

CARPENTER TECHNOLOGY CORP

Form 10-Q

May 07, 2009

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2009

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)

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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)

610-208-2000

19610
(Zip Code)

(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 ☒ No ☐

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 ☐ No ☐

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

Large accelerated filer: ☒

Accelerated filer: ☐

Non-accelerated filer: ☐ (Do not check if a smaller reporting company)

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 number of shares outstanding of the issuer's common stock as of April 22, 2009 was 44,052,159.

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FORM 10-Q

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Items 2, 3, 4 and 5 of Part II are omitted because there is no information to report.

Table of Contents**PART I****Item 1. Financial Statements****CARPENTER TECHNOLOGY CORPORATION****CONSOLIDATED BALANCE SHEETS****(Unaudited)**

(in millions, except share data)

	March 31, 2009	June 30, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 300.9	\$ 403.3
Marketable securities	5.0	5.3
Accounts receivable, net	167.0	285.1
Inventories	263.5	209.0
Deferred income taxes	29.2	19.8
Other current assets	42.7	44.2
Total current assets	808.3	966.7
Property, plant and equipment, net	632.1	583.8
Prepaid pension cost	48.6	51.5
Goodwill	35.2	35.2
Other intangibles, net	19.0	19.8
Other assets	59.8	55.2
Total assets	\$ 1,603.0	\$ 1,712.2
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 85.1	\$ 158.4
Accrued liabilities	141.3	144.2
Current portion of long-term debt	23.0	23.0
Total current liabilities	249.4	325.6
Long-term debt, net of current portion	279.7	276.7
Accrued postretirement benefits	86.7	90.9
Deferred income taxes	97.1	95.7
Other liabilities	104.6	84.1
Total liabilities	817.5	873.0
Contingencies and commitments (see Note 9)		
STOCKHOLDERS' EQUITY		
Common stock — authorized 100,000,000 shares; issued 54,609,842 at March 31, 2009 and 54,608,142 shares at June 30, 2008; outstanding 44,051,990 at March 31, 2009 and 45,295,770 at June 30, 2008	273.0	273.0

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Capital in excess of par value	206.0	197.5
Reinvested earnings	1,041.7	996.6
Common stock in treasury (10,557,852 shares and 9,312,372 shares at March 31, 2009 and June 30, 2008, respectively), at cost	(531.0)	(484.0)
Accumulated other comprehensive loss	(204.2)	(143.9)
Total stockholders' equity	785.5	839.2
Total liabilities and stockholders' equity	\$ 1,603.0	\$ 1,712.2

See accompanying notes to consolidated financial statements.

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

(in millions, except per share data)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2009	2008	2009	2008
NET SALES	\$ 330.0	\$ 506.4	\$ 1,105.4	\$ 1,397.2
Cost of sales	280.8	397.9	906.7	1,057.3
Gross profit	49.2	108.5	198.7	339.9
Selling, general and administrative expenses	31.0	33.8	100.5	103.5
Restructuring charges	2.1		2.1	
Operating income	16.1	74.7	96.1	236.4
Interest expense	3.9	5.1	12.1	15.9
Other income, net	(2.7)	(3.7)	(13.0)	(22.1)
Income before income taxes	14.9	73.3	97.0	242.6
Income tax expense	1.8	22.8	28.3	79.6
Income from continuing operations	13.1	50.5	68.7	163.0
Income from discontinued operations		69.5		70.7
NET INCOME	\$ 13.1	\$ 120.0	\$ 68.7	\$ 233.7
EARNINGS PER COMMON SHARE:				
Basic:				
Income from continuing operations	\$ 0.30	\$ 1.05	\$ 1.57	\$ 3.31
Income from discontinued operations		\$ 1.45		\$ 1.43
Net income	\$ 0.30	\$ 2.50	\$ 1.57	\$ 4.74
Diluted:				
Income from continuing operations	\$ 0.30	\$ 1.05	\$ 1.56	\$ 3.29
Income from discontinued operations		\$ 1.44		\$ 1.43
Net income	\$ 0.30	\$ 2.49	\$ 1.56	\$ 4.72
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	43.8	48.0	43.9	49.3

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Diluted	44.0	48.3	44.2	49.6
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Cash dividends per common share	\$ 0.18	\$ 0.15	\$ 0.54	\$ 0.45
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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 March 31,		Nine Months Ended March 31,	
	2009	2008	2009	2008
Net income	\$ 13.1	\$ 120.0	\$ 68.7	\$ 233.7
Gain (loss) on derivative instruments, net of tax benefits of (\$0.3), (\$4.7), \$21.6 and \$2.4, respectively	0.4	7.4	(33.7)	(3.7)
Pension and post-retirement benefits, net of tax of (\$0.5), \$, (\$1.4) and \$0.6, respectively	0.8	(0.1)	2.2	(0.9)
Pension curtailment, net of tax of (\$0.1)				0.2
Foreign currency translation (loss) gain	(5.8)	5.1	(28.8)	8.7
Comprehensive income	\$ 8.5	\$ 132.4	\$ 8.4	\$ 238.0

See accompanying notes to consolidated financial statements.

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CARPENTER TECHNOLOGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in millions)

	Nine Months Ended March 31,	
	2009	2008
OPERATING ACTIVITIES:		
Net income	\$ 68.7	\$ 233.7
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization	38.0	37.1
Deferred income taxes	11.6	(0.9)
Net pension expense (income)	15.2	(0.8)
Net loss (gain) on disposals of property and equipment	0.9	(1.0)
Gain on sale of businesses		(101.5)
Changes in working capital and other:		
Accounts receivable	103.9	31.0
Inventories	(68.3)	(58.4)
Other current assets	(16.7)	(5.5)
Accounts payable	(70.5)	(42.3)
Accrued liabilities	(28.2)	44.6
Other, net	(9.8)	7.5
Net cash provided from operating activities	44.8	143.5
INVESTING ACTIVITIES:		
Purchases of property, equipment and software	(94.9)	(72.7)
Proceeds from disposals of property and equipment		1.4
Acquisition of business		(6.6)
Net proceeds from sales of businesses	13.4	143.0
Purchases of marketable securities	(34.5)	(366.2)
Proceeds from sales of marketable securities	39.8	713.2
Net cash (used for) provided from investing activities	(76.2)	412.1
FINANCING ACTIVITIES:		
Payments on long-term debt		(0.2)
Dividends paid	(23.6)	(22.1)
Purchases of treasury stock	(46.1)	(250.8)
Tax benefits on share-based compensation		1.2
Proceeds from common stock options exercised		0.6
Net cash used for financing activities	(69.7)	(271.3)
Effect of exchange rate changes on cash and cash equivalents	(1.3)	(10.2)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(102.4)	274.1

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Cash and cash equivalents at beginning of period	403.3	300.8
Cash and cash equivalents at end of period	\$ 300.9	\$ 574.9

See accompanying notes to consolidated financial statements.

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CARPENTER TECHNOLOGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation and Recent Accounting Pronouncements

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 presentation are reflected in the interim periods presented. The June 30, 2008 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, 2008. Operating results for the three months and nine months ended March 31, 2009 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" refer to Carpenter Technology Corporation.

Discontinued Operations

During fiscal year 2008, the Company completed the sale of the ceramics and metal shapes businesses, which is more fully discussed in Note 2. In accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the results of operations for the disposed businesses have been classified as discontinued operations in the Consolidated Statements of Income for all periods presented. Cash flows related to our disposed operations have not been separately reported.

Reclassifications

Certain reclassifications of prior years' amounts have been made to conform with the current year's presentation.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands fair value measurement disclosures. SFAS 157 was effective for the Company on July 1, 2008. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, "Effective Date of FASB Statement No. 157" ("FSP FAS 157-2"), which delayed the effective date of SFAS 157 for all nonfinancial assets and liabilities except for items that are recognized or disclosed at fair value on a recurring basis (at least annually). The adoption of SFAS 157 for the Company's financial assets and liabilities did not have a material impact on the Company's consolidated financial statements and is discussed more fully in Note 11. The Company does not believe that the adoption of SFAS 157 for the Company's nonfinancial assets and liabilities, effective July 1, 2009, will have a material impact on the consolidated financial statements.

On July 1, 2008, the Company adopted the provisions Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115" ("SFAS 159"). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value and report unrealized gains and losses on these instruments in earnings. The adoption of SFAS 159 did not have an impact on the Company's consolidated financial statements.

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CARPENTER TECHNOLOGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 requires entities that utilize derivative instruments to provide qualitative disclosures about their objectives and strategies for using such instruments, as well as any details of credit-risk-related contingent features contained within derivatives. SFAS 161 also requires entities to disclose additional information about the amounts and location of derivatives located within the financial statements, how the provisions of SFAS 133 have been applied, and the impact that hedges have on an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. Except for the additional disclosures required by FAS 161 included in Note 13, the adoption did not have a material impact on the Company's financial statements.

In April 2009, the FASB issued FASB Staff Position No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP 107-1). FSP 107-1 amends existing guidance to require disclosures about fair value of financial instruments in interim financial statements for interim reporting periods as well as in annual financial statements. FSP 107-1 is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company does not believe the adoption of FSP 107-1 will have a material impact on the Company's financial statements.

In December 2008, the FASB issued FASB Staff Position No. FAS 132(R)-1, Employers' Disclosures about Pensions and Other Postretirement Benefits (FSP 132(R)-1). FSP 132(R)-1 includes objectives for disclosing information about an employer's plan assets of a defined benefit pension or other postretirement plan. FSP 132(R)-1 is effective for fiscal years ending after December 15, 2009. The Company does not believe the adoption of FSP 132(R)-1 will have a material impact on the Company's financial statements.

In June 2008, the FASB issued FSP No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities. (FSP 03-6-1). FSP 03-6-1 states that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents are participating securities and should be included in the computation of earnings per share using the two-class method outlined in SFAS No. 128, Earnings per Share. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. FSP 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and requires that all prior period earnings per share data be adjusted retrospectively to conform to the provisions of the FSP. The Company is currently evaluating the impact of the adoption of FSP 03-6-1.

In April 2009, the FASB issued FSP No. FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. (FSP 157-4). FSP 157-4 amends SFAS No. 157 and provides additional guidance for estimating fair value in accordance with SFAS No. 157 when the volume and level of activity for the asset and liability have significantly decreased, as well as provides guidance on identifying circumstances that indicate a transaction is not orderly. FSP No. FAS 157-4 is effective for interim and annual periods ending after June 15, 2009. The adoption of FSP No. FAS 157-4 is not expected to have a material impact on the Company's financial statements.

Table of Contents**CARPENTER TECHNOLOGY CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****2. Divestitures**

On March 31, 2008, the Company completed the sale of our ceramics operations to Morgan Crucible Company plc, a U.K. based advanced materials company. The ceramics operations consisted of our Certech and Carpenter Advanced Ceramics business units that have historically been included in our Engineered Products Operations business segment. The net proceeds from the sale were \$142.6 million, which included \$144.5 million of sales price net of \$1.9 million of deal costs. The selling price was subject to a working capital adjustment, which the Company calculated to be \$2.9 million. In June 2008, the Company received an initial payment of the working capital adjustment of \$2.0 million, with the remaining balance of the working capital adjustment totaling \$0.9 million collected in the first quarter of fiscal 2009. The Company does not have any significant continuing involvement in the operations after the divestiture.

On June 30, 2008, the Company completed the sale of our metal shapes business, Rathbone Precision Metals (Rathbone), to Calvi Holdings, S.r.l. Rathbone is engaged in the business of designing, manufacturing and selling precision formed shape components in a variety of alloys. The operations of Rathbone were historically included on our Engineered Products Operations business segment. The net sales price was \$17.4 million, of which \$5.0 million was received at closing with the remaining \$12.5 million in the form of a note receivable which was paid in full during the first quarter of fiscal year 2009. The net proceeds also reflect \$0.1 million of deal-related costs. In conjunction with the sale, Carpenter entered into a long-term supply agreement to provide the buyer with certain raw materials over a five year period. However, the Company does not have any significant continuing involvement in the operations after the divestiture.

The following table summarizes the components of discontinued operations:

(in millions)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2009	2008	2009	2008
Net sales	\$	\$ 29.8	\$	\$ 84.9
Income before income taxes	\$	\$ 4.5	\$	\$ 12.8
Income tax expense		4.1		6.9
Income from operations of discontinued businesses, net of tax		0.4		5.9
Gain on sale of discontinued operations		102.7		101.5
Income tax expense on gain		33.6		36.7
Income from discontinued operations, net of tax	\$	\$ 69.5	\$	\$ 70.7

The Company has not allocated general corporate overhead charges to the discontinued operations and has elected not to allocate general corporate interest expense.

Table of Contents**CARPENTER TECHNOLOGY CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****3. Restructuring Charges**

During the quarter ended March 31, 2009, the Company recorded \$2.1 million of charges associated with the closure of our manufacturing facility in the United Kingdom (UK), which we announced in February 2009. The manufacturing operations in the UK will wind down during the next several months with final closure targeted for June 30, 2009. The charges recorded in the quarter ended March 31, 2009 consisted principally of employee severance costs as well as other exit costs. The UK facility employs 33 workers and manufactures soft magnetic nickel-iron and cobalt-iron alloys in strip and bar form. The facility's customers will be serviced by existing operations and through arrangements with other suppliers. The UK manufacturing facility was historically included in our Advanced Metals Operation segment, and the restructuring charges have not been included in the segment operating results.

4. Earnings Per Common Share

The calculations of basic and diluted earnings from continuing operations per common share for the three months and nine months ended March 31, 2009 and 2008 were as follows:

(in millions, except per share data)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2009	2008	2009	2008
<u>Basic:</u>				
Earnings from continuing operations available for common stockholders	\$ 13.1	\$ 50.5	\$ 68.7	\$ 163.0
Weighted average number of common shares outstanding	43.8	48.0	43.9	49.3
Basic earnings from continuing operations per common share	\$ 0.30	\$ 1.05	\$ 1.57	\$ 3.31
<u>Diluted:</u>				
Earnings from continuing operations available for common stockholders	\$ 13.1	\$ 50.5	\$ 68.7	\$ 163.0
Weighted average number of common shares outstanding	43.8	48.0	43.9	49.3
Effect of shares issuable under share based compensation plans	0.2	0.3	0.3	0.3
Adjusted weighted average common shares outstanding	44.0	48.3	44.2	49.6
Diluted earnings from continuing operations per common share	\$ 0.30	\$ 1.05	\$ 1.56	\$ 3.29

For the three months and nine months ended March 31, 2009, options to purchase 0.4 million shares of common stock have been excluded from the calculation of diluted earnings from continuing operations per common share because their effects were anti-dilutive. There were no options to purchase shares of common stock excluded from the calculations of earnings per share for the three months and nine months ended March 31, 2008.

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The fair value of the Company's marketable securities was based on quoted market prices or estimates of fair value as of March 31, 2009 and June 30, 2008. The following is a summary of marketable securities, all of which were classified as available-for-sale as of March 31, 2009 and June 30, 2008:

March 31, 2009

(in millions)	Cost	Unrealized Gains	Estimated Fair Value
Current			
U.S. government agency securities	\$ 5.0		\$ 5.0
Non-current			
Municipal auction rate securities	\$ 6.3		\$ 6.3

June 30, 2008

(in millions)	Cost	Unrealized Gains	Estimated Fair Value
Current			
Corporate bonds	\$ 2.3		\$ 2.3
Municipal bonds	3.0		3.0
Total current	\$ 5.3		\$ 5.3
Non-current			
Municipal auction rate securities	\$ 11.3		\$ 11.3

As of March 31, 2009 and June 30, 2008, the Company's marketable securities included municipal auction rate securities with a par value of \$6.3 million and \$11.3 million, respectively. The municipal auction rate securities have historically traded at par and are callable at par at the option of the issuer. Until February 2008, the auction rate securities market was highly liquid. During February 2008, a number of auctions failed for these types of securities. As a result of the unsuccessful auctions, the interest rates on the securities have been reset at a premium rate. In addition, as a result of the failed auctions, the Company does not have access to the funds invested in these securities until the securities can be liquidated upon: a successful future auction of these securities, a refinancing or redemption of the securities by the issuers, finding a buyer in a secondary market. The Company has the intent and ability to hold these securities until the earlier of the anticipated recovery period, redemption by the issuer or the stated maturity date. Since the timing of the recovery of the auction process or redemption by the issuer cannot be reasonably estimated, the securities have been classified according to their stated maturity dates, which range from 2019 to 2030. Accordingly, the municipal auction rate securities are included in other assets in the accompanying consolidated balance sheets. 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.

For the nine months ended March 31, 2009 and 2008, proceeds from sales of marketable securities were \$39.8 million and \$713.2 million, respectively.

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CARPENTER TECHNOLOGY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

6. Inventories

Inventories consisted of the following components as of March 31, 2009 and June 30, 2008:

(in millions)	March 31, 2009	June 30, 2008
Raw materials and supplies	\$ 41.8	\$ 26.3
Work in process	138.0	111.9
Finished and purchased products	83.7	70.8
 Total inventory	 \$ 263.5	 \$ 209.0

Inventories are valued at the lower of cost or market. Cost for inventories is principally determined by the Last-In, First-Out (LIFO) method.

7. Accrued Liabilities

Accrued liabilities consisted of the following as of March 31, 2009 and June 30, 2008:

(in millions)	March 31, 2009	June 30, 2008
Derivative financial instruments	\$ 50.6	\$ 22.7
Employee benefits	31.6	31.7
Compensation	17.6	44.9
Legal	13.7	14.2
Deferred revenue	6.1	8.2
Interest	6.1	5.1
Taxes, other than income	1.2	0.8
Environmental costs	1.1	1.1
Professional services	0.7	0.5
Other	12.6	15.0
 Total accrued liabilities	 \$ 141.3	 \$ 144.2

8. Pension and Other Postretirement Benefits

The components of the net periodic benefit cost related to Carpenter's pension and other postretirement benefits for the three and nine months ended March 31, 2009 and 2008 were as follows:

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Three months ended March 31, (in millions)	Pension Plans		Other Postretirement Plans	
	2009	2008	2009	2008
Service cost	\$ 4.3	\$ 4.6	\$ 0.6	\$ 0.6
Interest cost	12.5	12.1	3.0	2.9
Expected return on plan assets	(15.1)	(18.0)	(1.6)	(1.9)
Amortization of net loss	2.4	1.1	0.6	0.5
Amortization of prior service cost (benefit)	0.3	0.3	(2.0)	(1.9)
Net pension expense	\$ 4.4	\$ 0.1	\$ 0.6	\$ 0.2

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Nine months ended March 31, (in millions)	Pension Plans		Other Postretirement Plans	
	2009	2008	2009	2008
Service cost	\$ 13.3	\$ 13.3	\$ 1.7	\$ 1.8
Interest cost	37.5	36.5	9.1	8.7
Expected return on plan assets	(45.4)	(55.2)	(4.7)	(5.7)
Amortization of net loss	7.1	2.4	1.6	1.5
Curtailment		0.2		
Amortization of prior service cost (benefit)	0.9	0.8	(5.9)	(5.7)
Net pension expense (income)	\$ 13.4	(\$ 2.0)	\$ 1.8	\$ 0.6

9. Contingencies***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 our operations, compliance costs to date have not been material. The Company has environmental remediation liabilities at some of our 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 we 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 costs related to environmental remediation. During the nine months ended March 31, 2009, the Company increased the liabilities recorded for environmental remediation costs by approximately \$2.0 million. 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 March 31, 2009 and June 30, 2008 were \$6.9 million and \$5.1 million, respectively.

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 PRPs. Based upon information currently available, such future costs are not expected to have a material effect on the Company s financial position, results of operations or cash flows. However, such costs could be material to the Company s financial position, results of operations or cash flows in a particular future quarter or year.

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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 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 suit, in June of 2002, 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. In accordance with the Court s judgment, the Company recorded a liability of \$21.0 million with respect to this matter during the fourth quarter of fiscal year 2008. The Company has appealed the Court s decision.

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, the Company claimed a refund of import duties on items manufactured and exported to customers in foreign countries. Certain vendors of the Company prepared certificates authorizing the Company to claim duty drawback refunds against imported goods purportedly shipped by the vendor to the Company. Because of the complexity of the program, the Company 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.

The Company received notice from U.S. Customs that the Company 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 has also engaged a new licensed U.S. customs broker and suspended the filing of any new duty drawback claims until the investigation can be concluded. The Company has cooperated fully with U.S. Customs investigation of this matter.

As of the date of this filing, the Company s internal review remains ongoing due to the extensive amount of documentation that must be compiled and reviewed. Based on the results of the review to date, the Company recorded a charge of \$5.1 million to Cost of Sales during fiscal year 2008. This charge was determined in accordance with Statements of Financial Accounting Standards No. 5, Accounting for Contingencies, and represented the Company s best estimate of the probable loss related to this matter. As a result of the Company s internal review, the Company has made payments of \$2.3 million to U.S. Customs through March 31, 2009 related to the above contingency.

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During the period the Company's customs broker was filing claims on the Company's behalf, July 2003 through December 2006, the Company applied for and received refund claims totaling \$6.9 million. While the ultimate outcome of the U.S. Customs investigation and the Company's internal review is not yet known, based on current facts the Company believes that the net remaining reserve recorded of \$2.8 million is a reasonable estimate of the probable loss that will result from the investigation.

Export Regulations Violations

In the third quarter of fiscal year 2008, the Company became aware of potential violations of federal export regulations at a business unit that was 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 March 31, 2009.

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 ultimate liability 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.

10. Share Repurchase Program

During the first quarter of fiscal 2009, the Company completed the purchases of a share repurchase program authorized by the Company's Board of Directors in December 2007 by purchasing 1,218,900 shares of its common stock on the open market for \$46.1 million. The share repurchase program authorized the purchase of up to \$250.0 million of the Company's outstanding common stock using available cash and made from time to time in either the open market or through private transactions.

Table of Contents**CARPENTER TECHNOLOGY CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****11. Fair Value Measurements**

Effective July 1, 2008, the Company adopted SFAS 157, which defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. SFAS 157 established three levels of a fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 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 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.

The adoption of SFAS 157 did not have a material impact on the Company's consolidated financial statements. The Company has segregated all financial assets and liabilities that are measured at fair value on a recurring basis (at least annually) into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date in the table below.

Financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2009 are summarized below:

(in millions)	Fair Value Measurements Using		
	Input Type		Total
	Level 1	Level 2	
Assets:			
Cash equivalents	\$ 114.0	\$	\$ 114.0
U.S. Government agency debt securities	5.0		5.0
Derivative financial instrument assets		5.2	5.2
Municipal auction rate securities		6.3	6.3
 Total financial assets	 \$ 119.0	 \$ 11.5	 \$ 130.5
Liabilities:			
Derivative financial instrument liabilities	\$	\$ 77.4	\$ 77.4
 Total financial liabilities	 \$	 \$ 77.4	 \$ 77.4

Effective July 1, 2008, the Company adopted SFAS 159, which provides entities the option to measure many financial instruments and certain other items at fair value. Entities that choose the fair value option will recognize unrealized gains and losses on items for which the fair value option was elected in earnings at each subsequent reporting date. 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.

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Other (income) expense, net consisted of the following:

(in millions)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2009	2008	2009	2008
Continued Dumping and Subsidy Offset Act receipt	\$ (0.1)	\$	\$ (6.1)	\$ (8.2)
Unrealized losses on company owned life insurance contracts and investments held in rabbi trusts	0.3	0.9	3.7	1.4
Foreign exchange (gain) loss	(2.5)	1.3	(6.4)	1.8
Interest income	(0.6)	(3.3)	(4.2)	(13.7)
Decrease(increase) in equity in minority interests of unconsolidated subsidiaries	0.2	(0.4)		(0.9)
Other income		(2.2)		(2.5)
Total other income, net	\$ (2.7)	\$ (3.7)	\$ (13.0)	\$ (22.1)

13. Derivatives and Hedging Activities

The Company uses commodity forwards and options, interest rate swaps and foreign currency forwards and options 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 contract and options: The Company enters into commodity forward and option 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 and options 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 into costs of sales in the period during which the transaction affects earnings.

Cash Flow Hedging Foreign currency forward contracts: The Company uses foreign currency forwards and options 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 into net sales in the period during which the transaction affects earnings.

Fair Value Hedging Interest rate swaps: Historically, 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 March 31, 2009, the total notional amount of floating interest rate contracts was \$45.0 million. For the three months and nine months ended March 31, 2009, net gains of \$0.4 million and \$1.0 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.

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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 March 31, 2009:

(in millions)	Interest Rate Swaps	Foreign Currency Contracts	Commodity Contracts	Total Derivatives
Asset Derivatives:				
<i>Derivatives designated as hedging instruments:</i>				
Other current assets	\$	\$ 2.2	\$	\$ 2.2
Other assets	3.1			3.1
	\$ 3.1	\$ 2.2	\$	\$ 5.3
<i>Derivatives not designated as hedging instruments</i>				
Other current assets	\$	\$ 0.1	\$	\$ 0.1
Total asset derivatives	\$ 3.1	\$ 2.3	\$	\$ 5.4
Liability Derivatives:				
<i>Derivatives designated as hedging instruments:</i>				
Other current assets	\$	\$ 0.2	\$	\$ 0.2
Accrued liabilities			53.9	53.9
Other liabilities			26.8	26.8
Total liability derivatives	\$	\$ 0.2	\$ 80.7	\$ 80.9

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 other comprehensive income (OCI) and reclassified into earnings in the same period or periods during which the hedged transactions affects earnings. The following is a summary of the gains (losses) related to cash flow hedges recognized during the three months and nine months ended March 31, 2009:

(in millions)	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)	
	Three Months Ended March 31, 2009	Nine Months Ended March 31, 2009
Derivatives in Cash Flow Hedging Relationship:		

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Commodity contracts	\$ 0.7	\$ (59.1)
Foreign exchange contracts	(0.1)	3.7
Total	\$ 0.6	\$ (55.4)

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(in millions)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	
		Three Months Ended March 31, 2009	Nine Months Ended March 31, 2009
Derivatives in Cash Flow Hedging Relationship:			
Commodity contracts	Cost of sales	\$ (20.8)	\$ (54.9)
Foreign exchange contracts	Net sales	0.9	1.6
Total		\$ (19.9)	\$ (53.3)

The Company estimates that \$47.2 million of net derivative losses included in OCI will be reclassified into earnings within the next 12 months. No significant cash flow hedges were discontinued during the three months and nine months ended March 31, 2009. Ineffectiveness was not material during the three months and nine months ended March 31, 2009.

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 March 31, 2009 the Company had \$3.3 million of cash collateral held by counterparties. As of June 30, 2008 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.

14. 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.

In accordance with SFAS 109, the Company assesses, on a quarterly basis, its ability to realize its deferred tax assets. The Company records a valuation allowance to reduce the gross deferred tax assets to an amount that is more likely than not to be realized. The Company increased the valuation allowance by \$4.7 million during the quarter ended March 31, 2009. The valuation allowance is primarily attributable to the uncertainty regarding the realization of a portion of certain state net operating loss and tax credit carryforward benefits due to the prevailing adverse economic conditions.

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CARPENTER TECHNOLOGY CORPORATION

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For the nine months ended March 31, 2009, the Company's liability for unrecognized tax benefits decreased by \$8.8 million, which included a \$0.4 million increase in unrecognized tax benefits as a result of tax positions taken in prior periods and a \$0.6 million increase in unrecognized tax benefits as a result of tax positions taken during the current period. In addition, the Company's liability for unrecognized tax benefits was reduced by \$10.3 million, including accrued penalties and interest, as a result of the lapse of the applicable statute of limitations in certain jurisdictions, of which a benefit of \$6.0 million was included in the Company's income tax expense during the quarter ended March 31, 2009.

It is reasonably possible that the liability for unrecognized tax benefits may be reduced by approximately \$8.0 to \$9.0 million within the next 12 months of the reporting date as a result of the expiration of the applicable statutes of limitations in certain jurisdictions.

Interest and penalties are recognized as a component of income tax expense. During the three months and nine months ended March 31, 2009, the Company recognized in income tax expense, \$0.2 million and \$0.6 million of interest and penalties, respectively. As of March 31, 2009 and June 30, 2008, the Company recorded accrued interest and penalties of \$2.0 million and \$3.7 million, respectively.

15. Business Segments

Following the divestiture of the ceramics and metals shapes businesses during fiscal year 2008, which historically comprised the Company's Engineered Products Operations segment, the Company has two reportable business segments: Advanced Metals Operations and Premium Alloys Operations.

The Advanced Metals Operations (AMO) segment includes the manufacturing and distribution of high temperature and high strength metal alloys, stainless steels, and titanium in the form of small bars and rods, wire, narrow strip and powder. Products in this segment typically go through more finishing operations, such as rolling, turning, grinding, drawing, and atomization, than products in our Premium Alloys Operations segment. Sales in the AMO segment are spread across a diverse list of end-use markets, including the aerospace, industrial, consumer, automotive, and medical industries. AMO products are sold under the Carpenter, Dynamet, Talley, Carpenter Powder Products and Aceros Fortuna brand names.

The Premium Alloys Operations (PAO) segment includes the manufacturing and distribution of high temperature and high strength metal alloys and stainless steels in the form of ingots, billets, large bars and hollows. Also, the PAO segment includes conversion processing of metal for other specialty metals companies. A significant portion of PAO sales are to customers in the aerospace and energy industries. Much of PAO sales are to forging companies that further shape, mill, and finish the metals into more specific dimensions. All such sales are made under the Carpenter brand name.

The Company's consolidated total assets are managed as corporate-level assets and, therefore, are not allocated to the business segments. Only a portion of the expenses related to these assets, principally depreciation and amortization, is allocated to the individual business segments for inclusion in their respective measures of operating income.

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.

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CARPENTER TECHNOLOGY CORPORATION
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On a consolidated basis, the Company's sales were not materially dependent on a single customer or a small group of customers.

(in millions)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2009	2008	2009	2008
Net sales:				
Advanced Metals Operations	\$ 227.7	\$ 361.9	\$ 775.8	\$ 997.6
Premium Alloys Operations	104.2	146.8	337.4	408.7
Intersegment	(1.9)	(2.3)	(7.8)	(9.1)
Consolidated net sales	\$ 330.0	\$ 506.4	\$ 1,105.4	\$ 1,397.2
Operating income:				
Advanced Metals Operations	\$ 11.2	\$ 44.9	\$ 61.5	\$ 138.3
Premium Alloys Operations	15.2	34.3	63.4	110.4
Corporate costs	(8.2)	(9.4)	(26.6)	(29.1)
Pension earnings, interest & deferrals		4.9	(0.1)	16.8
Restructuring charges	(2.1)		(2.1)	
Consolidated operating income	\$ 16.1	\$ 74.7	\$ 96.1	\$ 236.4

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

Background and General

Carpenter is engaged in the manufacturing, fabrication, and distribution of specialty metals. We primarily process basic raw materials such as nickel, cobalt, titanium, chromium, 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.

Our discussions below in this Item 2 are based upon the more detailed discussions about our business, operations and financial condition included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2008, under Item 8 thereof. Our discussions here focus on our results during or as of the three-month and nine-month periods ended March 31, 2009 and the comparable periods of fiscal year 2008, and, to the extent applicable, on material changes from information discussed in that Form 10-K or other important intervening developments or information. These discussions should be read in conjunction with that Form 10-K for detailed background information.

Unless specifically stated otherwise, all discussions of operating results reflect continuing operations.

Raw Material Pricing and Product Mix

The volatility of the costs of raw materials has impacted our operations over the past few years. We, and others in our industry, generally have been able to pass cost increases on certain materials through to our customers using surcharges that are structured to recover increases in raw material costs. In the last several years, as raw material prices have escalated, surcharges have become an increasingly significant component of our net sales, which had a dilutive effect on our gross margin and operating margin percentages as described later in this discussion. Generally, the formula used to calculate a surcharge is based on published prices of the respective raw materials for the previous month. A portion of our raw material purchases is based on published prices from two months prior, rather than the previous month, which creates a lag between surcharge revenues and corresponding raw material costs recognized in costs of sales. Except for the usually modest effect of the lag, the surcharge mechanism protects our net income on such sales. 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. In addition, we may experience significant fluctuations in our quarterly income statement if inventory quantities change, in relation to the prior quarter, at the same time that raw material costs fluctuate. During our recent third quarter, we reduced inventories in a period of deflating raw material prices, which resulted in negative impacts.

A portion of our business consists of sales to customers under firm price sales arrangements. 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 contracts are consummated. In order to effectively 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. 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 deferred and recognized in earnings as the inventory is sold. Since we value most of our inventory under the LIFO costing methodology, the gains and/or losses associated with commodity forward contracts may not impact the same quarter that the firm price sales contracts revenue is recognized and comparisons of gross profit from quarter to quarter may be impacted.

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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 to participate in certain lower margin business in order to utilize available capacity. 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

Based on the decline in the market value of the securities in our defined benefit pension plans as of June 30, 2008, we will experience a pre-tax net pension expense during fiscal year 2009 of \$20.1 million. This is a non-cash expense that is being amortized equally for each quarterly period during the fiscal year. The pension expense equates to a year-to-year estimated difference in reported earnings of \$0.28 per share, with a third quarter year-to-year pre-tax impact of \$4.7 million or \$0.06 per share and a nine-month year-to-year pre-tax impact of \$16.6 million or \$0.22 per share.

Restructuring Charges

During the three months ended March 31, 2009, we recorded \$2.1 million of restructuring charges associated with the closure our manufacturing facility in the United Kingdom (UK), which we announced in March 2009. The closure is expected to reduce our fixed costs and to utilize existing production capacity more efficiently with an ongoing profit improvement estimated at about \$2.0 million per year. The manufacturing operations in the UK will wind down during the next several months with final closure targeted for June 30, 2009 and a total earnings impact of approximately \$9.0 million in the current fiscal year. The charges recorded in the quarter ended March 31, 2009 consisted principally of employee severance costs and other exit costs.

Operating Performance Overview

For the quarter ended March 31, 2009, we reported income from continuing operations of \$13.1 million or \$0.30 per diluted share, compared with income from continuing operations for the same period a year earlier of \$50.5 million or \$1.05 per diluted share. For the nine months ended March 31, 2009, we reported income from continuing operations of \$68.7 million or \$1.56 per diluted share, compared with income from continuing operations for the same period a year earlier of \$163.0 million or \$3.29 per diluted share. In both cases, the lower earnings in the current period reflect lower sales levels, higher operating costs and the generally prevailing adverse economic conditions that became more severe from the middle of calendar year 2008. Our revenue decline this quarter reflected continued slowness in global industrial activity. Low oil prices have reduced demand in our energy end-use market, which had been a key growth driver in recent years. Also, demand in aerospace slowed significantly in the current quarter.

We continue to take appropriate actions to reduce manufacturing and other costs in order to adjust to the lower production levels. We also made considerable progress in reducing inventory levels during the quarter.

Results of Operations Three Months Ended March 31, 2009 vs. Three Months Ended March 31, 2008

Net Sales

Net sales for the three months ended March 31, 2009 were \$330.0 million, which was a 35 percent decrease over the same period a year ago. Adjusted for surcharge revenue, sales decreased 24 percent. Overall, pounds shipped were 31 percent lower than the third quarter a year ago.

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Geographically, sales outside the United States decreased 37 percent from the same period a year ago to \$111.8 million. The sales decline primarily reflects weakness in Europe for products in the aerospace, energy and automotive end-use markets. The decline also reflects a weakness in Canada for products used in oil and gas applications. International sales represented 34 percent of total sales for the quarter ended March 31, 2009 compared to 35 percent for the quarter ended March 31, 2008.

Sales by End-Use Markets

Our sales are to customers across a diversified list of end-use markets. The table below includes comparative information for our estimated sales by end-use markets:

(\$ in millions)	Three Months Ended March 31,		\$	%
	2009	2008	(Decrease)	(Decrease)
Aerospace	\$ 146.7	\$ 207.4	\$ (60.7)	(29)%
Industrial	79.1	110.5	(31.4)	(28)
Energy	35.0	54.8	(19.8)	(36)
Medical	28.4			