CARPENTER TECHNOLOGY CORP
Form 10-Q
November 08, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

or

o 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	**23-0458500**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
P.O. Box 14662	
Reading, Pennsylvania	**19610**
(Address of principal executive offices)	(Zip Code)

610-208-2000
(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files. Yes þ No o

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

Large accelerated filer:	þ	Accelerated filer:	o
Non-accelerated filer:	o (Do not check if a smaller reporting company)	Smaller reporting company:	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

The number of shares outstanding of the issuer s common stock as of October 30, 2013 was 52,970,701.

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FORM 10-Q

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PART I

Item 1. Financial Statements

CARPENTER TECHNOLOGY CORPORATION

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in millions, except share data)

	September 30, 2013	June 30, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 201.0	$ 257.5
Accounts receivable, net	286.6	342.0
Inventories	707.1	659.2
Deferred income taxes	-	2.7
Other current assets	28.6	20.1
Total current assets	1,223.3	1,281.5
Property, plant and equipment, net	1,259.0	1,168.4
Goodwill	257.8	257.7
Other intangibles, net	91.8	95.0
Other assets	93.6	80.3
Total assets	$ 2,925.5	$ 2,882.9
LIABILITIES		
Current liabilities:		
Accounts payable	$ 262.4	$ 252.7
Accrued liabilities	163.7	168.5
Deferred income taxes	1.5	-
Total current liabilities	427.6	421.2
Long-term debt, net of current portion	604.2	604.2
Accrued pension liabilities	250.0	246.9
Accrued postretirement benefits	150.5	151.2
Deferred income taxes	72.6	73.3
Other liabilities	78.1	83.0
Total liabilities	1,583.0	1,579.8
Contingencies and commitments (see Note 9)		
STOCKHOLDERS EQUITY		
Common stock authorized 100,000,000 shares; issued 55,004,890 shares at September 30, 2013 and 54,925,335 shares at June 30, 2013; outstanding 52,936,230 shares at September 30, 2013 and 52,773,060 shares at June 30, 2013	275.0	274.6
Capital in excess of par value	253.6	254.4

Reinvested earnings		1,242.3		1,217.3
Common stock in treasury (2,068,660 shares and 2,152,275 shares at September 30, 2013 and June 30, 2013, respectively), at cost		(103.3)		(107.5)
Accumulated other comprehensive loss		(325.1)		(335.7)
Total equity		1,342.5		1,303.1
Total liabilities and equity	$	2,925.5	$	2,882.9

See accompanying notes to consolidated financial statements

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CARPENTER TECHNOLOGY CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(in millions, except per share data)

	Three Months Ended September 30,			
	2013		2012	
NET SALES	$	498.6	$	544.9
Cost of sales		395.3		435.6
Gross profit		103.3		109.3
Selling, general and administrative expenses		47.5		47.7
Operating income		55.8		61.6
Interest expense		(4.4)		(5.2)
Other income, net		0.1		2.7
Income before income taxes		51.5		59.1
Income tax expense		16.9		19.6
Net income		34.6		39.5
Less: Net income attributable to noncontrolling interest		-		(0.3)
NET INCOME ATTRIBUTABLE TO CARPENTER	$	34.6	$	39.2
EARNINGS PER COMMON SHARE:				
Basic	$	0.65	$	0.74
Diluted	$	0.65	$	0.74
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic		53.1		52.8
Diluted		53.5		53.4
Cash dividends per common share	$	0.18	$	0.18

See accompanying notes to consolidated financial statements

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CARPENTER TECHNOLOGY CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

($ in millions)

	Three Months Ended September 30,	
	2013	2012
Net income	$ 34.6	$ 39.5
Other comprehensive income (loss), net of tax		
Pension and post-retirement benefits, net of tax of $(2.3) and $(2.6), respectively	3.6	4.4
Net gain on derivative instruments, net of tax of $(2.2) and $(11.6), respectively	3.6	19.7
Unrealized loss on marketable securities, net of tax of $0.0 and $0.0, respectively	(0.1)	-
Foreign currency translation	3.5	4.5
Other comprehensive income, net of tax	10.6	28.6
Comprehensive income	45.2	68.1
Less: Comprehensive income attributable to noncontrolling interest	-	(0.5)
Comprehensive income attributable to Carpenter	$ 45.2	$ 67.6

See accompanying notes to consolidated financial statements

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CARPENTER TECHNOLOGY CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

($ in millions)

	Three Months Ended September 30,	
	2013	2012
OPERATING ACTIVITIES		
Net income	$ 34.6	$ 39.5
Adjustments to reconcile net income to net cash provided from (used for) operating activities:		
Depreciation and amortization	26.7	25.5
Deferred income taxes	(0.7)	0.1
Net pension expense	15.0	17.2
Net loss on disposal of property and equipment	-	0.1
Changes in working capital and other:		
Accounts receivable	57.7	36.1
Inventories	(47.4)	(78.7)
Other current assets	(9.0)	(4.7)
Accounts payable	9.6	(0.5)
Accrued liabilities	(18.5)	(23.5)
Pension plan contributions	(1.5)	(48.1)
Other, net	(2.5)	0.3
Net cash provided from (used for) operating activities	64.0	(36.7)
INVESTING ACTIVITIES		
Purchases of property, equipment and software	(114.9)	(56.4)
Net cash used for investing activities	(114.9)	(56.4)
FINANCING ACTIVITIES		
Dividends paid	(9.6)	(9.6)
Tax benefits on share-based compensation	1.0	3.0
Proceeds from stock options exercised	2.5	1.1
Net cash used for financing activities	(6.1)	(5.5)
Effect of exchange rate changes on cash and cash equivalents	0.5	0.2
DECREASE IN CASH AND CASH EQUIVALENTS	(56.5)	(98.4)
Cash and cash equivalents at beginning of period	257.5	211.0
Cash and cash equivalents at end of period	$ 201.0	$ 112.6
SUPPLEMENTAL CASH FLOW INFORMATION		
Non-cash Item:		
Technology licensing agreement, see Note 13	$ 13.0	$ -

See accompanying notes to consolidated financial statements

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CARPENTER TECHNOLOGY CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

(Unaudited)

($ in millions, except per share data)

	Carpenter Stockholders Equity						
	Common Stock						
	Par Value Of $5	Capital in Excess of Par Value	Reinvested Earnings	Common Stock in Treasury	Accumulated Other Comprehensive Loss	Noncontrolling interest	Total Equity
Balances at June 30, 2012	**$ 274.0**	**$ 252.7**	**$ 1,109.6**	**$ (120.0)**	**$ (412.5)**	**$ 9.3**	**$ 1,113.1**
Net income			39.2			0.3	39.5
Pension and post-retirement benefits, net of tax					4.4		4.4
Net gain on derivative instruments, net of tax					19.7		19.7
Foreign currency translation					4.3	0.2	4.5
Cash Dividends:							
Common @ $0.18 per share			(9.6)				(9.6)
Share-based compensation plans		(8.6)		8.3			(0.3)
Stock options exercised	0.3	0.8					1.1
Tax windfall on share-based compensation		3.0					3.0
Balances at September 30, 2012	**$ 274.3**	**$ 247.9**	**$ 1,139.2**	**$ (111.7)**	**$ (384.1)**	**$ 9.8**	**$ 1,175.4**

	Carpenter Stockholders Equity						
	Common Stock						
	Par Value Of $5	Capital in Excess of Par Value	Reinvested Earnings	Common Stock in Treasury	Accumulated Other Comprehensive Loss	Noncontrolling interest	Total Equity
Balances at June 30, 2013	**$ 274.6**	**$ 254.4**	**$ 1,217.3**	**$ (107.5)**	**$ (335.7)**	**$ -**	**$ 1,303.1**
Net income			34.6				34.6
Pension and post-retirement benefits, net of tax					3.6		3.6
Net gain on derivative instruments, net of tax					3.6		3.6
Unrealized loss on marketable securities, net of taxes					(0.1)		(0.1)
Foreign currency translation					3.5		3.5
Cash Dividends:							
Common @ $0.18 per share			(9.6)				(9.6)
Share-based compensation plans		(4.0)		4.2			0.2
Stock options exercised	0.4	2.1					2.5
Tax windfall on share-based compensation		1.1					1.1
Balances at September 30, 2013	**$ 275.0**	**$ 253.6**	**$ 1,242.3**	**$ (103.3)**	**$ (325.1)**	**$ -**	**$ 1,342.5**

See accompanying notes to consolidated financial statements

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CARPENTER TECHNOLOGY CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal and recurring adjustments, considered necessary for a fair statement of the results are reflected in the interim periods presented. The June 30, 2013 consolidated balance sheet data was derived from audited financial statements, but does not include all the disclosures required by U.S. generally accepted accounting principles. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in Carpenter s annual report on Form 10-K for the year ended June 30, 2013 (the 2013 Form 10-K). Operating results for the three months ended September 30, 2013 are not necessarily indicative of the operating results for any future period.

As used throughout this report, unless the context requires otherwise, the terms Carpenter , the Company , Registrant , Issuer , we and our re
Carpenter Technology Corporation.

2. Earnings Per Common Share

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 (nonvested restricted shares and units that receive non-forfeitable dividends) according to their participation rights in dividends and undistributed earnings. The earnings available to each class of stock is 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.

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CARPENTER TECHNOLOGY CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The calculations of basic and diluted earnings per common share for the three months ended September 30, 2013 and 2012 were as follows:

	Three Months Ended September 30,			
(in millions, except per share data)	2013		2012	
Net income attributable to Carpenter	$	34.6	$	39.2
Less: earnings and dividends allocated to participating securities		(0.1)		(0.2)
Earnings available to Carpenter common stockholders	$	34.5	$	39.0
Weighted average number of common shares outstanding, basic		53.1		52.8
Basic earnings per common share	$	0.65	$	0.74
Net income attributable to Carpenter	$	34.6	$	39.2
Weighted average number of common shares outstanding, basic		53.1		52.8
Effect of shares issuable under share based compensation plans		0.4		0.6
Weighted average number of common shares outstanding, diluted		53.5		53.4
Diluted earnings per common share	$	0.65	$	0.74

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

	Three Months Ended September 30,	
(in millions)	2013	2012
Stock options	0.2	0.1

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CARPENTER TECHNOLOGY CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

3. Marketable Securities

The fair value of the Company s marketable securities was based on quoted market prices or estimates of fair value as of September 30, 2013 and June 30, 2013. The following is a summary of marketable securities, all of which were classified as available-for-sale as of September 30, 2013 and June 30, 2013:

September 30, 2013 ($ in millions)	Cost	Unrealized Losses	Estimated Fair Value
Non-current			
Municipal auction rate securities	$ 5.9	$ (0.6)	$ 5.3

June 30, 2013 ($ in millions)	Cost	Unrealized Losses	Estimated Fair Value
Non-current			
Municipal auction rate securities	$ 5.9	$ (0.5)	$ 5.4

For the three months ended September 30, 2013 and 2012, proceeds from sales and maturities of marketable securities were $0.0 million.

4. Inventories

Inventories consisted of the following components as of September 30, 2013 and June 30, 2013:

($ in millions)	September 30, 2013	June 30, 2013
Raw materials and supplies	$ 127.0	$ 111.6
Work in process	358.8	325.9
Finished and purchased products	221.3	221.7
Total inventory	$ 707.1	$ 659.2

Inventories are valued at the lower of cost or market. Cost for inventories is principally determined using the last-in, first-out (LIFO) method.

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CARPENTER TECHNOLOGY CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

5. Accrued Liabilities

Accrued liabilities consisted of the following as of September 30, 2013 and June 30, 2013:

($ in millions)	September 30, 2013	June 30, 2013
Accrued compensation	$ 34.4	$ 49.4
Derivative financial instruments	28.6	29.1
Accrued postretirement benefits	15.5	15.4
Accrued pension liabilities	10.8	9.7
Other	74.4	64.9
Total accrued liabilities	$ 163.7	$ 168.5

6. Pension and Other Postretirement Benefits

The components of the net periodic benefit cost related to the Company s pension and other postretirement benefits for the three months ended September 30, 2013 and 2012 were as follows:

Three months ended September 30, ($ in millions)	Pension Plans		Other Postretirement Plans	
	2013	2012	2013	2012
Service cost	$ 8.0	$ 8.1	$ 1.0	$ 1.1
Interest cost	14.3	13.3	3.1	3.0
Expected return on plan assets	(15.7)	(13.7)	(1.6)	(1.6)
Amortization of net loss	5.5	7.0	0.3	0.8
Amortization of prior service cost (benefit)	0.1	0.2	-	(1.0)
Net pension expense	$ 12.2	$ 14.9	$ 2.8	$ 2.3

During the three months ended September 30, 2013 and 2012, the Company made $1.5 million and $48.1 million, respectively of contributions to its defined benefit pension plans. The Company currently expects to make approximately $4.8 million of contributions to its defined benefit pension plans during the remainder of fiscal year 2014.

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CARPENTER TECHNOLOGY CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

7. Debt

The Company has a $500 million syndicated credit agreement (Credit Agreement) that extends to June 2018. Interest on the borrowings under the Credit Agreement accrue at variable rates, based upon LIBOR or a defined Base Rate, both 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 0.75% to 1.90% (1.25% as of September 30, 2013), and for Base Rate-determined loans, from 0.00% to 0.90% (0.25% as of September 30, 2013). The Company also pays a quarterly commitment fee ranging from 0.075% to 0.375% (0.15% as of September 30, 2013), determined based upon the Debt Rating, of the unused portion of the $500 million commitment under the Credit Agreement. In addition, the Company must pay certain letter of credit fees, ranging from 0.75% to 1.90% (1.25% as of September 30, 2013), 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 September 30, 2013, the Company had $8.2 million of issued letters of credit under the Credit Agreement, with the balance of $491.8 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 of 3.50 to 1.00. 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, and non-cash net pension expense (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 therein, to consolidated capitalization, as defined therein. As of September 30, 2013 and June 30, 2013, the Company was in compliance with all of the covenants of the Credit Agreement.

8. Contingencies and Commitments

Environmental

The Company 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 the Company s operations, compliance costs to date have not been material. The Company 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, the Company has been notified that it may be a PRP with respect to other Superfund sites as to which no proceedings have been instituted against the Company. 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. The Company accrues amounts for environmental remediation costs that represent management s best estimate of the probable and reasonably estimable undiscounted future costs related to environmental remediation. During the three months ended September 30, 2013, we increased the liability for a company-owned former

operating site by $0.1 million. The liabilities recorded for environmental remediation costs at Superfund sites, at other third party-owned sites and at Carpenter-owned current or former operating facilities remaining at September 30, 2013 and June 30, 2013 were $14.9 million and $14.8 million, respectively.

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CARPENTER TECHNOLOGY CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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.

Other

The Company is defending various routine claims and legal actions that are incidental to its business, and that are common to its operations, including those pertaining to product claims, commercial disputes, patent infringement, employment actions, employee benefits, compliance with domestic and foreign laws, personal injury claims and tax issues. Like many other manufacturing companies in recent years the Company, from time to time, has been named as a defendant in lawsuits alleging personal injury as a result of exposure to chemicals and substances in the workplace. 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.

9. 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 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. Currently, the Company does not use Level 3 inputs. 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.

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CARPENTER TECHNOLOGY CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

September 30, 2013 ($ in millions)	Fair Value Measurements Using Input Type		
	Level 1	Level 2	Total
Assets:			
Marketable securities			
Municipal auction rate securities	$ -	$ 5.3	$ 5.3
Derivative financial instruments	-	0.4	0.4
Total assets	$ -	$ 5.7	$ 5.7
Liabilities:			
Derivative financial instruments	$ -	$ 67.4	$ 67.4

June 30, 2013 ($ in millions)	Fair Value Measurements Using Input Type		
	Level 1	Level 2	Total
Assets:			
Marketable securities			
Municipal auction rate securities	$ -	$ 5.4	$ 5.4
Derivative financial instruments	-	0.9	0.9
Total assets	$ -	$ 6.3	$ 6.3
Liabilities:			
Derivative financial instruments	$ -	$ 73.1	$ 73.1

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. Though based on observable data, the valuation of these instruments is not based on actual transactions for the same instruments and, as such, these instruments are classified as Level 2. The Company s use of derivatives and hedging policies are more fully discussed in Note 11.

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.

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:

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CARPENTER TECHNOLOGY CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

($ in millions)	September 30, 2013 Carrying Value	September 30, 2013 Fair Value	June 30, 2013 Carrying Value	June 30, 2013 Fair Value
Long-term debt, including current portion	$ 604.2	$ 613.5	$ 604.2	$ 602.8
Company-owned life insurance	$ 13.5	$ 13.5	$ 13.6	$ 13.6

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 September 30, 2013 and June 30, 2013 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 Level 2 inputs in the fair value hierarchy.

10. Other Income, Net

Other income, net consisted of the following:

($ in millions)	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012
Unrealized gains on company owned life insurance contracts and investments held in rabbi trusts	$ 0.4	$ 2.6
Equity in earnings (losses) of unconsolidated subsidiaries	0.2	(0.6)
Other (expense) income	(0.5)	0.7
Total other income, net	$ 0.1	$ 2.7

11. Derivatives and Hedging Activities

The Company uses commodity swaps and forwards, interest rate swaps, forward 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 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 accumulated other comprehensive income to the extent effective, and reclassified to cost of sales in the period during which the hedged transaction affects earnings or it becomes probable that the forecasted transaction will not occur. As of September 30, 2013, that Company had forward contracts to purchase 34.7 million pounds of certain raw materials with settlement dates through December 2018.

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CARPENTER TECHNOLOGY CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Cash Flow Hedging Forward interest rate swaps: From time to time, the Company has entered into forward interest rate 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. In connection with the issuance of the $300.0 million of fixed rate notes during the third quarter of fiscal year 2013, all outstanding forward interest rate swaps were settled resulting in a gain of $2.7 million that has been recognized in AOCI. This gain will be amortized as a reduction to interest expense over the term of the notes.

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 accumulated 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 September 30, 2013 and June 30, 2013, 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 were not material.

Fair Value Hedging - Interest rate swaps: The Company uses 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. For the three months ended September 30, 2013 and 2012, net gains of $0.1 million and $0.3 million, respectively, were recorded as a reduction to interest expense. These amounts include the impact of previously terminated swaps which are being amortized over the remaining term of the underlying debt.

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The fair value and location of outstanding derivative contracts recorded in the accompanying consolidated balance sheets were as follows as of September 30, 2013 and June 30, 2013:

September 30, 2013 ($ in millions)	Foreign Currency Contracts	Commodity Contracts	Total Derivatives
Asset Derivatives:			
Derivatives designated as hedging instruments:			
Other current assets	$ 0.3	$ -	$ 0.3
Other assets	-	0.1	0.1
Total asset derivatives	$ 0.3	$ 0.1	$ 0.4
Liability Derivatives:			
Derivatives designated as hedging instruments:			
Accrued liabilities	$ 1.0	$ 27.6	$ 28.6
Other liabilities	-	38.8	38.8
Total liability derivatives	$ 1.0	$ 66.4	$ 67.4

June 30, 2013 ($ in millions)	Foreign Currency Contracts	Commodity Contracts	Total Derivatives
Asset Derivatives:			
Derivatives designated as hedging instruments:			
Other current assets	$ 0.9	$ -	$ 0.9
Other assets	-	-	-
Total asset derivatives	$ 0.9	$ -	$ 0.9
Liability Derivatives:			
Derivatives designated as hedging instruments:			
Accrued liabilities	$ 0.4	$ 28.7	$ 29.1
Other liabilities	-	44.0	44.0
Total liability derivatives	$ 0.4	$ 72.7	$ 73.1

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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 affect earnings. The following is a summary of the gains (losses) related to cash flow hedges recognized during the three months ended September 30, 2013 and 2012:

($ in millions)	Amount of Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion) Three Months Ended September 30,	
Derivatives in Cash Flow Hedging Relationship:	2013	2012
Commodity contracts	$ 1.4	$ 24.0
Foreign exchange contracts	0.5	(0.1)
Forward interest rate swaps	-	(1.7)
Total	$ 1.9	$ 22.2

($ in millions)		Amount of (Loss) Gain Reclassified from AOCI into Income (Effective Portion) Three Months Ended September 30,	
Derivatives in Cash Flow Hedging Relationship	Location of (Loss) Gain Reclassified from AOCI into Income (Effective Portion)	2013	2012
Commodity contracts	Cost of sales	$ (7.7)	$ (9.2)
Foreign exchange contracts	Net sales	(0.1)	0.1
Forward interest rate swaps	Interest expense	0.1	-
Total		$ (7.7)	$ (9.1)

The Company estimates that $15.9 million of net derivative losses included in AOCI as of September 30, 2013 will be reclassified into earnings within the next 12 months. No significant cash flow hedges were discontinued during the quarter ended September 30, 2013. There was no ineffectiveness during the three months ended September 30, 2013 and 2012.

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The changes in AOCI associated with derivative hedging activities during the three months ended September 30, 2013 and 2012 were as follows:

	September 30,	
($ in millions)	2013	2012
Balance at July 1	$ (41.5)	$ (32.8)
Current period changes in fair value, net of tax	(1.2)	14.0
Reclassification to earnings, net of tax	4.8	5.7
Balance at September 30	$ (37.9)	$ (13.1)

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 September 30, 2013 and June 30, 2013, 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.

12. Income Taxes

The effective tax rate used for interim periods is the estimated annual effective consolidated tax rate, based on the current estimate of full year results, except that taxes related to specific events, if any, are recorded in the interim period in which they occur.

Income tax expense for the three months ended September 30, 2013 was $16.9 million, or 32.8 percent of pre-tax income as compared with $19.6 million, or 33.2 percent of pre-tax income for the three months ended September 30, 2012.

13. Superalloy Powders Technical Assistance and Powder Supply Agreements

On September 30, 2013, the Company entered in to a multi-level agreement with United Technologies Corporation (UTC), through its Pratt & Whitney Division, which includes a technical assistance agreement and a long-term powder supply agreement. The technical assistance agreement provides for the licensing of technology associated with the production of superalloy powders. As a result of the agreements, the Company plans to build a superalloy powder facility which is expected to take approximately 18 months to construct at an estimated cost of $20 million. Once the facility is qualified by UTC, the Company will supply UTC with superalloy powder for up to 20 years. The powder supply agreement provides for minimum guaranteed purchase quantities of specified materials for a period of 12 years.

According to the terms of the technology licensing agreement, the Company agreed to pay a $13.0 million up-front license fee, which is payable in equal quarterly installments beginning on December 15, 2013. As of September 30, 2013, the $13.0 million up-front license fee is included in other assets and accrued liabilities.

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14. Business Segments

The Company changed its reportable segments beginning with fiscal year 2014 first quarter results. The change reflects the completion of the integration of the Latrobe Specialty Metals, Inc. (Latrobe) businesses acquired by the Company in February 2012. Prior to this change, the Latrobe businesses were reported as a separate segment to provide management with the focus and visibility into the business of the acquired operations. The previously reported Latrobe segment also included the results of the Company s distribution business in Mexico. Since the Latrobe businesses are now fully integrated, the previously reported Latrobe segment has been merged into the Company s operating model, in which the Company s integrated steel mill operations are managed distinctly from the collection of other differentiated operations. Beginning the first quarter of fiscal year 2014, the Company has two reportable segments, Specialty Alloys Operations (SAO) and Performance Engineered Products (PEP).

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 and Latrobe and surrounding areas in Pennsylvania, South Carolina, and the new premium products manufacturing facility being built in Limestone County, Alabama. The combined assets of the SAO operations are being managed in an integrated manner to optimize efficiency and profitability across the total system.

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

The Company s executive management evaluates the performance of these operating segments based on sales, operating income and cash flow generation. Segment operating profit excludes general corporate costs, which include executive and director compensation, and other corporate facilities and administrative expenses not allocated to the segments. Also excluded are items that management considers not representative of ongoing operations, such as restructuring related charges, transaction costs associated with acquisitions, and other specifically-identified income or expense items.

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, there were no significant individual customers that accounted for more than 10 percent of the total net sales during the three months ended September 30, 2013 and 2012, respectively.

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The historical segment information for the three months ended September 30, 2012, which is set forth below, was recast to conform to the fiscal year 2014 presentation.

Segment Data	Three Months Ended September 30,	
($ in millions)	2013	2012
Net Sales:		
Specialty Alloys Operations	$ 394.9	$ 431.0
Performance Engineered Products	118.5	134.9
Intersegment	(14.8)	(21.0)
Consolidated net sales	$ 498.6	$ 544.9
Operating Income:		
Specialty Alloys Operations	$ 63.7	$ 67.2
Performance Engineered Products	11.6	14.5
Corporate costs	(12.9)	(10.4)
Pension earnings, interest & deferrals	(6.0)	(8.0)
Intersegment	(0.6)	(1.7)
Consolidated operating income	$ 55.8	$ 61.6
Depreciation and Amortization:		
Specialty Alloys Operations	$ 19.5	$ 18.6
Performance Engineered Products	5.8	5.4
Corporate	1.4	1.5
Consolidated depreciation and amortization	$ 26.7	$ 25.5
Capital Expenditures:		
Specialty Alloys Operations	$ 108.5	$ 46.7
Performance Engineered Products	6.0	8.7
Corporate	0.6	1.5
Intersegment	(0.2)	(0.5)
Consolidated capital expenditures	$ 114.9	$ 56.4
	September 30, 2013	June 30, 2013
Total Assets:		
Specialty Alloys Operations	$ 2,282.3	$ 2,192.7
Performance Engineered Products	516.6	498.5
Corporate	169.8	233.7
Intersegment	(43.2)	(42.0)
Consolidated total assets	$ 2,925.5	$ 2,882.9

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15. Recent Accounting Standards

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 adoption of ASU 2011-11 did not have a significant impact on the Company s Consolidated Financial Statements.

In February 2013, the FASB issued Accounting Standards Update No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* (ASU 2013-02). The guidance in ASU 2013-02 requires entities to present separately, among other items, the amount of the change that is due to reclassifications, and the amount that is due to current period other comprehensive income. ASU 2013-02 was effective for the Company beginning in the first quarter of fiscal year 2014. The Company adopted ASU 2013-02 effective July 1, 2013 and provided the additional disclosure required by the guidance in Note 16, below.

16. Reclassifications from Accumulated Other Comprehensive Income (AOCI)

The changes in AOCI by component, net of tax, for the three months ended September 30, 2013 were as follows:

(in millions) (a)	Cash flow hedging items	Pension and other postretirement benefit plan items	Unrealized gains and losses on available-for-sale securities	Foreign currency items	Total
Balance at June 30, 2013	$ (41.5)	$ (273.6)	$ (0.4)	$ (20.2)	$ (335.7)
Other comprehensive (loss) income before reclassifications	(1.2)	-	(0.1)	3.5	2.2
Amounts reclassified from AOCI (b)	4.8	3.6	-	-	8.4
Net current-period other comprehensive income (loss)	3.6	3.6	(0.1)	3.5	10.6

Balance at September 30, 2013	$ (37.9)	$ (270.0)	$ (0.5)	$ (16.7)	$ (325.1)

(a) All amounts are net of tax. Amounts in parentheses indicate debits.

(b) See separate table below for further details.

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The following is a summary of amounts reclassified from AOCI for the three months ended September 30, 2013:

(in millions) (a)

Details about AOCI Components	Amount Reclassified from AOCI		Location of (loss) gain
Cash flow hedging items			
Commodity contracts	$	(7.7)	Cost of sales
Foreign exchange contracts		(0.1)	Net sales
Forward interest rate swaps		0.1	Interest expense
		(7.7)	Total before tax
		2.9	Tax benefit
	$	(4.8)	Net of tax
Amortization of pension and other postretirement benefit plan items			
Net actuarial loss	$	(5.8)	(b)
Prior service cost		(0.1)	(b)
		(5.9)	Total before tax
		2.3	Tax benefit
	$	(3.6)	Net of tax

(a) Amounts in parentheses indicate debits to income/loss.

(b) These AOCI components are included in the computation of net periodic benefit cost (See Note 6 for additional details).

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

Background and General

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 also manufacture and rent down-hole drilling tools and components used in the oil and gas industry.

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

Our discussions below in this Item 2 are based upon the more detailed discussions about our business, operations and financial condition included in Item 8 of our 2013 Form 10-K. Our discussions here focus on our results during or as of the three-month period ended September 30, 2013 and the comparable periods of fiscal year 2013, and, to the extent applicable, on material changes from information discussed in the 2013 Form 10-K or other important intervening developments or information that we have reported on Form 8-K. These discussions should be read in conjunction with the 2013 Form 10-K for detailed background information and with any such intervening Form 8-K.

Changes to Segment Reporting

We changed our reportable segments beginning with fiscal year 2014 first quarter results. The change reflects the completion of the integration of the Latrobe Specialty Metals, Inc. (Latrobe) businesses acquired by the Company in February 2012. Prior to this change, the Latrobe businesses were reported as a separate segment to provide management with the focus and visibility into the business of the acquired operations. The previously reported Latrobe segment also included the results of the Company s distribution business in Mexico. Since the Latrobe businesses are now fully integrated, the previously reported Latrobe segment has been merged into the Company s operating model, in which the Company s integrated steel mill operations are managed distinctly from the collection of other differentiated operations. Beginning the first quarter of fiscal year 2014, the Company has two reportable segments, Specialty Alloys Operations (SAO) and Performance Engineered Products (PEP).

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.

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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 25 percent of 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 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. The current quarter s results include non-cash net pension expense of $15.0 million, or $0.18 per diluted share, versus $17.2 million, or $0.21 per diluted share, in the same quarter last year. See the section Non-GAAP Financial Measures below for further discussions of these financial measures.

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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. We currently expect that the total net pension expense for fiscal year 2014 will be $59.7 million as compared with $68.8 million recorded in fiscal year 2013.

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 Consolidated Statements of Income. The following is a summary of the classification of net pension expense for the three months ended September 30, 2013 and 2012:

	Three Months Ended September 30,	
($ in millions)	2013	2012
Cost of sales	$ 11.2	$ 12.8
Selling, general and administrative expenses	3.8	4.4
Net pension expense	$ 15.0	$ 17.2

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. The following is a summary of the components of net pension expense during the three months ended September, 2013 and 2012:

	Three Months Ended September 30,	
($ in millions)	2013	2012
Service cost	$ 9.0	$ 9.2
Pension earnings, interest and deferrals	6.0	8.0
Net pension expense	$ 15.0	$ 17.2

Operating Performance Overview

For the quarter ended September 30, 2013, we reported net income attributable to Carpenter of $34.6 million, or $0.65 per diluted share, compared with income attributable to Carpenter for the same period a year earlier of $39.2 million, or $0.74 per diluted share. Our first quarter of fiscal year 2014 earnings were in line with our expectations. The results reflect solid execution in a challenging environment. As we had anticipated market demand remained soft as raw material and scrap prices remained low, lead times remained short, and economic uncertainty remained high.

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Results of Operations Three Months Ended September 30, 2013 vs. Three Months Ended September 30, 2012

Net Sales

Net sales for the three months ended September 30, 2013 were $498.6 million, which was an 8 percent decrease over the same period a year ago. Excluding surcharge revenue, sales decreased 7 percent. Overall, pounds shipped were 1 percent higher than the first fiscal quarter a year ago. Net sales excluding surcharge revenues in our SAO segment decreased 6 percent on 1 percent higher volume, and net sales excluding surcharge revenues in our PEP segment decreased 12 percent on 19 percent lower shipment volume. Our core markets remained weak as continued supply chain destocking in the aerospace and energy markets reduced demand for our premium and ultra-premium products. The weakness in demand in our aerospace and energy markets was offset by increased lower value sales to meet growing demand from the transportation and industrial & consumer markets.

Geographically, sales outside the United States decreased 15 percent from the same period a year ago to $138.6 million for the three months ended September 30, 2013. The decrease reflects continued softness in sales to Europe. Total international sales in the quarter represented 28 percent of total net sales, compared with 30 percent in the prior year.

Sales by End-Use Markets

We sell to customers across diversified end-use markets. The table below includes comparative information for net sales by end-use markets:

($ in millions)	Three Months Ended September 30, 2013	2012	$ (Decrease)	% (Decrease)
Aerospace and defense	$ 229.5	$ 252.6	$ (23.1)	(9)%
Industrial and consumer	109.2	113.9	(4.7)	(4)
Energy	66.3	77.4	(11.1)	(14)
Transportation	32.4	34.5	(2.1)	(6)
Medical	27.1	30.4	(3.3)	(11)
Distribution	34.1	36.1	(2.0)	(6)
Total net sales	$ 498.6	$ 544.9	$ (46.3)	(8)%

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

($ in millions)	Three Months Ended September 30, 2013	2012	$ (Decrease)	% (Decrease)
Aerospace and defense	$ 182.9	$ 195.3	$ (12.4)	(6)%
Industrial and consumer	85.8	86.6	(0.8)	(1)

Energy	59.1	69.4	(10.3)	(15)
Transportation	25.5	26.1	(0.6)	(2)
Medical	25.0	27.8	(2.8)	(10)
Distribution	33.8	35.6	(1.8)	(5)
Total net sales				