of Significant Accounting Policies**

***Basis of Consolidation***

The consolidated financial statements include the accounts of Carpenter and all majority-owned subsidiaries. All significant intercompany accounts and transactions are eliminated. Investments in companies in which Carpenter exercises significant influence, but which it does not control (generally a 20 to 50 percent ownership interest), are accounted for on the equity method of accounting and Carpenter's share of their income or loss is included in other income, net in the Consolidated Statements of Income. As discussed in Note 2, effective November 1, 2010, the Company sold a 40 percent interest in Carpenter Powder Products AB. The financial results of Carpenter Powder Products AB are consolidated into the Company's operating results and financial position, with the 40 percent interest of the noncontrolling partner recognized in the consolidated statement of income as net income attributable to noncontrolling interests and as equity attributable to the noncontrolling interest within total equity.

***Revenue Recognition***

Revenue, net of related discounts and allowances, is recognized when title and risk of loss has transferred to the customer, collectability is reasonably assured and pricing is fixed and determinable. This generally occurs when products are shipped.

***Freight and Handling Fees and Costs***

Freight and handling costs billed separately to customers are included as part of net sales, and freight and handling costs expensed are included as part of cost of sales on the consolidated statements of income.

***Research and Development***

Research and development expenditures, which amounted to \$20.5 million, \$18.9 million and \$17.8 million in fiscal years 2012, 2011 and 2010, respectively, are expensed as incurred and are generally reported in cost of sales in the consolidated statement of income. Substantially all development costs are related to developing new products or designing significant improvements to existing products.

*Cash Equivalents*

Cash equivalents consist of highly liquid instruments with maturities at the time of acquisition of three months or less. Cash equivalents are stated at cost, which approximates market.

*Marketable Securities*

Purchases and sales of marketable securities are recorded on a trade-date basis. Carpenter has determined that all of its marketable securities are to be classified as available-for-sale. These securities are carried at market value, with the unrealized gains and losses reported as a component of accumulated other comprehensive loss. Interest and dividends on securities classified as available-for-sale are included in other income, net.

Table of Contents

**CARPENTER TECHNOLOGY CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***Accounts Receivable***

Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of outstanding amounts. Trade credit is extended based upon periodic evaluation of each customer's ability to perform its obligations. The Company determines accounts receivable allowances based on an aging of accounts and a review of specific accounts identified as collection risks. The Company does not require collateral to secure accounts receivable.

***Inventories***

Inventories are valued at the lower of cost or market. Cost for inventories is principally determined by the Last-In, First-Out ( LIFO ) method. Carpenter also uses the First-In, First-Out ( FIFO ) and average cost methods. As of June 30, 2012 and 2011, \$162.1 million and \$84.7 million of inventory, respectively, was accounted for using a method other than the LIFO method.

***Property, Plant and Equipment and Depreciation***

Fixed assets are stated at historical cost less accumulated depreciation. Depreciation for financial reporting purposes is computed by the straight-line method over the estimated useful lives of the assets. Depreciation for income tax purposes is computed using accelerated methods. Upon disposal, assets and related depreciation are removed from the accounts and the differences between the net amounts and proceeds from disposal are included in cost of goods sold in the consolidated statement of income.

***Computer Software and Amortization***

Computer software is included in other assets on the consolidated balance sheet, and is amortized for financial reporting purposes on a straight-line basis over the respective estimated useful lives, ranging principally from 3 to 7 years. Amortization expense charged to operations related to capitalized software amounted to \$6.1 million, \$5.2 million and \$4.4 million for the years ended June 30, 2012, 2011 and 2010, respectively.

***Goodwill***

## Edgar Filing: CARPENTER TECHNOLOGY CORP - Form 10-K

Goodwill, representing the excess of the cost over the net tangible and identifiable intangible assets of acquired businesses, is stated at cost. Goodwill is not amortized but instead is annually tested for impairment, or more frequently if events or circumstances indicate that the carrying amount of goodwill may be impaired. Potential impairment is identified by comparing the fair value of a reporting unit to its carrying value, including goodwill. The fair value is estimated using discounted cash flow and the use of market multiples valuation techniques. These valuation techniques require the use of estimates and assumptions related to projected operating results, capital expenditures and working capital levels as well as the cost of capital. If the carrying value of the reporting unit exceeds its fair value, any impairment loss is measured by comparing the carrying value of the reporting unit's goodwill to its implied fair value.

### *Intangible assets*

The costs of intangible assets, consisting principally of trademarks, trade names, non-compete arrangements, contracts and customer relationships are amortized on a straight-line basis over the estimated useful lives ranging from 2.5 to 30 years.

Table of Contents

**CARPENTER TECHNOLOGY CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***Impairment of Long-Lived Assets***

Long-lived assets, including property, plant and equipment and intangible assets subject to amortization are reviewed for impairment and written down to fair value whenever events or changes in circumstances indicate that the carrying value may not be recoverable through future undiscounted cash flows. The amount of the impairment loss is the excess of the carrying amount of the impaired assets over the fair value of the assets based upon discounted future cash flows.

***Environmental Expenditures***

Environmental expenditures that pertain to current operations or to future revenues are expensed or capitalized consistent with Carpenter's capitalization policy for property, plant and equipment. Expenditures that result from the remediation of an existing condition caused by past operations and that do not contribute to current or future revenues are expensed. Liabilities are recognized for remedial activities when the remediation is probable and the cost can be reasonably estimated. Recoveries of expenditures for environmental remediation are recognized as assets only when recovery is deemed probable. Estimated liabilities are not discounted to present value, but estimated assets are measured on a discounted basis.

***Derivative Financial Instruments***

All derivative financial instruments are recorded on the balance sheet at their fair value and changes in fair value are recorded each period in current earnings or comprehensive income. Carpenter enters into derivative financial instruments to hedge certain anticipated transactions, firm commitments, or assets and liabilities denominated in foreign currencies. The Company has utilized interest rate swaps to convert floating rate debt to fixed rate, or to convert fixed rate debt to floating rate.

***Foreign Currency Translation***

Assets and liabilities of most international operations are translated into U.S. dollars at exchange rates in effect at year-end, and their income statements are translated at the average monthly exchange rates prevailing during the year. The resulting translation gains and losses are recorded each period as a component of accumulated other comprehensive income until the international entity is sold or liquidated. Gains and losses from transactions denominated in foreign currencies are reported in other income, net in the consolidated statement of income.

*Income Taxes*

Deferred income taxes are recognized by applying enacted statutory tax rates, applicable to future years, to temporary differences between the tax bases and financial statement carrying values of Carpenter's assets and liabilities. Valuation allowances are recorded to reduce deferred tax assets to amounts that are more likely than not to be realized.

Significant judgments, estimates and assumptions are required in determining tax return reporting positions and in calculating provisions for income tax, which are based on interpretations of tax regulations and accounting pronouncements. Liabilities are established for uncertain tax positions when it is more likely than not that such positions, if challenged would not be sustained upon review by taxing authorities. These liabilities are re-evaluated as tax regulations and facts and circumstances change, such as the closing of a tax audit or the expiration of the statute of limitations for a specific exposure.

Table of Contents

**CARPENTER TECHNOLOGY CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***Earnings per Share***

The Company has certain nonvested restricted shares and units that are considered participating securities because the awards have the right to receive non-forfeitable dividends. Accordingly, the Company calculates basic earnings per share using the two class method. Under the two class method, earnings are allocated to common stock and participating securities according to their participation rights in dividends and undistributed earnings. The earnings available to each class of stock are divided by the weighted average number of shares for the period in each class. Because the participating securities have no obligation to share in net losses, losses are not allocated to the participating securities in this calculation.

***Litigation***

Periodically, Carpenter and its subsidiaries are parties to lawsuits arising out of the normal course of business. Carpenter records liabilities when a loss is probable and can be reasonably estimated. These estimates are based on an analysis made by internal and external legal counsel considering information known at the time.

***Share-Based Compensation***

The Company has two share-based employee compensation plans, which are more fully described in detail in Note 14. The Company recognizes compensation cost based on the fair value of the awards on the date of grant. The compensation cost is recognized over the requisite service period of the award, which is generally the shorter of the vesting period that the holder is required to provide service, or the period from the grant date to the date on which the employee is eligible to retire. Upon retirement, as defined in the Company's share-based compensation plans, outstanding awards are subject to certain accelerated vesting terms.

***Concentration of Credit Risk***

Financial instruments that are potentially subject to concentrations of credit risk consist primarily of cash and cash equivalents, investments in marketable securities and trade receivables. Investment and cash management policies have been implemented that limit deposit concentrations and limit investments to investment grade securities. The risk with respect to trade receivables is mitigated by monitoring payment terms and periodic credit evaluations we perform on our customers, the short duration of our payment terms and by the diversification of our customer base. During fiscal year 2012, no customer accounted for 10 percent of total net sales and during fiscal years 2011 and 2010, one customer accounted for 10 percent of total net sales.

*Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Table of Contents

## CARPENTER TECHNOLOGY CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**2. Acquisition and Strategic Partnership***Fiscal Year 2012 Acquisitions**Latrobe Specialty Metals, Inc.*

On February 29, 2012, the Company completed its previously announced acquisition of Latrobe Specialty Metals, Inc ( Latrobe ) for a total purchase price of \$427.0 million, net of cash acquired (the Latrobe Acquisition ). The purchase price includes the issuance of 8.1 million shares of the Company s common stock to former Latrobe stockholders in exchange for their Latrobe capital stock and \$11.5 million of cash paid at closing, net of cash acquired of \$2.5 million, to satisfy certain costs of the sellers. The fair value of the shares issued as part of the consideration paid for Latrobe was determined based on the closing market price of the Company s shares on the acquisition date. The Company also assumed \$153.7 million of indebtedness which was paid off in cash concurrently with the closing of the acquisition.

Latrobe manufactures and distributes high-performance specialty metals serving customers across end-use markets including the aerospace and defense, energy and industrial markets. The manufacturing operations of Latrobe are based principally in Latrobe, Pennsylvania.

The following is a summary of the preliminary purchase price allocation in connection with the Latrobe Acquisition. The amounts in the preliminary purchase price allocation are not yet final and are subject to change. The final allocation of the purchase price is expected to be completed during the first half of fiscal year 2013 when all the necessary information is obtained to complete the analysis.

Accounts receivable	\$	67.3
Property, plant and equipment		172.4
Other		10.6
Long-term debt		(153.7)
Deferred income taxes		(47.7)
Goodwill		214.5

## Edgar Filing: CARPENTER TECHNOLOGY CORP - Form 10-K

The goodwill recognized in connection with the Latrobe Acquisition consists of the value associated with the immediate increase in the Company's premium melt capacity to meet strong customer demand, improvements in the Company's position in attractive end use markets such as aerospace and defense and energy, the complementary asset capabilities which the Company expects will lead to enriched, higher margin product mix and operating cost synergies as well as the capabilities for commercialization of new Carpenter products under development. None of the goodwill recognized is deductible for income tax purposes.

Table of Contents**CARPENTER TECHNOLOGY CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

In connection with the Latrobe Acquisition, the Company incurred approximately \$11.7 million and \$2.4 million of acquisition-related costs during the fiscal year ended June 30, 2012 and 2011, respectively. These costs are included in the consolidated statements of income and represent incremental legal, accounting and investment banking fees incurred in connection with the transaction as well as approximately \$5.2 million of liability for costs associated with the sale of certain Latrobe assets necessary to obtain approval for the transaction from the Federal Trade Commission (FTC). As part of the FTC approval, the Company entered into a consent decree to transfer assets and technical knowledge to Eramet S.A. and its subsidiaries, Aubert & Duval and Brown Europe, which will allow them to become a second manufacturer of two specific alloys in order to provide customers with a supply alternative in the marketplace.

The consolidated net sales for the fiscal year ended June 30, 2012 includes approximately \$163.2 million of net sales related to the Latrobe business since the Latrobe Acquisition. The Company's operating income for the fiscal year ended June 30, 2012 includes approximately \$10.5 million related to the operations of the Latrobe business since the Latrobe Acquisition, net of approximately \$11.6 million recorded in connection with the fair value cost inventory adjustments.

The unaudited pro forma results presented below include the effects of the Latrobe Acquisition as if it had occurred as of July 1, 2010. The unaudited pro forma results reflect certain adjustments related to the acquisition, such as the depreciation and amortization associated with estimates for the fair value of the property and equipment and acquired intangible assets and the impacts of the elimination of Latrobe debt that was repaid at closing. The supplemental proforma earnings were adjusted to exclude acquisition related costs in the fiscal year 2012 and 2011 periods and the proforma earnings in the fiscal 2010 period were adjusted to include acquisition related costs related to the Latrobe Acquisition.

(\$ in millions)	2012	June 30, 2011	2010
Revenue	\$ 2,339.6	\$ 2,125.3	\$ 1,504.8
Earnings	\$ 160.1	\$ 93.5	\$ (0.4)
Earnings per Common Share			
Basic	\$ 3.04	\$ 1.78	\$ (0.02)
Diluted	\$ 3.01	\$ 1.77	\$ (0.02)

The pro forma results do not include any anticipated synergies or other expected benefits of the acquisition. Accordingly, the unaudited pro forma financial information above is not necessarily indicative of either future results of operations or results that might have been achieved had the acquisition been completed on the dates indicated.

Table of Contents**CARPENTER TECHNOLOGY CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***Arwin Machining Plus, Ltd.*

On December 15, 2011, the Company acquired substantially all of the assets of Arwin Machining Plus, Ltd. ( Arwin ) for a cash purchase price of \$1.4 million. The Arwin assets, consisting principally of machinery and equipment, have been integrated into the Canadian operations of Amega West Services ( Amega West ), a wholly owned subsidiary of the Company. The Company believes the acquisition enhances Amega West's machining capabilities by adding the expertise and positions necessary to increase responsiveness to customers and to assist with the development of new directional drilling applications. The purchase price was allocated \$0.7 million to machinery and equipment and \$0.7 million to goodwill, most of which is expected to be deductible for tax purposes.

*Fiscal Year 2011 Acquisitions**Amega West Services*

On December 31, 2010, the Company acquired all of the members' interests in Amega West Services, LLC ( Amega West ), a Houston-based manufacturer and service provider in the directional drilling industry, for a cash purchase price of \$41.6 million. In connection with this acquisition, the Company also assumed \$12.4 million of Amega West's long-term debt, which was paid off in cash concurrently with closing of the purchase. Amega West is a leading manufacturer of high-precision components for measurement while drilling ( MWD ) and logging while drilling ( LWD ) housings, drill collars, stabilizers and other down-hole tools used for directional drilling. MWD and LWD technology is used to ensure critical data is obtained and transmitted to the surface to monitor the progress of any applicable well. The consideration paid has been allocated as follows:

Net working capital, including \$4.9 million of accounts payable to Carpenter effectively settled at closing	\$	6.5
Customer relationships		5.2
Trademarks and tradenames		1.9
Deferred tax liabilities		(0.6)
Total purchase price	\$	41.6

Of the goodwill recorded related to the Amega West acquisition, \$8.3 million is expected to be deductible for tax purposes.

## Edgar Filing: CARPENTER TECHNOLOGY CORP - Form 10-K

The purchase agreement includes an earn-out opportunity for certain management equity sellers, designed to drive earnings growth at Amega West. According to the terms of the earn-out, the Company held back approximately \$2.8 million of the cash purchase price otherwise payable to the earn-out participants, and provided the participants with the opportunity to receive up to two times the holdback amount if certain earnings targets are achieved over a four and a half year period following the acquisition. \$2.2 million of the earnout is guaranteed and is therefore considered as part of the total purchase price. The earnout payments in excess of the guaranteed minimum amount, if any, will be treated as compensation related to post combination services.

Table of Contents

**CARPENTER TECHNOLOGY CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The results of operations of Amega West have been included in the Consolidated Statements of Income since the acquisition date and are reported in the Performance Engineered Products segment. The acquisition of Amega West is not considered material to the consolidated financial statements and accordingly the Company will not disclose proforma information.

*Oilfield Alloys*

On June 27, 2011, the Company acquired Oilfield Alloys Pte. Ltd. ( Oilfield Alloys ) for a purchase price of \$4.8 million which consisted of a cash purchase price of \$4.1 million, net of cash acquired of \$0.3 million, paid at closing. The remaining purchase price of \$0.7 million was held back to satisfy the occurrence of certain indemnification obligations, if any, and will be released to the sellers on the third anniversary of the acquisition less any indemnification claims. Based in Singapore, Oilfield Alloys manufactures and distributes directional drilling equipment in the Asia-Pacific region. A distributor of several Carpenter non-magnetic products, Oilfield Alloys also has a sales location in Dubai. Oilfield Alloys has become part of Amega West operations. The purchase price allocation was completed in the first quarter of fiscal year 2012 and resulted in the purchase price being allocated to \$1.2 million of working capital, \$1.7 million of property and equipment, \$1.5 million of identifiable intangible assets and \$0.4 million of goodwill.

*Strategic Partnership*

In the second quarter of fiscal year 2011, the Company established a strategic partnership with Sandvik Materials Technology ( Sandvik ) to further strengthen its leadership position in high-performance powder metal products. As part of the strategic partnership, the Company acquired a 40 percent interest in Sandvik Powdermet AB for a cash purchase price of \$6.2 million. The Company has treated the acquisition of the 40 percent interest in Sandvik Powdermet AB as an equity method investment. In addition, in connection with the strategic partnership, Sandvik acquired a 40 percent interest in Carpenter Powder Products AB for a cash purchase price of \$9.1 million. Sandvik's acquired interest in Carpenter Powder Products AB has been reported as a noncontrolling interest. The two businesses, each with current annual revenues of approximately \$20 million, will continue to operate under their current respective brands, Carpenter and Sandvik.

Table of Contents**CARPENTER TECHNOLOGY CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****3. Earnings per Common Share**

The calculations of basic and diluted earnings from continuing operations per common share for the years ended June 30, 2012, 2011 and 2010 were as follows:

(\$ in millions, except per share data)	Year Ended June 30,		
	2012	2011	2010
Net income attributable to Carpenter	\$ 121.2	\$ 71.0	\$ 2.1
Less: earnings and dividends allocated to participating securities	(1.1)	(0.8)	(0.2)
Earnings available for Carpenter common shareholders	\$ 120.1	\$ 70.2	\$ 1.9
Weighted average number of common shares outstanding, basic	47.1	44.1	43.9
Effect of shares issuable under share based compensation plans	0.7	0.6	0.5
Weighted average number of common shares outstanding, diluted	47.8	44.7	44.4
Basic earnings per common share	\$ 2.55	\$ 1.59	\$ 0.04
Diluted earnings per common share	\$ 2.53	\$ 1.59	\$ 0.04

The following awards issued under share-based compensation plans were excluded from the calculations of diluted earnings per share above because their effects were anti-dilutive:

(in millions)	2012	Year Ended June 30, 2011	2010
Stock options		0.1	0.4

Table of Contents**CARPENTER TECHNOLOGY CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****4. Marketable Securities**

The fair value of the Company's marketable securities was based on quoted market prices or estimates of fair value as of June 30, 2012 and 2011. The following is a summary of marketable securities, all of which were classified as available-for-sale as of June 30, 2012 and 2011:

<b>June 30, 2012</b> <b>(\$ in millions)</b>	<b>Cost</b>	<b>Unrealized Losses</b>	<b>Estimated Fair Value</b>
<b>Non-current</b>			
Municipal auction rate securities	\$ 6.0	\$ (1.0)	\$ 5.0
<b>June 30, 2011</b> <b>(\$ in millions)</b>			
<b>Current</b>			
Government agency bonds	\$ 13.7	\$	\$ 13.7
Corporate bonds	15.1		15.1
Commercial paper	1.7		1.7
	\$ 30.5	\$	\$ 30.5
<b>Non-current</b>			
Municipal auction rate securities	\$ 6.1	\$ (0.8)	\$ 5.3

For the fiscal years ended June 30, 2012, 2011 and 2010, proceeds from sales and maturities of marketable securities were \$30.5 million, \$166.0 million and \$55.3 million, respectively.

***Municipal Auction Rate Securities***

As of June 30, 2012 and June 30, 2011, the Company's marketable securities included municipal auction rate securities with a par value of \$6.0 million and \$6.1 million, respectively. The municipal auction rate securities are callable at par at the option of the issuer. As of June 30, 2012 and 2011 respectively, the Company recorded \$1.0 million and \$0.8 million of unrealized losses to reflect the estimated market value of these securities. The Company does not intend to sell the securities and believes that it is more likely than not that the Company will not be required to sell the securities before recovering their costs. The valuation of auction rate securities is subject to uncertainties that are difficult to predict. Factors that impact the valuation of these securities include changes in credit ratings of the securities as well as the underlying assets supporting those securities, rates of default of the underlying assets, underlying collateral value, discount rates, counterparty risk and the ongoing strength and quality of market credit and liquidity. The municipal auction rate securities owned by the Company are of high credit quality and maintain credit enhancements. The Company does not believe that any of the underlying issuers of our municipal auction rate securities are currently at risk of default. The securities have been classified according to their stated maturity dates, which range from 2019 to 2030.



Table of Contents**CARPENTER TECHNOLOGY CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Accordingly, the municipal auction rate securities are included in other assets in the accompanying consolidated balance sheets.

**5. Inventories**

(\$ in millions)	2012	June 30,	2011
Raw materials and supplies	\$	114.1	\$ 63.3
Work in process		312.4	171.9
Finished and purchased products		215.5	93.4
Total inventory	\$	642.0	\$ 328.6

If the first-in, first-out method of inventory had been used instead of the LIFO method, inventories would have been \$279.8 million and \$355.4 million higher as of June 30, 2012 and 2011, respectively. Current cost of LIFO-valued inventories was \$759.7 million at June 30, 2012 and \$599.3 million at June 30, 2011. The reductions in LIFO-valued inventories decreased cost of sales by \$0 million during fiscal year 2012, \$1.7 million during fiscal year 2011, and \$7.0 million during fiscal year 2010.

**6. Property, Plant and Equipment**

(\$ in millions)	2012	June 30,	2011
Land	\$	16.6	\$ 8.5
Buildings and building equipment		301.3	267.6
Machinery and equipment		1,454.6	1,249.3
Construction in progress		97.6	38.4
Total at cost		1,870.1	1,563.8
Less: accumulated depreciation and amortization		945.5	900.9
Total property, plant, and equipment	\$	924.6	\$ 662.9

The estimated useful lives of depreciable assets are as follows:

Asset Category	Useful Life (in Years)
Buildings and building equipment	10 45
Machinery and equipment	3 30

Depreciation for the years ended June 30, 2012, 2011 and 2010 was \$71.5 million, \$59.2 million and \$53.6 million, respectively.

Table of Contents

## CARPENTER TECHNOLOGY CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 7. Goodwill and Other Intangible Assets, Net

*Goodwill*

Carpenter conducted its annual impairment review as of June 30, 2012 and 2011 and determined that there was no goodwill impairment. The changes in the carrying amount of goodwill by reportable segment for fiscal year 2012 and 2011 were as follows:

(\$ in millions)	June 30, 2010	Acquisitions	June 30, 2011	Acquisitions	Other	June 30, 2012
Goodwill	\$ 69.9	\$ 9.7	\$ 79.6	\$ 215.2	\$ 0.4	\$ 295.2
Accumulated impairment losses	(34.7)		(34.7)			(34.7)
Total goodwill	\$ 35.2	\$ 9.7	\$ 44.9	\$ 215.2	\$ 0.4	\$ 260.5
Performance Engineered Products	\$ 35.2	\$ 9.7	\$ 44.9	\$ 0.7	\$ 0.4	\$ 46.0
Latrobe				214.5		214.5
Total goodwill	\$ 35.2	\$ 9.7	\$ 44.9	\$ 215.2	\$ 0.4	\$ 260.5

The amounts included in other in the above table represent amounts recorded in goodwill associated with the with the fiscal year 2011 Oilfield Alloys acquisition for which the purchase price allocation was completed during fiscal year 2012.

*Other Intangible Assets, Net*

(\$ in millions)	Useful Life (in Years)	2012			2011		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trademarks and trade names	2.5 - 30	\$ 42.0	\$ (17.3)	\$ 24.7	\$ 32.5	\$ (14.8)	\$ 17.7
Customer relationships	5 - 15	78.2	(3.4)	74.8	6.1	(0.7)	5.4
Non-compete agreements	6.5	5.4	(1.2)	4.2	5.4	(0.4)	5.0
Contracts	2.9	6.4	(0.2)	6.2			

Edgar Filing: CARPENTER TECHNOLOGY CORP - Form 10-K

Other	N/A					1.9			1.9
Total		\$ 132.0	\$ (22.1)	\$ 109.9	\$ 45.9	\$ (15.9)	\$		30.0

Carpenter recorded \$6.2 million of amortization expense related to intangible assets during fiscal year 2012, \$2.0 million during fiscal year 2011, and \$1.1 million during fiscal year 2010. The estimated annual amortization expense related to intangible assets for each of the succeeding five fiscal years is \$12.4 million in fiscal year 2013, \$12.4 million in fiscal year 2014, \$9.0 million in fiscal year 2015, \$7.6 million in fiscal year 2016 and \$6.7 million in fiscal year 2017.

**8. Debt**

On June 28, 2011, the Company issued an underwritten public offering of \$250 million in aggregate principal amount of its 5.20% senior notes due 2021. The Company used the net proceeds from the issuance of the senior notes to repay \$100 million in principal amount of Carpenter Technology Corporation's medium term notes, Series C, at 7.625% due August 2011, to pay off the indebtedness assumed in the acquisition of Latrobe and for general corporate purposes.

Table of Contents**CARPENTER TECHNOLOGY CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

On June 21, 2011, the Company entered into \$350 million syndicated credit facility ( Credit Agreement ) that extends to June 21, 2016. This five year Credit Agreement replaced the Company s previous revolving credit facility, dated as of November 29, 2009, which had been set to expire in November 2012. During the fiscal year ended June 30, 2011, the Company capitalized \$1.4 million of debt issue costs paid in connection with the Credit Agreement.

Interest on the borrowings under the Credit Agreement accrue at variable rates, based upon LIBOR or a defined Base Rate, that are determined based upon the rating of the Company s senior unsecured long-term debt (the Debt Rating ). The applicable margin to be added to LIBOR ranges from 0.65% to 1.95% (1.20% as of June 30, 2012), and for Base Rate-determined loans, from 0.0% to 0.95% (0.20% as of June 30, 2012). The Company also pays a quarterly facility fee ranging from 0.10% to 0.45% (0.20% as of June 30, 2012), determined based upon the Company s Debt Rating, of the \$350 million commitment under the Credit Agreement. In addition, the Company must pay certain letter of credit fees, ranging from 0.65% to 1.95% (1.20% as of June 30, 2012), with respect to letters of credit issued under the Credit Agreement. The Company has the right to voluntarily prepay and reborrow loans and to terminate or reduce the commitments under the facility. As of June 30, 2012, the Company had \$5.9 million of issued letters of credit under the Credit Agreement, with the balance of \$344.1 million available for future borrowings.

The Company is subject to certain financial and restrictive covenants under the Credit Agreement, which, among other things, require the maintenance of a minimum interest coverage ratio (which begins at 3.5 to 1.0 for the period through June 30, 2012). The interest coverage ratio is defined in the Credit Agreement as, for any period, the ratio of consolidated earnings before interest, taxes, depreciation and amortization ( EBITDA ) to consolidated interest expense for such period. The Credit Agreement also requires the Company to maintain a debt to capital ratio of less than 55%. The debt to capital ratio is defined in the Credit Agreement as the ratio of consolidated indebtedness, as defined, to consolidated capitalization, as defined. As of June 30, 2012, the Company was in compliance with all of the covenants of the Credit Agreement.

Long-term debt outstanding as of June 30, 2012 and 2011 consisted of the following:

(\$ in millions)	2012	June 30,	2011
Senior unsecured notes, 6.625% due May 2013 (face value of \$100.0 million at June 30, 2012 and 2011)	\$	101.3	\$ 102.4
Medium-term notes, Series B at 6.74% to 7.10% due from April 2013 to May 2018 (face value of \$56.0 million at June 30, 2012 and 2011)		56.0	56.0
Medium-term notes, Series C at 7.625% due August 2011 (face value of \$100.0 million at June 30, 2011)			99.8
Senior unsecured notes, 5.200% due July 2021 (face value of \$250.0 million at June 30, 2012 and 2011)		249.6	249.6
Total		406.9	507.8
Less amounts due within one year		101.0	100.0
Long-term debt, net of current portion	\$	305.9	\$ 407.8



Table of Contents**CARPENTER TECHNOLOGY CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The carrying value of the notes as of June 30, 2012 and 2011 includes fair value adjustments for interest rate swap contracts of \$0.2 million and \$0.4 million, respectively, for deferred gains on settled interest rate swaps. The deferred gains on settled interest rate swap contracts are being recognized as reductions to interest expense over the remaining term of the notes, which ranges from one to three years.

Aggregate maturities of long-term debt for the five years subsequent to June 30, 2012, are \$101.0 million in fiscal year 2013, \$0 in fiscal year 2014, 2015, 2016, 2017 and \$305.0 million thereafter.

For the years ended June 30, 2012, 2011 and 2010, interest costs totaled \$25.0 million, \$17.6 million and \$18.8 million, respectively, of which \$1.2 million, \$0.5 million and \$1.0 million, respectively, were capitalized as part of the cost of property, plant, equipment and software.

**9. Accrued Liabilities**

Accrued liabilities consisted of the following as of June 30, 2012 and 2011:

(\$ in millions)	2012	June 30,	2011
Accrued pension liabilities	\$	70.0	\$ 30.7
Accrued compensation		50.1	41.2
Derivative financial instruments		26.5	7.7
Accrued postretirement benefits		17.2	15.2
Other		53.3	30.1
Total accrued liabilities	\$	217.1	\$ 124.9

**10. Pension and Other Postretirement Benefits**

Carpenter provides several noncontributory defined benefit pension plans to certain employees. The plans provide defined benefits based on years of service and final average salary. Effective January 1, 2012, new employees will not be eligible to participate in the U.S. defined benefit pension plan.

Carpenter also provides other postretirement benefit plans to certain of its employees. The postretirement benefit plans consist of health care and life insurance plans. Benefit payments are currently paid from corporate assets. Plan assets are maintained in a Voluntary Employee Benefit

Association Trust ( VEBA ) and are principally invested in equity securities.

Table of Contents**CARPENTER TECHNOLOGY CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The following provides a reconciliation of benefit obligations, plan assets, and funded status of the plans:

(\$ in millions)	Pension Plans		Other Postretirement Plans	
	2012	2011	2012	2011
<b>Change in projected benefit obligation:</b>				
Projected benefit obligation at beginning of year	\$ 929.2	\$ 957.2	\$ 204.2	\$ 224.6
Plan liabilities assumed in connection with Latrobe acquisition	116.3		57.2	
Service cost	23.0	22.8	3.7	2.7
Interest cost	51.3	46.5	11.8	10.9
Benefits paid	(61.1)	(55.8)	(11.7)	(10.7)
Actuarial loss (gain)	159.5	(41.5)	16.3	(23.6)
Plan settlements		(0.3)		
Plan amendments		0.2		
Plan participant contributions			0.3	
Other	(0.1)	0.1	0.4	0.3
Projected benefit obligation at end of year	\$ 1,218.1	\$ 929.2	\$ 282.2	\$ 204.2
<b>Change in plan assets:</b>				
Fair value of plan assets at beginning of year	\$ 710.2	\$ 631.5	\$ 80.3	\$ 63.2
Plan assets acquired in connection with Latrobe acquisition	72.8			
Actual return on plan assets	15.8	127.8	5.3	17.4
Benefits paid from plan assets	(61.1)	(55.8)	(11.7)	(10.7)
Contributions	33.2	7.0	11.4	10.4
Plan settlements		(0.3)		
Fair value of plan assets at end of year	\$ 770.9	\$ 710.2	\$ 85.3	\$ 80.3
Funded status of the plans	\$ (447.2)	\$ (219.0)	\$ (196.9)	\$ (123.9)
<b>Amounts recognized in the Consolidated Balance Sheets</b>				
<b>:</b>				
Other assets - noncurrent	\$ 0.1	\$ 0.2	\$	\$
Accrued liabilities - current	(70.0)	(30.7)	(17.2)	(15.2)
Accrued pension liabilities - noncurrent	(377.3)	(188.5)		
Accrued postretirement benefits			(179.7)	(108.7)
	\$ (447.2)	\$ (219.0)	\$ (196.9)	\$ (123.9)

Table of Contents**CARPENTER TECHNOLOGY CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(\$ in millions)	Pension Plans		Other Postretirement Plans	
	2012	2011	2012	2011
Amounts recognized in accumulated other comprehensive loss:				
Net actuarial loss	\$ 513.6	\$ 333.5	\$ 67.9	\$ 53.0
Prior service cost (credit)	3.6	4.3	(4.2)	(12.1)
<b>Total</b>	<b>\$ 517.2</b>	<b>\$ 337.8</b>	<b>\$ 63.7</b>	<b>\$ 40.9</b>
<b>Additional information:</b>				
Accumulated benefit obligation for all pension plans	\$ 1,112.1	\$ 859.2	N/A	N/A

The following is additional information related to plans with projected benefit obligations in excess of plan assets as of June 30, 2012 and 2011:

(\$ in millions)	Pension Plans		Other Postretirement Plans	
	2012	2011	2012	2011
Projected benefit obligation	\$ 1,217.9	\$ 929.2	\$ 282.2	\$ 204.2
Fair value of plan assets	\$ 770.6	\$ 710.2	\$ 85.3	\$ 80.3

The following additional information is for plans with accumulated benefit obligations in excess of plan assets as of June 30, 2012 and 2011:

(\$ in millions)	Pension Plans		Other Postretirement Plans	
	2012	2011	2012	2011
Accumulated benefit obligation	\$ 1,112.0	\$ 859.2	\$ 282.2	\$ 204.2
Fair value of plan assets	\$ 770.6	\$ 710.2	\$ 85.3	\$ 80.3

Table of Contents**CARPENTER TECHNOLOGY CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The components of the net periodic benefit cost related to the Company's pension and other postretirement benefits for the years ended June 30, 2012, 2011 and 2010 are as follows:

(\$ in millions)	Pension Plans			Other Postretirement Plans		
	2012	2011	2010	2012	2011	2010
Service cost	\$ 23.0	\$ 22.8	\$ 21.0	\$ 3.7	\$ 2.7	\$ 2.3
Interest cost	51.3	46.5	50.2	11.8	10.9	12.1
Expected return on plan assets	(54.2)	(45.4)	(45.0)	(6.4)	(5.0)	(4.6)
Amortization of net loss	17.5	29.1	27.0	2.6	6.0	5.0
Amortization of prior service cost (benefit)	0.7	1.0	1.1	(7.9)	(7.9)	(7.8)
Plan settlement expense		0.1				
Net pension expense	\$ 38.3	\$ 54.1	\$ 54.3	\$ 3.8	\$ 6.7	\$ 7.0

The service cost component of Carpenter's net pension expense, which represents the estimated cost of future pension liabilities earned associated with active employees, is included in the operating income of the business segments. The residual net pension expense, which is comprised of the expected return on plan assets, interest costs on the projected benefit obligations of the plans, and amortization of actuarial gains and losses and prior service costs, is included under the heading "Pension earnings, interest & deferrals" in the segment data presented in Note 18.

Table of Contents**CARPENTER TECHNOLOGY CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

	Pension Plans			Other Postretirement Plans		
	2012	2011	2010	2012	2011	2010
Weighted-average assumptions used to determine benefit obligations at fiscal year end						
Discount rate	4.50%	5.50%	5.00%	4.50%	5.50%	5.00%
Rate of compensation increase	3.67%	3.66%	3.66%	N/A	N/A	N/A

	Pension Plans			Other Postretirement Plans		
	2012	2011	2010	2012	2011	2010
Weighted-average assumptions used to determine net periodic benefit cost for the fiscal year						
Discount rate	5.50%	5.00%	6.25%	5.50%	5.00%	6.25%
Expected long-term rate of return on plan assets	7.50%	7.50%	8.00%	8.00%	8.00%	8.00%
Long-term rate of compensation increase	3.66%	3.66%	3.65%	N/A	N/A	N/A

The following table shows the expected health care rate increase and the future rate and time at which it is expected to remain constant.

	June 30,	
	2012	2011
Assumed health care cost trend rate	8.0%	8.5%
Rate to which the cost trend rate is assumed to decline and remain (the ultimate trend rate)	5%	5%
Year that the rate reaches the ultimate trend rate	2018	2018

Assumed health care cost trend rates have an effect on the amounts reported for other postretirement benefits. A one percentage point increase in the assumed health care cost trend rate would increase service and interest cost by \$0.6 million and increase the postretirement benefit obligation by \$13.5 million. A one percentage point decrease in the assumed health care cost trend rate would decrease service and interest cost by \$0.5 million and decrease the postretirement benefit obligation by \$10.5 million.

Table of Contents**CARPENTER TECHNOLOGY CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Net pension expense, which we define to include the net periodic benefit costs of both the pension and other postretirement plans, is estimated to be \$68.3 million for the year ended June 30, 2013, comprised of \$59.0 million of net periodic benefit costs for pension plans and \$9.3 million of net periodic benefit costs for other post-retirement benefit plans. The discount rate and expected long-term rate of return on plan assets used to calculate the net periodic benefit costs for pension plans for the year ended June 30, 2013 were 4.50 percent and 7.00 percent, respectively. The discount rate and expected long-term rate of return on plan assets used to calculate the net periodic benefits costs for other post-retirement benefit plans for the year ended June 30, 2013 were 4.50 percent and 7.50 percent, respectively.

Amounts in other comprehensive loss that are expected to be recognized as components of net periodic benefit cost in the year ended June 30, 2013 are:

(\$ in millions)	Pension Plans	Other Postretirement Plans	Total
Amortization of prior service cost (credit)	\$ 0.7	\$ (4.1)	\$ (3.4)
Amortization of net actuarial loss	28.1	3.2	31.3
Amortization of accumulated other comprehensive loss	\$ 28.8	\$ (0.9)	\$ 27.9

Carpenter's U.S. pension plans' weighted-average asset allocations at June 30, 2012 and 2011, by asset category are as follows:

	2012	2011
Equity securities	66.0%	66.1%
Fixed income securities	31.3	32.3
Cash and cash equivalents	2.7	1.6
Total	100.0%	100.0%

Carpenter's policy for developing a pension plan investment strategy includes the periodic development of an asset and liability study by an independent investment consultant. Management considers this study in establishing an asset allocation that is presented to and approved by the Company's Plan Committee.

Management determines an asset allocation that will provide the highest level of return for an acceptable level of risk. Accordingly, Carpenter invests in different asset classes including large-, mid- and small-cap growth and value funds, index and international equity funds, short-term and medium-term duration fixed-income funds and high yield funds. The plan's current allocation policy is to have approximately 60 percent U.S. and international equities and 40 percent fixed income securities. The Company may vary the actual asset mix based on the ratio of the plan assets and liabilities. Management reviews the asset allocation on a quarterly basis and makes revisions as deemed necessary. The assets related to Carpenter's other postretirement benefit plans were invested 100 percent in equity securities as of June 30, 2012 and 2011. Management establishes the expected long-term rate of return assumption by reviewing historical trends and analyzing the current and projected market

conditions in relation to the plan's asset allocation and risk management objectives. In determining the expected long-term rate of return, the Company considered historical returns for individual asset classes and the impact of active portfolio management.

Table of Contents**CARPENTER TECHNOLOGY CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The fair values of the Company's pension plan assets as of June 30, 2012 and 2011, by asset category and by the levels of inputs used to determine fair value were as follows:

(\$ in millions)	June 30, 2012			June 30, 2011		
	Fair Value Measurements Using Input Type			Fair Value Measurements Using Input Type		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Short-term investments	\$	\$ 14.4	\$ 14.4	\$	\$ 10.5	\$ 10.5
Domestic and international equities	237.9		237.9	252.0	0.7	252.7
Commingled funds	40.4	151.0	191.4	40.6	246.2	286.8
Limited partnerships		95.9	95.9			
Government agency bonds	6.6	95.8	102.4	65.6		65.6
Corporate bonds		102.1	102.1	76.0		76.0
Mutual funds	10.1		10.1			
Mortgage/asset backed securities and other		16.7	16.7		18.6	18.6
	\$ 295.0	\$ 475.9	\$ 770.9	\$ 434.2	\$ 276.0	\$ 710.2

The fair values of the Company's other postretirement benefit plans as of June 30, 2012 and 2011, by asset category and by the level of inputs used to determine fair value, were as follows:

(\$ in millions)	June 30, 2012			June 30, 2011		
	Fair Value Measurements Using Input Type			Fair Value Measurements Using Input Type		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Commingled fund	\$	\$ 44.7	\$ 44.7	\$	\$ 43.9	\$ 43.9
Short-term investments		5.8	5.8		14.5	14.5
Government agency bonds		15.9	15.9	16.0		16.0
Corporate bonds and other		7.4	7.4	5.9		5.9
Mortgage backed securities		11.5	11.5			
	\$	\$ 85.3	\$ 85.3	\$ 21.9	\$ 58.4	\$ 80.3

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Investments in domestic and international equities are generally valued at the closing price reported on the active market on which they are traded. Commingled funds are valued based on the net asset value ( NAV ) established for the fund at each valuation date. The NAV is

Edgar Filing: CARPENTER TECHNOLOGY CORP - Form 10-K

based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. Corporate and government agency bonds and other fixed income securities are valued using closing bid prices on an active market when possible, otherwise using evaluated bid prices.

Table of Contents**CARPENTER TECHNOLOGY CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS*****Cash Flows Employer Contributions***

The Company made contributions of \$30.0 million to its US pension plans during fiscal year 2012, a contribution of \$3.9 million during fiscal year 2011, but was not required to make contributions to the plans during fiscal year 2010. The Company currently expects to make approximately \$81.5 million in required contributions to the Company's US pension plans during fiscal year 2013. During the years ended June 30, 2012, 2011 and 2010, the Company made contributions of \$3.2 million, \$3.1 million and \$3.5 million to other pension plans, respectively.

***Estimated Future Benefit Payments***

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid. Pension Benefits are currently paid from plan assets and Other Benefits are currently paid from corporate assets:

(\$ in millions)	Pension Benefits	Other Benefits
2013	\$ 72.9	\$ 16.0
2014	\$ 73.7	\$ 16.6
2015	\$ 75.9	\$ 17.2
2016	\$ 76.9	\$ 17.7
2017	\$ 78.4	\$ 18.1
2018-2022	\$ 420.3	\$ 95.1

***Other Benefit Plans***

Carpenter also maintains defined contribution retirement and savings plans for substantially all domestic employees. Company contributions were \$6.8 million in fiscal year 2012, \$5.2 million in fiscal year 2011 and \$4.0 million in fiscal year 2010.

**11. Contingencies and Commitments*****Environmental***

Carpenter is subject to various federal, state, local and international environmental laws and regulations relating to pollution, protection of public health and the environment, natural resource damages and occupational safety and health. Although compliance with these laws and regulations may affect the costs of Carpenter's operations, compliance costs to date have not been material. Carpenter has environmental remediation liabilities at some of its owned operating facilities and has been designated as a potentially responsible party ( PRP ) with respect to certain third-party Superfund waste disposal sites and other third party owned sites. Additionally, Carpenter has been notified that it may be a PRP with respect to other Superfund sites as to which no proceedings have been instituted against Carpenter. Neither the exact amount of remediation costs nor the final method of their allocation among all designated PRP's at these Superfund sites has been determined. The liability for future environmental remediation costs is evaluated by management on a quarterly basis. Carpenter accrues amounts for environmental remediation costs that represent management's best estimate of the probable and reasonably estimable costs related to environmental remediation. During fiscal years 2012 and 2011, there were no changes to the liabilities recorded for environmental remediation costs. During fiscal year 2010, Carpenter decreased the liabilities recorded for environmental remediation costs by \$2.0 million related to two environmental remediation sites. The liabilities recorded for environmental remediation costs at

Table of Contents

**CARPENTER TECHNOLOGY CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Superfund sites, at other third party-owned sites and at Carpenter-owned current or former operating facilities remaining at June 30, 2012 and 2011 was \$4.9 million.

Estimates of the amount and timing of future costs of environmental remediation requirements are inherently imprecise because of the continuing evolution of environmental laws and regulatory requirements, the availability and application of technology, the identification of currently unknown remediation sites and the allocation of costs among the PRP s. Based upon information currently available, such future costs are not expected to have a material effect on Carpenter s financial position, results of operations or cash flows over the long-term. However, such costs could be material to Carpenter s financial position, results of operations or cash flows in a particular future quarter or year.

***Boarhead Farms***

In June 2002, the Company was named as a defendant in a lawsuit filed by a group of plaintiffs in the District Court for the Eastern District of Pennsylvania titled Boarhead Farm Agreement Group v. Advanced Environmental Technology Corporation et al. (since amended to include the individual members). The suit alleges that the Company and the other named defendants contributed to damages caused at Boarhead Farms, a Superfund site located in Bridgeton, Pennsylvania. The Boarhead Farms site was the home of a now defunct chemical and waste hauling company that the Company and many others engaged to dispose of certain wastes during the 1970 s. The plaintiff group was individually named as PRP s for the Boarhead site in the EPA s Record of Decision in November 1998. Their June 2002 lawsuit against various defendants, including Carpenter, sought contributions for a portion of costs incurred for various site cleanup activities as well as contributions to future cleanup efforts. The suit went to trial in June 2008. Prior to trial, all of the named co-defendants, except for Carpenter, reached an out of court settlement with the plaintiffs. Carpenter denied the claims made by the plaintiff group. On August 18, 2008, the Court awarded the plaintiffs judgment against the Company for 80 percent of the plaintiffs past costs of remediating the site, including prejudgment interest from June 18, 2002 to January 1, 2008, and held the Company liable for 80 percent of future costs of the cleanup activities at the site. The Company appealed the Court s decision and oral arguments took place before the United States Court of Appeals for the Third Circuit on December 17, 2009. On April 12, 2010, the Court of Appeals for the Third Circuit vacated the previous judgment by the District Court and remanded the case for further proceedings. As of June 30, 2011, the Company recorded a liability related to this case of \$21.8 million. On July 19, 2011, the Company entered into a settlement agreement providing for a dismissal of the lawsuit and a complete release, in the Company s favor, by all parties to the litigation in exchange for a payment of \$21.8 million, which the Company paid in September 2011. The Company expects that no additional liabilities will be incurred related to this matter.

***Duty Drawback***

Historically, the Company has participated in a program offered by U.S. Customs and Border Protection ( U.S. Customs ) known as duty drawback. Under the program, we claimed a refund of import duties on items manufactured and exported to customers in foreign countries. Certain vendors prepared certificates authorizing us to claim duty drawback refunds against imported goods purportedly shipped by the vendor to us. Because of the complexity of the program, we engaged a licensed U.S. customs broker specializing in duty drawback claims. The customs broker was responsible for performing the administration of the process which included maintaining and collecting various forms of supporting evidence for each claim including collecting appropriate certificates from vendors, as well as preparing and submitting the refund claims.



Table of Contents

**CARPENTER TECHNOLOGY CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

In fiscal year 2008, the Company received notice from U.S. Customs that it was under investigation related to claims previously filed by the customs broker on the Company's behalf. The investigation alleged certain discrepancies and a lack of supporting documentation for the claims that had been filed by the broker. The Company initiated an internal review of the claims filed with U.S. Customs to determine the extent of claims that may have inadequate supporting documentation. The Company also engaged a new licensed U.S. customs broker and cooperated fully with the investigation by U.S. Customs.

Following discussions with U.S. Customs' Houston Office, the Company negotiated a settlement offer of \$1.1 million to resolve this matter. This settlement offer, along with the \$1.1 million in advance payments, was presented to U.S. Customs' National Headquarters for approval with the endorsement of the Houston Office. In December 2011, the Company was notified that the settlement offer was accepted by U.S. Customs. The Company does not expect that any additional liabilities will be incurred related to this matter.

***Export Regulations Violations***

During fiscal year 2008, the Company became aware of potential violations of federal export regulations at a business unit that had been recently divested. Upon investigation, the Company discovered that approximately 40 foreign nationals employed over time at the business unit's facility may have been exposed to protected technical data related to the production of various products for military applications. An export license from the Department of State and the Department of Commerce is required prior to the exporting of technical data for military applications. The Company has applied for and received similar applications for other business units, but did not have such a license for the divested business unit. Violations of Federal export regulations can be subject to civil penalties depending upon the severity of the violation. The Company filed voluntary disclosures with the Department of State and the Department of Commerce before the divestiture of the business unit on March 31, 2008. The Department of State responded to the voluntary disclosure without assessing civil penalties. The Department of Commerce has not yet responded to the voluntary disclosure. It is not possible to determine the amount, if any, of civil penalties that may be assessed by the Department of Commerce. As a result, the Company has not recorded any liability for potential penalties as of June 30, 2012.

***Other***

The Company is defending various routine claims and legal actions that are incidental to its business, and the Company is subject to contingencies that are common to its operations, including those pertaining to product claims, commercial disputes, employment actions, employee benefits, compliance with domestic and foreign laws, personal injury claims and tax issues. The Company provides for costs relating to these matters when a loss is probable and the amount of the loss is reasonably estimable. The effect of the outcome of these matters on the Company's future results of operations and liquidity cannot be predicted because any such effect depends on future results of operations and the amount and timing (both as to recording future charges to operations and cash expenditures) of the resolution of such matters. While it is not feasible to determine the outcome of these matters, management believes that the total liability from these matters will not have a material effect on the Company's financial position, results of operations or cash flows over the long-term. However, there can be no assurance that an increase in the scope of pending matters or that any future lawsuits, claims, proceedings or investigations will not be material to the Company's financial position, results of operations or cash flows in a particular future quarter or year.



Table of Contents

**CARPENTER TECHNOLOGY CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The Company has entered into purchase agreements primarily for various key raw materials at market related prices, all made in the normal course of business. The commitments include both fixed and variable price provisions. We used June 30, 2012 raw material prices for commitments with variable pricing. The purchase commitments covered by these agreements aggregate to approximately \$422.3 million as of June 30, 2012. Of this amount, \$241.3 million relates to fiscal year 2013, \$45.1 million to fiscal year 2014, \$43.9 million to fiscal year 2015, \$45.2 million to fiscal year 2016, and \$46.8 million to fiscal year 2017.

**12. Operating Leases**

The Company leases certain facilities and equipment under operating leases. Total rent expense was \$9.8 million, \$7.3 million and \$6.8 million for the fiscal years ended June 30, 2012, 2011 and 2010, respectively.

Future minimum payments for non-cancellable operating leases in effect at June 30, 2012 are: \$12.1 million in fiscal year 2013, \$8.6 million in fiscal year 2014, \$5.3 million in fiscal year 2015, \$2.7 million in fiscal year 2016, \$1.1 million in fiscal year 2017 and \$3.2 million thereafter.

**13. Fair Value Measurements**

The fair value hierarchy has three levels based on the inputs used to determine fair value. Level 1 refers to quoted prices in active markets for identical assets or liabilities. Level 2 refers to observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data. Level 3, which the Company does not currently use, refers to unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

Table of Contents**CARPENTER TECHNOLOGY CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The following tables present the Company's assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy.

(in millions)	Fair Value Measurements Using Input Type		Total
	Level 1	Level 2	
<b>Assets:</b>			
Marketable securities			
Municipal auction rate securities	\$	\$ 5.0	\$ 5.0
Derivative financial instruments		2.6	2.6
<b>Total assets</b>	<b>\$</b>	<b>\$ 7.6</b>	<b>\$ 7.6</b>
<b>Liabilities:</b>			
Derivative financial instruments	\$	\$ 56.5	\$ 56.5

(in millions)	Fair Value Measurements Using Input Type		Total
	Level 1	Level 2	
<b>Assets:</b>			
Marketable securities			
Government agency bonds	\$ 13.7	\$	\$ 13.7
Corporate bonds	15.1		15.1
Commercial paper	1.7		1.7
Municipal auction rate securities		5.3	5.3
Derivative financial instruments		20.0	20.0
<b>Total assets</b>	<b>\$ 30.5</b>	<b>\$ 25.3</b>	<b>\$ 55.8</b>
<b>Liabilities:</b>			
Derivative financial instruments	\$	\$ 14.1	\$ 14.1

The Company's derivative financial instruments consist of commodity forward contracts, foreign exchange forward contracts and interest rate swaps. These instruments are measured at fair value using the market method valuation technique. The inputs to this technique utilize information related to foreign exchange rates, commodity prices and interest rates published by third-party leading financial news and data providers. This is observable data; however, the valuation of these instruments is not based on actual transactions for the same instruments so they are classified as Level 2. The Company's use of derivatives and hedging policies are more fully discussed in Note 15.

The Company has currently chosen not to elect the fair value option for any items that are not already required to be measured at fair value in accordance with accounting principles generally accepted in the United States.



Table of Contents**CARPENTER TECHNOLOGY CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The carrying amounts of other financial instruments not listed in the table below approximate fair value due to the short-term nature of these items.

The carrying amounts and estimated fair values of Carpenter's financial instruments not recorded at fair value in the financial statements were as follows:

(in millions)	June 30, 2012		June 30, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, including current portion	\$ 406.9	\$ 427.7	\$ 507.8	\$ 515.9
Company-owned life insurance	\$ 11.0	\$ 11.0	\$ 11.4	\$ 11.4

The carrying amount for company-owned life insurance reflects cash surrender values based upon the market values of underlying securities, net of any outstanding policy loans. The carrying value associated with the cash surrender value of these policies is recorded in other assets in the accompanying consolidated balance sheets.

The fair values of long-term debt as of June 30, 2012 and June 30, 2011 were determined by using current interest rates for debt with terms and maturities similar to the Company's existing debt arrangements and accordingly would be classified as using Level 2 inputs in the fair value hierarchy.

#### **14. Share-Based Compensation**

Carpenter has two share-based compensation plans: the 1993 Plan covering officers and key employees and the Director's Plan covering non-employee directors. Awards granted under the share-based compensation plans are generally paid from shares held in treasury and any additional required share payments are made with newly issued shares. The total compensation cost that has been charged against income related to these share-based compensation plans was \$13.3 million, \$14.4 million, and \$7.4 million for the years ended June 30, 2012, 2011 and 2010, respectively.

##### ***1993 Plan***

## Edgar Filing: CARPENTER TECHNOLOGY CORP - Form 10-K

The 1993 plan provides that the Board of Directors may grant stock options, restricted stock, and restricted stock units, and determine the terms and conditions of each grant. The 1993 plan provides the Chief Executive Officer with limited authority to grant awards. As of June 30, 2012, 2,784,394 shares were available for awards which may be granted under this plan.

### *Director s Plan*

The Director s plan provides for the granting of stock options, performance units and stock units to non-employee Directors. As of June 30, 2012, 833,624 shares were reserved for awards which may be granted under this plan.

### *Stock Options (all plans):*

Stock options granted under the plans above are granted with an exercise price equal to at least the fair market value of the Company s common stock on the date of grant. The options are exercisable after one to three years of service and expire no longer than ten years from the grant date.

Table of Contents**CARPENTER TECHNOLOGY CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The fair value of stock options awarded in fiscal years 2012, 2011 and 2010 were estimated on the date of each grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

	Year Ended June 30,		
	2012	2011	2010
Expected volatility	54%	55%	54%
Dividend yield	1%	2%	2%
Risk-free interest rate	1.4%	1.6%	2.6%
Expected term (in years)	5.0	5.0	5.0

The assumptions are based on multiple factors, including historical exercise patterns of employees in relatively homogeneous groups with respect to exercise and post-vesting employment termination behaviors, expected future exercising patterns for these same homogeneous groups and the implied volatility of our stock price based on historical performance for the same expected term of the options granted. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of each grant.

	Number of Awards	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (In Millions)
Outstanding at June 30, 2009	541,263	35.36		
Granted	592,746	18.50		
Exercised	(29,559)	10.00		
Cancelled	(283,795)	28.31		
Outstanding at June 30, 2010	820,655	26.53		
Granted	227,600	34.78		
Exercised	(85,590)	17.91		
Cancelled	(5,858)	31.31		
Outstanding at June 30, 2011	956,807	29.23		
Granted	152,450	55.04		
Exercised	(79,444)	23.57		
Cancelled	(7,207)	27.11		
Outstanding at June 30, 2012	1,022,606	\$ 33.54	7.1 Years	\$ 16.5
Exercisable at June 30, 2012	669,060	\$ 30.17	6.4 Years	\$ 12.6

Table of Contents**CARPENTER TECHNOLOGY CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***Outstanding and Exercisable Options:*

Exercise Price Range	Number Outstanding at June 30, 2012	Weighted Average Remaining Contractual Term (in Years)	Weighted Average Exercise Price	Number Exercisable at June 30, 2012	Weighted Average Exercise Price
\$5.00 - \$20.00	259,262	6.2	\$ 16.40	189,106	\$ 16.07
\$20.01 - \$30.00	199,416	6.9	22.64	197,563	22.65
\$30.01 - \$40.00	212,451	8.1	34.62	86,080	34.86
\$40.01 - \$50.00	141,342	6.4	44.00	123,315	43.62
\$50.00 - \$63.54	210,135	7.7	56.89	72,996	58.84
	1,022,606		\$ 33.54	669,060	\$ 30.17

The weighted average grant date fair value of options awarded during fiscal years 2012, 2011 and 2010 was \$23.46, \$14.75 and \$7.77, respectively. Share based compensation charged against income related to stock options for the years ended June 30, 2012, 2011 and 2010 was \$3.1 million, \$3.8 million and \$2.2 million, respectively. As of June 30, 2012, \$1.7 million of compensation cost related to non vested stock options remains to be recognized over a weighted average remaining life of 1.3 years.

Of the options outstanding at June 30, 2012, 797,761 relate to the 1993 plan and 224,845 relate to the Directors' Plan.

*Nonvested Stock Awards (all plans):*

Nonvested stock awards are granted to employees with performance and/or service conditions. Nonvested awards receive non-forfeitable cash dividends during the restriction period. The fair value of the nonvested stock awards is determined based on the Company's stock price at the grant date.

Performance-based restricted share awards are earned only if Carpenter achieves certain performance goals during a specified performance period according to the terms determined by the Board at the date of the grant. These shares vest from one to two years from the date of the attainment of the specified performance goals. Compensation cost is determined and charged to expense beginning in the performance period through the vesting period.

Time-based restricted share awards vest three years from the date of grant. Compensation cost related to time based share awards is recognized over the vesting period of the award.

Amounts charged to compensation expense for nonvested stock awards was \$6.1 million, \$7.7 million and \$3.4 million for the years end June 30, 2012, 2011 and 2010, respectively. As of June 30, 2012, \$3.3 million of compensation cost related to nonvested restricted stock awards remains to be recognized over a weighted average remaining life of 1.4 years.

Table of Contents

## CARPENTER TECHNOLOGY CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Number of Awards	Weighted- Average Grant Date Fair Value
<b>Nonvested Balance at June 30, 2009</b>	258,564	\$ 50.90
Time-based granted	219,448	\$ 19.66
Performance-based earned	110,904	\$ 18.59
Vested	(125,222)	\$ 50.04
Forfeited	(118,667)	\$ 32.78
<b>Nonvested Balance at June 30, 2010</b>	345,027	\$ 26.63
Time-based granted	171,617	\$ 33.10
Performance-based earned	131,644	\$ 32.52
Vested	(165,576)	\$ 33.43
Forfeited	(1,971)	\$ 36.64
<b>Nonvested Balance at June 30, 2011</b>	480,741	\$ 28.17
Time-based granted	43,408	\$ 49.75
Performance-based earned	77,423	\$ 55.69
Vested	(171,140)	\$ 28.00
Forfeited	(11,101)	\$ 21.75
<b>Nonvested Balance at June 30, 2012</b>	419,331	\$ 35.71

***Total Stockholder Return Awards:***

The Company granted Total Stockholder Return (TSR) awards in fiscal year 2012, 2011 and 2010. The TSR awards are granted at a target number of shares, and vest based on the Company's total stockholder return compared to the total stockholder returns of a group of peer companies at the end of a three-year period. The actual number of shares awarded may range from a minimum of 50 percent of the target shares to a maximum of two times target. Participants do not have any rights to dividends (or equivalents) during the performance period. The fair value of the TSR awards was estimated using Monte Carlo valuation models. Compensation cost recognized in fiscal years 2012, 2011 and 2010 related to TSR awards was \$3.0 million, \$1.9 million and \$0.6 million, respectively.

***Director Stock Units***

According to the provisions of the Director's plan, on the date of each annual stockholders' meeting or on such other regularly scheduled date as the Board of Directors may determine from time to time in light of the Company's prevailing practices for the grant of equity awards to employees, each Director shall be granted, in place of cash compensation, a number of stock units determined by dividing 50 percent of the Director's annual retainer by the fair market value of the Company's common stock on that date. Each Director may elect to increase the percentage up to 100 percent of the annual retainer to be paid in stock units in lieu of cash. Stock units granted at each annual meeting will be forfeited if the Director terminates service as a Director for any reason other than retirement, disability or death before the next annual stockholders' meeting. Additional units are credited to each Director on a quarterly basis to reflect dividend equivalents on the Company's common stock.



Table of Contents**CARPENTER TECHNOLOGY CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Following a Director's retirement, the Director will be paid the number of the Company's common stock shares equal to the number of stock units credited to the Director's account.

	Number of Units	Weighted- Average Grant Date Fair Value
<b>Outstanding at June 30, 2009</b>	100,063	\$ 25.95
Granted	59,332	\$ 18.12
Dividend equivalents	3,469	\$
<b>Outstanding at June 30, 2010</b>	162,864	\$ 22.66
Granted	29,822	\$ 36.45
Dividend equivalents	3,015	\$
<b>Outstanding at June 30, 2011</b>	195,701	\$ 25.81
Granted	22,660	\$ 47.89
Dividend equivalents	3,049	\$
<b>Outstanding at June 30, 2012</b>	221,410	\$ 27.10

Compensation cost is determined using the grant-date fair value and charged to expense over the vesting period of one year and amounted to \$1.1 million, \$1.0 million and \$1.2 million for the years ended June 30, 2012, 2011 and 2010, respectively. As of June 30, 2012, \$0.3 million of compensation cost related to director stock units remains to be recognized over a weighted average remaining life of 0.3 years.

## 15. Derivatives and Hedging Activities

The Company uses commodity forwards, interest rate swaps and foreign currency forwards to manage risks generally associated with commodity price, interest rate and foreign currency rate fluctuations. The following explains the various types of derivatives and includes a recap about the impact the derivative instruments have had on the Company's financial position, results of operations, and cash flows.

*Cash Flow Hedging – Commodity forward contracts:* The Company enters into commodity forward contracts to fix the price of a portion of anticipated future purchases of certain critical raw materials and energy to manage the risk of cash flow variability associated with volatile commodity prices. The commodity forward contracts have been designated as cash flow hedges. The qualifying hedge contracts are marked-to-market at each reporting date and any unrealized gains or losses are included in other comprehensive income to the extent effective, and reclassified to costs of sales in the period during which the hedged transaction affects earnings or it becomes probable that the forecasted transaction will not occur.



Table of Contents

**CARPENTER TECHNOLOGY CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*Cash Flow Hedging - Forward interest rate swaps* Historically, the Company has entered into forward swap contracts to manage the risk of cash flow variability associated with fixed interest debt expected to be issued. The forward interest rate swaps have been designated as cash flow hedges. The qualifying hedge contracts are marked-to-market at each reporting date and any unrealized gains or losses are included in accumulated other comprehensive income to the extent effective, and reclassified to interest expense in the period during which the hedged transaction affects earnings or it becomes probable that the forecasted transaction will not occur.

*Cash Flow Hedging - Foreign currency forward contracts* The Company uses foreign currency forward contracts to hedge a portion of anticipated future sales denominated in foreign currencies, principally the Euro and Pound Sterling, in order to offset the effect of changes in exchange rates. The qualifying hedge contracts are marked-to-market at each reporting date and any unrealized gains or losses are included in other comprehensive income to the extent effective, and reclassified to net sales in the period during which the transaction affects earnings or it becomes probable that the forecasted transaction will not occur.

The Company also uses foreign currency forward contracts to protect certain short-term asset positions denominated in foreign currency against the effect of changes in exchange rates. These positions do not qualify for hedge accounting and accordingly are marked-to-market at each reporting date through charges to other income and expense. As of June 30, 2012, the fair value of the outstanding foreign currency forwards not designated as hedging instruments and the charges to income for changes in fair value for these contracts was not material.

*Fair Value Hedging - Interest rate swaps:* The Company has used interest rate swaps to achieve a level of floating rate debt relative to fixed rate debt where appropriate. The Company has designated fixed to floating interest rate swaps as fair value hedges. Accordingly, the changes in the fair value of these instruments are immediately recorded in earnings. The mark-to-market values of both the fair value hedging instruments and the underlying debt obligations are recorded as equal and offsetting gains and losses in interest expense in the consolidated statements of income. As of June 30, 2012 and 2011, the total notional amounts of floating interest rate contracts were \$45.0 million and \$65.0 million, respectively. For the years ended June 30, 2012 and 2011, net gains of \$1.4 million and \$2.8 million were recorded as a reduction to interest expense, respectively. These amounts include the impact of previously terminated swaps which are being amortized over the remaining term of the underlying debt.

Table of Contents

## CARPENTER TECHNOLOGY CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The fair value and location of outstanding derivative contracts recorded in the accompanying consolidated balance sheets were as follows as of June 30, 2012 and 2011:

June 30, 2012 (\$ in millions)	Interest Rate Swaps	Foreign Currency Contracts	Commodity Contracts	Total Derivatives
<b>Asset Derivatives:</b>				
<i>Derivatives designated as hedging instruments:</i>				
Other current assets	\$ 0.2	\$ 1.2	\$	\$ 1.4
Other assets	1.2			1.2
Total asset derivatives	\$ 1.4	\$ 1.2	\$	\$ 2.6
<b>Liability Derivatives:</b>				
<i>Derivatives designated as hedging instruments:</i>				
Accrued liabilities	\$	\$ 1.5	\$ 25.0	\$ 26.5
Other liabilities		0.4	29.6	30.0
Total liability derivatives	\$	\$ 1.9	\$ 54.6	\$ 56.5

June 30, 2011 (\$ in millions)	Interest Rate Swaps	Foreign Currency Contracts	Commodity Contracts	Total Derivatives
<b>Asset Derivatives:</b>				
<i>Derivatives designated as hedging instruments:</i>				
Other current assets	\$ 0.8	\$	\$ 5.4	\$ 6.2
Other assets	2.0		11.8	13.8
Total asset derivatives	\$ 2.8	\$	\$ 17.2	\$ 20.0
<b>Liability Derivatives:</b>				
<i>Derivatives designated as hedging instruments:</i>				
Accrued liabilities	\$	\$ 0.9	\$ 6.8	\$ 7.7
Other liabilities			6.4	6.4
Total liability derivatives	\$	\$ 0.9	\$ 13.2	\$ 14.1

**Cash Flow Hedges**

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of accumulated other comprehensive income ( AOCI ) and reclassified into earnings in the same period or periods during which the hedged transactions affects earnings or it becomes probable that the forecasted transaction will not occur. The following is a summary of the gains (losses) related to cash flow hedges recognized during the years ended June 30, 2012, 2011 and 2010:



Table of Contents

## CARPENTER TECHNOLOGY CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(\$ in millions)	2012	Amount of (Loss) Gain Recognized in AOCI on Derivatives (Effective Portion)		
		Years Ended June 30,		2010
		2011		
Derivatives in Cash Flow Hedging Relationship:				
Commodity contracts	\$ (79.0)	\$ 15.2	\$	23.3
Foreign exchange contracts	(0.1)	(2.4)		0.7
Forward interest rate swaps		1.0		
Total	\$ (79.1)	\$ 13.8	\$	24.0

(\$ in millions)	Location of (Loss) Gain Reclassified from AOCI into Income (Effective Portion)	2012	Amount of (Loss) Gain Reclassified from AOCI into Income (Effective Portion)		
			Years Ended June 30,		2010
			2011		
Derivatives in Cash Flow Hedging Relationship:					
Commodity contracts	Cost of sales	\$ (23.4)	\$ 7.6	\$	(3.2)
Foreign exchange contracts	Net sales	1.2	(1.2)		1.3
Total		\$ (22.2)	\$ 6.4	\$	(1.9)

The Company estimates that \$23.8 million of net derivative losses included in OCI as of June 30, 2012 will be reclassified into earnings within the next twelve months. No significant cash flow hedges were discontinued during the year ended June 30, 2012. Ineffectiveness was not material during the year ended June 30, 2012.

The changes in other accumulated comprehensive income associated with derivative hedging activities during the years ended June 30, 2012, 2011 and 2010 were as follows:

	2012	2011	2010
Balance at July 1	\$ 2.6	\$ (2.4)	\$ (17.3)
Current period changes in fair value, net of tax	(49.1)	8.5	11.6
Reclassification to earnings, net of tax	13.7	(3.5)	3.3
Balance at June 30	\$ (32.8)	\$ 2.6	\$ (2.4)

According to the provisions of the Company's derivative arrangements, in the event that the fair value of outstanding derivative positions with certain counterparties exceeds certain thresholds, the Company may be required to issue cash collateral to the counterparties. The Company's contracts with these counterparties allow for netting of derivative instrument positions executed under each contract. As of June 30, 2012 the Company had no cash collateral held by counterparties.

The Company is exposed to credit loss in the event of nonperformance by counterparties on its derivative instruments as well as credit or performance risk with respect to its customer commitments to perform. Although nonperformance is possible, the Company does not anticipate nonperformance by any of the parties. In addition various master netting arrangements are in place with counterparties to facilitate settlement of gains and losses on these contracts.

Table of Contents**CARPENTER TECHNOLOGY CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****16. Income Taxes**

Income from continuing operations before income taxes for the Company's domestic and foreign operations was as follows:

(\$ in millions)	2012	Years Ended June 30,		2010
		2011		
Domestic	\$ 168.4	\$ 64.9	\$	(7.4)
Foreign	20.2	22.9		12.1
Income before income taxes	\$ 188.6	\$ 87.8	\$	4.7

The provision (benefit) for income taxes from continuing operations consisted of the following:

(\$ in millions)	2012	Years Ended June 30,		2010
		2011		
Current:				
Federal	\$ 21.5	\$ 9.2	\$	
State	2.9	5.2		0.7
Foreign	5.8	6.7		2.8
Total current	30.2	21.1		3.5
Deferred:				
Federal	32.5	(3.6)		2.2
State	4.1	(1.3)		(4.1)
Foreign	0.2	(0.1)		1.0
Total deferred	36.8	(5.0)		(0.9)
Total income tax expense	\$ 67.0	\$ 16.1	\$	2.6

Table of Contents**CARPENTER TECHNOLOGY CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The following is a reconciliation of income taxes computed at the U.S. Federal income tax rate to the Company's effective income tax rate:

(% of pre-tax income)	Years Ended June 30,		
	2012	2011	2010
Statutory federal income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefit	2.2	2.9	(13.5)
Domestic manufacturing deduction	(2.3)	(3.4)	(13.7)
Research and development tax credit	(0.6)	(3.7)	(6.0)
Foreign tax rate differential	(0.6)	(1.7)	(10.7)
Nontaxable income		(0.6)	(27.3)
Foreign source income		(7.3)	
Increases (decreases) in valuation allowances	0.1	(0.2)	7.9
Adjustments of prior years' income taxes	(0.5)	(2.6)	57.8
Changes in uncertain tax positions, net	0.4	(0.4)	(104.8)
Healthcare reform			126.9
Other, net	1.8	0.3	3.7
Effective income tax rate	35.5%	18.3%	55.3%

Deferred taxes are recorded for temporary differences between the carrying amounts of assets and liabilities and their tax bases. The significant components of deferred tax assets and liabilities that are recorded in the Consolidated Balance Sheet are summarized in the table below. A valuation allowance is required when it is more likely than not that all or a portion of a deferred tax asset will not be realized. As of June 30, 2012, the Company had state net operating loss carryforwards of \$325.4 million expiring between 2013 and 2031. The valuation allowance increased from 2011 by \$0.6 million primarily due to a decrease in the amount of future reversals of taxable temporary differences.

Table of Contents**CARPENTER TECHNOLOGY CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(\$ in millions)	June 30,	
	2012	2011
<b>Deferred tax assets:</b>		
Pensions	\$ 132.1	\$ 75.7
Postretirement provisions	90.8	48.0
Net operating loss carryforwards	20.7	20.5
Environmental	4.5	12.8
Other	44.5	19.5
Gross deferred tax assets	292.6	176.5
Valuation allowances	(18.1)	(17.5)
Net deferred tax assets	274.5	159.0
<b>Deferred tax liabilities:</b>		
Depreciation	(239.5)	(177.7)
Intangible assets	(41.2)	(9.4)
Inventories	(12.9)	(5.3)
Other	(1.7)	
Total deferred tax liabilities	(295.3)	(192.4)
Deferred tax liabilities	\$ (20.8)	\$ (33.4)

At June 30, 2012, the Company had undistributed earnings of foreign subsidiaries, amounting to \$114.0 million on which deferred income taxes have not been provided because earnings are expected to be reinvested indefinitely outside of the U.S. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to U.S. income taxes and withholding taxes in various foreign tax jurisdictions. It is not practical to calculate these taxes due to the complex and hypothetical nature of the calculations.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits for uncertain tax positions is as follows:

(\$ in millions)	Year Ended June 30,		
	2012	2011	2010
Balance, beginning	\$ 1.9	\$ 3.6	\$ 14.3
Additions based on tax positions of prior years		0.3	
Additions based on tax positions of current years	0.4		
Reductions as a result of a lapse of statute of limitations		(2.0)	(8.2)
Reductions based on tax positions of prior year			(1.9)
Settlements			(0.6)
Balance, ending	\$ 2.3	\$ 1.9	\$ 3.6

Table of Contents**CARPENTER TECHNOLOGY CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The liability for unrecognized tax benefits as of June 30, 2012 of \$2.3 million includes \$1.5 million of offsetting tax benefits for reversals of deferred tax items. The net amount of \$0.8 million would, if recognized, favorably impact the Company's effective tax rate. The net amounts at June 30, 2011 and 2010 were \$0.4 million and \$0.6 million, respectively. It is reasonably possible that the amount of the unrecognized tax benefits will change within the next 12 months; however, any such changes should not have a significant impact on the Company's consolidated financial statements.

It is the Company's policy to classify interest and penalties recognized on uncertain tax positions as a component of income tax expense. The Company's income tax expense included a charge of \$0.4 million and benefits of \$0.3 million and \$1.7 million related to interest and penalties for the years ended June 30, 2012, 2011 and 2010, respectively. In addition, \$0.7 million and \$0.3 million were included in accrued income taxes in the Consolidated Balance Sheet as of June 30, 2012 and 2011, respectively.

All years prior to June 30, 2008 have been settled with the Internal Revenue Service and with most significant state tax jurisdictions. The Company has not extended any statute of limitations period for any significant location in which it operates. Generally, tax years are open to examination for a period of four to six years following the filing of the tax returns.

**17. Other Income, Net**

Other income, net consists of the following:

(\$ in millions)	Year Ended June 30,		
	2012	2011	2010
Interest income	\$ 0.9	\$ 1.1	\$ 1.6
Equity in earnings of unconsolidated subsidiaries	0.6	2.6	1.0
Unrealized gains (losses) on company owned life insurance contracts and investments held in rabbi trusts	(0.4)	2.5	0.3
Continued Dumping and Subsidy Offset Act receipts		2.0	5.7
Other	1.2	0.3	2.2
Total other income, net	\$ 2.3	\$ 8.5	\$ 10.8

**18. Segment Information, Geographic and Product Data**

In January 2012, the Company announced a change to its reportable segments, beginning with the second quarter results of fiscal year 2012, to align with a new operating model in which the integrated steel mill operations will be managed distinctly from the collection of other differentiated business unit operations. The Company now has three reportable segments, Specialty Alloys Operations (SAO), Latrobe, and

## Edgar Filing: CARPENTER TECHNOLOGY CORP - Form 10-K

Performance Engineered Products ( PEP ). Previously, the Company s reportable segments consisted of Premium Alloys Operations, Advanced Metals Operations and Emerging Ventures.

The SAO segment is comprised of the Company s major premium alloy and stainless steel manufacturing operations. This includes operations performed at mills primarily in Reading, Pennsylvania and the surrounding area, South Carolina, and the new premium products manufacturing facility being built in Limestone County, Alabama. The combined assets of the SAO operations will be managed in an integrated manner to optimize efficiency and profitability across the total system.

Table of Contents**CARPENTER TECHNOLOGY CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The Latrobe segment is comprised of the operations of the Latrobe business acquired effective February 29, 2012. The Latrobe segment provides management with the focus and visibility into the business performance of these newly acquired operations. The Latrobe segment also includes the results of Carpenter's distribution business in Mexico.

The PEP segment is comprised of the Company's differentiated operations. This includes the Dynamet titanium business, the Carpenter Powder Products business, and the Amega West business. The businesses in the PEP segment will be managed with an entrepreneurial structure to promote speed and flexibility and drive overall revenue and profit growth.

The service cost component of the Company's net pension expense, which represents the estimated cost of future pension liabilities earned associated with active employees, is included in the operating income of the business segments. The residual net pension expense, which is comprised of the expected return on plan assets, interest costs on the projected benefit obligations of the plans, and amortization of actuarial gains and losses and prior service costs, is included under the heading Pension earnings, interest & deferrals.

On a consolidated basis, no single customer accounted for 10% or more of the Company's sales. On a consolidated basis one customer, Precision Castparts Corporation, accounted for 10% (\$161.7 million and \$116.1 million) of the Company's sales for the years ended June 30, 2011 and 2010, respectively.

The accounting policies of our reportable segments are the same as those described in the Summary of Significant Accounting Policies.

Segment Data (\$ in millions)	Year Ended June 30,		
	2012	2011	2010
<b>Net Sales:</b>			
Specialty Alloys Operations	\$ 1,566.6	\$ 1,431.3	\$ 1,017.6
Performance Engineered Products	347.0	248.3	157.7
Latrobe	217.7	38.7	32.6
Intersegment	(102.6)	(43.2)	(9.3)
Consolidated net sales	\$ 2,028.7	\$ 1,675.1	\$ 1,198.6
<b>Operating Income:</b>			
Specialty Alloys Operations	\$ 229.4	\$ 139.3	\$ 65.2
Performance Engineered Products	41.7	35.0	17.1
Latrobe	13.3	2.2	0.7
Corporate costs	(53.2)	(42.0)	(33.4)
Pension earnings, interest & deferrals	(15.3)	(35.2)	(38.0)
Intersegment	(5.8)	(2.9)	0.1
Consolidated operating income	\$ 210.1	\$ 96.4	\$ 11.7



Table of Contents

## CARPENTER TECHNOLOGY CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(\$ in millions)	2012	Year Ended June 30,	
		2011	2010
<b>Depreciation and Amortization:</b>			
Specialty Alloys Operations	\$ 53.2	\$ 51.1	\$ 47.8
Performance Engineered Products	17.7	10.2	5.5
Latrobe	7.7	0.4	0.3
Corporate	5.6	4.9	5.5
Intersegment	(0.4)	(0.1)	
Consolidated depreciation and amortization	\$ 83.8	\$ 66.5	\$ 59.1

(\$ in millions)	2012	Year Ended June 30,	
		2011	2010
<b>Capital Expenditures:</b>			
Specialty Alloys Operations	\$ 121.1	\$ 51.6	\$ 38.1
Performance Engineered Products	40.0	24.8	3.2
Latrobe	7.6	0.4	0.2
Corporate	5.3	3.9	2.7
Intersegment	(2.1)	(1.1)	
Consolidated capital expenditures	\$ 171.9	\$ 79.6	\$ 44.2

(\$ in millions)	2012	Year Ended June 30,	
		2011	
<b>Total Assets:</b>			
Specialty Alloys Operations	\$ 1,293.3	\$ 1,186.2	
Performance Engineered Products	358.6	319.6	
Latrobe	843.1	29.9	
Corporate	151.0	471.7	
Intersegment	(18.2)	(15.5)	
Consolidated total assets	\$ 2,627.8	\$ 1,991.9	

Geographic Data (\$ in millions)	2012	Year Ended June 30,	
		2011	2010
<b>Net Sales:(a)</b>			
United States	\$ 1,364.2	\$ 1,163.7	\$ 829.5
Europe	375.9	277.4	194.6
Asia Pacific	142.1	110.7	82.9
Mexico	68.8	67.1	49.3
Canada	52.1	36.6	31.6
Other	25.6	19.6	10.7
Consolidated net sales	\$ 2,028.7	\$ 1,675.1	\$ 1,198.6

---

(a) Net sales were attributed to countries based on the location of the customer.



Table of Contents

## CARPENTER TECHNOLOGY CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Long-lived assets: (\$ in millions)	June 30,			
	2012		2011	
United States	\$	901.7	\$	646.8
Canada		9.8		6.9
Europe		6.9		5.9
Mexico		1.6		1.6
Asia Pacific		4.6		1.7
Consolidated long-lived assets	\$	924.6	\$	662.9

Product Data (\$ in millions)	Year Ended June 30,				
	2012		2011		2010
Special alloys	\$	931.4	\$	831.8	\$ 611.6
Stainless steel		637.3		564.9	373.4
Titanium products		156.6		135.3	108.0
Powder metals		64.3		61.4	33.8
Alloy and tool steel		108.6		27.2	29.9
Other materials		130.5		54.5	41.9
Total net sales	\$	2,028.7	\$	1,675.1	\$ 1,198.6

**19. Recent Accounting Pronouncements**

In May 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in GAAP and IFRS* ( ASU 2011-04 ), which amends ASC 820 *Fair Value Measurement*. ASU 2011-04 improves the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and International Financial Reporting Standards. The amended guidance changes the wording used to describe many requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Additionally, the amendments clarify the FASB 's intent about the application of existing fair value measurement and disclosure requirements. Although ASU 2011-04 is not expected to have a significant effect on practice, it changes some fair value measurement principles and disclosure requirements. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011, and must be applied prospectively. Early application is not permitted. The adoption of ASU 2011-04 did not have a material impact on financial position or the results of operations.

In June 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update No. 2011-05, *Presentation of Comprehensive Income* ( ASU 2011-05 ). ASU 2011-05 requires entities to present net income and other comprehensive income in either a single continuous statement or in two separate but consecutive statements of net income and other comprehensive income. ASU 2011-05 eliminates the option to present items of other comprehensive income in the statement of changes in equity. ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and is required to be applied retrospectively. The Company has elected to present other comprehensive income in two separate but consecutive statements and the adoption of ASU 2011-05 did not have a significant impact on the Company 's Consolidated Financial Statements.



Table of Contents

**CARPENTER TECHNOLOGY CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, *Intangibles - Goodwill and Other* ( ASU 2011-08 ). ASU 2011-08 amends previous guidance on the testing of goodwill for impairment and is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The amended guidance provides entities with the option of first assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If it is determined, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not less than the carrying amount, the two-step impairment test would still be required. The adoption of ASU 2011-08 is not expected to have a significant impact on the Company's Consolidated Financial Statements.

In September 2011, the FASB issued Accounting Standards Update No. 2011-09, *Compensation - Retirement Benefits - Multiemployer Plans* ( ASU 2011-09 ). ASU 2011-09 requires that employers that participate in multiemployer pension and postretirement plans provide additional enhanced separate quantitative and qualitative disclosures for such plans. The additional disclosures provide information about the overall health of the plan and the level of the employer's participation in the plan. The guidance in ASU 2011-09 is effective for public entities for fiscal years beginning after December 15, 2011, with early adoption permitted. Retrospective application of the guidance will be required upon adoption. The Company is evaluating the impact of the adoption of ASU 2011-09 and does not expect the adoption to have a significant impact on the Company's Consolidated Financial Statements.

In December 2011, the FASB issued Accounting Standards Update No. 2011-11, *Disclosures about Offsetting Assets and Liabilities* ( ASU 2011-11 ). ASU 2011-11 requires disclosures to provide information to help reconcile differences in offsetting requirements under U.S. GAAP and International Financial Reporting Standards ( IFRS ). The new disclosure requirements in ASU 2011-11 mandate that entities disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position as well as instruments and transactions subject to an agreement similar to a master netting arrangement. The guidance in ASU 2011-11 is required to be applied for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The Company is evaluating the impact of the adoption of ASU 2011-11 and does not expect the adoption to have a significant impact on the Company's Consolidated Financial Statements.

Table of Contents

## CARPENTER TECHNOLOGY CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**20. Supplemental Data**

The following are additional required disclosures and other material items:

(\$ in millions)	2012	Year Ended June 30,		2010
		2011		
<b>Cost Data:</b>				
Repairs and maintenance costs	\$ 90.3	\$ 74.8	\$	60.4
<b>Cash Flow Data:</b>				
Noncash investing and financing activities:				
Treasury shares issued in connection with acquisition of business	\$ 415.5	\$	\$	
Cash paid during the year for:				
Interest payments	\$ 21.4	\$ 18.3	\$	19.8
Income tax payments (refunds), net	\$ 18.5	\$ 11.5	\$	(13.7)

(\$ in millions)	2012	June 30,		2010
		2011		
<b>Accumulated Other Comprehensive Loss:</b>				
Foreign currency translation adjustment	\$ (24.9)	\$ (7.7)	\$	(23.7)
Pension and post-retirement benefits, net of tax	(354.1)	(227.7)		(344.5)
Net unrealized losses on derivatives, net of tax	(32.8)	2.6		(2.4)
Unrealized losses on marketable securities, net of tax	(0.7)	(0.5)		(0.5)
	\$ (412.5)	\$ (233.3)	\$	(371.1)

Table of Contents**SUPPLEMENTARY DATA****Quarterly Financial Data (Unaudited)**

Quarterly sales and earnings results are normally influenced by seasonal factors. Historically, the first two fiscal quarters (three months ending September 30 and December 31) are typically the lowest principally because of annual plant vacation and maintenance shutdowns by Carpenter and by many of its customers. However, the timing of major changes in the general economy or the markets for certain products can alter this pattern.

(dollars and shares in millions, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>Results of Operations</b>				
<b>Fiscal Year 2012</b>				
Net sales	\$ 414.1	\$ 431.1	\$ 539.9	\$ 643.7
Gross profit	\$ 81.1	\$ 84.3	\$ 105.1	\$ 120.6
Operating income	\$ 44.0	\$ 43.9	\$ 55.7	\$ 66.5
Net income	\$ 23.7	\$ 23.8	\$ 33.0	\$ 41.0
Net income attributable to Carpenter	\$ 23.8	\$ 23.6	\$ 33.0	\$ 40.8
<b>Fiscal Year 2011</b>				
Net sales	\$ 351.7	\$ 375.6	\$ 464.2	\$ 483.6
Gross profit	\$ 49.8	\$ 49.1	\$ 73.1	\$ 77.0
Operating income	\$ 14.1	\$ 12.1	\$ 35.2	\$ 35.0
Net income	\$ 7.6	\$ 9.4	\$ 28.8	\$ 25.9
Net income attributable to Carpenter	\$ 7.6	\$ 9.3	\$ 28.6	\$ 25.5

Table of Contents**Earnings per common share**

<b>Fiscal Year 2012</b>	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
Basic earnings	\$ 0.53	\$ 0.53	\$ 0.69	\$ 0.77
Diluted earnings	\$ 0.53	\$ 0.52	\$ 0.69	\$ 0.77
<b>Fiscal Year 2011</b>	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
Basic earnings	\$ 0.17	\$ 0.21	\$ 0.64	\$ 0.57
Diluted earnings	\$ 0.17	\$ 0.21	\$ 0.64	\$ 0.57

**Weighted average common shares outstanding**

<b>(in millions)</b>	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
<b>Fiscal Year 2012</b>				
Basic	44.3	44.4	47.2	52.6
Diluted	45.1	45.1	47.9	53.3
<b>Fiscal Year 2011</b>				
Basic	44.1	44.1	44.1	44.2
Diluted	44.5	44.7	44.7	45.0

Table of Contents

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

Not applicable

**Item 9A. Controls and Procedures**

(a) Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended, (the Exchange Act) as of June 30, 2012. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures as of June 30, 2012 were effective in providing a reasonable level of assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods required under the Securities and Exchange Commission's rules and forms, including a reasonable level of assurance that information required to be disclosed by us in such reports is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Management's Report on Internal Control over Financial Reporting

Management's Report on the Company's internal control over financial reporting is included in Item 8 of this Annual Report on Form 10-K under the caption "Management's Report on Internal Control Over Financial Reporting" and is incorporated herein by reference. The Company's independent registered public accounting firm has issued a report on management's assessment of the Company's internal control over financial reporting and is set forth in Item 8 of this Annual Report on Form 10-K under the caption "Report of Independent Registered Public Accounting Firm" and is incorporated herein by reference.

(c) Changes in Internal Controls over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2012 that have materially affected, or are likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information**

Not applicable

Table of Contents

**PART III**

**Item 10. Directors and Executive Officers and Corporate Governance**

Listed below are the names of our corporate executive officers, including those required to be listed as executive officers for Securities and Exchange Commission purposes, each of whom assumes office after the annual organization meeting of the Board of Directors which immediately follows the Annual Meeting of Stockholders.

William A Wulfsohn was appointed President and Chief Executive Officer effective July 1, 2010. Mr. Wulfsohn has served as a Director for the Company since April 2009. Mr. Wulfsohn most recently served as Senior Vice President, Industrial Coatings at PPG Industries, a Fortune 200 company with more than \$12 billion in annual revenues. Prior to joining PPG Industries, Mr. Wulfsohn served as Vice President and General Manager for Honeywell International. Previously, Mr. Wulfsohn worked for Morton International/Rohm & Haas, beginning as a director of marketing and culminating as Vice President and Business Director.

K. Douglas Ralph was appointed Senior Vice President and Chief Financial Officer effective July 9, 2007. Mr. Ralph most recently served as Executive Vice President and Chief Financial Officer at Foamex International, Inc. from February 2003 to April 2006. Foamex International, Inc. is a leading manufacturer of flexible polyurethane foam for bedding, furniture, automotive, carpet cushion, and other consumer and industrial applications in North America. At Foamex International, Inc., Mr. Ralph had responsibility for total financial operations, including accounting, treasury, investor relations and information technology of the \$1.3 billion global company. Prior to joining Foamex International, Inc., Mr. Ralph spent 21 years as a financial executive for the Procter & Gamble Company.

David L. Strobel was appointed to Senior Vice President – Global Operations on September 2, 2010. Since joining Carpenter in 1983, Mr. Strobel has held numerous positions of increasing responsibility, including Vice President – Manufacturing and most recently serving as Vice President Technology.

Mark S. Kamon was appointed Senior Vice President – Commercial, Specialty Alloys Operations, in August 2011. Prior to assuming his current position, Mr. Kamon was Vice President – International, Dynamet and CPP where he was responsible for the growth and operational effectiveness of Dynamet, CPP, international sales as well as the distribution operations of Aceros Fortuna and Grupo. Mr. Kamon began his career with Carpenter in November 2000 as President of Dynamet, Inc. and has vast experience in carbon and specialty steel manufacturing, spending most of his career with Lukens Steel Company.

Andrew T. Ziolkowski was appointed Senior Vice President – Latrobe Operations in February 2012. In this position, Mr. Ziolkowski is responsible for integrating Latrobe into Carpenter's day-to-day operations. Mr. Ziolkowski joined Carpenter in 1989, most recently serving as Vice President – Bar & Coil Products. Prior to that, Mr. Ziolkowski held several positions at the Company, including Vice President – Strip Products Business and Controller – Specialty Alloys Operations.



# Edgar Filing: CARPENTER TECHNOLOGY CORP - Form 10-K

## Table of Contents

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Assumed Present Position</b>
William A. Wulfsohn	50	President and Chief Executive Officer and Director	July 2010
K. Douglas Ralph	51	Senior Vice President and Chief Financial Officer	July 2007
David L. Strobel	51	Senior Vice President Global Operations	September 2010
Mark S. Kamon	58	Senior Vice President Commercial Specialty Alloys Operations	August 2011
Andrew T. Ziolkowski	47	Senior Vice President Latrobe Operations	February 2012

The information required as to directors and the committees of the Board of Directors is incorporated herein by reference to the Company's fiscal year 2012 definitive Proxy Statement under the captions "Election of Directors" and "Corporate Governance."

The information concerning compliance with Section 16(a) of the Securities and Exchange Act of 1934, as amended, is incorporated herein by reference to the Company's fiscal year 2012 definitive Proxy Statement under the caption "Corporate Governance."

The information concerning Carpenter's Code of Ethics and certain additional information relating to the Company's Corporate Governance is incorporated herein by reference to the Company's fiscal year 2012 definitive Proxy Statement under the caption "Corporate Governance."

The information concerning the Audit Committee and its financial experts is incorporated herein by reference to the Company's fiscal year 2012 definitive Proxy Statement under the caption "Audit/Finance Committee Report."

The information concerning material changes to the procedures by which shareholders may recommend nominees to the Board of Directors is incorporated herein by reference to the Company's fiscal year 2012 definitive Proxy Statement under the caption "General Information."

On October 27, 2010, we filed with the New York Stock Exchange ( "NYSE" ) the Annual CEO Certification regarding our compliance with the NYSE's Corporate Governance listing standards as required by Section 303 A-12(a) of the NYSE Listed Company Manual. In addition, we have filed as exhibits to our annual report on Form 10-K for the fiscal year ended June 30, 2012, the applicable certifications of our Chief Executive Officer and our Chief Financial Officer required under Section 302 of the Sarbanes-Oxley Act of 2002, regarding the quality of Carpenter's public disclosures.

## **Item 11. Executive Compensation**

Edgar Filing: CARPENTER TECHNOLOGY CORP - Form 10-K

Certain information required by this item is incorporated herein by reference to the Company's fiscal year 2012 definitive Proxy Statement under the captions "Compensation Discussion and Analysis" and "Executive Compensation."

Table of Contents**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this item is incorporated herein by reference to the Company's fiscal year 2012 definitive Proxy Statement under the caption "Security Ownership of Certain Persons."

**Equity Compensation Plan Information**

The following table shows the securities authorized for issuance under equity compensation plans as of June 30, 2012:

## Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted- average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,022,606	\$ 33.54	3,618,018(1)
Equity compensation plans not approved by security holders			
<b>Total</b>	<b>1,022,606</b>	<b>\$ 33.54</b>	<b>3,618,018(1)</b>

(1) Includes 2,784,394 shares available for issuance under the Stock-Based Incentive Compensation Plan for Officers and Key Employees (which provides for the issuance of stock options, restricted stock, and restricted stock units) and 833,624 shares available under the Stock-Based Compensation Plan for Non-Employee Directors (which provides for issuance of stock options, stock units and performance units.)

**Item 13. Certain Relationships, Related Transactions and Director Independence**

The information required by this item is incorporated herein by reference to the Company's fiscal year 2012 definitive Proxy Statement under the captions "Corporate Governance" and "Executive Compensation."

**Item 14. Principal Accounting Fees and Services**

Edgar Filing: CARPENTER TECHNOLOGY CORP - Form 10-K

The information required by this item is incorporated herein by reference to the Company's fiscal year 2012 definitive Proxy Statement under the caption "Approval of Appointment of Independent Registered Public Accounting Firm."

Table of Contents

**PART IV**

**Item 15. Exhibits, Financial Statement Schedules**

**(a) Financial Statement Schedule:**

(1) The following consolidated financial statement schedule should be read in conjunction with the consolidated financial statements (see Item 8. Financial Statements and Supplementary Data: ):

Schedule II Valuation and Qualifying Accounts

All other schedules are omitted because they are not applicable or the required information is contained in the consolidated financial statements or notes thereto.

**(b) Exhibits**

Exhibits required to be filed by Item 601 of Regulation S-K are listed below. Documents not designated as being incorporated herein by reference are filed herewith. The exhibit numbers correspond to the paragraph numbers designated in Item 601 of Regulation S-K.

<b>Exhibit No.</b>	<b>Description</b>
3(A)	Restated Certificate of Incorporation, dated October 26, 1998, is incorporated herein by reference to Exhibit 3(A) of Carpenter's 2005 Annual Report on Form 10-K filed on September 9, 2005.
3(B)	By-Laws, amended as of April 19, 2011, incorporated by reference to Exhibit 3.2 of Carpenter's Current Report on Form 8-K filed April 21, 2011.
4(A)	Restated Certificate of Incorporation and By-Laws set forth in Exhibit Nos. 3(A) and 3(B), above.
4(B)	Carpenter's Registration Statement No. 333-44757, as filed on Form S-3 on January 22, 1998, and amended on February 13, 1998, with respect to issuance of Common Stock and unsecured debt is incorporated herein by reference.
4(C)	Prospectus, dated February 13, 1998, and Prospectus Supplement, dated March 31, 1998, File No. 333-44757, with respect to issuance of \$198,000,000 of Medium Term Notes are incorporated by reference.
4(D)	

## Edgar Filing: CARPENTER TECHNOLOGY CORP - Form 10-K

Indenture, dated January 6, 1994, between Carpenter and U.S. Bank Trust National Association, formerly known as First Trust of New York, National Association, as successor Trustee to Morgan Guaranty Trust Company of New York, related to Carpenter's (i) \$100,000,000 of unsecured medium term notes registered on Registration Statement No. 33-51613 and (ii) \$198,000,000 of unsecured medium term notes registered on Registration Statement No. 333-44757 is incorporated by reference to Exhibit 4(C) to Carpenter's Registration Statement No. 33-51613, as filed on January 12, 1994.

- 4(E) Forms of Fixed Rate and Floating Rate Medium-Term Note, Series B are incorporated by reference to Exhibit 4(F) of Carpenter's 2004 Annual Report on Form 10-K filed September 3, 2004.
- 4(F) Pricing Supplements No. 1 through 25 dated and filed from April 2, 1998 to June 12, 1998, supplements to Prospectus dated February 13, 1998 and Prospectus Supplement dated March 31, 1998, File No. 333-44757, with respect to issuance of \$198,000,000 of Medium Term Notes are incorporated herein by reference.

## Edgar Filing: CARPENTER TECHNOLOGY CORP - Form 10-K

### Table of Contents

<b>Exhibit No.</b>	<b>Description</b>
4(G)	Carpenter's Registration Statement No. 333-71518 as filed on Form S-4 on October 12, 2001, and amended on November 29, 2001, with respect to an offer to exchange \$100,000,000 of Medium Term Notes is incorporated herein by reference.
4(H)	First Supplemental Indenture, dated May 22, 2003, between Carpenter and U.S. Bank National Trust Association (formerly known as First Trust of New York, as successor Trustee to Morgan Guaranty Trust Company of New York) related to Carpenter's issuance of \$100,000,000 principal amount of its 6.625% Senior Notes due 2013 is incorporated herein by reference to Exhibit 4(I) of Carpenter's 2003 Annual Report on Form 10-K filed September 12, 2003.
4(I)	Second Supplemental Indenture, dated as of June 30, 2011, between Carpenter and U.S. Bank National Association related to Carpenter's issuance of \$250,000,000 principal amount of its 5.20% Senior Notes due 2012 is incorporated herein by reference to Exhibit 4.1 of Carpenter's Current Report on Form 8-K filed June 30, 2011.
4(J)	Exchange and Registration Rights Agreement dated May 22, 2003, between Carpenter and Wachovia Securities as the initial purchaser of \$100,000,000 principal amount of Carpenter's 6.625% Senior Notes due 2013 is incorporated herein by reference to Exhibit 4(J) of Carpenter's 2003 Annual Report on Form 10-K filed September 12, 2003.
4(K)	Form of Global Security with respect to the issuance by Carpenter and purchase by Wachovia Securities of \$100,000,000 principal amount of Carpenter's 6.625% Senior Notes due 2013 is incorporated herein by reference to Exhibit 4(K) of Carpenter's 2003 Annual Report on Form 10-K filed September 12, 2003.
4(L)	Form of 5.20% Senior Notes Due 2012 related to Carpenter's issuance of \$250,000,000 principal amount of its 5.20% Senior Notes due 2012 is incorporated herein by reference to Exhibit 4.2 of Carpenter's Current Report on Form 8-K filed June 30, 2011.
4(M)	Stockholders Agreement, dated February 29, 2012, by and among Carpenter, Watermill-Toolrock Partners, L.P., Watermill-Toolrock Partners II, L.P., Watermill-Toolrock Enterprises, LLC and HHEP-Latrobe, L.P. is incorporated herein by reference to Exhibit 10.1 of Carpenter's Current Report on Form 8-K filed March 1, 2012.
4(N)	Registration Rights Agreement, dated February 29, 2012, by and among Carpenter, Watermill-Toolrock Partners, L.P., Watermill-Toolrock Partners II, L.P., Watermill-Toolrock Enterprises, LLC and HHEP-Latrobe, L.P. is incorporated herein by reference to Exhibit 10.2 of Carpenter's Current Report on Form 8-K filed March 1, 2012.
10(A)	Supplemental Retirement Plan for Executives of Carpenter Technology Corporation as amended on June 29, 2010 is incorporated by reference to Exhibit 10(A) to Carpenter's 2010 Annual Report on Form 10-K filed August 20, 2010.
10(B)	Deferred Compensation Plan for Non-Management Directors of Carpenter Technology Corporation, amended as of August 16, 2011, is incorporated by reference to Exhibit 10(B) to Carpenter's 2011 Annual Report on Form 10-K filed August 24, 2011.
10(C)	Deferred Compensation Plan for Officers and Key Employees of Carpenter Technology Corporation, as amended and restated effective January 1, 2008, is incorporated herein by reference to Exhibit 10(C) of Carpenter's Form 10-Q for the quarter ended December 31, 2009 filed February 3, 2010.

## Edgar Filing: CARPENTER TECHNOLOGY CORP - Form 10-K

### Table of Contents

<b>Exhibit No.</b>	<b>Description</b>
10(D)	Executive Bonus Compensation Plan, amended and restated July 1, 2011 is incorporated by reference to Exhibit 10(D) to Carpenter s 2011 Annual Report on Form 10-K filed August 24, 2011.
10(E)	Stock-Based Compensation Plan For Non-Employee Directors, as amended as of August 16, 2011, is incorporated by reference to Exhibit 10(E) to Carpenter s 2011 Annual Report on Form 10-K filed August 24, 2011.
10(F)	Officers and Key Employees Supplemental Retirement Plan of Carpenter Technology Corporation restated as of August 20, 2007 and amended as of June 29, 2010(filed herewith).
10(G)	Trust Agreement between Carpenter and the Chase Manhattan Bank, N.A., dated September 11, 1990 as restated on May 1, 1997 and amended October 28, 2002 and January 23, 2003, relating in part to the Supplemental Retirement Plan for Executive Officers, Deferred Compensation Plan for Corporate and Division Officers and the Officers Supplemental Retirement Plan of Carpenter Technology Corporation is incorporated by reference to Exhibit 10(J) of Carpenter s 2002 Annual Report on Form 10-K filed September 23, 2002 and the amendments thereof are incorporated herein by reference to Exhibit 10(I) of Carpenter s 2005 Annual Report on Form 10-K filed September 9, 2005.
10(H)	Indemnification Agreement dated as of July 1, 2010 by and between the Company and William A. Wulfsohn (pursuant to Instruction 2 to Item 601 of Regulation S-K, the Indemnification Agreements, which are substantially identical in all material respects, except as to the parties thereto and the dates, between the Company and the following individuals, were not filed: K. Douglas Ralph, David L. Strobel, Sunil Y. Widge and James D. Dee) is incorporated by reference to Exhibit 10(H) to Carpenter s 2011 Annual Report on Form 10-K filed August 24, 2011.
10(I)	Stock-Based Incentive Compensation Plan for Officers and Key Employees, as amended effective July 1, 2011 is incorporated by reference to Exhibit 10(I) to Carpenter s 2011 Annual Report of Form 10-K filed August 24, 2011.
10(J)	Amended and Restated Carpenter Technology Corporation Change of Control Severance Plan, effective September 1, 2010, is incorporated herein by reference to Exhibit 10.1 of Carpenter s Current Report on Form 8-K filed September 3, 2010.
10(K)	Earnings Adjustment Plan of Carpenter Technology Corporation, restated as of August 20, 2007, is incorporated herein by reference to Exhibit 10(M) of Carpenter s 2007 Annual Report on Form 10-K filed August 29, 2007.
10(L)	Benefit Equalization Plan of Carpenter Technology Corporation, restated as of August 20, 2007, is incorporated herein by reference to Exhibit 10(N) of Carpenter s 2007 Annual Report on Form 10-K filed August 29, 2007.
10(M)	Trust Agreement between Carpenter and the Chase Manhattan Bank, N.A., dated December 7, 1990 as restated on May 1, 1997 and amended October 28, 2002 and January 23, 2003, relating in part to the Directors Retirement Plan and the Deferred Compensation Plan for Non-Management Directors, is incorporated by reference to Exhibit 10(P) of Carpenter s 2002 Annual Report on Form 10-K filed September 23, 2002 and the amendments thereof are incorporated herein by reference to Exhibit 10(O) of Carpenter s 2005 Annual Report on Form 10-K filed September 9, 2005.

## Edgar Filing: CARPENTER TECHNOLOGY CORP - Form 10-K

### Table of Contents

<b>Exhibit No.</b>	<b>Description</b>
10(N)	Revolving Credit Agreement, dated as of November 30, 2009, among Carpenter and certain of its subsidiaries as Borrowers and with JPMorgan Chase Bank NA, The Bank of Tokyo-Mitsubishi UFJ Trust Company, PNC Bank National Association and Keybank, National Association as Lenders is incorporated herein by reference to Exhibit 10.1 of Carpenter's Current Report on Form 8-K filed November 25, 2009.
10(O)	Credit Agreement, dated as of June 21, 2011, among Carpenter as Borrower, Bank of America, N.A. as Administrative Agent, Swing Line Lender and L/C Issuer, the other lenders party thereto, JPMorgan Chase Bank, N.A. and Syndication Agent, PNC Bank, National Association, The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch and Sovereign Bank each as Documentation Agent, Merrill Lynch, Pierce & Smith Incorporated and J.P. Morgan Securities LLC as Joint Lead Arrangers and Joint Book Managers is incorporated herein by reference to Exhibit 10.1 of Carpenter's Current Report on Form 8-K filed June 21, 2011.
10(P)	Employment Letter Agreement of K. Douglas Ralph, dated July 6, 2007, is incorporated herein by reference to Exhibit 99.2 of Carpenter's Current Report on Form 8-K filed July 11, 2007.
10(Q)	Employment Letter Agreement of William A. Wulfsohn, dated June 3, 2010, incorporated herein by reference to Exhibit 10.1 of Carpenter's Current Report on Form 8-K filed on June 7, 2010.
10(R)	Employment Letter Agreement of David Strobel, dated September 2, 2010, is incorporated herein by reference to Exhibit 10(C) of Carpenter's Form 10-Q for the quarter ended September 30, 2010 filed November 5, 2010.
10(S)	Employment Letter Agreement of Michael L. Shor, dated September 2, 2010, is incorporated herein by reference to Exhibit 10(D) of Carpenter's Form 10-Q for the quarter ended September 30, 2010 filed November 5, 2010.
10(T)	Agreement, dated September 2, 2010, by and between the Company and Dr. Sunil Y. Widge is incorporated herein by reference to Exhibit 10(E) of Carpenter's Form 10-Q for the quarter ended September 30, 2010 filed November 5, 2010.
10(U)	Employment Letter of Agreement of James Dee, dated August 13, 2010, is incorporated herein by reference to Exhibit 10(F) of Carpenter's Form 10-Q for the quarter ended September 30, 2010 filed November 5, 2010.
10(V)	Severance Pay Plan for Executives of Carpenter Technology Corporation, as adopted July 1, 2010, incorporated herein by reference to Exhibit 10.1 of Carpenter's Current Report on Form 8-K filed on July 2, 2010.
10(W)	Form of Restricted Stock Option Award Agreement (pursuant to Carpenter's Stock-Based Incentive Plan for Officers and Key Employees) (filed herewith).
10(X)	Form of Restricted Unit Award Agreement (pursuant to Carpenter's Stock-Based Incentive Plan for Officers and Key Employees) (filed herewith).

## Edgar Filing: CARPENTER TECHNOLOGY CORP - Form 10-K

### Table of Contents

<b>Exhibit No.</b>	<b>Description</b>
10(Y)	Agreement and Plan of Merger, dated as of June 20, 2011, by and among Carpenter, Hawke Acquisition Corp., HHEP-Latrobe, L.P. and Watermill-Toolrock Partners, L.P. is incorporated herein by reference to Exhibit 2.1 of Carpenter's Current Report on Form 8-K filed June 21, 2011.
10(Z)	Amendment to Agreement and Plan of Merger, dated as of January 13, 2012, by and among Carpenter, Hawke Acquisition Corp., HHEP-Latrobe, L.P. and Watermill-Toolrock Partners L.P. is incorporated herein by reference to Exhibit 2.1 of Carpenter's Current Report on Form 8-K filed January 18, 2012.
10(AA)	Amendment to Agreement and Plan of Merger, dated February 29, 2012, by and among Carpenter, Hawke Acquisition Corp., Latrobe Specialty Metals, Inc., HHEP-Latrobe, L.P., and Watermill-Toolrock Partners, L.P. is incorporated herein by reference to Exhibit 2.1 of Carpenter's Form 8-K filed March 1, 2012.
12	Computations of Ratios of Earnings to Fixed Charges (unaudited) (filed herewith).
21	Subsidiaries of the Registrant (filed herewith).
23	Consent of PricewaterhouseCoopers LLP (filed herewith)
24	Powers of Attorney in favor of James D. Dee or K. Douglas Ralph (filed herewith)
31 (A)	Certification of Chief Executive Officer required by Securities and Exchange Commission Rule 13a-14(a)/15d-14(a) (filed herewith).
31(B)	Certification of Chief Financial Officer required by Securities and Exchange Commission Rule 13a-14(a)/15d-14(a) (filed herewith).
32	Certification pursuant to 18 U.S.C Section 1350 (filed herewith)
99	Agreement to Furnish Debt Instruments (filed herewith)
101	The following financial information from this Annual Report on Form 10-K for the fiscal year ended June 30, 2012, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Income; (iii) the Consolidated Statements of Comprehensive Income (Loss); (iv) the Consolidated Statements of Cash Flows (v) the Consolidated Statements of Changes in Equity; and (vi) the Notes to the Consolidated Financial Statements.

---

Management contract or compensatory plan or arrangement





Table of Contents

*	Director	August 22, 2012
Jeffrey Wadsworth		
*	Director	August 22, 2012
Stephen M. Ward, Jr.		
*	Director	August 22, 2012
Dr. Phillip M. Anderson		
*	Director	August 22, 2012
Thomas O. Hicks		
*	Director	August 22, 2012
Steven E. Karol		

Original Powers of Attorney authorizing James D. Dee or K. Douglas Ralph to sign this Report on behalf of: Carl G. Anderson, Jr., Robert R. McMaster, Martin Inglis, Gregory A. Pratt, Peter N. Stephans, Kathryn C. Turner, Jeffrey Wadsworth, Stephen M. Ward, Jr., Dr. Phillip M. Anderson, Thomas O. Hicks, and Steven E. Karol are being filed with the Securities and Exchange Commission.

\*By /s/ James D. Dee  
James D. Dee  
Attorney-in-fact

Table of Contents

## CARPENTER TECHNOLOGY CORPORATION AND SUBSIDIARIES

## SCHEDULE II. VALUATION AND QUALIFYING ACCOUNTS

(\$ in millions)

Column A	Column B		Column C		Column D	Column E
Description	Balance at Beginning of Period	Charged to Costs & Expenses	Charged to Other Accounts	Deductions	Balance at End of Period	
<b>Year ended June 30, 2012</b>						
Allowance for doubtful accounts receivable	\$ 2.7	\$ 0.7	\$ 1.7*	\$ (0.2)	\$ 4.9	
Deferred tax valuation allowance	\$ 17.5	\$ 0.6	\$	\$	\$ 18.1	
Inventory reserves	\$ 12.0	\$ 1.2	\$ 5.2*	\$ (0.2)	\$ 18.2	
<b>Year ended June 30, 2011</b>						
Allowance for doubtful accounts receivable	\$ 2.7	\$ (0.2)	\$	\$ 0.2	\$ 2.7	
Deferred tax valuation allowance	\$ 17.6	\$ (0.2)	\$	\$ 0.1	\$ 17.5	
Inventory reserves	\$ 15.2	\$ (3.5)	\$	\$ 0.3	\$ 12.0	
<b>Year ended June 30, 2010</b>						
Allowance for doubtful accounts receivable	\$ 2.8	\$ (0.1)	\$	\$	\$ 2.7	
Deferred tax valuation allowance	\$ 17.9	\$ (0.4)	\$	\$ 0.1	\$ 17.6	
Inventory reserves	\$ 16.0	\$ (0.9)	\$	\$ 0.1	\$ 15.2	

---

\*Amount represents balance acquired through the Latrobe acquisition