

CARPENTER TECHNOLOGY CORP

Form 10-K

August 24, 2011

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-K**

(Mark One)

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

**For the fiscal year ended June 30, 2011**

**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)

|   |  |
|---|--|
| <b>Delaware</b><br>(State or other jurisdiction of<br>incorporation or organization)                  | <b>23-0458500</b><br>(I.R.S. Employer<br>Identification No.) |
| <b>P.O. Box 14662</b><br><br><b>Reading, Pennsylvania</b><br>(Address of principal executive offices) | <b>19610</b><br>(Zip Code)                                   |
| <b>610-208-2000</b>   |  |

(Registrant's telephone number, including area code)

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

|   |   |
|---|---|
| <b>Common Stock, \$5 Par Value</b><br>Title of each class       | <b>New York Stock Exchange</b><br>Name of each exchange on which registered |
| <b>Securities registered pursuant to 12(g) of the Act: None</b> |   |

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

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

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

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



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**PART I**

**Item 1. Business**

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

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

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

We are organized in three reportable business segments: Advanced Metals Operations, Premium Alloys Operations, and Emerging Ventures. See Note 20 to our consolidated financial statements included in Item 8 Financial Statements and Supplementary Data for additional segment reporting information.

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

**(1) General:**

We develop, manufacture and distribute cast/wrought and powder metal stainless steels and special alloys including high temperature alloys, controlled expansion alloys, ultra high strength alloys, implantable alloys, tool and die steels and other specialty metals, as well as cast/wrought titanium alloys. We provide material solutions to the ever-changing needs of the aerospace, industrial, energy, medical, consumer products and automotive industries.

In June 2011 we entered into a definitive merger agreement with Latrobe Specialty Metals, Inc. ( Latrobe ) whereby we will acquire Latrobe in a transaction valued at the time at approximately \$558 million. In the transaction, 8.1 million shares of Carpenter stock, subject to certain adjustments, will be issued to the current owners. We will also pay \$170 million in cash to eliminate Latrobe debt at closing and reimburse certain transaction costs. The transaction is subject to customary closing conditions and regulatory approvals. Closing is expected to occur during the first half of fiscal year 2012.

In December 2010, we acquired Amega West Services LLC ( Amega West ). Amega West offers precision machined down-hole drilling tools and services that include nonmag drill collars, stabilizers, measurement while drilling ( MWD ) and logging while drilling ( LWD ) housings, subs, tool rentals, and welding and repair.

In June 2011, we acquired Oilfield Alloys Pte. Ltd. ( Oilfield Alloys ) which will become part of Amega West operations. Based in Singapore, Oilfield Alloys manufactures and distributes directional drilling equipment in the Asia-Pacific region.

On August 24, 2011, we announced that we plan to construct a new 400,000 square foot state-of-the-art manufacturing facility in response to strong customer demand for premium products primarily in the fast-growing aerospace and energy industries. We expect that the new facility will ultimately be capable of producing approximately 27,000 tons per year of additional premium product and be operational in approximately 30 months. The facility is expected to be built on one of several greenfield sites currently under consideration at a total cost of approximately \$500 million. The new facility will include forge, remelting and associated finishing and testing capabilities and will play a key role in further developing our capabilities in the production of our premium products.

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### *Reportable Segments*

Our 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 PAO segment (as described below). Also, sales in the AMO segment are spread across many 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.

Our 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 Emerging Ventures segment currently includes the operations of the recently completed acquisitions of Amega West and Oilfield Alloys. The sales of Amega West are to customers in the energy end use market.

### **(2) Classes of Products:**

Our major classes of products are:

#### Special alloys

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

#### Stainless steels

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

#### Titanium products

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

### **(3) Raw Materials:**

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

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

**(4) Patents and Licenses:**

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

**(5) Seasonality of Business:**

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

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

| Quarter Ended | 2011 | 2010 | 2009 |
|---------------|------|------|------|
| September 30, | 21%  | 19%  | 30%  |
| December 31,  | 22   | 22   | 27   |
| March 31,     | 28   | 28   | 24   |
| June 30,      | 29   | 31   | 19   |
|               | 100% | 100% | 100% |

**(6) Customers:**

On a consolidated basis, we are not dependent upon a single customer, or a very few customers, such that the loss of any one or more particular customers would have a materially adverse effect on our consolidated statement of operations. One customer, Precision Castparts Corporation ( Precision Castparts ), accounted for 10 percent of our net sales during fiscal years 2011 and 2010. The sales to Precision Castparts represent an aggregation of sales to several independently managed Precision Castparts subsidiaries. There were no significant individual customer sales that accounted for more than 10 percent of our net sales during fiscal year 2009. See Note 20 to our consolidated financial statements included in Item 8 Financial Statements and Supplementary Data for additional information.

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**(7) Backlog:**

As of June 30, 2011, we had a backlog of orders, believed to be firm, of approximately \$623 million, substantially all of which is expected to be shipped within fiscal year 2012. Our backlog as of June 30, 2010 was approximately \$351 million.

**(8) Competition:**

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

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

Imports of foreign specialty steels, particularly stainless steels, have long been a concern to the domestic steel industry because of the potential for unfair pricing by certain foreign producers. Certain foreign governments through direct and indirect subsidies have often supported such pricing practices. Because of the unfair trade practices and the resulting injury, we have joined with other domestic producers of specialty metals in the filing of trade actions against foreign producers as well as lobbying various government agencies for the creation of laws and regulations to eliminate the competitive benefits realized by the unfair trade practices. These proposals are aimed at tax and regulatory reform needed to provide incentives to domestic producers and disincentives for foreign producers to import products into the United States unfairly. We will continue to monitor developments related to what we consider unfairly traded imports from foreign competitors and develop appropriate actions in response.

Under the provisions of the Continued Dumping and Subsidy Offset Act of 2000 (the Act), which was signed into law on October 28, 2000, we have received distributions from the United States Customs Service ( Customs ). Under the Act, Customs established special accounts for funds to be distributed annually to eligible domestic producers. The special accounts are sourced with duties collected by Customs on pre-existing anti-dumping or countervailing duty orders. We have received distributions under the Act totaling \$2.0 million, \$5.7 million and \$6.1 million in fiscal years 2011, 2010 and 2009, respectively. We do not believe that we will receive any additional significant distributions as the Act has expired.



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

Our expenditures for company-sponsored research and development were \$18.9 million, \$17.8 million and \$15.4 million in fiscal years 2011, 2010 and 2009, respectively. We believe that our ability to be an innovator in special material development and manufacturing processes has been and will continue to be an important factor in the success of the Company. Our strong commitment to developing continuous streams of new products to meet customers' needs has been supported by increased research and development resources and investments over the last several years and by actively acquiring game changing technologies. Our worldwide staff of expert metallurgists, research and development scientists, engineers and service professionals work closely with our customers to identify and provide innovative solutions to specific product requirements and has led to the establishment of worldwide partnerships for materials and process development and innovation. We believe that the alloys under development will redefine our business in the future.

**(10) Environmental Regulations:**

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

Our costs of maintaining and operating environmental control equipment were \$12.7 million, \$10.7 million and \$12.6 million for fiscal years 2011, 2010 and 2009, respectively. The capital expenditures for environmental control equipment were \$0.4 million, \$0.1 million and \$0.4 million for fiscal years 2011, 2010 and 2009, respectively. We anticipate spending approximately \$2.1 million on major domestic environmental capital projects over the next five fiscal years. This includes approximately \$0.9 million in fiscal year 2012 and fiscal year 2013. Due to the possibility of future regulatory developments, the amount of future capital expenditures may vary from these estimates.

**(11) Employees:**

As of June 30, 2011, our total workforce consisted of approximately 3,500 employees, which included approximately 100 production employees in Washington, Pennsylvania who are covered under a collective bargaining agreement which expires on August 31, 2013.

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

Sales outside of the United States, including export sales, were \$511.4 million, \$369.1 million and \$477.0 million in fiscal years 2011, 2010 and 2009, respectively. Long lived assets held outside of the United States were \$16.1 million and \$6.0 million as of June 30, 2011 and 2010.

For further information on domestic and international sales, see Note 20 to our consolidated financial statements included in Item 8 Financial Statements and Supplementary Data .

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### **(e) Available Information:**

Our Board of Directors has adopted a Code of Ethics for the Chief Executive Officer and Senior Financial Officers of Carpenter Technology Corporation, which is also applicable to our other executive officers. There were no waivers of the Code of Ethics in fiscal year 2011. The Code of Ethics and any information regarding any waivers of the Code of Ethics are disclosed on Carpenter's website at [www.carttech.com](http://www.carttech.com). Our annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge through our website as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the Securities and Exchange Commission (SEC). Our website and the content contained therein or connected thereto are not intended to be incorporated into this Annual Report on Form 10-K.

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

### **Item 1A. Risk Factors**

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

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

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

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

The commercial aerospace market is historically cyclical due to both external and internal market factors. These factors include general economic conditions, airline profitability, consumer demand for air travel, varying fuel and labor costs, price competition, and international and domestic political conditions such as military conflict and the threat of terrorism. The length and degree of cyclical fluctuation can be influenced by any one or combination of these factors and therefore are difficult to predict with certainty. A downturn in the commercial aerospace industry would adversely affect the demand for our products and/or the prices at which we are able to sell our products, and our results of operations, business and financial condition could be materially adversely affected.

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

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successful in this regard, our results of operations, business and financial condition could be adversely affected.

***Failure to complete the Merger with Latrobe could negatively impact our stock price and our future business and financial results.***

Consummation of the proposed Merger with Latrobe is subject to certain conditions, including, among others:

the adoption of the Merger Agreement by the shareholders of Latrobe;

the absence of any law or order prohibiting the Merger;

the expiration or termination of the applicable Hart-Scott-Rodino Act waiting period; and

subject to certain exceptions, the accuracy of representations and warranties and material compliance with covenants. Third parties, such as governmental agencies, may impose conditions on the consummation, or require changes to the terms, of the proposed Merger. Any such conditions or changes could have the effect of preventing the consummation of the proposed Merger. If the proposed Merger is not completed for any reason, our ongoing business and financial results may be adversely affected and we will be subject to a number of risks, including the following:

we will be required to pay certain costs relating to the proposed Merger, whether or not the proposed Merger is completed; and

matters relating to the proposed Merger (including integration planning) may require substantial commitments of time and resources by our management, whether or not the proposed Merger is completed, which could otherwise have been devoted to other opportunities that may have been beneficial to us.

We may also be subject to litigation related to any failure to complete the proposed Merger. If the proposed Merger is not completed, these risks may materialize and may adversely affect our business, financial results and financial condition, which may cause the value of your investment to decline. We cannot provide any assurance that the proposed Merger will be completed, that there will not be a delay in the completion of the proposed Merger or that all or any of the anticipated benefits of the proposed Merger will be obtained.

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

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

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

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### ***We will incur significant transaction and merger-related costs in connection with the proposed Merger with Latrobe.***

We will incur significant costs in connection with the proposed Merger. We expect that the substantial majority of these costs will be non-recurring expenses related to the proposed Merger such as facilities and systems consolidation costs. We may incur additional costs to maintain employee morale and to retain key employees. We may also incur substantial transaction fees and costs related to the formulation of integration plans.

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

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

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

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

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

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

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

In addition, the availability of these critical raw materials is subject to factors that are not in our control. In some cases, these critical raw materials are purchased from suppliers operating in countries

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that may be subject to unstable political and economic conditions. At any given time, we may be unable to obtain an adequate supply of these critical raw materials on a timely basis, at prices and other terms acceptable to us, or at all.

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

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

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

We have obligations to provide substantial benefits to active and current employees, and most of the associated costs are paid by the Company and are not covered by insurance. In addition, certain employees are covered by defined benefit pension plans, with the majority of our plans covering employees in the United States. Many domestic and international competitors do not provide defined benefit plans and/or retiree health care plans, and other international competitors operate in jurisdictions with government sponsored health care plans that may offer them a cost advantage. We currently expect to make approximately \$28 million in required contributions to our US defined benefit pension plan during fiscal year 2012. A decline in the value of plan investments in the future, an increase in costs or liabilities, unfavorable changes in laws or regulations that govern pension plan funding or the impacts of underfunded plans acquired in connection with the Latrobe merger could materially change the timing and amount of required pension funding. A requirement to fund pension contributions in the future could have a material adverse effect on our results of operations and financial condition.

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

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

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

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

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

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

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

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

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

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

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

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

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

It is possible that we could experience prolonged periods of reduced production due to unplanned equipment failures, and we could incur significant repair or replacement costs in the event of those failures. It is also possible that operations could be disrupted due to other unforeseen circumstances such as power outages, explosions, fires, floods, accidents and severe weather conditions. We must make regular, substantial capital investments and changes to our manufacturing processes to lower production costs, improve productivity, manufacture new or improved products and remain competitive. We may not be in a position to take advantage of business opportunities or respond to competitive pressures if we fail to update, replace or make additions to our equipment or our manufacturing processes in a timely manner. The cost to repair or replace much of our equipment or facilities would be significant. We cannot be certain that we will have sufficient internally generated cash or acceptable external financing to make necessary capital expenditures in the future.

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

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

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

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

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

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

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

War, civil conflict, terrorism, natural disasters and public health issues including domestic or international pandemic have caused and could cause damage or disruption to domestic or international commerce by creating economic or political uncertainties. Additionally, the volatility in the financial markets, as we have experienced recently following the concerns about the S&P's downgrade of the United States' credit rating, the European debt crisis and fears of a new U.S. recession, could negatively impact our business. These events could result in a decrease in demand for our products, make it difficult or impossible to deliver orders to customers or receive materials from suppliers, affect the availability or pricing of energy sources or result in other severe consequences that may or may not be predictable. As a result, our business, financial condition and results of operations could be materially adversely affected.

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

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

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

The cost of our inventories is primarily determined using the Last-In First-Out ( LIFO ) method. Under the LIFO inventory valuation method, changes in the cost of raw materials and production activities are recognized in cost of sales in the current period even though these materials and other costs may have been incurred at significantly different values due to the length of time of our production cycle. Generally in a period of rising prices, LIFO recognizes higher costs of goods sold, which both reduces current income and assigns a lower value to the year-end inventory. Recent proposals have been initiated aimed at repealing the election to use the LIFO method for income tax purposes. According to these proposals, generally taxpayers that currently use the LIFO method would be required to revalue their LIFO inventory to its first-in, first-out ( FIFO ) value. As of June 30, 2011, if the FIFO method of inventory had been used instead of the LIFO method, our inventories would have been about \$355 million higher. This increase in inventory would result in a one time increase in taxable income which would be



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taken into account over the following several taxable years. The repeal of LIFO could result in a substantial tax liability which could adversely impact our cash flows and financial condition.

### ***We depend on the retention of key personnel.***

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

### ***We depend on our IT infrastructure to support the current and future information requirements of our operations.***

Management relies on IT infrastructure, including hardware, network, software, people and processes, to provide useful information to support assessments and conclusions about operating performance. Our inability to produce relevant and/or reliable measures of operating performance in an efficient, cost-effective and well-controlled fashion may have significant negative impacts on our future operations.

## **Item 1B. Unresolved Staff Comments**

None.

## **Item 2. Properties**

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

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

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

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

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

## **Item 3. Legal Proceedings**

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

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In June 2002, we were named as a defendant in a lawsuit filed by a group of plaintiffs in the District Court for the Eastern District of Pennsylvania titled Boarhead Farm Agreement Group v. Advanced Environmental Technology Corporation et. al. (since amended to include the individual members). The suit alleges that we and the other named defendants contributed to damages caused at Boarhead Farms, a Superfund site located in Bridgeton, Pennsylvania. The Boarhead Farms site was the home of a now defunct chemical and waste hauling company that we and many other companies engaged to dispose of certain wastes during the 1970 s. The plaintiff group was individually named as PRP s for the Boarhead site in the EPA s Record of Decision in November 1998. Their June 2002 lawsuit against various defendants, including Carpenter, sought contributions for a portion of costs incurred for various site cleanup activities as well as contributions to future cleanup efforts. The suit went to trial in June 2008. Prior to trial, all of the named co-defendants, except for Carpenter, reached an out of court settlement with the plaintiffs. We denied the claims made by the plaintiff group. On August 18, 2008, the Court awarded the plaintiffs judgment against us for 80 percent of the plaintiffs past costs of remediating the site, including prejudgment interest from June 18, 2002 to January 1, 2008, and held us liable for 80 percent of future costs of the cleanup activities at the site. We appealed the Court s decision and oral arguments took place before the United States Court of Appeals for the Third Circuit on December 17, 2009. On April 12, 2010, the Court of Appeals for the Third Circuit vacated the previous judgment by the District Court and remanded the case for further proceedings. As of June 30, 2011 and June 30, 2010, we recorded a liability related to this case of \$21.8 million. On July 19, 2011, we entered into a settlement agreement providing for a dismissal of the lawsuit against us and a complete release in our favor by all parties to the litigation, in exchange for a payment by us of \$21.8 million. On August 16, 2011, the settlement was Approved by the Court.

In addition, from time to time, we are a party to certain routine claims and legal actions and other contingent liabilities incident to the normal course of business which pertain to litigation, product claims, commercial disputes, employment actions, employee benefits, compliance with domestic and foreign laws, personal injury claims and tax issues. Based on information currently available, the ultimate resolution of our known contingencies, individually or in the aggregate and including the matters described in Note 12 to the consolidated financial statements in this Form 10-K, is not expected to have a material adverse effect on our financial position, liquidity, or results of operations. However, there can be no assurance that an increase in the scope of pending matters or that any future lawsuits, claims, proceedings or investigations will not be material to our financial position, results of operations or cash flows in a particular future quarter or year.

See the Contingencies section included in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operation, and the Contingencies and Commitments section included in Note 12 to our consolidated financial statements included in Item 8, Financial Statements and Supplementary Data , included in this Form 10-K, the contents of which are incorporated by reference to this Item 3.

### **Item 4. [Removed and Reserved]**

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

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

| Quarter Ended: | Fiscal Year 2011 |          | Fiscal Year 2010 |          |
|----------------|------------------|----------|------------------|----------|
|                | High             | Low      | High             | Low      |
| September 30,  | \$ 38.11         | \$ 30.58 | \$ 25.66         | \$ 16.87 |
| December 31,   | \$ 41.90         | \$ 34.30 | \$ 27.90         | \$ 20.83 |
| March 31,      | \$ 44.94         | \$ 38.78 | \$ 36.60         | \$ 26.54 |
| June 30,       | \$ 57.68         | \$ 40.69 | \$ 42.52         | \$ 32.83 |
| Annual         | \$ 57.68         | \$ 30.58 | \$ 42.52         | \$ 16.87 |

The range of our common stock price on the NYSE from July 1, 2011 to August 12, 2011 was \$43.97 to \$58.18. The closing price of the common stock was \$48.98 on August 12, 2011.

We have paid quarterly cash dividends on our common stock for over 100 consecutive years. We paid a quarterly dividend of \$0.18 per common share during each quarter of fiscal years 2011 and 2010.

As of August 12, 2011, there were 2,928 common stockholders of record.

**Cumulative Total Stockholder Return**

The graph below compares the cumulative total stockholder return on our common stock to the cumulative total return of the S&P MidCap Index and our Peer Group for each of the last five fiscal years ended June 30, 2011. The cumulative total return assumes an investment of \$100 on June 30, 2006 and the reinvestment of any dividends during the period. The S&P MidCap 400 Index is the most widely used index for mid-sized companies. The companies in our Peer Group are: AK Steel Holding Corp., Allegheny Technologies, Inc., Daido Steel Company Limited, Gloria Material Technology Corp., Haynes International Inc., Kennametal Inc., Parker-Hannifin Corp., Precision Industries Castparts Corp., Reliance Steel and Aluminum Company, RTI International Metals Inc., Sandvik AB, Schmolz + Bichenbach AG, Steel Dynamics Inc., The Timken Company, Titanium Metals Corp., Universal Stainless & Alloy Products, Voestalpine AG. The total stockholder return for the Peer Group is weighted according to the respective issuer's stock market capitalization at the beginning of each period.

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|                                  | 6/06   | 6/07   | 6/08   | 6/09  | 6/10  | 6/11   |
|----------------------------------|--------|--------|--------|-------|-------|--------|
| Carpenter Technology Corporation | 100.00 | 113.82 | 77.06  | 37.99 | 61.61 | 110.28 |
| S&P Midcap 400                   | 100.00 | 118.51 | 109.81 | 79.04 | 98.74 | 137.63 |
| Peer Group                       | 100.00 | 158.80 | 142.64 | 75.90 | 99.70 | 155.09 |

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

## Five-Year Financial Summary

In millions, except per share data

(Fiscal years ended June 30,)

|   | 2011       | 2010       | 2009 <sup>(a)</sup> | 2008 <sup>(b)</sup> | 2007       |
|---|------------|------------|---------------------|---------------------|------------|
| <b>Summary of Operations:</b>   |            |            |                     |                     |            |
| Net sales   | \$ 1,675.1 | \$ 1,198.6 | \$ 1,362.3          | \$ 1,953.5          | \$ 1,839.0 |
| Operating income  | 96.4       | 11.7       | 64.0                | 293.6               | 304.4      |
| Income from continuing operations   | 71.7       | 2.1        | 47.9                | 200.5               | 215.2      |
| Income from discontinued operations, net  |            |            |                     | 77.2                | 12.0       |
| Net income  | \$ 71.7    | \$ 2.1     | \$ 47.9             | \$ 277.7            | \$ 227.2   |
| Net income attributable to Carpenter  | \$ 71.0    | \$ 2.1     | \$ 47.9             | \$ 277.7            | \$ 227.2   |
| <b>Financial Position at Year-End:</b>  |            |            |                     |                     |            |
| Cash and cash equivalents   | \$ 492.5   | \$ 265.4   | \$ 340.1            | \$ 403.3            | \$ 300.8   |
| Marketable securities, current  | \$ 30.5    | \$ 105.2   | \$ 15.0             | \$ 5.3              | \$ 372.7   |
| Total assets  | \$ 1,991.9 | \$ 1,583.2 | \$ 1,497.4          | \$ 1,712.2          | \$ 2,025.7 |
| Long-term obligations, net of current portion (including convertible preferred stock) | \$ 407.8   | \$ 259.6   | \$ 258.6            | \$ 276.7            | \$ 299.5   |
| <b>Per Common Share:</b>  |            |            |                     |                     |            |
| Net earnings:   |            |            |                     |                     |            |
| Basic   |            |            |                     |                     |            |
| Continuing operations   | \$ 1.59    | \$ 0.04    | \$ 1.08             | \$ 4.11             | \$ 4.16    |
| Discontinued operations   | \$         | \$         | \$                  | \$ 1.59             | \$ 0.24    |
|   | \$ 1.59    | \$ 0.04    | \$ 1.08             | \$ 5.70             | \$ 4.40    |
| Diluted   |            |            |                     |                     |            |
| Continuing operations   | \$ 1.59    | \$ 0.04    | \$ 1.08             | \$ 4.11             | \$ 4.09    |
| Discontinued operations   | \$         | \$         | \$                  | \$ 1.58             | \$ 0.23    |
|   | \$ 1.59    | \$ 0.04    | \$ 1.08             | \$ 5.69             | \$ 4.32    |
| Cash dividend-common  | \$ 0.72    | \$ 0.72    | \$ 0.72             | \$ 0.63             | \$ 0.4875  |
| <b>Weighted Average Common Shares Outstanding:</b>                                    |            |            |                     |                     |            |
| Basic   | 44.1       | 43.9       | 43.9                | 48.5                | 51.5       |
| Diluted   | 44.7       | 44.4       | 44.2                | 48.7                | 52.5       |

(a) Fiscal year 2009 included \$9.4 million of restructuring charges related to the shutdown and closure of our U.K. metal strip manufacturing operations. See Note 2 in the Notes to the Consolidated Financial Statements included in Item 8 Financial Statements and Supplementary Data of this report.

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(b) Fiscal year 2008 included a \$109.6 million pre-tax gain on the sale of our ceramics and metals shapes businesses. The results of operations of the divested business units prior to the divestitures are presented as discontinued operations. See Item 7. - Management's Discussion and Analysis of Financial Condition and Results of Operations for discussion of factors that affect the comparability of the Selected Financial Data .

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

***Background and General***

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

We are engaged in the manufacturing, fabrication, and distribution of specialty metals. We primarily process basic raw materials such as nickel, cobalt, titanium, manganese, chromium, molybdenum, iron scrap and other metal alloying elements through various melting, hot forming and cold working facilities to produce finished products in the form of billet, bar, rod, wire and narrow strip in many sizes and finishes. We also produce certain metal powders. Our sales are distributed directly from our production plants and distribution network as well as through independent distributors. Unlike many other specialty steel producers, we operate our own worldwide network of service/distribution centers. These service centers, located in the United States, Canada, Mexico, Europe and Asia allow us to work more closely with customers and to offer various just-in-time stocking programs.

In June 2011 we entered into a definitive merger agreement with Latrobe Specialty Metals, Inc. ( Latrobe ) whereby we will acquire Latrobe in a transaction valued at the time at approximately \$558 million. In the transaction, 8.1 million shares of Carpenter stock, subject to certain adjustments, will be issued to the current owners. We will also pay \$170 million in cash to eliminate Latrobe debt at closing and reimburse certain transaction costs. The transaction is subject to customary closing conditions and regulatory approvals. Closing is expected to occur during the first half of fiscal year 2012.

In December 2010, we acquired Amega West Services LLC ( Amega West ) for \$54 million, including assumed debt of \$12 million. Amega West offers precision machined down-hole drilling tools and services that include nonmag drill collars, stabilizers, MWD and LWD housings, subs, tool rentals, and welding and repair.

In June 2011, we acquired Oilfield Alloys Pte. Ltd. ( Oilfield Alloys ) for \$5 million, which will become part of the Amega West operations. Based in Singapore, Oilfield Alloys manufactures and distributes directional drilling equipment in the Asia-Pacific region.

On August 24, 2011, we announced that we plan to construct a new 400,000 square foot state-of-the-art manufacturing facility in response to strong customer demand for premium products primarily in the fast-growing aerospace and energy industries. We expect that the new facility will ultimately be capable of producing approximately 27,000 tons per year of additional premium product and be operational in approximately 30 months. The facility is expected to be built on one of several greenfield sites currently under consideration at a total cost of approximately \$500 million. The new facility will include forge, remelting and associated finishing and testing capabilities and will play a key role in further developing our capabilities in the production of our premium products.

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 and structure of such opportunities and we expect that we will continue to evaluate these opportunities.

**Table of Contents****Business Trends**

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

| (\$ in millions, except per share data)   | 2011       | Fiscal Year<br>2010 |  | 2009       |
|---|------------|---------------------|--|------------|
| Net sales   | \$ 1,675.1 | \$ 1,198.6          |  | \$ 1,362.3 |
| Net sales excluding surcharges <sup>(1)</sup>   | \$ 1,231.1 | \$ 921.7            |  | \$ 1,055.2 |
| Operating income excluding pension earnings, interest and deferrals<br>( pension EID ) expense and restructuring costs <sup>(1)</sup> | \$ 131.6   | \$ 49.6             |  | \$ 73.5    |
| Net income  | \$ 71.7    | \$ 2.1              |  | \$ 47.9    |
| Diluted earnings per share  | \$ 1.59    | \$ 0.04             |  | \$ 1.08    |
| Net pension expense per diluted share <sup>(1)</sup>  | \$ 0.84    | \$ 0.85             |  | \$ 0.27    |
| Purchases of property, equipment and software   | \$ 79.6    | \$ 44.2             |  | \$ 116.3   |
| Free cash flow <sup>(1)</sup>   | \$ (88.9)  | \$ 40.1             |  | \$ 11.2    |
| Pounds sold (in thousands) <sup>(2)</sup>   | 216,834    | 172,974             |  | 167,040    |

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

<sup>(2)</sup> Includes specialty and titanium alloys, stainless steel and powder materials

Our sales are across a diversified list of end-use markets. The table below summarizes our estimated sales by market over the past three fiscal years.

| (\$ in millions) | 2011       |      | Fiscal Year<br>2010 |      | 2009       |      |
|------------------|------------|------|---------------------|------|------------|------|
| Aerospace        | \$ 685.8   | 41%  | \$ 529.0            | 44%  | \$ 582.9   | 43%  |
| Industrial       | 380.6      | 23   | 262.6               | 22   | 310.4      | 23   |
| Energy           | 196.0      | 12   | 79.8                | 7    | 152.0      | 11   |
| Consumer         | 151.4      | 9    | 117.5               | 10   | 104.3      | 8    |
| Automotive       | 138.8      | 8    | 102.3               | 8    | 99.2       | 7    |
| Medical          | 122.5      | 7    | 107.4               | 9    | 113.5      | 8    |
| Total net sales  | \$ 1,675.1 | 100% | \$ 1,198.6          | 100% | \$ 1,362.3 | 100% |

The table below shows our net sales by major product class for the past three fiscal years:



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| (\$ in millions)       | Fiscal Year       |             |                   |             |                   |             |
|------------------------|-------------------|-------------|-------------------|-------------|-------------------|-------------|
|                        | 2011              |             | 2010              |             | 2009              |             |
| Special alloys         | \$ 841.8          | 51%         | \$ 637.8          | 54%         | \$ 694.6          | 51%         |
| Stainless steels       | 610.5             | 36          | 398.3             | 33          | 460.1             | 34          |
| Titanium products      | 140.7             | 8           | 112.4             | 9           | 141.4             | 10          |
| Other materials        | 82.1              | 5           | 50.1              | 4           | 66.2              | 5           |
| <b>Total net sales</b> | <b>\$ 1,675.1</b> | <b>100%</b> | <b>\$ 1,198.6</b> | <b>100%</b> | <b>\$ 1,362.3</b> | <b>100%</b> |

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

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

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

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 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, 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.

**Table of Contents****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. Net pension expense is recorded in accounts that are included in both the cost of sales and selling, general and administrative expenses lines of our statements of income. The following is a summary of the classification of net pension expense included in our statements of income during fiscal years 2011, 2010 and 2009:

| (\$ in millions)   | Fiscal Year |         |         |
|--|-------------|---------|---------|
|  | 2011        | 2010    | 2009    |
| Cost of sales  | \$ 45.8     | \$ 44.6 | \$ 12.0 |
| Selling, general and administrative expenses                 | 15.0        | 16.7    | 8.6     |
| Pension settlement charges included in restructuring charges |             |         | 4.4     |
| Net pension expense  | \$ 60.8     | \$ 61.3 | \$ 25.0 |

Net pension expense is determined annually based on beginning of year balances, and is recorded ratably throughout the fiscal year, unless a significant re-measurement event occurs. The following is a summary of the components of net pension expense during fiscal year 2011, 2010 and 2009:

| (\$ in millions)   | Fiscal Year |         |         |
|--|-------------|---------|---------|
|  | 2011        | 2010    | 2009    |
| Service cost   | \$ 25.6     | \$ 23.3 | \$ 20.2 |
| Pension earnings, interest and deferrals                     | 35.2        | 38.0    | 0.4     |
| Pension settlement charges included in restructuring charges |             |         | 4.4     |
| Net pension expense  | \$ 60.8     | \$ 61.3 | \$ 25.0 |

The service cost component of net pension expense represents the estimated cost of future pension liabilities earned associated with active employees. The pension earnings, interest and deferrals expense is comprised of the expected return on plan assets, interest costs on the projected benefit obligations of the plans, and amortization of actuarial gains and losses and prior service costs. Pension earnings, interest and deferrals expenses is impacted by the financial markets and increased significantly during fiscal year 2010 principally due to the decline in market value of the securities held by the plans as of June 30, 2009.

**Operating Performance Overview**

Fiscal year 2011 results reflect the benefits of strong, sustained demand across all our end use markets. We have made progress during fiscal year 2011 in the following important areas:

We worked to strengthen customer relationships, expanded our market share in key segments and negotiated to expand key long-term agreements. We increased our volume output by 25 percent and made fundamental improvements to our profit per pound performance as a result of pricing and mix management actions.

We positioned the business for continued success by addressing current and future capacity needs to support customer demand by completing several key acquisitions and collaborations. We also announced several capacity expansion projects. At the same time, we strengthened our capital structure to ensure we can fund future growth need.

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

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

**Net Sales**

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

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

**Sales by End-Use Markets**

We sell to customers across diversified end-use markets. During fiscal year 2011, we changed the manner in which sales are classified by end-use market so that we could better evaluate our sales results from period to period. In order to make the discussion of net sales by end-use market meaningful, we have reclassified the fiscal year 2010 sales by end-use market balances to conform to the fiscal year 2011 presentation. Although we are not organized to report other than sales by end-use market, the following table includes comparative information for our estimated net sales by principal end-use markets which we believe is helpful supplemental information in analyzing the performance of the business from period to period:

| (\$ in millions)       | Fiscal Year       |                   | \$<br>Increase  | %<br>Increase |
|------------------------|-------------------|-------------------|-----------------|---------------|
|                        | 2011              | 2010              |                 |               |
| Aerospace              | \$ 685.8          | \$ 529.0          | \$ 156.8        | 30%           |
| Industrial             | 380.6             | 262.6             | 118.0           | 45            |
| Energy                 | 196.0             | 79.8              | 116.2           | 146           |
| Consumer               | 151.4             | 117.5             | 33.9            | 29            |
| Automotive             | 138.8             | 102.3             | 36.5            | 36            |
| Medical                | 122.5             | 107.4             | 15.1            | 14            |
| <b>Total net sales</b> | <b>\$ 1,675.1</b> | <b>\$ 1,198.6</b> | <b>\$ 476.5</b> | <b>40%</b>    |

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

| (\$ in millions)                                    | Fiscal Year       |                 | \$<br>Increase  | %<br>Increase |
|---|-------------------|-----------------|-----------------|---------------|
|   | 2011              | 2010            |                 |               |
| Aerospace   | \$ 502.3          | \$ 404.0        | \$ 98.3         | 24%           |
| Industrial  | 262.0             | 196.5           | 65.5            | 33            |
| Energy  | 156.7             | 64.1            | 92.6            | 144           |
| Consumer  | 107.2             | 87.4            | 19.8            | 23            |
| Automotive  | 98.1              | 80.3            | 17.8            | 22            |
| Medical   | 104.8             | 89.4            | 15.4            | 17            |
| <b>Total net sales excluding surcharge revenues</b> | <b>\$ 1,231.1</b> | <b>\$ 921.7</b> | <b>\$ 309.4</b> | <b>34%</b>    |



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Sales to the aerospace market increased 30 percent from fiscal year 2010 to \$685.8 million. Excluding surcharge revenue, such sales increased 24 percent on 23 percent higher shipment volume. Aerospace results reflect continuing strong demand for engine components driven by high build rates.

Industrial market sales increased 45 percent from fiscal year 2010 to \$380.6 million. Adjusted for surcharge revenue, such sales increased approximately 33 percent while volumes increased 25 percent. The results reflect the impact of mix management and pricing actions as well as demand growth for higher value materials for fittings. In addition, powder metal sales used for tool steel products were up significantly.

Sales to the energy market of \$196.0 million reflected a 146 percent increase from the fiscal year 2010. Excluding surcharge revenue, such sales increased 144 percent on 94 percent higher shipment volume. The results reflect a significant increase in the oil and gas segment due in part to increases in directional drilling activity, the Amega West acquisition and higher pricing. In addition, increased demand for materials used in industrial gas turbines contributed to the growth.

Sales to the consumer market increased 29 percent to \$151.4 million from a year ago. Adjusted for surcharge revenue, such sales increased 23 percent with shipment volume higher by 15 percent. Revenue grew faster than volume as the growing global demand for higher value materials used in sporting goods applications outpaced sales of lower value materials used in housing. Mix management efforts and pricing actions are having a considerable positive impact on the consumer market sales.

Automotive market sales increased 36 percent from the fiscal year 2010 to \$138.8 million. Excluding surcharge revenue, such sales increased 22 percent on 17 percent higher shipment volume. The revenue growth is attributable to mix management efforts that caused increased participation in higher value turbo charger and fuel system components, with a corresponding reduction in lower value products. These efforts are expected to better position us to participate in the trend toward premium stainless and high-temp alloys used in the next generation technologies that support higher fuel economy.

Sales to the medical market increased 14 percent to \$122.5 million from a year ago. Adjusted for surcharge revenue, such sales increased 17 percent, on 8 percent higher volume. The results reflect increased demand particularly in our high-end stainless products.

**Sales by Product Class**

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

| (\$ in millions)       | Fiscal Year       |                   | \$<br>Increase | %<br>Increase |
|------------------------|-------------------|-------------------|----------------|---------------|
|                        | 2011              | 2010              |                |               |
| Special alloys         | \$ 841.8          | \$ 637.8          | \$ 204.0       | 32%           |
| Stainless steels       | 610.5             | 398.3             | 212.2          | 53            |
| Titanium products      | 140.7             | 112.4             | 28.3           | 25            |
| Other materials        | 82.1              | 50.1              | 32.0           | 64            |
| <b>Total net sales</b> | <b>\$ 1,675.1</b> | <b>\$ 1,198.6</b> | <b>476.5</b>   | <b>40%</b>    |

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

| (\$ in millions)                                    | Fiscal Year       |                 | \$<br>Increase  | %<br>Increase |
|---|-------------------|-----------------|-----------------|---------------|
|   | 2011              | 2010            |                 |               |
| Special alloys                                      | \$ 548.2          | \$ 449.6        | \$ 98.6         | 22%           |
| Stainless steels                                    | 466.1             | 311.7           | 154.4           | 50            |
| Titanium products                                   | 140.7             | 112.4           | 28.3            | 25            |
| Other materials                                     | 76.1              | 48.0            | 28.1            | 59            |
| <b>Total net sales excluding surcharge revenues</b> | <b>\$ 1,231.1</b> | <b>\$ 921.7</b> | <b>\$ 309.4</b> | <b>34%</b>    |

Sales of special alloys products increased 32 percent in fiscal year 2011 as compared with a year ago to \$841.8 million. Excluding surcharge revenue, sales increased 22 percent on a 17 percent increase in shipment volume. The sales results principally reflect the increase in demand from the higher value aerospace and energy market products.

Sales of stainless steels increased 53 percent as compared with a year ago. Excluding surcharge revenues, such sales increased by 50 percent on a 28 percent higher shipment volume. The results reflect increased demand in materials used in the automotive, industrial and consumer markets as well as the impacts of pricing and mix management actions.

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

**Gross Profit**

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

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

| (\$ in millions)                                     | Fiscal Year       |                 |
|--|-------------------|-----------------|
|  | 2011              | 2010            |
| Net sales  | \$ 1,675.1        | \$ 1,198.6      |
| Less: surcharge revenue                              | 444.0             | 276.9           |
| <b>Net sales excluding surcharges</b>                | <b>\$ 1,231.1</b> | <b>\$ 921.7</b> |
| Gross profit   | \$ 249.0          | \$ 144.8        |
| <b>Gross margin</b>                                  | <b>14.9%</b>      | <b>12.1%</b>    |
| Gross margin excluding dilutive effect of surcharges | 20.2%             | 15.7%           |

**Table of Contents****Selling, General and Administrative Expenses**

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

**Acquisition Related Costs**

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

**Operating Income**

Our operating income in fiscal year 2011 increased to \$96.4 million as compared with \$11.7 million in fiscal year 2010.

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

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

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

**Table of Contents****Interest Expense**

Fiscal year 2011 interest expense of \$17.1 million compared from \$17.8 million in fiscal year 2010. Interest on substantially all of our debt was at a fixed rate. We have used interest rate swaps to achieve a level of floating rate debt to fixed rate debt where appropriate. Fiscal year 2011 interest expense includes net gains from interest rate swaps of \$2.8 million as compared with net gains from the interest rate swaps of \$2.4 million in fiscal year 2010. The decrease in interest expense, excluding the gains on the interest swaps, is attributable to reductions in outstanding debt offset by decrease in the amount of interest capitalized associated with ongoing construction projects during fiscal year 2011.

**Other Income, Net**

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

**Income Taxes**

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

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

See Note 18 to the consolidated financial statements in Item 8. Financial Statements and Supplementary Data for a full reconciliation of the statutory federal tax rate to the effective tax rates.

**Business Segment Results**

Summary information about our operating results on a segment basis is set forth below. For more detailed segment information, see Note 20 to the consolidated financial statements included in Item 8. - Financial Statements and Supplementary Data.

The following tables include selected information by business segment:

| (\$ in millions)           | Fiscal Year       |                   | Increase        | %          |
|----------------------------|-------------------|-------------------|-----------------|------------|
|                            | 2011              | 2010              |                 |            |
| Advanced Metals Operations | \$ 1,141.1        | \$ 853.0          | 288.1           | 34%        |
| Premium Alloys Operations  | 533.0             | 348.3             | 184.7           | 53         |
| Emerging Ventures          | 35.3              |                   | 35.3            | N/A        |
| Intersegment               | (34.3)            | (2.7)             | (31.6)          | N/A        |
| <b>Total net sales</b>     | <b>\$ 1,675.1</b> | <b>\$ 1,198.6</b> | <b>\$ 476.5</b> | <b>40%</b> |



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| (\$ in millions)                                    | Fiscal Year       |                 |                 | %          |
|---|-------------------|-----------------|-----------------|------------|
|   | 2011              | 2010            | Increase        | Increase   |
| Advanced Metals Operations                          | \$ 858.3          | \$ 675.4        | 182.9           | 27         |
| Premium Alloys Operations                           | 369.8             | 249.0           | 120.8           | 49         |
| Emerging Ventures                                   | 35.3              |                 | 35.3            | N/A        |
| Intersegment  | (32.3)            | (2.7)           | (29.6)          | N/A        |
| <b>Total net sales excluding surcharge revenues</b> | <b>\$ 1,231.1</b> | <b>\$ 921.7</b> | <b>\$ 309.4</b> | <b>34%</b> |

| (Pounds sold, in thousands)     | Fiscal Year    |                |                    | %          |
|---------------------------------|----------------|----------------|--------------------|------------|
|                                 | 2011           | 2010           | Increase           | Increase   |
| Advanced Metals Operations      | 171,502        | 142,008        | 29,494.0           | 21         |
| Premium Alloys Operations       | 47,572         | 30,966         | 16,606.0           | 54         |
| Intersegment                    | (2,240)        |                | (2,240.0)          | N/A        |
| <b>Consolidated pounds sold</b> | <b>216,834</b> | <b>172,974</b> | <b>\$ 43,860.0</b> | <b>25%</b> |

**Advanced Metals Operations Segment**

Net sales in fiscal year 2011 for the AMO segment were \$1,141.1 million, as compared with \$853.0 million in fiscal year 2010. Excluding surcharge revenues, sales increased 27 percent on a 21 percent increase in volume from a year ago. The results reflect increased shipment volumes due to higher demand combined with the impacts of pricing actions.

Operating income for the AMO segment in fiscal year 2011 was \$62.3 million, or 5.5 percent of net sales (7.3 percent of net sales excluding surcharge revenues), compared to \$11.8 million, or 1.4 percent of net sales (1.7 percent of net sales excluding surcharge revenues), a year ago. The increase in operating income reflects the impacts of higher volumes, pricing actions and a favorable shift in product mix.

**Premium Alloys Operations Segment**

Net sales for fiscal year 2011 for the PAO segment increased 53 percent to \$533.0 million as compared with \$348.3 million for fiscal year 2010. Excluding surcharge revenues, net sales increased 49 percent on 54 percent higher shipment volumes. Both the sales and shipment volume increases were due to increased demand, particularly in our energy and aerospace end use markets.

Operating income for the PAO segment for fiscal year 2011 was \$110.2 million, or 20.7 percent of net sales (29.8 percent of net sales excluding surcharge revenues), as compared with \$71.2 million, or 20.4 percent of net sales (28.6 percent of net sales excluding surcharge revenues) for fiscal year 2010. The increase in operating income principally reflects the higher shipment volume particularly in high value applications used in the aerospace and energy markets.

**Emerging Ventures**

The Emerging Ventures segment includes the results of the Amega West business that we acquired in December 2010. Net sales for fiscal year 2011 for the Emerging Ventures segment were \$35.3 million and operating income was \$3.9 million during fiscal year 2011.

**Table of Contents****Results of Operations – Fiscal Year 2010 Compared to Fiscal Year 2009**

For fiscal year 2010, we reported net income of \$2.1 million, or \$0.04 per diluted share, compared with income of \$47.9 million, or \$1.08 per diluted share, a year earlier. Our fiscal year 2010 results reflect a trend of improving revenues and profit throughout the fiscal year. For fiscal year 2010 lower revenues and the impacts of an unfavorable shift in product mix have been offset by cost improvement initiatives. In addition, as discussed above, our net income results reflect the \$36.3 million increase in our net pension expense in fiscal year 2010.

**Net Sales**

Net sales for fiscal year 2010 were \$1,198.6 million, which was a 12 percent decrease from fiscal year 2009. Excluding surcharge revenues, sales were 13 percent lower than fiscal year 2009 on 3 percent higher volume.

Geographically, sales outside the United States decreased 21 percent from fiscal year 2009 to \$377.8 million. International sales remained fairly consistent as a percentage of our total net sales, representing 31 percent and 35 percent for fiscal year 2010 and fiscal year 2009, respectively.

**Sales by End-Use Markets**

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

| (\$ in millions)       | Fiscal Year       |                   | \$                     | %                      |
|------------------------|-------------------|-------------------|------------------------|------------------------|
|                        | 2010              | 2009              | Increase<br>(Decrease) | Increase<br>(Decrease) |
| Aerospace              | \$ 529.0          | \$ 582.9          | \$ (53.9)              | (9)%                   |
| Industrial             | 262.6             | 310.4             | (47.8)                 | (15)                   |
| Consumer               | 117.5             | 104.3             | 13.2                   | 13                     |
| Medical                | 107.4             | 113.5             | (6.1)                  | (5)                    |
| Automotive             | 102.3             | 99.2              | 3.1                    | 3                      |
| Energy                 | 79.8              | 152.0             | (72.2)                 | (48)                   |
| <b>Total net sales</b> | <b>\$ 1,198.6</b> | <b>\$ 1,362.3</b> | <b>\$ (163.7)</b>      | <b>(12)%</b>           |

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

| (\$ in millions)                                    | Fiscal Year     |                   | \$                     | %                      |
|---|-----------------|-------------------|------------------------|------------------------|
|   | 2010            | 2009              | Increase<br>(Decrease) | Increase<br>(Decrease) |
| Aerospace   | \$ 404.0        | \$ 450.0          | \$ (46.0)              | (10)%                  |
| Industrial  | 196.5           | 228.4             | (31.9)                 | (14)                   |
| Consumer  | 87.4            | 79.1              | 8.3                    | 10                     |
| Medical   | 89.4            | 94.7              | (5.3)                  | (6)                    |
| Automotive  | 80.3            | 76.3              | 4.0                    | 5                      |
| Energy  | 64.1            | 126.7             | (62.6)                 | (49)                   |
| <b>Total net sales excluding surcharge revenues</b> | <b>\$ 921.7</b> | <b>\$ 1,055.2</b> | <b>\$ (133.5)</b>      | <b>(13)%</b>           |

Sales to the aerospace market decreased 9 percent from fiscal year 2009 to \$529.0 million. Excluding surcharge revenue, such sales decreased 10 percent on 8 percent lower shipment volume. The sales decline reflects lower airplane build levels, reductions of inventory in the supply chain and a less favorable mix of products.



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Industrial market sales decreased 15 percent from fiscal year 2009 to \$262.9 million. Adjusted for surcharge revenue, such sales decreased approximately 14 percent while volumes increased 6 percent. The results reflect the higher demand for lower value products sold primarily through distributors.

Sales to the consumer market increased 13 percent to \$117.5 million from fiscal year 2009. Adjusted for surcharge revenue, such sales increased 10 percent with shipment volume higher by 24 percent. The results reflect increased demand in all segments along with an unfavorable shift in product mix.

Sales to the medical market decreased 5 percent to \$107.4 million from fiscal year 2009. Adjusted for surcharge revenue, such sales decreased 6 percent, while volumes increased 7 percent. The shipment volume increase reflects the impact of an increase in demand for stainless steel materials used in medical implants and gains in market share with key customers, while the revenue decline is attributable to lower raw material costs for titanium and a less favorable mix of products.

Automotive market sales increased 3 percent from the fiscal year 2009 to \$102.3 million. Excluding surcharge revenue, such sales increased 5 percent on 40 percent higher shipment volume. The results reflect higher volumes associated with a steady upswing in demand from the same period last year coupled with an unfavorable shift in product mix. Our objective is to increase our participation with long-standing customers to provide higher value components for engine applications.

Sales to the energy market of \$79.8 million reflected a 48 percent decrease from fiscal year 2009. Excluding surcharge revenue, such sales decreased 49 percent on 48 percent lower shipment volume. The sales results reflect the impacts of excess inventories in the supply chain, as a result of significantly lower oil and gas drilling along with sluggish demand for high-capacity industrial gas turbines. We are continuing to focus on diversifying our customer base, market segments served and product offerings in the broader energy market. We think that the energy market has the potential to be our fastest growing market.

**Sales by Product Class**

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

| (\$ in millions)       | Fiscal Year       |                   | \$                | %            |
|------------------------|-------------------|-------------------|-------------------|--------------|
|                        | 2010              | 2009              | Decrease          | Decrease     |
| Special alloys         | \$ 637.8          | \$ 694.6          | \$ (56.8)         | (8)%         |
| Stainless steels       | 398.3             | 460.1             | (61.8)            | (13)         |
| Titanium products      | 112.4             | 141.4             | (29.0)            | (21)         |
| Other materials        | 50.1              | 66.2              | (16.1)            | (24)         |
| <b>Total net sales</b> | <b>\$ 1,198.6</b> | <b>\$ 1,362.3</b> | <b>\$ (163.7)</b> | <b>(12)%</b> |

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

| (\$ in millions)                                    | Fiscal Year     |                   | \$                | %            |
|---|-----------------|-------------------|-------------------|--------------|
|   | 2010            | 2009              | Decrease          | Decrease     |
| Special alloys                                      | \$ 449.6        | \$ 499.2          | \$ (49.6)         | (10)%        |
| Stainless steels                                    | 311.7           | 349.8             | (38.1)            | (11)         |
| Titanium products                                   | 112.4           | 141.4             | (29.0)            | (21)         |
| Other materials                                     | 48.0            | 64.8              | (16.8)            | (26)         |
| <b>Total net sales excluding surcharge revenues</b> | <b>\$ 921.7</b> | <b>\$ 1,055.2</b> | <b>\$ (133.5)</b> | <b>(13)%</b> |

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Sales of special alloys products decreased 8 percent in fiscal year 2010 as compared with a year ago to \$637.8 million. Excluding surcharge revenue, sales decreased 10 percent on a 5 percent increase in shipment volume. The sales results principally reflect the decline in demand from the higher value aerospace and energy market products.

Sales of stainless steels decreased 13 percent as compared with fiscal year 2009. Excluding surcharge revenues, such sales decreased by 11 percent on a 1 percent higher shipment volume. The results reflect a moderate increase in demand that was more than offset by an unfavorable shift in product mix in materials used in the automotive, industrial and consumer markets.

Sales of titanium products decreased 21 percent as compared with fiscal year 2009 on 8 percent lower shipment volume. The results reflect the impact of significantly lower titanium prices and decreased demand for titanium products used in the aerospace end-use market.

**Gross Profit**

Gross profit in fiscal year 2010 decreased to \$144.8 million, or 12.1 percent of net sales (15.7 percent of net sales excluding surcharges), from \$207.2 million, or 15.2 percent of net sales (19.6 percent of net sales excluding surcharges), for fiscal year 2009. The results primarily reflect the favorable impacts of higher volumes and cost savings initiatives in fiscal year 2010 offset by an unfavorable shift in product mix and the higher net pension expense included in costs of sales during fiscal year 2010.

Our surcharge mechanism is structured to recover increases in raw material costs, although generally with a lag effect. While the surcharge generally protects the absolute gross profit dollars, it does have a dilutive effect on gross margin as a percent of sales. The following represents a summary of the dilutive impact of the surcharges on gross margin for fiscal years 2010 and 2009. See the section **Non-GAAP Financial Measures** below for further discussion of these financial metrics.

| (\$ in millions)                                     | Fiscal Year     |                   |
|--|-----------------|-------------------|
|  | 2010            | 2009              |
| Net sales  | \$ 1,198.6      | \$ 1,362.3        |
| Less: surcharge revenue                              | 276.9           | 307.1             |
| <b>Net sales excluding surcharges</b>                | <b>\$ 921.7</b> | <b>\$ 1,055.2</b> |
| Gross profit   | \$ 144.8        | \$ 207.2          |
| <b>Gross margin</b>                                  | <b>12.1%</b>    | <b>15.2%</b>      |
| Gross margin excluding dilutive effect of surcharges | 15.7%           | 19.6%             |

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses in fiscal year 2010 were \$133.1 million, or 11.1 percent of net sales (14.4 percent of net sales excluding surcharges), compared to \$133.8 million, or 9.8 percent of net sales (12.7 percent of net sales excluding surcharges), in fiscal year 2009. Excluding the impact of changes in net pension expense discussed above, expenses decreased by 7 percent over fiscal year 2009.

**Table of Contents****Restructuring Charges**

During fiscal year 2009, we recorded \$9.4 million of restructuring charges associated with the closure of our metal strip manufacturing facility in the United Kingdom ( U.K. ). The charges recorded consisted principally of pension settlement charges from the elimination of a U.K. defined benefit pension plan, certain asset write-downs, payments of employee severance costs and other exit costs.

**Operating Income**

Our operating income in fiscal year 2010 decreased to \$11.7 million as compared with \$64.0 million in fiscal year 2009. The lower operating income principally reflects lower gross profit levels. The results for fiscal year 2009 included approximately \$9.4 million of restructuring charges associated with the closure of a UK facility.

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

| (\$ in millions)  | Fiscal Year     |                   |
|---|-----------------|-------------------|
|   | 2010            | 2009              |
| Net sales   | \$ 1,198.6      | \$ 1,362.3        |
| Less: surcharge revenue                                       | 276.9           | 307.1             |
| <b>Net sales excluding surcharges</b>                         | <b>\$ 921.7</b> | <b>\$ 1,055.2</b> |
| Operating income  | \$ 11.7         | \$ 64.0           |
| Add back: Pension EID expense                                 | 37.9            | 0.1               |
| Add back: Restructuring costs                                 |                 | 9.4               |
| <b>Operating income excluding pension EID expense</b>         | <b>\$ 49.6</b>  | <b>\$ 73.5</b>    |
| Operating margin excluding surcharges and pension EID expense | 5.4%            | 7.0%              |

In addition to the impact of the surcharge mechanism and pension EID expense, fluctuations in raw material prices (combined with fluctuations in inventory levels) and the lag effect of the surcharge mechanism have impacted our operating income from year to year. We estimate that the effect of such combined fluctuations negatively impacted our operating margin by approximately 150 basis points during fiscal year 2010 and positively impacted our operating margin by approximately points and 110 basis points during fiscal year 2009.

**Interest Expense**

Fiscal year 2010 interest expense of \$17.8 million increased 11 percent from \$16.1 million in fiscal year 2009. Interest on substantially all of our debt was at a fixed rate. The increase in interest expense is attributable to the \$3.0 million decrease in the amount of interest capitalized associated with ongoing construction projects during fiscal year 2010 as compared with fiscal year 2009 which was offset by the reductions in outstanding debt related to current year repayments.

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### **Other Income, Net**

Other income for fiscal year 2010 was \$10.8 million as compared with \$15.1 million a year ago. The decrease principally reflected lower returns on invested cash balances and less foreign exchange gains in fiscal year 2010 as compared with fiscal year 2009.

### **Income Taxes**

Our effective tax rate (income tax expense as a percent of income before taxes) for fiscal year 2010 was 55.3 percent as compared to 24.0 percent in fiscal year 2009. The fiscal year 2010 tax rate was higher than the statutory rate of 35 percent, primarily due to the following items. We recorded an income tax expense charge in the amount of \$5.9 million to reduce the value of the Company's deferred tax asset previously established for anticipated retiree health care liabilities. Offsetting this amount, there was a reduction in income tax expense in the amount of \$3.2 million due to the reversal of certain unrecognized tax benefits as a result of the completion of certain tax examinations. Our lower taxable income level also resulted in our permanent book to tax differences having a more significant impact on the effective tax rate.

The fiscal year 2009 tax rate was lower than the statutory rate of 35 percent, primarily due to the following items. We recorded a reduction in income tax expense in the amount of \$3.5 million or 5.6 percent of pre-tax income related to research and development tax credits. In addition, there was a reduction in income tax expense in the amount of \$3.3 million or 5.2 percent which was primarily due to the reversal of certain unrecognized tax benefits due to the lapse of certain statutes of limitations. These items were partially offset by an increase in tax expense in the amount of \$4.6 million or 7.4 percent related to additional valuation allowance on deferred tax assets for state net operating losses. Our lower taxable income level generated a more significant impact on the effective tax rate for these items.

See Note 18 to the consolidated financial statements in Item 8. **Financial Statements and Supplementary Data** for a full reconciliation of the statutory federal tax rate to the effective tax rates.

### **Business Segment Results**

Summary information about our operating results on a segment basis is set forth below. For more detailed segment information, see Note 20 to the consolidated financial statements included in Item 8. - **Financial Statements and Supplementary Data**.

#### ***Advanced Metals Operations Segment***

Net sales in fiscal year 2010 for the AMO segment were \$853.0 million, as compared with \$957.4 million in fiscal year 2009. Excluding surcharge revenues, sales decreased 10 percent from a year ago. The fiscal year 2010 net sales reflected an increase in pounds shipped of 8 percent as compared to fiscal year 2009. The results reflects higher demand in the automotive, industrial and consumer markets more than offset by an unfavorable shift in product mix.

Operating income for the AMO segment in fiscal year 2010 was \$11.8 million, or 1.4 percent of net sales (1.7 percent of net sales excluding surcharge revenues), compared to \$34.1 million, or 3.6 percent of net sales (4.5 percent of net sales excluding surcharge revenues), for fiscal year 2009. The decrease in operating income reflects an unfavorable shift in product mix during fiscal year 2010, as compared to fiscal year 2009. In addition, fiscal year 2009 operating income included the positive impacts of the lag effect of the surcharge mechanism as compared with a negative impact of the lag effect in fiscal year 2010.

**Table of Contents****Premium Alloys Operations Segment**

Net sales for fiscal year 2010 for the PAO segment decreased 16 percent to \$348.3 million as compared with \$413.2 million for fiscal year 2009. Excluding surcharge revenues, net sales decreased 20 percent on 16 percent lower shipment volumes. Both the sales and shipment volume decreases were due to lower demand, particularly in our energy end use market.

Operating income for the PAO segment for fiscal year 2010 was \$71.2 million, or 20.4 percent of net sales (28.6 percent of net sales excluding surcharge revenues), as compared with \$76.9 million, or 18.6 percent of net sales (24.7 percent of net sales excluding surcharge revenues) for fiscal year 2009. The decrease in operating income principally reflects the lower shipment volume in the current year as well as an unfavorable shift in product mix. In addition, fiscal year 2009 operating income included negative impacts related to the timing of raw material hedges as compared with no significant impacts from the timing of raw material hedges in fiscal year 2010.

**Liquidity and Capital Resources**

We have the ability to generate cash to meet our needs through cash flow from operations, management of working capital and the availability of outside sources of financing to supplement internally generated funds. We believe that our cash and cash equivalents and short-term marketable securities of approximately \$523 million as of June 30, 2011, together with cash generated from operations and available borrowing capacity of approximately \$347 million under our credit facilities, will be sufficient to fund our operating activities, planned capital expenditures, the Latrobe acquisition and other obligations for the foreseeable future.

As of June 30, 2011, we had cash and cash equivalents of approximately \$92 million held at various foreign subsidiaries. Our global cash deployment considers, among other things, the geographic location of our subsidiaries' cash balances, the locations of our anticipated liquidity needs, and the cost to access international cash balances, as necessary. The repatriation of cash from certain foreign subsidiaries could have adverse tax consequences as we may be required to pay and record U.S. income taxes and foreign withholding taxes in various tax jurisdictions on these funds to the extent they were previously considered permanently reinvested.

On June 28, 2011, we issued \$250 million of 5.20% senior notes due 2021. We expect to use the net proceeds to repay \$100 million in principal amount of the medium term notes, Series C, at 7.625% due August 2011. We intend to use the remaining net proceeds for general corporate purposes, which may include additions to working capital, capital expenditures, repayment of debt, the financing of acquisitions, joint ventures and other business combination opportunities or stock repurchases.

On June 21, 2011, we entered into a new \$350 million syndicated credit facility (Credit Agreement). This five year Credit Agreement replaced the Company's previous revolving credit facility, dated as of November 29, 2009, which had been set to expire in November 2012. As of June 30, 2011, we had \$3.5 million of issued letters of credit under the revolving credit facility. The balance of the revolving credit facility (\$346.5 million) remains available to us. The revolving credit facility contains financial covenants, including maintenance of an interest coverage ratio and a debt-to-capital ratio.

As of June 30, 2011, we were in compliance with all the covenants of the credit facility. The following table shows our actual ratio performance with respect to the financial covenants, as of June 30, 2011:

|                                | Covenant Requirement   | Actual Ratio  |
|--------------------------------|------------------------|---------------|
| Consolidated interest coverage | 3.25 to 1.00 (minimum) | 13.91 to 1.00 |
| Consolidated debt to capital   | 55% (maximum)          | 40%           |

During the fiscal year 2011, our free cash flow, which we define under Non-GAAP Financial Measures below, was negative \$88.9 million as compared to positive \$40.1 million for the same period a year ago. The decrease in free cash flow in fiscal year 2011 as compared with the prior year principally reflects higher net income levels in fiscal year 2011 more than offset by the cash used in the Amega West and Oilfield Alloys acquisitions, increased investments in capital expenditures and higher working capital levels related to strong business growth.

Purchases of property, plant and equipment and software were \$79.6 million for fiscal year 2011 as compared with \$44.2 million for the prior year.



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Dividends for the fiscal year 2011 were \$32.1 million, as compared with \$31.9 million in the prior year, and were paid at the same quarterly rate of \$0.18 per share of common stock in both periods.

For fiscal years 2011, 2010 and 2009, interest cost totaled \$17.6 million, \$18.8 million, and \$20.1 million, respectively, of which \$0.5 million, \$1.0 million, and \$4.0 million, respectively, were capitalized as part of the cost of plant, equipment and software.

**Non-GAAP Financial Measures**

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

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

| (\$ in millions, except per share data) | Fiscal Year |         |         |
|---|-------------|---------|---------|
|   | 2011        | 2010    | 2009    |
| Net periodic benefit costs              |             |         |         |
| Pension plans                           | \$ 54.0     | \$ 54.3 | \$ 18.3 |
| Other postretirement benefit plans      | 6.8         | 7.0     | 2.3     |
|   | 60.8        | 61.3    | 20.6    |
| Income tax benefit                      | (23.2)      | (23.7)  | (8.8)   |
| Net pension expense                     | \$ 37.6     | \$ 37.6 | \$ 11.8 |
| Weighted average diluted common shares  | 44.7        | 44.4    | 44.2    |
| Net pension expense per diluted share   | \$ 0.84     | \$ 0.85 | \$ 0.27 |

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

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

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

**Table of Contents*****Operating Income and Operating Margin Excluding Surcharges, Pension EID Expense and Restructuring Costs***

This report includes discussions of operating income and operating margin as adjusted to exclude the impact of raw material surcharges, pension EID expense and restructuring costs, which represent financial measures that have not been determined in accordance with U.S. GAAP. We present and discuss these financial measures because management believes removing the impact of raw material surcharges from net sales provides a more consistent and meaningful basis for comparing results of operations from period to period for the reasons discussed earlier in this report. In addition, management believes that excluding pension earnings, interest and deferrals expense and non-recurring restructuring costs from operating income and operating margin is helpful in analyzing our operating performance particularly as pension EID expense may be volatile due to changes in the financial markets. See our earlier discussion of operating income for a reconciliation of operating income and operating margin excluding pension EID expense and non-recurring restructuring costs to operating income and operating margin determined in accordance with U.S. GAAP.

***Free Cash Flow***

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

| (\$ in millions)   | Fiscal Year |          |          |
|--|-------------|----------|----------|
|  | 2011        | 2010     | 2009     |
| Net cash provided from operating activities                            | \$ 64.2     | \$ 115.2 | \$ 145.5 |
| Purchases of property, equipment and software                          | (79.6)      | (44.2)   | (116.3)  |
| Dividends paid   | (32.1)      | (31.9)   | (31.5)   |
| Proceeds from disposals of plant and equipment                         | 1.1         | 1.0      | 0.1      |
| Free cash flow excluding impact of sales and acquisition of businesses | (46.4)      | 40.1     | (2.2)    |
| Net proceeds from sales of businesses                                  |             |          | 13.4     |
| Proceeds received from sale of non-controlling interest                | 9.1         |          |          |
| Acquisition of equity method investment                                | (6.2)       |          |          |
| Acquisition of businesses, net of cash acquired                        | (45.4)      |          |          |
| Free cash flow   | \$ (88.9)   | \$ 40.1  | \$ 11.2  |

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

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### **Critical Accounting Policies and Estimates**

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

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

#### ***Allowance for Doubtful Accounts***

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

#### ***Inventories***

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

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

#### ***Pension and Other Postretirement Benefits***

The amount of the pension expense, which is determined annually, is based upon the value of the assets in the pension trust at the beginning of the fiscal year as well as actuarial assumptions, such as the discount rate and the expected long-term rate of return on plan assets. The assumed long-term rate of return on pension plan assets is reviewed at each year end based on the plan's investment policies, an analysis of the historical returns of the capital markets, and current interest rates. The plan's current allocation policy is to have approximately 60 percent U.S. and international equities and 40 percent fixed income. The discount rate for the U.S. plan is determined by reference to the Bond:Link interest rate model based upon a portfolio of highly rated U.S. corporate bonds with individual bonds that are theoretically purchased to settle the plan's anticipated cash outflows. The fluctuations in stock and bond markets could cause actual investment results to be significantly different from those assumed, and therefore, significantly impact the valuation of the assets in our pension trust. Changes in actuarial assumptions could significantly impact the accounting for the pension assets and liabilities. If the assumed long-term rate of return on plan assets was changed by 0.25 percent, the net pension expense would change by approximately \$1.8 million. If the discount rate was changed by 0.25 percent, the net pension expense would change by approximately \$2.0 million.

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### ***Long-Lived Assets***

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

### ***Goodwill***

Goodwill is not amortized, but instead is tested for impairment, at least annually. Potential impairment is identified by comparing the fair value of a reporting unit to its carrying value, including goodwill. The fair value is estimated based principally upon discounted cash flow analysis and using market multiples for comparable companies as well as recently completed transactions. If the carrying value of the reporting unit exceeds its fair value, any impairment loss is measured by comparing the carrying value of the reporting unit's goodwill to its implied fair value. We tested our goodwill for impairment as of June 30, 2011 and determined that goodwill had not been impaired. If global economic conditions worsen or are prolonged, changes in anticipated discounted cash flows and comparable market multiples could have significant impact on whether or not goodwill is impaired and the amount of impairment.

### ***Environmental Expenditures***

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

### ***Income Taxes***

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

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

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### ***Derivative Financial Instruments***

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

### ***New Accounting Pronouncements***

For information with respect to new accounting pronouncements and the impact of these pronouncements on our consolidated financial statements, see Note 21, Summary of Significant Accounting Policies, to Notes to Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data.

### ***Off Balance Sheet Arrangements***

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

**Table of Contents****Contractual Obligations**

At June 30, 2011, we had the following contractual obligations and other commercial commitments and contingencies:

| (\$ in millions)                                | Total             | 2012            | 2013            | Fiscal Year<br>2014 | 2015           | 2016           | There-<br>after |
|---|-------------------|-----------------|-----------------|---------------------|----------------|----------------|-----------------|
| Long-term debt <sup>(1)</sup>                   | \$ 506.0          | \$ 100.0        | \$ 101.0        | \$                  | \$             | \$             | \$ 305.0        |
| Estimated interest payments <sup>(2)</sup>      | 161.2             | 24.5            | 22.7            | 16.9                | 16.9           | 16.9           | 63.3            |
| Operating leases                                | 19.8              | 6.6             | 4.2             | 2.8                 | 2.4            | 1.1            | 2.7             |
| Pension plan contributions <sup>(3)</sup>       | 169.1             | 27.7            | 46.1            | 26.6                | 24.3           | 15.1           | 29.3            |
| Accrued post-retirement benefits <sup>(4)</sup> | 143.8             | 12.8            | 13.2            | 13.7                | 14.1           | 14.4           | 75.6            |
| Purchase obligations <sup>(5)</sup>             | 210.6             | 175.2           | 25.2            | 10.2                |                |                |                 |
| Pension benefits <sup>(6)</sup>                 | 31.0              | 3.1             | 3.1             | 3.1                 | 3.2            | 3.3            | 15.2            |
| <b>Total</b>                                    | <b>\$ 1,241.5</b> | <b>\$ 349.9</b> | <b>\$ 215.5</b> | <b>\$ 73.3</b>      | <b>\$ 60.9</b> | <b>\$ 50.8</b> | <b>\$ 491.1</b> |

- (1) Refer to Note 9 of Notes to Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data. In addition, we had \$3.5 million of outstanding letters of credit as of June 30, 2011.
- (2) Estimated interest payments for long-term debt were calculated based on the applicable rates and payment dates.
- (3) Pension plan contributions represent required minimum contributions for the plan year beginning January 1, 2011 and quarterly installment contributions for plan year beginning January 1, 2012. These amounts were calculated based on actuarial valuations as prescribed by pension funding regulations in the United States. Estimated fiscal year contributions have been included through fiscal year 2019. The actual required pension contributions in future periods are dependent on actuarial valuations to be prepared in future periods.
- (4) Postretirement benefits for certain plans are paid from corporate assets. There is no guarantee that future payments will be paid from corporate assets rather than plan assets.
- (5) We have entered into purchase commitments primarily for various key raw materials and equipment purchases at market related prices, all made in the normal course of business. The commitments include both fixed and variable price provisions. We used June 30, 2011 raw material prices for commitments with variable pricing.
- (6) Pension benefits for certain plans are paid from corporate assets. There is no guarantee that future payments will be paid from corporate assets rather than plan assets.

As of June 30, 2011, the noncurrent portion of our income tax liabilities, including accrued interest and penalties related to unrecognized tax benefits was approximately \$0.5 million. The settlement period for these income tax liabilities cannot be determined and were therefore excluded from the table above.

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### **Market Sensitive Instruments and Risk Management**

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

### **Contingencies**

#### ***Environmental***

We are subject to various federal, state, local and international environmental laws and regulations relating to pollution, protection of public health and the environment, natural resource damages and occupational safety and health. Although compliance with these laws and regulations may affect the costs of our operations, compliance costs to date have not been material. We have environmental remediation liabilities at some of our owned operating facilities and have been designated as a potentially responsible party ( PRP ) with respect to certain third-party Superfund waste disposal sites and other third party owned sites. Additionally, we have been notified that we may be a PRP with respect to other Superfund sites as to which no proceedings have been instituted against us. Neither the exact amount of remediation costs nor the final method of their allocation among all designated PRP s at these Superfund sites has been determined. The liability for future environmental remediation costs is evaluated on a quarterly basis. We accrue amounts for environmental remediation costs that represent our best estimate of the probable and reasonably estimable costs related to environmental remediation. During fiscal year 2011, there were no changes to the environmental liability. During fiscal year 2010, we decreased the liabilities recorded for environmental remediation costs by approximately \$2.0 million for two environmental remediation sites. During fiscal year 2009, we increased the liabilities recorded for environmental remediation costs by approximately \$2.0 million for one environmental remediation site. The liabilities recorded for environmental remediation costs at Superfund sites, at other third party-owned sites and at company-owned current or former operating facilities remaining at June 30, 2011 and 2010, was \$4.9 million.

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

#### ***Boarhead Farm***

In June 2002, we were named as a defendant in a lawsuit filed by a group of plaintiffs in the District Court for the Eastern District of Pennsylvania titled Boarhead Farm Agreement Group v. Advanced Environmental Technology Corporation et. al. (since amended to include the individual members). The suit alleges that we and the other named defendants contributed to damages caused at Boarhead Farms, a Superfund site located in Bridgeton, Pennsylvania. The Boarhead Farms site was the home of a now defunct chemical and waste hauling company that we and many other companies engaged to dispose of certain wastes during the 1970 s. The plaintiff group was individually named as PRP s for the Boarhead site in the EPA s Record of Decision in November 1998. Their June of 2002 lawsuit against various defendants, including Carpenter, sought contributions for a portion of costs incurred for various site cleanup activities as well as contributions to future cleanup efforts. The suit went to trial in June 2008. Prior to trial, all of the named co-defendants, except for Carpenter, reached an out of court settlement with the plaintiffs. We denied the claims made by the plaintiff group. On August 18, 2008, the Court awarded the plaintiffs judgment against us for 80 percent of the plaintiffs past costs of remediating the site, including prejudgment interest from June 18, 2002 to January 1, 2008, and held us liable for 80 percent of future costs of the cleanup activities at the site. We appealed the Court s decision and oral arguments took place before the United States Court of Appeals for the Third Circuit on December 17, 2009. On April 12, 2010, the Court of Appeals for the Third Circuit vacated the previous judgment by the District Court and remanded the case for further proceedings. As of June 30, 2011 and June 30, 2010, we recorded a liability related to this case of \$21.8 million. On July 19, 2011, we entered into a settlement agreement providing

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for a dismissal of the lawsuit against us and a complete release in our favor by all parties to the litigation, in exchange for a payment by us of \$21.8 million. On August 16, 2011, the settlement was approved by the Court.

***Duty Drawback***

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

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

Based on current facts we believe that the reserve recorded of \$0.4 million as of June 30, 2011, together with an advance payment of \$0.7 million paid to U.S. Customs paid during settlement discussions in fiscal year 2010, is a reasonable estimate of the probable settlement necessary to fully resolve this matter. We do not expect that any additional material liabilities will be incurred related to this matter.

***Export Regulations Violations***

In fiscal year 2008, we became aware of potential violations of federal export regulations at a business unit that was divested. Upon investigation, we discovered that approximately 40 foreign nationals employed over time at the business unit's facility may have been exposed to protected technical data related to the production of various products for military applications. An export license from the Department of State and the Department of Commerce is required prior to the exporting of technical data for military applications. We have applied for and received similar applications for other business units, but did not have such a license for the divested business unit. Violations of federal export regulations can be subject to civil penalties depending upon the severity of the violation. We filed voluntary disclosures with the Department of State and the Department of Commerce before the divestiture of the business unit on March 31, 2008. The Department of State responded to the voluntary disclosure without assessing civil penalties. The Department of Commerce has not yet responded to the voluntary disclosure. It is not possible to determine the amount, if any, of civil penalties that may be assessed by the Department of Commerce. As a result, we have not recorded any liability for potential penalties as of June 30, 2011.

***Other***

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



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that any future lawsuits, claims, proceedings or investigations will not be material to our financial position, results of operations or cash flows in a particular future quarter or year.

## Forward Looking Statements

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

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

We use derivative financial instruments to reduce certain types of financial risk. Firm price sales arrangements involve a risk of profit margin fluctuations particularly as raw material prices have been volatile. As discussed in Item 7, in order to reduce the risk of fluctuating profit margins on these sales, we enter into commodity forward contracts to purchase certain critical raw materials necessary to produce the products sold under the firm price sales arrangements. If a customer fails to perform its obligations under the firm price sales arrangements, we may realize losses as a result of the related commodity forward contracts. These customers have historically performed under these arrangements and we believe that they will honor such obligations in the future, notwithstanding the exceptional nature of the current economic conditions.

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

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

We have used interest rate swaps to achieve a level of floating rate debt relative to fixed rate debt where appropriate. We have also entered into forward swap contracts to manage the risk of cash flow variability associated with fixed interest debt expected to be issued to refinance the \$100 million of fixed rate debt scheduled to mature in August 2011. These forward swap contracts were terminated upon issuance of the \$250 million bonds in June 2011.

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

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

The status of our financial instruments as of June 30, 2011 is provided in Note 17 to the consolidated financial statements included in Item 8., Financial Statements and Supplementary Data. Assuming on June 30, 2011, (a) an instantaneous 10 percent decrease in the price of raw materials and energy for which we have commodity forward contracts, our results of operations would not have been materially affected and, (b) a 10 percent strengthening of the U.S. dollar versus foreign currencies for which foreign exchange forward contracts existed, our results of operations would not have been materially affected.

## **Future Outlook**

Demand growth remains strong in our strategic end markets. Several of our largest customers are seeking to expand and extend our supply contracts. We expect our net sales, excluding sales generated as a result of the Latrobe acquisition, to grow by more than 10 percent in fiscal year 2012. Operating income, excluding pension EID and costs associated with the Latrobe acquisition, on our base business should be approximately 50 percent higher than fiscal year 2011. We anticipate that the full-year tax rate will be 33 percent and interest expense should be about \$7 million higher based on \$150 million of incremental debt.

Free cash flow, excluding the impacts of acquisitions, is expected to be slightly negative after factoring in higher capital spending of about \$200 million aimed at capacity expansion, and a modest increase in working capital to support business growth.

We are also excited about the Latrobe acquisition as it plays an important role in our growth strategy. Latrobe has a well-positioned business portfolio that is also benefiting from strong customer demand. We expect the combined business will enable production efficiencies which will result in expanded production capacity. The combined entities also have a larger critical mass to justify the next major increment of premium capacity expansion. The Latrobe acquisition, including transactions costs, should be accretive in year one depending on the closing date, and strongly accretive in later years with the benefit of significant synergies.

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### **Management's Responsibilities for Financial Reporting**

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

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

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

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

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

Management assessed the effectiveness of Carpenter's internal control over financial reporting as of June 30, 2011. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control - Integrated Framework*. Based on its assessment, management concluded that, as of June 30, 2011, Carpenter's internal control over financial reporting is effective based on those criteria.

The effectiveness of Carpenter's internal control over financial reporting as of June 30, 2011 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report appearing herein.

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

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

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and

Shareholders of Carpenter Technology Corporation

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Carpenter Technology Corporation and its subsidiaries at June 30, 2011 and June 30, 2010, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2011 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(1) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP  
Philadelphia, Pennsylvania  
August 24, 2011

**Table of Contents****Consolidated Statements of Income**

Carpenter Technology Corporation

For the Years Ended June 30, 2011, 2010 and 2009

| (\$ in millions, except per share data)                  | 2011              | 2010              | 2009              |
|--|-------------------|-------------------|-------------------|
| <b>NET SALES</b>   | <b>\$ 1,675.1</b> | <b>\$ 1,198.6</b> | <b>\$ 1,362.3</b> |
| Cost of sales  | 1,426.1           | 1,053.8           | 1,155.1           |
| <b>Gross profit</b>                                      | <b>249.0</b>      | <b>144.8</b>      | <b>207.2</b>      |
| Selling, general and administrative expenses             | 149.5             | 133.1             | 133.8             |
| Acquisition related costs                                | 3.1               |                   |                   |
| Restructuring charges                                    |                   |                   | 9.4               |
| <b>Operating income</b>                                  | <b>96.4</b>       | <b>11.7</b>       | <b>64.0</b>       |
| Interest expense   | (17.1)            | (17.8)            | (16.1)            |
| Other income, net  | 8.5               | 10.8              | 15.1              |
| <b>Income before income taxes</b>                        | <b>87.8</b>       | <b>4.7</b>        | <b>63.0</b>       |
| Income tax expense                                       | 16.1              | 2.6               | 15.1              |
| <b>Net income</b>  | <b>71.7</b>       | <b>2.1</b>        | <b>47.9</b>       |
| Less: net income attributable to noncontrolling interest | (0.7)             |                   |                   |
| <b>NET INCOME ATTRIBUTABLE TO CARPENTER</b>              | <b>\$ 71.0</b>    | <b>\$ 2.1</b>     | <b>\$ 47.9</b>    |
| <b>EARNINGS PER COMMON SHARE:</b>                        |                   |                   |                   |
| Basic  | \$ 1.59           | \$ 0.04           | \$ 1.08           |
| Diluted  | \$ 1.59           | \$ 0.04           | \$ 1.08           |
| <b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:</b>       |                   |                   |                   |
| Basic  | 44.1              | 43.9              | 43.9              |
| Diluted  | 44.7              | 44.4              | 44.2              |

See accompanying notes to consolidated financial statements.

**Table of Contents****Consolidated Statements of Cash Flows**

Carpenter Technology Corporation

For the Years Ended June 30, 2011, 2010 and 2009

| (\$ in millions)  | 2011         | 2010          | 2009          |
|---|--------------|---------------|---------------|
| <b>OPERATING ACTIVITIES</b>   |              |               |               |
| Net income  | \$ 71.7      | \$ 2.1        | \$ 47.9       |
| Adjustments to reconcile net income to net cash provided from operating activities: |              |               |               |
| Depreciation and amortization   | 66.5         | 59.1          | 52.7          |
| Deferred income taxes   | (5.0)        | (0.9)         | 16.4          |
| Net pension expense   | 60.8         | 61.3          | 20.6          |
| Net loss on disposal of property and equipment                                      | 0.8          | 2.0           | 1.7           |
| Pension contribution  | (3.9)        |               |               |
| Changes in working capital and other:   |              |               |               |
| Accounts receivable   | (56.9)       | (62.5)        | 144.0         |
| Inventories   | (116.1)      | (19.1)        | 13.4          |
| Other current assets  | 6.4          | 24.2          | (26.7)        |
| Accounts payable  | 34.5         | 60.8          | (85.7)        |
| Accrued liabilities   | 4.6          | 13.4          | (33.5)        |
| Other, net  | 0.8          | (25.2)        | (5.3)         |
| Net cash provided from operating activities   | 64.2         | 115.2         | 145.5         |
| <b>INVESTING ACTIVITIES</b>   |              |               |               |
| Purchases of property, equipment and software                                       | (79.6)       | (44.2)        | (116.3)       |
| Proceeds from disposals of property and equipment                                   | 1.1          | 1.0           | 0.1           |
| Net proceeds from sales of businesses   |              |               | 13.4          |
| Acquisition of businesses, net of cash acquired                                     | (45.4)       |               |               |
| Acquisition of equity method investment   | (6.2)        |               |               |
| Purchases of marketable securities  | (91.3)       | (145.0)       | (49.5)        |
| Proceeds from sales and maturities of marketable securities                         | 166.0        | 55.3          | 44.8          |
| Net cash used for investing activities  | (55.4)       | (132.9)       | (107.5)       |
| <b>FINANCING ACTIVITIES</b>   |              |               |               |
| Proceeds from issuance of long-term debt, net of offering costs                     | 247.4        |               |               |
| Payments on long-term debt assumed in acquisition of business                       | (12.4)       |               |               |
| Payments on long-term debt  |              | (20.0)        | (23.0)        |
| Proceeds received from sale of noncontrolling interest                              | 9.1          |               |               |
| Dividends paid  | (32.1)       | (31.9)        | (31.5)        |
| Payments of debt issue costs  | (1.4)        | (2.0)         |               |
| Purchases of treasury stock   |              |               | (46.1)        |
| Tax benefits on share-based compensation  | 1.7          | 0.2           |               |
| Proceeds from stock options exercised   | 1.6          | 0.2           | 0.1           |
| Net cash provided from (used for) financing activities                              | 213.9        | (53.5)        | (100.5)       |
| Effect of exchange rate changes on cash and cash equivalents                        | 4.4          | (3.5)         | (0.7)         |
| <b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                             | <b>227.1</b> | <b>(74.7)</b> | <b>(63.2)</b> |
| Cash and cash equivalents at beginning of year                                      | 265.4        | 340.1         | 403.3         |

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|  |          |          |          |
|--|----------|----------|----------|
| Cash and cash equivalents at end of year | \$ 492.5 | \$ 265.4 | \$ 340.1 |
|--|----------|----------|----------|

See accompanying notes to consolidated financial statements.



**Table of Contents****Consolidated Balance Sheets**

Carpenter Technology Corporation

June 30, 2011 and 2010

| (\$ in millions, except share data)   | 2011              | 2010              |
|---|-------------------|-------------------|
| <b>ASSETS</b>   |                   |                   |
| Current assets:   |                   |                   |
| Cash and cash equivalents   | \$ 492.5          | \$ 265.4          |
| Marketable securities   | 30.5              | 105.2             |
| Accounts receivable, net of allowance for doubtful accounts of \$2.7 million at June 30, 2011 and 2010  | 259.4             | 188.5             |
| Inventories   | 328.6             | 203.6             |
| Deferred income taxes   | 14.9              | 21.5              |
| Other current assets  | 31.7              | 36.0              |
| <b>Total current assets</b>   | <b>1,157.6</b>    | <b>820.2</b>      |
| Property, plant and equipment, net  | 662.9             | 617.5             |
| Goodwill  | 44.9              | 35.2              |
| Other intangibles, net  | 30.0              | 17.6              |
| Deferred income taxes   |                   | 16.2              |
| Other assets  | 96.5              | 76.5              |
| <b>Total assets</b>   | <b>\$ 1,991.9</b> | <b>\$ 1,583.2</b> |
| <b>LIABILITIES</b>  |                   |                   |
| Current liabilities:  |                   |                   |
| Accounts payable  | \$ 170.5          | \$ 130.5          |
| Accrued liabilities   | 124.9             | 87.6              |
| Current portion of long-term debt   | 100.0             |                   |
| <b>Total current liabilities</b>  | <b>395.4</b>      | <b>218.1</b>      |
| Long-term debt, net of current portion  | 407.8             | 259.6             |
| Accrued pension liabilities   | 188.5             | 322.6             |
| Accrued postretirement benefits   | 108.7             | 146.7             |
| Deferred income taxes   | 48.3              |                   |
| Other liabilities   | 67.2              | 62.8              |
| <b>Total liabilities</b>  | <b>1,215.9</b>    | <b>1,009.8</b>    |
| Contingencies and commitments (see Note 12)   |                   |                   |
| <b>STOCKHOLDERS EQUITY</b>  |                   |                   |
| Common stock authorized 100,000,000 shares; issued 54,730,291 shares at June 30, 2011 and 54,644,401 shares at June 30, 2010; outstanding 44,107,380 shares at June 30, 2011 and 43,967,084 shares at June 30, 2010 | 273.7             | 273.2             |
| Capital in excess of par value  | 235.4             | 223.3             |
| Reinvested earnings   | 1,022.1           | 983.2             |
| Common stock in treasury (10,622,911 shares and 10,677,317 shares at June 30, 2011 and 2010, respectively), at cost   | (532.2)           | (535.2)           |
| Accumulated other comprehensive loss  | (233.3)           | (371.1)           |
| <b>Total Carpenter stockholders equity</b>  | <b>765.7</b>      | <b>573.4</b>      |

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|                              |            |            |
|------------------------------|------------|------------|
| Noncontrolling interest      | 10.3       |            |
| Total equity                 | 776.0      | 573.4      |
| Total liabilities and equity | \$ 1,991.9 | \$ 1,583.2 |

See accompanying notes to consolidated financial statements.

Table of Contents**Consolidated Statement of Changes in Stockholders Equity**

Carpenter Technology Corporation

For the Years Ended June 30, 2011, 2010 and 2009

| (\$ in millions, except per share data)                 | Carpenter Stockholders Equity |                                |                     |                          |                                      |           | Total Equity    |
|---|-------------------------------|--------------------------------|---------------------|--------------------------|--------------------------------------|-----------|-----------------|
|   | Common Stock                  |                                | Reinvested Earnings | Common Stock in Treasury | Accumulated Other Comprehensive Loss |           |                 |
|   | Par Value Of \$5              | Capital in Excess of Par Value |                     |                          | Noncontrolling interest              |           |                 |
| <b>Balances at June 30, 2008</b>                        | <b>\$ 273.0</b>               | <b>\$ 197.5</b>                | <b>\$ 996.6</b>     | <b>\$ (484.0)</b>        | <b>\$ (143.9)</b>                    | <b>\$</b> | <b>\$ 839.2</b> |
| Net income  |                               |                                | 47.9                |                          |                                      |           | 47.9            |
| Pension and post-retirement benefits, net of tax        |                               |                                |                     |                          | (176.4)                              |           | (176.4)         |
| Net losses on derivative instruments, net of tax        |                               |                                |                     |                          | (5.9)                                |           | (5.9)           |
| Foreign currency translation                            |                               |                                |                     |                          | (20.3)                               |           | (20.3)          |
| Purchase of treasury stock                              |                               |                                |                     | (46.1)                   |                                      |           | (46.1)          |
| Cash Dividends:   |                               |                                |                     |                          |                                      |           |                 |
| Common @ \$0.72 per share                               |                               |                                | (31.5)              |                          |                                      |           | (31.5)          |
| Share-based compensation plans                          |                               | 10.4                           |                     | (1.4)                    |                                      |           | 9.0             |
| Uncertain tax positions adjustments                     |                               | 3.5                            |                     |                          |                                      |           | 3.5             |
| Stock options exercised                                 | 0.1                           |                                |                     |                          |                                      |           | 0.1             |
| Tax shortfall on share-based compensation               |                               | (2.5)                          |                     |                          |                                      |           | (2.5)           |
| <b>Balances at June 30, 2009</b>                        | <b>273.1</b>                  | <b>208.9</b>                   | <b>1,013.0</b>      | <b>(531.5)</b>           | <b>(346.5)</b>                       |           | <b>617.0</b>    |
| Net income  |                               |                                | 2.1                 |                          |                                      |           | 2.1             |
| Pension and post-retirement benefits, net of tax        |                               |                                |                     |                          | (29.7)                               |           | (29.7)          |
| Net gain on derivative instruments, net of tax          |                               |                                |                     |                          | 14.9                                 |           | 14.9            |
| Unrealized loss on marketable securities, net of tax    |                               |                                |                     |                          | (0.5)                                |           | (0.5)           |
| Foreign currency translation                            |                               |                                |                     |                          | (9.3)                                |           | (9.3)           |
| Cash Dividends:   |                               |                                |                     |                          |                                      |           |                 |
| Common @ \$0.72 per share                               |                               |                                | (31.9)              |                          |                                      |           | (31.9)          |
| Share-based compensation plans                          |                               | 10.2                           |                     | (3.7)                    |                                      |           | 6.5             |
| Uncertain tax positions adjustments                     |                               | 5.0                            |                     |                          |                                      |           | 5.0             |
| Stock options exercised                                 | 0.1                           | 0.1                            |                     |                          |                                      |           | 0.2             |
| Tax shortfall on share-based compensation               |                               | (0.9)                          |                     |                          |                                      |           | (0.9)           |
| <b>Balances at June 30, 2010</b>                        | <b>273.2</b>                  | <b>223.3</b>                   | <b>983.2</b>        | <b>(535.2)</b>           | <b>(371.1)</b>                       |           | <b>573.4</b>    |
| Net income  |                               |                                | 71.0                |                          |                                      | 0.7       | 71.7            |
| Pension and post-retirement benefits, net of tax        |                               |                                |                     |                          | 116.8                                |           | 116.8           |
| Net gain on derivative instruments, net of tax          |                               |                                |                     |                          | 5.0                                  |           | 5.0             |
| Foreign currency translation                            |                               |                                |                     |                          | 16.0                                 | 0.5       | 16.5            |
| Proceeds received from sale of non-controlling interest |                               |                                |                     |                          |                                      | 9.1       | 9.1             |
| Cash Dividends:   |                               |                                |                     |                          |                                      |           |                 |
| Common @ \$0.72 per share                               |                               |                                | (32.1)              |                          |                                      |           | (32.1)          |
| Share-based compensation plans                          |                               | 8.3                            |                     | 3.0                      |                                      |           | 11.3            |
| Uncertain tax positions adjustments                     |                               | 1.4                            |                     |                          |                                      |           | 1.4             |
| Stock options exercised                                 | 0.5                           | 1.1                            |                     |                          |                                      |           | 1.6             |
| Tax windfall on share-based compensation                |                               | 1.3                            |                     |                          |                                      |           | 1.3             |

|                                  |                 |                 |                   |                   |                   |                |                 |
|----------------------------------|-----------------|-----------------|-------------------|-------------------|-------------------|----------------|-----------------|
| <b>Balances at June 30, 2011</b> | <b>\$ 273.7</b> | <b>\$ 235.4</b> | <b>\$ 1,022.1</b> | <b>\$ (532.2)</b> | <b>\$ (233.3)</b> | <b>\$ 10.3</b> | <b>\$ 776.0</b> |
|----------------------------------|-----------------|-----------------|-------------------|-------------------|-------------------|----------------|-----------------|

See accompanying notes to consolidated financial statements.

**Table of Contents****Consolidated Statement of Changes in Stockholders Equity (continued)**

Carpenter Technology Corporation

For the Years Ended June 30, 2011, 2010 and 2009

|                                | Common Shares |              | Net         |
|--------------------------------|---------------|--------------|-------------|
|                                | Issued        | Treasury     | Outstanding |
| Balances at June 30, 2008      | 54,608,142    | (9,312,372)  | 45,295,770  |
| Stock options exercised        | 6,700         |              | 6,700       |
| Share-based compensation plans |               | (54,545)     | (54,545)    |
| Purchases of treasury stock    |               | (1,218,900)  | (1,218,900) |
| Balances at June 30, 2009      | 54,614,842    | (10,585,817) | 44,029,025  |
| Stock options exercised        | 29,559        |              | 29,559      |
| Share-based compensation plans |               | (91,500)     | (91,500)    |
| Balances at June 30, 2010      | 54,644,401    | (10,677,317) | 43,967,084  |
| Stock options exercised        | 85,890        |              | 85,890      |
| Share-based compensation plans |               | 54,406       | 54,406      |
| Balances at June 30, 2011      | 54,730,291    | (10,622,911) | 44,107,380  |

**Consolidated Statements of Comprehensive Income (Loss)**

Carpenter Technology Corporation

For the years ended June 30, 2011, 2010 and 2009

| (\$ in millions)   | 2011     | 2010      | 2009       |
|--|----------|-----------|------------|
| Net income   | \$ 71.7  | \$ 2.1    | \$ 47.9    |
| Other comprehensive income (loss), net of tax  |          |           |            |
| Pension and post-retirement benefits, net of tax of \$(71.5), \$23.5, and \$110.3, respectively    | 116.8    | (29.7)    | (176.4)    |
| Net gain (loss) on derivative instruments, net of tax of \$(3.1), \$(9.2), and \$3.7, respectively | 5.0      | 14.9      | (5.9)      |
| Unrealized gain (loss) on marketable securities, net of tax of \$(0.1), \$0.3, \$0.0 respectively  |          | (0.5)     |            |
| Foreign currency translation   | 16.5     | (9.3)     | (20.3)     |
| Comprehensive income (loss)  | 210.0    | (22.5)    | (154.7)    |
| Comprehensive loss attributable to the noncontrolling interest                                     | (1.2)    |           |            |
| Comprehensive income (loss) attributable to Carpenter  | \$ 208.8 | \$ (22.5) | \$ (154.7) |

See accompanying notes to consolidated financial statements.

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**Notes to Consolidated Financial Statements**

**1. Summary of Significant Accounting Policies**

***Basis of Consolidation***

The consolidated financial statements include the accounts of Carpenter and all majority-owned subsidiaries. All significant intercompany accounts and transactions are eliminated. Investments in companies in which Carpenter exercises significant influence, but which it does not control (generally a 20 to 50 percent ownership interest), are accounted for on the equity method of accounting and Carpenter's share of their income or loss is included in other income, net in the Consolidated Statements of Income. As discussed in Note 3, effective November 1, 2010, the Company sold a 40 percent interest in Carpenter Powder Products AB. The financial results of Carpenter Powder Products AB are consolidated into the Company's operating results and financial position, with the 40 percent interest of the noncontrolling partner recognized in the consolidated statement of income as net income attributable to noncontrolling interests and as equity attributable to the noncontrolling interest within total stockholders' equity.

***Revenue Recognition***

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

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

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

***Research and Development***

Research and development expenditures, which amounted to \$18.9 million, \$17.8 million and \$15.4 million in fiscal year 2011, 2010 and 2009, respectively, are expensed as incurred and are generally reported in cost of sales in the consolidated statement of income. Substantially all development costs are related to developing new products or designing significant improvements to existing products.

***Cash Equivalents***

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

***Marketable Securities***

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

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**Notes to Consolidated Financial Statements (continued)**

***Accounts Receivable***

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

***Inventories***

Inventories are valued at the lower of cost or market. Cost for inventories is principally determined by the Last-In, First-Out ( LIFO ) method. Carpenter also uses the First-In, First-Out ( FIFO ) and average cost methods. As of June 30, 2011 and 2010, \$84.7 million and \$60.8 million of inventory, respectively, was accounted for using a method other than the LIFO method.

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

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

***Computer Software and Amortization***

Computer software is included in other assets on the consolidated balance sheet, and is amortized for financial reporting purposes on a straight-line basis over the respective estimated useful lives, ranging principally from 3 to 7 years. Amortization expense charged to operations related to capitalized software amounted to \$5.2 million, \$4.4 million and \$2.1 million for the years ended June 30, 2011, 2010 and 2009, respectively.

***Goodwill***

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

***Intangible assets***

The costs of intangible assets, consisting principally of trademarks, trade names, non-compete arrangements and customer relationships are amortized on a straight-line basis over the estimated useful lives ranging from 5 to 30 years.

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**Notes to Consolidated Financial Statements (continued)**

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

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

***Environmental Expenditures***

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

***Derivative Financial Instruments***

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

***Foreign Currency Translation***

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

***Income Taxes***

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

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



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**Notes to Consolidated Financial Statements (continued)**

***Earnings per Share***

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

***Litigation***

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

***Share-Based Compensation***

The Company has two share-based employee compensation plans, which are more fully described in detail in Note 16. The Company recognizes compensation cost based on the fair value of the awards on the date of grant. The compensation cost is recognized over the requisite service period of the award, which is generally the shorter of the vesting period that the holder is required to provide service, or the period from the grant date to the date on which the employee is eligible to retire. Upon retirement, as defined in the Company's share-based compensation plans, outstanding awards are subject to certain accelerated vesting terms.

***Concentration of Credit Risk***

Financial instruments that are potentially subject to concentrations of credit risk consist primarily of cash and cash equivalents, investments in marketable securities and trade receivables. Investment and cash management policies have been implemented that limit deposit concentrations and limit investments to investment grade securities. The risk with respect to trade receivables is mitigated by monitoring payment terms and periodic credit evaluations we perform on our customers, the short duration of our payment terms and by the diversification of our customer base. In fiscal years 2011 and 2010, one customer accounted for 10% of total net sales. No single customer accounted for more than 10% or more of total net sales in fiscal year 2009.

***Use of Estimates***

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

***Reclassifications***

Certain amounts in the consolidated financial statements and notes to consolidated financial statements for prior years have been reclassified to conform to the fiscal year 2011 presentation.

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**Notes to Consolidated Financial Statements (continued)**

**2. Restructuring Charges**

During the year ended June 30, 2009, the Company recorded \$9.4 million of charges associated with the closure of our metal strip manufacturing facility in the United Kingdom ( UK ), which we announced in March 2009. The UK facility employed approximately 35 workers and manufactured soft magnetic nickel-iron and cobalt-iron alloys in strip and bar form. The UK manufacturing operations were historically included in our Advanced Metals Operation segment, and the restructuring charges have not been included in the segment operating results.

**3. Acquisition and Strategic Partnership**

*Acquisitions*

*Latrobe Specialty Metals, Inc.*

On June 20, 2011, the Company entered into an Agreement and Plan of Merger (the Merger Agreement ) to acquire Latrobe Specialty Metals, Inc., a Delaware corporation ( Latrobe ). The closing of the merger is subject to the satisfaction or waiver of certain conditions.

According to the terms of the Merger Agreement, the Company will issue 8.1 million shares of the Company s common stock to Latrobe s stockholders, subject to certain adjustments for working capital and other items. The Company will assume all third party indebtedness incurred by Latrobe, and pay all fees and expenses incurred by Latrobe prior to the Merger in connection with prior proposed securities offerings; provided, however, if the amount of Latrobe s indebtedness assumed by the Company exceeds \$160 million, or the amount of Latrobe s prior securities offering related expenses paid by the Company exceeds \$4 million, such excess amounts shall reduce the number of shares of Company common stock to be issued to Latrobe s stockholders. In addition, the Company will pay all transaction related expenses of Latrobe; provided, however, that any such amounts in excess of \$10 million may reduce the number of shares of Company common stock to be issued to Latrobe s stockholders.

Under the Merger Agreement, a portion of the shares to be issued as merger consideration will be placed into escrow to secure Latrobe s indemnification obligations and to account for pension funding issues of Latrobe. An indemnity escrow equal to \$50 million worth of the Company common stock will be created to cover general indemnification claims. Assuming no claims are asserted, half of the indemnity escrow will be released on the first anniversary of the closing and the remaining shares will be released after 24 months. An additional 300,000 shares will be placed into a pension escrow account in connection with Latrobe s Pension Funding Issues. The shares of Company common stock will be released from the pension escrow over a period of 5 years following closing based on the level of a particular fixed income index over such 5-year period.

The Company has agreed that upon consummation of the Merger and until the Company s 2014 annual meeting of stockholders, certain of Latrobe s stockholders will designate two persons who will be appointed to the Company s Board of Directors. Certain of Latrobe s stockholders (including those that have the right to designate directors to the Company s Board of Directors) will, upon consummation of the Merger, agree (i) that during the time that such Latrobe stockholders may appoint designees to the Company s Board of Directors (or shorter in the event such designees resign from the Company s Board of Directors) they will vote the shares of the Company s common stock in favor of the Company s nominees for directors and not contrary to the recommendations of the Company s Board of Directors on other matters, and (ii) for a period of five years following the consummation of the Merger they will not acquire any additional shares of the Company s common stock or, with limited exceptions, sell their shares of the Company s common stock where the result of such sale would be for a third party to own more than 5% of the Company s outstanding common stock. The Company has also agreed to grant limited registration rights in favor of such Latrobe stockholders.

**Table of Contents****Notes to Consolidated Financial Statements (continued)**

The Merger Agreement may be terminated by Latrobe or the Company in the event the consummation of the Merger has not occurred by September 30, 2011 and the cause for the consummation not occurring is not the terminating party; provided, however, if the Merger has not been consummated solely because the applicable antitrust approvals have not been received, and all other conditions to consummation of the Merger have been satisfied or waived, then the Termination Date shall be January 16, 2012. Latrobe also may terminate the Merger Agreement at any time after October 31, 2011 because the applicable antitrust approvals have not been received, although the Company may override such termination. If the override right is exercised and the Merger is not consummated by January 16, 2012, the Company shall be required to pay Latrobe a \$5 million fee. In addition, if the Merger Agreement is terminated by Latrobe because applicable antitrust approvals have not, or cannot, be obtained, the Company agreed to reimburse Latrobe for its reasonable out-of-pocket costs related to seeking the applicable antitrust approvals.

In connection with the Merger Agreement, the Company incurred approximately \$2.4 million of acquisition related costs in fiscal year 2011.

*Amega West Services*

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

|  |                |
|--|----------------|
| Net working capital, including \$4.9 million of accounts payable to Carpenter effectively settled at closing | \$ 6.5         |
| Property, plant and equipment  | 25.9           |
| Customer relationships   | 5.2            |
| Non-compete agreements   | 5.4            |
| Trademarks and tradenames  | 1.9            |
| Goodwill   | 9.7            |
| Deferred tax liabilities   | (0.6)          |
| Long-term debt   | (12.4)         |
| <b>Total purchase price</b>  | <b>\$ 41.6</b> |

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

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

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**Notes to Consolidated Financial Statements (continued)**

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

In connection with the Amega West acquisition, the Company incurred approximately \$0.7 million of acquisition related costs in fiscal year 2011.

*Oilfield Alloys*

On June 27, 2011, the Company acquired Oilfield Alloys Pte. Ltd. ( Oilfield Alloys ) for a purchase price of \$4.8 million which consisted of a cash purchase price of \$4.1 million, net of cash acquired of \$0.3 million, paid at closing. The remaining purchase price of \$0.7 million was held back to satisfy the occurrence of certain indemnification obligations, if any, and will be released to the sellers on the third anniversary of the acquisition less any indemnification claims. Based in Singapore, Oilfield Alloys manufactures and distributes directional drilling equipment in the Asia-Pacific region. A distributor of several Carpenter non-magnetic products, Oilfield Alloys also has a sales location in Dubai. Oilfield Alloys will become part of Amega West Services operations. The preliminary purchase price allocation includes \$1.2 million of working capital of \$1.7 million of property and equipment and \$1.9 million of intangible assets. The final purchase price allocation is dependent on the final valuations which are expected to be completed during the first quarter of fiscal year 2012.

*Strategic Partnership*

Effective November 1, 2010, the Company established a strategic partnership with Sandvik Materials Technology ( Sandvik ) to further strengthen its leadership position in high-performance powder metal products. As part of the strategic partnership, the Company acquired a 40 percent interest in Sandvik Powdermet AB for a cash purchase price of \$6.2 million. The Company has treated the acquisition of 40 percent interest in Sandvik Powdermet AB as an equity method investment. In addition, in connection with the strategic partnership, Sandvik acquired a 40 percent interest in Carpenter Powder Products AB for a cash purchase price of \$9.1 million. Sandvik s acquired interest in Carpenter Powder Products AB has been reported as a noncontrolling interest.

Carpenter Powder Products AB, a subsidiary of the Company based in Torshalla, Sweden, manufactures high-alloy powder and is currently one of Sandvik Powdermet AB s major suppliers. The strategic partnership will provide the Company with access to Sandvik Powdermet AB s market for near-net-shape powder products, and will ensure Sandvik s long-term supply of high quality powder. As the name implies, near-net-shapes are produced using a manufacturing technique in which the initial production of the item is very close to the final (net) shape, resulting in lower production costs for end users of the products. The strategic partnership is expected to provide accelerated growth opportunities for both companies in powder metal markets, particularly in the energy end-use market. The two businesses, each with current annual revenues of approximately \$20 million, will continue to operate under their current respective brands, Carpenter and Sandvik.

**Table of Contents****Notes to Consolidated Financial Statements (continued)****4. Earnings per Common Share**

The calculations of basic and diluted earnings from continuing operations per common share for the years ended June 30, 2011, 2010 and 2009 were as follows:

| (\$ in millions, except per share data)                            | Year Ended June 30, |                |                |
|--|---------------------|----------------|----------------|
|  | 2011                | 2010           | 2009           |
| Net income attributable to Carpenter                               | \$ 71.0             | \$ 2.1         | \$ 47.9        |
| Less: earnings and dividends allocated to participating securities | (0.8)               | (0.2)          | (0.1)          |
| <b>Earnings available for Carpenter common shareholders</b>        | <b>\$ 70.2</b>      | <b>\$ 1.9</b>  | <b>\$ 47.8</b> |
| Weighted average number of common shares outstanding, basic        | 44.1                | 43.9           | 43.9           |
| Effect of shares issuable under share based compensation plans     | 0.6                 | 0.5            | 0.3            |
| Weighted average number of common shares outstanding, diluted      | 44.7                | 44.4           | 44.2           |
| <b>Basic earnings per common share</b>                             | <b>\$ 1.59</b>      | <b>\$ 0.04</b> | <b>\$ 1.08</b> |
| <b>Diluted earnings per common share</b>                           | <b>\$ 1.59</b>      | <b>\$ 0.04</b> | <b>\$ 1.08</b> |

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

| (in millions)           | Year Ended June 30, |      |      |
|-------------------------|---------------------|------|------|
|                         | 2011                | 2010 | 2009 |
| Stock options           | 0.1                 | 0.4  | 0.4  |
| Restricted stock awards |                     |      | 0.1  |

**Table of Contents****Notes to Consolidated Financial Statements (continued)****5. Marketable Securities**

The fair value of the Company's marketable securities was based on quoted market prices or estimates of fair value as of June 30, 2011 and 2010. The following is a summary of marketable securities, all of which were classified as available-for-sale as of June 30, 2011 and 2010:

**June 30, 2011**

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

**June 30, 2010**

| (\$ in millions)                  | Cost     | Unrealized Losses | Estimated Fair Value |
|-----------------------------------|----------|-------------------|----------------------|
| <b>Current</b>                    |          |                   |                      |
| Government agency bonds           | \$ 78.9  | \$                | \$ 78.9              |
| Corporate bonds                   | 15.4     |                   | 15.4                 |
| Commercial paper                  | 0.9      |                   | 0.9                  |
| Certificate of deposit            | 10.0     |                   | 10.0                 |
|                                   | \$ 105.2 | \$                | \$ 105.2             |
| <b>Non-current</b>                |          |                   |                      |
| Municipal auction rate securities | \$ 6.2   | \$ (0.9)          | \$ 5.3               |

For the fiscal years ended June 30, 2011, 2010 and 2009, proceeds from sales and maturities of marketable securities were \$166.0 million, \$55.3 million and \$44.8 million, respectively.

***Municipal Auction Rate Securities***

As of June 30, 2011 and June 30, 2010, the Company's marketable securities included municipal auction rate securities with a par value of \$6.1 million and \$6.2 million, respectively. The municipal auction rate securities are callable at par at the option of the issuer. As of June 30, 2011 and 2010 respectively, the Company recorded \$0.8 million and \$0.9 million of unrealized losses to reflect the estimated market value of these securities. The Company does not intend to sell the securities and believes that it is more likely than not that the Company will not be required to sell the securities before recovering their costs. The valuation of auction rate securities is subject to uncertainties that are difficult to predict. Factors that impact the valuation of these securities include changes in credit ratings of the securities as well as the underlying assets supporting those securities, rates of default of the underlying assets, underlying collateral value, discount rates, counterparty risk and the ongoing strength and quality of market credit and liquidity. The municipal auction rate securities owned by the Company are of high credit quality and maintain credit enhancements. The Company does not believe that any of the underlying issuers of our municipal auction rate securities are currently at risk of default. The securities have been classified according to their stated maturity dates, which range from 2019 to 2030. Accordingly, the municipal auction rate securities are included in other assets in the accompanying consolidated balance sheets.



**Table of Contents****Notes to Consolidated Financial Statements (continued)****6. Inventories**

| (\$ in millions)                | June 30,        |                 |
|---------------------------------|-----------------|-----------------|
|                                 | 2011            | 2010            |
| Raw materials and supplies      | \$ 63.3         | \$ 30.7         |
| Work in process                 | 171.9           | 109.1           |
| Finished and purchased products | 93.4            | 63.8            |
| <b>Total inventory</b>          | <b>\$ 328.6</b> | <b>\$ 203.6</b> |

If the first-in, first-out method of inventory had been used instead of the LIFO method, inventories would have been \$355.4 million and \$331.8 million higher as of June 30, 2011 and 2010, respectively. Current cost of LIFO-valued inventories was \$599.3 million at June 30, 2011 and \$474.4 million at June 30, 2010. The reductions in LIFO-valued inventories decreased cost of sales by \$1.7 million during fiscal year 2011, \$7.0 million during fiscal year 2010, and \$8.0 million during fiscal year 2009.

**7. Property, Plant and Equipment**

| (\$ in millions)                                | June 30,        |                 |
|---|-----------------|-----------------|
|   | 2011            | 2010            |
| Land  | \$ 8.5          | \$ 8.1          |
| Buildings and building equipment                | 267.6           | 263.4           |
| Machinery and equipment                         | 1,249.3         | 1,176.1         |
| Construction in progress                        | 38.4            | 18.6            |
| <b>Total at cost</b>                            | <b>1,563.8</b>  | <b>1,466.2</b>  |
| Less: accumulated depreciation and amortization | 900.9           | 848.7           |
| <b>Total property, plant, and equipment</b>     | <b>\$ 662.9</b> | <b>\$ 617.5</b> |

The estimated useful lives of depreciable assets are as follows:

| Asset Category                   | Useful Life<br>(in Years) |
|----------------------------------|---------------------------|
| Buildings and building equipment | 10 45                     |
| Machinery and equipment          | 3 30                      |

Depreciation for the years ended June 30, 2011, 2010 and 2009 was \$59.2 million, \$53.6 million and \$49.5 million, respectively.



**Table of Contents****Notes to Consolidated Financial Statements (continued)****8. Goodwill and Other Intangible Assets, Net****Goodwill**

Carpenter conducted its annual impairment review as of June 30, 2011 and 2010 and determined that there was no goodwill impairment. The changes in the carrying amount of goodwill by reportable segment for fiscal year 2011 and 2010 were as follows:

| (\$ in millions)              | June 30,<br>2010 | Acquisitions  | June 30,<br>2011 |
|-------------------------------|------------------|---------------|------------------|
| Goodwill                      | \$ 69.9          | \$ 9.7        | \$ 79.6          |
| Accumulated impairment losses | (34.7)           |               | (34.7)           |
| <b>Total goodwill</b>         | <b>\$ 35.2</b>   | <b>\$ 9.7</b> | <b>\$ 44.9</b>   |
| Advanced Metals Operations    | \$ 35.2          | \$            | \$ 35.2          |
| Emerging Ventures             |                  | 9.7           | 9.7              |
| <b>Total goodwill</b>         | <b>\$ 35.2</b>   | <b>\$ 9.7</b> | <b>\$ 44.9</b>   |

There were no changes in the carrying amount of goodwill during fiscal year 2010.

**Other Intangible Assets, Net**

| (\$ in millions)           | 2011                  |                          | June 30,            |                       | 2010                     |                     |
|----------------------------|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
|                            | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Trademarks and trade names | \$ 32.5               | \$ (14.8)                | \$ 17.7             | \$ 30.6               | \$ (13.7)                | \$ 16.9             |
| Customer relationships     | 6.1                   | (0.7)                    | 5.4                 | 0.9                   | (0.2)                    | 0.7                 |
| Non-compete agreements     | 5.4                   | (0.4)                    | 5.0                 |                       |                          |                     |
| Other                      | 1.9                   |                          | 1.9                 |                       |                          |                     |
| <b>Total</b>               | <b>\$ 45.9</b>        | <b>\$ (15.9)</b>         | <b>\$ 30.0</b>      | <b>\$ 31.5</b>        | <b>\$ (13.9)</b>         | <b>\$ 17.6</b>      |

Carpenter recorded \$2.0 million of amortization expense during fiscal year 2011, \$1.1 million during fiscal year 2010, and \$1.1 million during fiscal year 2009. The estimated annual amortization expense for each of the succeeding five fiscal years is \$3.1 million.

**9. Debt**

On June 28, 2011, the Company issued an underwritten public offering of \$250 million in aggregate principal amount of its 5.20% senior notes due 2021. The Company expects to use the net proceeds from the issuance of the senior notes to repay \$100 million in principal amount of Carpenter Technology Corporation's medium term notes, Series C, at 7.625% due August 2011. The Company intends to use the remaining net proceeds from the offering for general corporate purposes, which may include additions to working capital, capital expenditures, repayment of debt, the financing of acquisitions, joint ventures and other business combination opportunities or stock repurchases.



**Table of Contents****Notes to Consolidated Financial Statements (continued)**

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

Interest on the borrowings under the Credit Agreement accrue at variable rates, based upon LIBOR or a defined Base Rate, that are determined based upon the rating of the Company's senior unsecured long-term debt (the Debt Rating ). The applicable margin to be added to LIBOR ranges from 0.65% to 1.95%, and for Base Rate-determined loans, from 0.0% to 0.95%. The Company also pays a quarterly facility fee ranging from 0.10% to 0.45%, determined based upon the Company's Debt Rating, of the \$350 million commitment under the Credit Agreement. In addition, the Company must pay certain letter of credit fees, ranging from 0.65% to 1.95%, with respect to letters of credit issued under the Credit Agreement. The Company has the right to voluntarily prepay and reborrow loans and to terminate or reduce the commitments under the facility. As of June 30, 2011, the Company had \$3.5 million of issued letters of credit under the Credit Agreement, with the balance of \$346.5 million available for future borrowings.

The Company is subject to certain financial and restrictive covenants under the Credit Agreement, which, among other things, require the maintenance of a minimum interest coverage ratio (which begins at 3.25 to 1.0 for the period through September 30, 2011, and ultimately increases to 3.5 to 1.0 thereafter). The interest coverage ratio is defined in the Credit Agreement as, for any period, the ratio of consolidated earnings before interest, taxes, depreciation and amortization ( EBITDA ) to consolidated interest expense for such period. The Credit Agreement also requires the Company to maintain a debt to capital ratio of less than 55%. The debt to capital ratio is defined in the Credit Agreement as the ratio of consolidated indebtedness, as defined, to consolidated capitalization, as defined. As of June 30, 2011, the Company was in compliance with all of the covenants of the Credit Agreement.

Long-term debt outstanding as of June 30, 2011 and 2010 consisted of the following:

| (\$ in millions)  | June 30,        |                 |
|---|-----------------|-----------------|
|   | 2011            | 2010            |
| Senior unsecured notes, 6.625% due May 2013 (face value of \$100.0 million at June 30, 2011 and 2010)   | \$ 102.4        | \$ 102.8        |
| Medium-term notes, Series B at 6.74% to 7.10% due from April 2013 to May 2018 (face value of \$56.0 million at June 30, 2011 and \$56.0 million at June 30, 2010) | 56.0            | 56.0            |
| Medium-term notes, Series C at 7.625% due August 2011 (face value of \$100.0 million at June 30, 2011 and 2010)   | 99.8            | 100.8           |
| Senior unsecured notes, 5.200% due July 2021 (face value of \$250.0 million at June 30, 2011)   | 249.6           |                 |
| <b>Total</b>  | <b>507.8</b>    | <b>259.6</b>    |
| Less amounts due within one year  | 100.0           |                 |
| <b>Long-term debt, net of current portion</b>   | <b>\$ 407.8</b> | <b>\$ 259.6</b> |

The carrying value of the notes as of June 30, 2011 and 2010 includes fair value adjustments for interest rate swap contracts of \$0.4 million and \$0.7 million, respectively, for deferred gains on settled interest rate swaps. The deferred gains on settled interest rate swap contracts are being recognized as reductions to interest expense over the remaining term of the notes, which ranges from one to three years.

**Table of Contents****Notes to Consolidated Financial Statements (continued)**

Aggregate maturities of long-term debt for the four years subsequent to June 30, 2011, are \$100.0 million in fiscal year 2012, \$101.0 million in fiscal year 2013 and \$0 in fiscal year 2014 and 2015.

For the years ended June 30, 2011, 2010 and 2009, interest costs totaled \$17.6 million, \$18.8 million and \$20.1 million, respectively, of which \$0.5 million, \$1.0 million and \$4.0 million, respectively, were capitalized as part of the cost of property, plant, equipment and software.

**10. Accrued Liabilities**

Accrued liabilities consisted of the following as of June 30, 2011 and 2010:

| (\$ in millions)                 | June 30, |         |
|----------------------------------|----------|---------|
|                                  | 2011     | 2010    |
| Accrued compensation             | \$ 41.2  | \$ 38.6 |
| Accrued pension liabilities      | 30.7     | 3.3     |
| Accrued postretirement benefits  | 15.2     | 14.7    |
| Derivative financial instruments | 7.7      | 1.9     |
| Other                            | 30.1     | 29.1    |
| Total accrued liabilities        | \$ 124.9 | \$ 87.6 |

**11. Pension and Other Postretirement Benefits**

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

Carpenter also provides other postretirement benefit plans to certain of its employees. The postretirement benefit plans consist of health care and life insurance plans. Benefit payments are currently paid from corporate assets. Plan assets are maintained in a Voluntary Employee Benefit Association Trust ( VEBA ) and are principally invested in equity securities.

**Table of Contents****Notes to Consolidated Financial Statements (continued)**

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

| (\$ in millions)  | Pension Plans |            | Other Postretirement Plans |            |
|---|---------------|------------|----------------------------|------------|
|   | 2011          | 2010       | 2011                       | 2010       |
| <b>Change in projected benefit obligation:</b>                |               |            |                            |            |
| Projected benefit obligation at beginning of year             | \$ 957.2      | \$ 829.9   | \$ 224.6                   | \$ 199.8   |
| Service cost  | 22.8          | 21.0       | 2.7                        | 2.3        |
| Interest cost   | 46.5          | 50.2       | 10.9                       | 12.1       |
| Benefits paid   | (55.8)        | (58.6)     | (10.7)                     | (11.1)     |
| Actuarial (gain) loss   | (41.5)        | 115.1      | (23.6)                     | 21.0       |
| Plan settlements  | (0.3)         |            |                            |            |
| Plan amendments   | 0.2           | (0.4)      |                            | (0.3)      |
| Other   | 0.1           |            | 0.3                        | 0.8        |
| Projected benefit obligation at end of year                   | \$ 929.2      | \$ 957.2   | \$ 204.2                   | \$ 224.6   |
| <b>Change in plan assets:</b>                                 |               |            |                            |            |
| Fair value of plan assets at beginning of year                | \$ 631.5      | \$ 586.6   | \$ 63.2                    | \$ 57.0    |
| Actual return on plan assets                                  | 127.8         | 100.0      | 17.4                       | 6.4        |
| Benefits paid from plan assets                                | (55.8)        | (58.6)     | (10.7)                     | (11.1)     |
| Contributions   | 7.0           | 3.5        | 10.4                       | 10.9       |
| Plan settlements  | (0.3)         |            |                            |            |
| Fair value of plan assets at end of year                      | \$ 710.2      | \$ 631.5   | \$ 80.3                    | \$ 63.2    |
| Funded status of the plans                                    | \$ (219.0)    | \$ (325.7) | \$ (123.9)                 | \$ (161.4) |
| <b>Amounts recognized in the Consolidated Balance Sheets:</b> |               |            |                            |            |
| Other assets - noncurrent                                     | \$ 0.2        | \$ 0.2     | \$                         | \$         |
| Accrued liabilities - current                                 | (30.7)        | (3.3)      | (15.2)                     | (14.7)     |
| Accrued pension liabilities - noncurrent                      | (188.5)       | (322.6)    |                            |            |
| Accrued postretirement benefits                               |               |            | (108.7)                    | (146.7)    |
|   | \$ (219.0)    | \$ (325.7) | \$ (123.9)                 | \$ (161.4) |

**Table of Contents****Notes to Consolidated Financial Statements (continued)**

| (\$ in millions)   | Pension Plans   |                 | Other<br>Postretirement Plans |                |
|--|-----------------|-----------------|-------------------------------|----------------|
|  | 2011            | 2010            | 2011                          | 2010           |
| <b>Amounts recognized in accumulated other comprehensive loss:</b> |                 |                 |                               |                |
| Net actuarial loss   | \$ 333.5        | \$ 486.5        | \$ 53.0                       | \$ 95.1        |
| Prior service cost (credit)  | 4.3             | 5.0             | (12.1)                        | (20.0)         |
| <b>Total</b>   | <b>\$ 337.8</b> | <b>\$ 491.5</b> | <b>\$ 40.9</b>                | <b>\$ 75.1</b> |
| <b>Additional information:</b>                                     |                 |                 |                               |                |
| Accumulated benefit obligation for all pension plans               | \$ 859.2        | \$ 875.8        | N/A                           | N/A            |

The following is additional information related to plans with projected benefit obligations in excess of plan assets as of June 30, 2011 and 2010:

| (\$ in millions)             | Pension Plans |          | Other<br>Postretirement Plans |          |
|------------------------------|---------------|----------|-------------------------------|----------|
|                              | 2011          | 2010     | 2011                          | 2010     |
| Projected benefit obligation | \$ 929.2      | \$ 957.2 | \$ 204.2                      | \$ 224.6 |
| Fair value of plan assets    | \$ 710.2      | \$ 631.5 | \$ 80.3                       | \$ 63.2  |

The following additional information is for plans with accumulated benefit obligations in excess of plan assets as of June 30, 2011 and 2010:

| (\$ in millions)               | Pension Plans |          | Other<br>Postretirement Plans |          |
|--------------------------------|---------------|----------|-------------------------------|----------|
|                                | 2011          | 2010     | 2011                          | 2010     |
| Accumulated benefit obligation | \$ 859.2      | \$ 875.8 | \$ 204.2                      | \$ 224.6 |
| Fair value of plan assets      | \$ 710.2      | \$ 631.5 | \$ 80.3                       | \$ 63.2  |

The components of the net periodic benefit cost related to the Company's pension and other postretirement benefits for the years ended June 30, 2011, 2010 and 2009 are as follows:

**Table of Contents****Notes to Consolidated Financial Statements (continued)**

| (\$ in millions)                             | Pension Plans |         |         | Other Postretirement Plans |        |        |
|--|---------------|---------|---------|----------------------------|--------|--------|
|  | 2011          | 2010    | 2009    | 2011                       | 2010   | 2009   |
| Service cost                                 | \$ 22.8       | \$ 21.0 | \$ 18.0 | \$ 2.7                     | \$ 2.3 | \$ 2.2 |
| Interest cost                                | 46.5          | 50.2    | 50.4    | 10.9                       | 12.1   | 12.1   |
| Expected return on plan assets               | (45.4)        | (45.0)  | (60.9)  | (5.0)                      | (4.6)  | (6.2)  |
| Amortization of net loss                     | 29.1          | 27.0    | 9.7     | 6.0                        | 5.0    | 2.1    |
| Amortization of prior service cost (benefit) | 1.0           | 1.1     | 1.1     | (7.9)                      | (7.8)  | (7.9)  |
| Curtailed                                    |               |         |         |                            |        |        |
| Plan settlement expense                      | 0.1           |         | 4.4     |                            |        |        |
| Net pension expense                          | \$ 54.1       | \$ 54.3 | \$ 22.7 | \$ 6.7                     | \$ 7.0 | \$ 2.3 |

As discussed in Note 2, the Company closed the metal strip manufacturing facility in the U.K. In conjunction with the closure, the Company settled the defined benefit pension plan covering employees at the U.K. facility.

The service cost component of Carpenter's net pension expense, which represents the estimated cost of future pension liabilities earned associated with active employees, is included in the operating income of the business segments. The residual net pension expense, which is comprised of the expected return on plan assets, interest costs on the projected benefit obligations of the plans, and amortization of actuarial gains and losses and prior service costs, is included under the heading "Pension earnings, interest & deferrals" in the segment data presented in Note 20.

**Table of Contents****Notes to Consolidated Financial Statements (continued)**

Principal actuarial assumptions at June 30:

|  | Pension Plans |       |       | Other Postretirement Plans |       |       |
|--|---------------|-------|-------|----------------------------|-------|-------|
|  | 2011          | 2010  | 2009  | 2011                       | 2010  | 2009  |
| Weighted-average assumptions used to determine benefit obligations at fiscal year end        |               |       |       |                            |       |       |
| Discount rate  | 5.50%         | 5.00% | 6.25% | 5.50%                      | 5.00% | 6.25% |
| Rate of compensation increase  | 3.66%         | 3.66% | 3.65% | N/A                        | N/A   | N/A   |
|  | Pension Plans |       |       | Other Postretirement Plans |       |       |
|  | 2011          | 2010  | 2009  | 2011                       | 2010  | 2009  |
| Weighted-average assumptions used to determine net periodic benefit cost for the fiscal year |               |       |       |                            |       |       |
| Discount rate  | 5.00%         | 6.25% | 6.75% | 5.00%                      | 6.25% | 6.75% |
| Expected long-term rate of return on plan assets   | 7.50%         | 8.00% | 8.00% | 8.00%                      | 8.00% | 8.00% |
| Long-term rate of compensation increase  | 3.66%         | 3.65% | 3.65% | N/A                        | N/A   | N/A   |

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

|  | June 30, |      |
|--|----------|------|
|  | 2011     | 2010 |
| Assumed health care cost trend rate  | 8.5%     | 9%   |
| Rate to which the cost trend rate is assumed to decline and remain (the ultimate trend rate) | 5%       | 5%   |
| Year that the rate reaches the ultimate trend rate   | 2018     | 2018 |

Assumed health care cost trend rates have an effect on the amounts reported for other postretirement benefits. A one percentage point increase in the assumed health care cost trend rate would increase service and interest cost by \$0.4 million and increase the postretirement benefit obligation by \$6.9 million. A one percentage point decrease in the assumed health care cost trend rate would decrease service and interest cost by \$0.4 million and decrease the postretirement benefit obligation by \$6.1 million.



**Table of Contents****Notes to Consolidated Financial Statements (continued)**

Net pension expense, which we define to include the net periodic benefit costs of both the pension and other postretirement plans, is estimated to be \$39.4 million for the year ended June 30, 2012, comprised of \$37.5 million of net periodic benefit costs for pension plans and \$1.9 million of net periodic benefit costs for other post-retirement benefit plans. The discount rate and expected long-term rate of return on plan assets used to calculate the net periodic benefit costs for pension plans for the year ended June 30, 2012 were 5.5 percent and 7.5 percent, respectively. The discount rate and expected long-term rate of return on plan assets used to calculate the net periodic benefits costs for other post-retirement benefit plans for the year ended June 30, 2012 were 5.5 percent and 8.0 percent, respectively.

Amounts in other comprehensive loss that are expected to be recognized as components of net periodic benefit cost in the year ended June 30, 2012 are:

| (\$ in millions)                                     | Pension<br>Plans | Other<br>Postretirement<br>Plans | Total    |
|--|------------------|----------------------------------|----------|
| Amortization of prior service cost (credit)          | \$ 0.7           | \$ (7.9)                         | \$ (7.2) |
| Amortization of net actuarial loss                   | 17.5             | 2.6                              | 20.1     |
| Amortization of accumulated other comprehensive loss | \$ 18.2          | \$ (5.3)                         | \$ 12.9  |

Carpenter's U.S. pension plans' weighted-average asset allocations at June 30, 2011 and 2010, by asset category are as follows:

|                           | 2011   | 2010   |
|---------------------------|--------|--------|
| Equity securities         | 66.1%  | 49.1%  |
| Fixed income securities   | 32.3   | 33.0   |
| Cash and cash equivalents | 1.6    | 17.9   |
| Total                     | 100.0% | 100.0% |

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

Management determines an asset allocation that will provide the highest level of return for an acceptable level of risk. Accordingly, Carpenter invests in different asset classes including large-, mid- and small-cap growth and value funds, index and international equity funds, short-term and medium-term duration fixed-income funds and high yield funds. The plan's current allocation policy is to have approximately 60 percent U.S. and international equities and 40 percent fixed income securities. The Company may vary the actual asset mix based on the ratio of the plan assets and liabilities. Management reviews the asset allocation on a quarterly basis and makes revisions as deemed necessary. The assets related to Carpenter's other postretirement benefit plans were invested 100 percent in equity securities as of June 30, 2011 and 2010.

**Table of Contents****Notes to Consolidated Financial Statements (continued)**

The fair values of the Company's pension plan assets as of June 30, 2011 and 2010, by asset category and by the levels of inputs used to determine fair value were as follows:

| (\$ in millions)                    | June 30, 2011 |          |          | June 30, 2010 |          |          |
|-------------------------------------|---------------|----------|----------|---------------|----------|----------|
|                                     | Fair Value    |          |          | Fair Value    |          |          |
|                                     | Level 1       | Level 2  | Total    | Level 1       | Level 2  | Total    |
| Short-term investments              | \$            | \$ 10.5  | \$ 10.5  | \$            | \$ 121.5 | \$ 121.5 |
| Domestic and international equities | 252.0         | 0.7      | 252.7    | 253.8         | 0.9      | 254.7    |
| Commingled funds                    | 40.6          | 246.2    | 286.8    |               | 112.7    | 112.7    |
| Government agency bonds             | 65.6          |          | 65.6     | 65.0          |          | 65.0     |
| Corporate bonds                     | 76.0          |          | 76.0     |               | 63.0     | 63.0     |
| Mortgage backed securities          |               | 17.6     | 17.6     |               | 13.5     | 13.5     |
| Asset backed securities and other   |               | 1.0      | 1.0      |               | 1.1      | 1.1      |
|                                     | \$ 434.2      | \$ 276.0 | \$ 710.2 | \$ 318.8      | \$ 312.7 | \$ 631.5 |

The fair values of the Company's other postretirement benefit plans as of June 30, 2011 and 2010, by asset category and by the level of inputs used to determine fair value, were as follows:

| (\$ in millions)                    | June 30, 2011 |         |         | June 30, 2010 |         |         |
|-------------------------------------|---------------|---------|---------|---------------|---------|---------|
|                                     | Fair Value    |         |         | Fair Value    |         |         |
|                                     | Level 1       | Level 2 | Total   | Level 1       | Level 2 | Total   |
| Commingled fund                     | \$            | \$ 43.9 | \$ 43.9 | \$            | \$ 34.9 | \$ 34.9 |
| Short-term investments              |               | 14.5    | 14.5    |               | 4.3     | 4.3     |
| Government agency bonds             | 16.0          |         | 16.0    |               |         |         |
| Corporate bonds and other           | 5.9           |         | 5.9     |               |         |         |
| Domestic and international equities |               |         |         | 23.6          | 0.4     | 24.0    |
|                                     | \$ 21.9       | \$ 58.4 | \$ 80.3 | \$ 23.6       | \$ 4.7  | \$ 28.3 |

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Investments in domestic and international equities are generally valued at the closing price reported on the active market on which they are traded. Commingled funds are valued based on the net asset value (NAV) established for the fund at each valuation date. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. Corporate and government agency bonds and other fixed income securities are valued using closing bid prices on an active market when possible, otherwise using evaluated bid prices.

Management establishes the expected long-term rate of return assumption by reviewing historical trends and analyzing the current and projected market conditions in relation to the plan's asset allocation and risk management objectives. In determining the expected long-term rate of return, Carpenter considered historical returns for individual asset classes and the impact of active portfolio management.

**Table of Contents****Notes to Consolidated Financial Statements (continued)*****Cash Flows Employer Contributions***

The Company made a contribution of \$3.9 million to its US pension plan during fiscal year 2011 but was not required to make contributions to the plans during fiscal years 2010 and 2009. The Company currently expects to make approximately \$27.7 million in required contributions to the Company's US pension plan during fiscal year 2012. During the years ended June 30, 2011, 2010 and 2009, the Company made contributions of \$3.1 million, \$3.5 million and \$8.0 million to other pension plans, respectively.

***Estimated Future Benefit Payments***

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

| (\$ in millions) | Pension<br>Benefits | Other<br>Benefits |
|------------------|---------------------|-------------------|
| 2012             | \$ 59.6             | \$ 12.8           |
| 2013             | \$ 60.4             | \$ 13.2           |
| 2014             | \$ 62.3             | \$ 13.7           |
| 2015             | \$ 64.3             | \$ 14.1           |
| 2016             | \$ 65.2             | \$ 14.4           |
| 2017-2021        | \$ 353.2            | \$ 75.6           |

***Other Benefit Plans***

Carpenter also maintains defined contribution retirement and savings plans for substantially all domestic employees. Company contributions were \$5.2 million in fiscal year 2011, \$4.0 million in fiscal year 2010 and \$4.9 million in fiscal year 2009.

**12. Contingencies and Commitments*****Environmental***

Carpenter is subject to various federal, state, local and international environmental laws and regulations relating to pollution, protection of public health and the environment, natural resource damages and occupational safety and health. Although compliance with these laws and regulations may affect the costs of Carpenter's operations, compliance costs to date have not been material. Carpenter has environmental remediation liabilities at some of its owned operating facilities and has been designated as a potentially responsible party ( PRP ) with respect to certain third-party Superfund waste disposal sites and other third party owned sites. Additionally, Carpenter has been notified that it may be a PRP with respect to other Superfund sites as to which no proceedings have been instituted against Carpenter. Neither the exact amount of remediation costs nor the final method of their allocation among all designated PRP's at these Superfund sites has been determined. The liability for future environmental remediation costs is evaluated by management on a quarterly basis. Carpenter accrues amounts for environmental remediation costs that represent management's best estimate of the probable and reasonably estimable costs related to environmental remediation. During fiscal year 2011, there were no changes to the liabilities recorded for environmental remediation costs. During fiscal year 2010, Carpenter decreased the liabilities recorded for environmental remediation costs by \$2.0 million related to two environmental remediation sites. During fiscal year 2009, Carpenter increased the liabilities recorded for environmental remediation costs by approximately \$2.0 million for one environmental remediation site. 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 June 30, 2011 and 2010 was \$4.9 million.

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**Notes to Consolidated Financial Statements (continued)**

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

***Boarhead Farms***

In June 2002, the Company was named as a defendant in a lawsuit filed by a group of plaintiffs in the District Court for the Eastern District of Pennsylvania titled *Boarhead Farm Agreement Group v. Advanced Environmental Technology Corporation et al.* (since amended to include the individual members). The suit alleges that the Company and the other named defendants contributed to damages caused at Boarhead Farms, a Superfund site located in Bridgeton, Pennsylvania. The Boarhead Farms site was the home of a now defunct chemical and waste hauling company that the Company and many others engaged to dispose of certain wastes during the 1970 s. The plaintiff group was individually named as PRP s for the Boarhead site in the EPA s Record of Decision in November 1998. Their June 2002 lawsuit against various defendants, including Carpenter, sought contributions for a portion of costs incurred for various site cleanup activities as well as contributions to future cleanup efforts. The suit went to trial in June 2008. Prior to trial, all of the named co-defendants, except for Carpenter, reached an out of court settlement with the plaintiffs. Carpenter denied the claims made by the plaintiff group. On August 18, 2008, the Court awarded the plaintiffs judgment against the Company for 80 percent of the plaintiffs past costs of remediating the site, including prejudgment interest from June 18, 2002 to January 1, 2008, and held the Company liable for 80 percent of future costs of the cleanup activities at the site. The Company appealed the Court s decision and oral arguments took place before the United States Court of Appeals for the Third Circuit on December 17, 2009. On April 12, 2010, the Court of Appeals for the Third Circuit vacated the previous judgment by the District Court and remanded the case for further proceedings. As of June 30, 2011 and June 30, 2010, the Company has recorded a liability related to this case of \$21.8 million. On July 19, 2011, the Company entered into a settlement agreement providing for a dismissal of the lawsuit and a complete release in the Company s favor by all parties to the litigation, in exchange for a payment of \$21.8 million. On August 16, 2011, the settlement was approved by the Court.

***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.

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**Notes to Consolidated Financial Statements (continued)**

In fiscal year 2008, 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. The Company has cooperated fully with the investigation of this matter and is currently engaged in settlement discussions with U.S. Customs.

Based on current facts we believe that the reserve recorded of \$0.4 million as of June 30, 2011, together with an advance payment of \$0.7 million paid to U.S. Customs during settlement discussions in fiscal year 2010, is a reasonable estimate of the probable settlement necessary to fully resolve this matter. The Company does not expect that any additional material liabilities will be incurred related to this matter.

***Export Regulations Violations***

During fiscal year 2008, the Company became aware of potential violations of federal export regulations at a business unit that was recently divested. Upon investigation, the Company discovered that approximately 40 foreign nationals employed over time at the business unit's facility may have been exposed to protected technical data related to the production of various products for military applications. An export license from the Department of State and the Department of Commerce is required prior to the exporting of technical data for military applications. The Company has applied for and received similar applications for other business units, but did not have such a license for the divested business unit. Violations of Federal export regulations can be subject to civil penalties depending upon the severity of the violation. The Company filed voluntary disclosures with the Department of State and the Department of Commerce before the divestiture of the business unit on March 31, 2008. The Department of State responded to the voluntary disclosure without assessing civil penalties. The Department of Commerce has not yet responded to the voluntary disclosure. It is not possible to determine the amount, if any, of civil penalties that may be assessed by the Department of Commerce. As a result the Company has not recorded any liability for potential penalties as of June 30, 2011.

***Other***

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

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**Notes to Consolidated Financial Statements (continued)**

The Company has entered into purchase agreements primarily for various key raw materials at market related prices, all made in the normal course of business. The commitments include both fixed and variable price provisions. We used June 30, 2011 raw material prices for commitments with variable pricing. The purchase commitments covered by these agreements aggregate to approximately \$210.6 million as of June 30, 2011. Of this amount, \$175.2 million relates to fiscal year 2012, \$25.2 million to fiscal year 2013, and \$10.2 million to fiscal year 2014.

**13. Operating Leases**

The Company leases certain facilities and equipment under operating leases. Total rent expense was \$7.3 million, \$6.8 million and \$6.4 million for the fiscal years ended June 30, 2011, 2010 and 2009, respectively.

Future minimum payments for non-cancellable operating leases in effect at June 30, 2011 are: \$6.6 million in fiscal year 2012, \$4.2 million in fiscal year 2013, \$2.8 million in fiscal year 2014, \$2.4 million in fiscal year 2015, \$1.1 million in fiscal year 2016 and \$2.7 million thereafter.

**14. Fair Value Measurements**

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

**Table of Contents****Notes to Consolidated Financial Statements (continued)**

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.

| June 30, 2011<br>(in millions)    | Fair Value<br>Measurements Using<br>Input Type |                | Total          |
|-----------------------------------|--|----------------|----------------|
|                                   | Level 1  | Level 2        |                |
| <b>Assets:</b>                    |  |                |                |
| Marketable securities             |  |                |                |
| Government agency bonds           | \$ 13.7  | \$             | \$ 13.7        |
| Corporate bonds                   | 15.1   |                | 15.1           |
| Commercial paper                  | 1.7  |                | 1.7            |
| Municipal auction rate securities |  | 5.3            | 5.3            |
| Derivative financial instruments  |  | 20.0           | 20.0           |
| <b>Total assets</b>               | <b>\$ 30.5</b>                                 | <b>\$ 25.3</b> | <b>\$ 55.8</b> |
| <b>Liabilities:</b>               |  |                |                |
| Derivative financial instruments  | \$   | \$ 14.1        | \$ 14.1        |

| June 30, 2010<br>(in millions)    | Fair Value<br>Measurements Using<br>Input Type |                | Total           |
|-----------------------------------|--|----------------|-----------------|
|                                   | Level 1  | Level 2        |                 |
| <b>Assets:</b>                    |  |                |                 |
| Marketable securities             |  |                |                 |
| Government agency bonds           | \$ 78.9  | \$             | \$ 78.9         |
| Certificates of deposit           | 10.0   |                | 10.0            |
| Corporate bonds                   | 15.4   |                | 15.4            |
| Commercial Paper                  | 0.9  |                | 0.9             |
| Municipal auction rate securities |  | 5.3            | 5.3             |
| Derivative financial instruments  |  | 9.2            | 9.2             |
| <b>Total assets</b>               | <b>\$ 105.2</b>                                | <b>\$ 14.5</b> | <b>\$ 119.7</b> |
| <b>Liabilities:</b>               |  |                |                 |
| Derivative financial instruments  | \$   | \$ 6.7         | \$ 6.7          |

The Company's derivative financial instruments consist of commodity forward contracts, foreign exchange forward contracts and interest rate swaps. These instruments are measured at fair value using the market method valuation technique. The inputs to this technique utilize information related to foreign exchange rates, commodity prices and interest rates published by third-party leading financial news and data providers. This is observable data; however, the valuation of these instruments is not based on actual transactions for the same instruments so they are classified as Level 2. The Company's use of derivatives and hedging policies are more fully discussed in Note 17.

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





**Table of Contents****Notes to Consolidated Financial Statements (continued)**

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

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

| (in millions)                | June 30, 2011  |            | June 30, 2010  |            |
|------------------------------|----------------|------------|----------------|------------|
|                              | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Company-owned life insurance | \$ 11.4        | \$ 11.4    | \$ 9.3         | \$ 9.3     |
| Long-term debt               | \$ 507.8       | \$ 515.9   | \$ 259.6       | \$ 267.9   |

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

The fair values of long-term debt as of June 30, 2011 and June 30, 2010 were determined by using current interest rates for debt with terms and maturities similar to the Company's existing debt arrangements.

**15. Share Repurchase Program**

In December 2007, the Company's Board of Directors authorized a share repurchase program as a result of the completion of the purchases of the previously authorized share repurchase program. Under the terms of the share repurchase programs, the Company purchased 1,218,900 shares of its common stock on the open market for \$46.1 million during the year ended June 30, 2009.

**16. Share-Based Compensation**

Carpenter has two share-based compensation plans: the 1993 Plan covering officers and key employees and the Director's Plan covering non-employee directors. Awards granted under the share-based compensation plans are generally paid from shares held in treasury and any additional required share payments are made with newly issued shares. The total compensation cost that has been charged against income related to these share-based compensation plans was \$14.4 million, \$7.4 million, and \$10.3 million for the years ended June 30, 2011, 2010 and 2009, respectively.

***1993 Plan***

The 1993 plan provides that the Board of Directors may grant stock options, restricted stock, and restricted stock units, and determine the terms and conditions of each grant. The 1993 plan provides the Chief Executive Officer with limited authority to grant awards. As of June 30, 2011, 2,719,790 shares were available for awards which may be granted under this plan.

**Table of Contents****Notes to Consolidated Financial Statements (continued)*****Director s Plan***

The Director s plan provides for the granting of stock options, performance units and stock units to non-employee Directors. As of June 30, 2011, 874,080 shares were reserved for awards which may be granted under this plan.

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

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

The fair value of stock options awarded in fiscal years 2011, 2010 and 2009 were estimated on the date of each grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

|                          | Year Ended June 30, |      |      |
|--------------------------|---------------------|------|------|
|                          | 2011                | 2010 | 2009 |
| Expected volatility      | 55%                 | 54%  | 45%  |
| Dividend yield           | 2%                  | 2%   | 2%   |
| Risk-free interest rate  | 1.6%                | 2.6% | 2.9% |
| Expected term (in years) | 5.0                 | 5.0  | 5.0  |

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

**Table of Contents****Notes to Consolidated Financial Statements (continued)**

|                              | Number of Awards | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value (In Millions) |
|------------------------------|------------------|---------------------------------|---|---|
| Outstanding at June 30, 2008 | 430,106          | \$ 37.88                        |   |   |
| Granted                      | 145,315          | 28.57                           |   |   |
| Exercised                    | (6,700)          | 14.39                           |   |   |
| Cancelled                    | (27,458)         | 43.49                           |   |   |
| Outstanding at June 30, 2009 | 541,263          | 35.36                           |   |   |
| Granted                      | 592,746          | 18.50                           |   |   |
| Exercised                    | (29,559)         | 10.00                           |   |   |
| Cancelled                    | (283,795)        | 28.31                           |   |   |
| Outstanding at June 30, 2010 | 820,655          | 26.53                           |   |   |
| Granted                      | 227,600          | 34.78                           |   |   |
| Exercised                    | (85,590)         | 17.91                           |   |   |
| Cancelled                    | (5,858)          | 31.31                           |   |   |
| Outstanding at June 30, 2011 | 956,807          | \$ 29.23                        | 7.6 Years                                   | \$ 27.4                                 |
| Exercisable at June 30, 2011 | 546,306          | \$ 30.91                        | 6.8 Years                                   | \$ 14.8                                 |

***Outstanding and Exercisable Options:***

| Exercise Price Range | Number Outstanding at June 30, 2011 | Weighted Average Remaining Contractual Term (in Years) | Weighted Average Exercise Price | Number Exercisable at June 30, 2011 | Weighted Average Exercise Price |
|----------------------|-------------------------------------|--|---------------------------------|-------------------------------------|---------------------------------|
| \$5 - \$10           | 20,000                              | 2.0  | \$ 8.43                         | 20,000                              | \$ 8.43                         |
| \$10 - \$20          | 295,526                             | 7.3  | 16.76                           | 115,192                             | 15.92                           |
| \$21 - \$65          | 641,281                             | 7.9  | 35.63                           | 411,114                             | 36.20                           |
|                      | 956,807                             |  | \$ 29.23                        | 546,306                             | \$ 30.91                        |

The weighted average grant date fair value of options awarded during fiscal years 2011, 2010 and 2009 was \$14.75, \$7.77 and \$10.34, respectively. Share based compensation charged against income related to stock options for the years ended June 30, 2011, 2010 and 2009 was \$3.8 million, \$2.2 million and \$3.3 million, respectively. As of June 30, 2011, \$1.3 million of compensation cost related to non vested stock options remains to be recognized over a weighted average remaining life of 1.3 years.

Of the options outstanding at June 30, 2011, 744,651 relate to the 1993 plan and 212,156 relate to the Directors Plan.

**Table of Contents****Notes to Consolidated Financial Statements (continued)*****Nonvested Stock Awards (all plans):***

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

Performance-based restricted share awards are earned only if Carpenter achieves certain performance goals during a specified performance period according to the terms determined by the Board at the date of the grant. These shares vest from one to two years from the date of the attainment of the specified performance goals. Compensation cost is determined and charged to expense beginning in the performance period through the vesting period. The performance goals for fiscal year 2009 were not attained for the performance shares and therefore no performance shares were earned during fiscal year 2009.

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

Amounts charged to compensation expense for nonvested stock awards was \$7.7 million, \$3.4 million and \$5.9 million for the years end June 30, 2011, 2010 and 2009, respectively. As of June 30, 2011, \$5.3 million of compensation cost related to nonvested restricted stock awards remains to be recognized over a weighted average remaining life of 1.5 years.

|   | Number of<br>Awards | Weighted-<br>Average<br>Grant Date<br>Fair Value |
|---|---------------------|--|
| <b>Nonvested Balance at June 30, 2008</b> | 441,199             | \$ 53.19   |
| Time-based granted                        | 34,788              | \$ 36.45   |
| Vested                                    | (178,745)           | \$ 50.01   |
| Forfeited                                 | (38,678)            | \$ 61.72   |
| <b>Nonvested Balance at June 30, 2009</b> | 258,564             | \$ 50.90   |
| Time-based granted                        | 219,448             | \$ 19.66   |
| Performance-based earned                  | 110,904             | \$ 18.59   |
| Vested                                    | (125,222)           | \$ 50.04   |
| Forfeited                                 | (118,667)           | \$ 32.78   |
| <b>Nonvested Balance at June 30, 2010</b> | 345,027             | \$ 26.63   |
| Time-based granted                        | 171,617             | \$ 33.10   |
| Performance-based earned                  | 131,644             | \$ 32.52   |
| Vested                                    | (165,576)           | \$ 33.43   |
| Forfeited                                 | (1,971)             | \$ 36.64   |
| <b>Nonvested Balance at June 30, 2011</b> | 480,741             | \$ 28.17   |

**Table of Contents****Notes to Consolidated Financial Statements (continued)*****Total Stockholder Return Awards:***

The Company granted Total Stockholder Return (TSR) awards in fiscal year 2011, 2010 and 2009. The TSR awards are granted at a target number of shares, and vest based on the Company's total stockholder return compared to the total stockholder returns of a group of peer companies at the end of a three-year period. The actual number of shares awarded may range from a minimum of 50 percent of the target shares to a maximum of two times target. Participants do not have any rights to dividends (or equivalents) during the performance period. The fair value of the TSR awards was estimated using Monte Carlo valuation models. Compensation cost recognized in fiscal years 2011, 2010 and 2009 related to TSR awards was \$1.9 million, \$0.6 million and \$0.6 million, respectively.

***Director Stock Units***

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

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

|                                     | Number of<br>Units | Weighted-<br>Average<br>Grant Date<br>Fair Value |
|-------------------------------------|--------------------|--|
| <b>Outstanding at June 30, 2008</b> | 75,362             | \$ 27.06   |
| Granted                             | 21,444             | \$ 22.24   |
| Dividend equivalents                | 3,257              | \$   |
| <b>Outstanding at June 30, 2009</b> | 100,063            | \$ 25.95   |
| Granted                             | 59,332             | \$ 18.12   |
| Dividend equivalents                | 3,469              | \$   |
| <b>Outstanding at June 30, 2010</b> | 162,864            | \$ 22.66   |
| Granted                             | 29,822             | \$ 36.45   |
| Dividend equivalents                | 3,015              | \$   |
| <b>Outstanding at June 30, 2011</b> | 195,701            | \$ 25.81   |

Compensation cost is determined using the grant-date fair value and charged to expense over the vesting period of one year and amounted to \$1.0 million, \$1.2 million and \$0.5 million for the years ended June 30, 2011, 2010 and 2009, respectively. As of June 30, 2011, \$0.3 million of compensation cost related to director stock units remains to be recognized over a weighted average remaining life of 0.3 years.

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**Notes to Consolidated Financial Statements (continued)**

**17. Derivatives and Hedging Activities**

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

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

*Cash Flow Hedging Forward interest rate swaps:* The Company has entered into forward swap contracts to manage the risk of cash flow variability associated with fixed interest debt expected to be issued to refinance the \$100 million of fixed rate debt scheduled to mature in August 2011. 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. These contracts were terminated upon issuance of the \$250 million bonds in June 2011. The gain associated with the settled contracts will be amortized over the term of the bonds issued.

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

The Company also uses foreign currency forward contracts to protect certain short-term asset positions denominated in foreign currency against the effect of changes in exchange rates. These positions do not qualify for hedge accounting and accordingly are marked-to-market at each reporting date through charges to other income and expense. As of June 30, 2011, the fair value of the outstanding foreign currency forwards not designated as hedging instruments and the charges to income for changes in fair value for these contracts was not material.

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**Notes to Consolidated Financial Statements (continued)**

*Fair Value Hedging Interest rate swaps:* The Company has used interest rate swaps to achieve a level of floating rate debt relative to fixed rate debt where appropriate. The Company has designated fixed to floating interest rate swaps as fair value hedges. Accordingly, the changes in the fair value of these instruments are immediately recorded in earnings. The mark-to-market values of both the fair value hedging instruments and the underlying debt obligations are recorded as equal and offsetting gains and losses in interest expense in the consolidated statements of income. As of both June 30, 2011 and 2010, the total notional amounts of floating interest rate contracts was \$65.0 million. For the years ended June 30, 2011 and 2010, net gains of \$2.8 million and \$2.4 million were recorded as a reduction to interest expense, respectively. These amounts include the impact of previously terminated swaps which are being amortized over the remaining term of the underlying debt.

**Table of Contents****Notes to Consolidated Financial Statements (continued)**

The fair value and location of outstanding derivative contracts recorded in the accompanying consolidated balance sheets were as follows as of June 30, 2011 and 2010:

| June 30, 2011   | Interest<br>Rate<br>Swaps | Foreign<br>Currency<br>Contracts | Commodity<br>Contracts | Total<br>Derivatives |
|---|---------------------------|----------------------------------|------------------------|----------------------|
| (\$ in millions)                                      |                           |                                  |                        |                      |
| <b>Asset Derivatives:</b>                             |                           |                                  |                        |                      |
| <i>Derivatives designated as hedging instruments:</i> |                           |                                  |                        |                      |
| Other current assets                                  | \$ 0.8                    | \$                               | \$ 5.4                 | \$ 6.2               |
| Other assets  | 2.0                       |                                  | 11.8                   | 13.8                 |
| <b>Total asset derivatives</b>                        | <b>\$ 2.8</b>             | <b>\$</b>                        | <b>\$ 17.2</b>         | <b>\$ 20.0</b>       |
| <b>Liability Derivatives:</b>                         |                           |                                  |                        |                      |
| <i>Derivatives designated as hedging instruments:</i> |                           |                                  |                        |                      |
| Accrued liabilities                                   | \$                        | \$ 0.9                           | \$ 6.8                 | \$ 7.7               |
| Other liabilities                                     |                           |                                  | 6.4                    | 6.4                  |
| <b>Total liability derivatives</b>                    | <b>\$</b>                 | <b>\$ 0.9</b>                    | <b>\$ 13.2</b>         | <b>\$ 14.1</b>       |
| <br>  |                           |                                  |                        |                      |
| June 30, 2010   | Interest<br>Rate<br>Swaps | Foreign<br>Currency<br>Contracts | Commodity<br>Contracts | Total<br>Derivatives |
| (\$ in millions)                                      |                           |                                  |                        |                      |
| <b>Asset Derivatives:</b>                             |                           |                                  |                        |                      |
| <i>Derivatives designated as hedging instruments:</i> |                           |                                  |                        |                      |
| Other current assets                                  | \$ 0.5                    | \$ 1.8                           | \$ 3.4                 | \$ 5.7               |
| Other assets  | 3.2                       |                                  | 0.3                    | 3.5                  |
| <b>Total asset derivatives</b>                        | <b>\$ 3.7</b>             | <b>\$ 1.8</b>                    | <b>\$ 3.7</b>          | <b>\$ 9.2</b>        |
| <b>Liability Derivatives:</b>                         |                           |                                  |                        |                      |
| <i>Derivatives designated as hedging instruments:</i> |                           |                                  |                        |                      |
| Accrued liabilities                                   | \$                        | \$                               | \$ 1.9                 | \$ 1.9               |
| Other liabilities                                     |                           |                                  | 4.8                    | 4.8                  |
| <b>Total liability derivatives</b>                    | <b>\$</b>                 | <b>\$</b>                        | <b>\$ 6.7</b>          | <b>\$ 6.7</b>        |



**Table of Contents****Notes to Consolidated Financial Statements (continued)*****Cash Flow Hedges***

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

| (\$ in millions)                                      | Location of Gain (Loss) | Amount of Gain<br>(Loss)                                    |                |
|---|-------------------------|---|----------------|
|   |                         | Recognized in AOCI on<br>Derivatives (Effective<br>Portion) |                |
|   |                         | Years Ended June 30,<br>2011                                | 2010           |
| <b>Derivatives in Cash Flow Hedging Relationship:</b> |                         |   |                |
| Commodity contracts                                   |                         | \$ 15.2   | \$ 23.3        |
| Foreign exchange contracts                            |                         | (2.4)   | 0.7            |
| Forward interest rate swaps                           |                         | 1.0   |                |
| <b>Total</b>  |                         | <b>\$ 13.8</b>  | <b>\$ 24.0</b> |

  

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

The Company estimates that \$2.3 million of net derivative losses included in OCI as of June 30, 2011 will be reclassified into earnings within the next twelve months. No significant cash flow hedges were discontinued during the year ended June 30, 2011. Ineffectiveness was not material during the year ended June 30, 2011.

The changes in other accumulated comprehensive income associated with derivative hedging activities during the years ended June 30, 2011, 2010 and 2009 were as follows:

|  | 2011     | 2010      | 2009      |
|--|----------|-----------|-----------|
| Balance at July 1                                | \$ (2.4) | \$ (17.3) | \$ (11.4) |
| Current period changes in fair value, net of tax | 8.5      | 11.6      | (41.8)    |
| Reclassification to earnings, net of tax         | (3.5)    | 3.3       | 35.9      |

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|                    |        |          |           |
|--------------------|--------|----------|-----------|
| Balance at June 30 | \$ 2.6 | \$ (2.4) | \$ (17.3) |
|--------------------|--------|----------|-----------|

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

**Table of Contents****Notes to Consolidated Financial Statements (continued)**

Company may be required to issue cash collateral to the counterparties. The Company's contracts with these counterparties allow for netting of derivative instrument positions executed under each contract. As of June 30, 2011 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.

**18. Income Taxes**

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

| (\$ in millions)                  | Years Ended June 30, |               |                |
|-----------------------------------|----------------------|---------------|----------------|
|                                   | 2011                 | 2010          | 2009           |
| Domestic                          | \$ 64.9              | \$ (7.4)      | \$ 50.0        |
| Foreign                           | 22.9                 | 12.1          | 13.0           |
| <b>Income before income taxes</b> | <b>\$ 87.8</b>       | <b>\$ 4.7</b> | <b>\$ 63.0</b> |

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

| (\$ in millions)                | Years Ended June 30, |               |                |
|---------------------------------|----------------------|---------------|----------------|
|                                 | 2011                 | 2010          | 2009           |
| <b>Current:</b>                 |                      |               |                |
| Federal                         | \$ 9.2               | \$            | \$ (8.5)       |
| State                           | 5.2                  | 0.7           | 0.3            |
| Foreign                         | 6.7                  | 2.8           | 6.9            |
| <b>Total current</b>            | <b>21.1</b>          | <b>3.5</b>    | <b>(1.3)</b>   |
| <b>Deferred:</b>                |                      |               |                |
| Federal                         | (3.6)                | 2.2           | 16.5           |
| State                           | (1.3)                | (4.1)         | 1.8            |
| Foreign                         | (0.1)                | 1.0           | (1.9)          |
| <b>Total deferred</b>           | <b>(5.0)</b>         | <b>(0.9)</b>  | <b>16.4</b>    |
| <b>Total income tax expense</b> | <b>\$ 16.1</b>       | <b>\$ 2.6</b> | <b>\$ 15.1</b> |

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

**Table of Contents****Notes to Consolidated Financial Statements (continued)**

| (% of pre-tax income)                          | Years Ended June 30, |              |              |
|--|----------------------|--------------|--------------|
|  | 2011                 | 2010         | 2009         |
| Statutory federal income tax rate              | 35.0%                | 35.0%        | 35.0         |
| State income taxes, net of federal tax benefit | 2.9                  | (13.5)       | (1.1)        |
| Domestic manufacturing deduction               | (3.4)                | (13.7)       | (0.5)        |
| Research and development tax credit            | (3.7)                | (6.0)        | (5.6)        |
| Foreign tax rate differential                  | (1.7)                | (10.7)       | 1.0          |
| Nontaxable income                              | (0.6)                | (27.3)       | (2.1)        |
| Foreign source income                          | (7.3)                |              | 1.0          |
| Increases (decreases) in valuation allowances  | (0.2)                | 7.9          | 7.4          |
| Adjustments of prior years' income taxes       | (2.6)                | 57.8         | (3.4)        |
| Changes in uncertain tax positions, net        | (0.4)                | (104.8)      | (5.2)        |
| Healthcare reform                              |                      | 126.9        |              |
| Other, net                                     | 0.3                  | 3.7          | (2.5)        |
| <b>Effective income tax rate</b>               | <b>18.3%</b>         | <b>55.3%</b> | <b>24.0%</b> |

Deferred taxes are recorded for temporary differences between the carrying amounts of assets and liabilities and their tax bases. The significant components of deferred tax assets and liabilities that are recorded in the Consolidated Balance Sheet are summarized in the table below. A valuation allowance is required when it is more likely than not that all or a portion of a deferred tax asset will not be realized. As of June 30, 2011, the Company had state net operating loss carryforwards of \$332.5 million expiring between 2012 and 2031. The valuation allowance decreased from 2010 by \$0.4 million primarily due to an increase in the amount of future reversals of taxable temporary differences.

| (\$ in millions)                         | June 30,         |                |
|--|------------------|----------------|
|  | 2011             | 2010           |
| <b>Deferred tax assets:</b>              |                  |                |
| Pensions                                 | \$ 75.7          | \$ 125.6       |
| Postretirement provisions                | 48.0             | 61.6           |
| Net operating loss carryforwards         | 20.5             | 20.2           |
| Environmental                            | 12.8             | 12.5           |
| Other                                    | 19.5             | 17.8           |
| <b>Gross deferred tax assets</b>         | <b>176.5</b>     | <b>237.7</b>   |
| Valuation allowances                     | (17.5)           | (17.9)         |
| <b>Net deferred tax assets</b>           | <b>159.0</b>     | <b>219.8</b>   |
| <b>Deferred tax liabilities:</b>         |                  |                |
| Depreciation                             | (177.7)          | (170.9)        |
| Intangible assets                        | (9.4)            | (7.8)          |
| Inventories                              | (5.3)            | (3.4)          |
| <b>Total deferred tax liabilities</b>    | <b>(192.4)</b>   | <b>(182.1)</b> |
| <b>Deferred tax (liabilities) assets</b> | <b>\$ (33.4)</b> | <b>\$ 37.7</b> |

At June 30, 2011, the Company had undistributed earnings of foreign subsidiaries, amounting to \$114.5 million on which deferred income taxes have not been provided because earnings are expected to



**Table of Contents****Notes to Consolidated Financial Statements (continued)**

be reinvested indefinitely outside of the U.S. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to U.S. income taxes and withholding taxes in various foreign tax jurisdictions. It is not practical to calculate these taxes due to the complex and hypothetical nature of the calculations.

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

| (\$ in millions)  | Year Ended June 30, |               |                |
|---|---------------------|---------------|----------------|
|   | 2011                | 2010          | 2009           |
| Balance, beginning  | \$ 3.6              | \$ 14.3       | \$ 19.8        |
| Additions based on tax positions of prior years             | 0.3                 |               | 1.5            |
| Additions based on tax positions of current years           |                     |               | 1.7            |
| Reductions as a result of a lapse of statute of limitations | (2.0)               | (8.2)         | (8.7)          |
| Reductions based on tax positions of prior year             |                     | (1.9)         |                |
| Settlements   |                     | (0.6)         |                |
| <b>Balance, ending</b>                                      | <b>\$ 1.9</b>       | <b>\$ 3.6</b> | <b>\$ 14.3</b> |

The liability for unrecognized tax benefits as of June 30, 2011 of \$1.9 million includes \$1.5 million of offsetting tax benefits for reversals of deferred tax items. The net amount of \$0.4 million would, if recognized, favorably impact the Company's effective tax rate. The net amounts at June 30, 2010 and 2009 were \$0.6 million and \$4.1 million, respectively. It is reasonably possible that the amount of the unrecognized tax benefits will change within the next 12 months; however, any such changes should not have a significant impact on the Company's consolidated financial statements.

It is the Company's policy to classify interest and penalties recognized on uncertain tax positions as a component of income tax expense. The Company's income tax expense included benefits related to interest and penalties of \$0.3 million, \$1.7 million, and \$1.4 million for the years ended June 30, 2011, 2010 and 2009, respectively. In addition, \$0.3 million and \$0.6 million was included in accrued income taxes in the Consolidated Balance Sheet as of June 30, 2011 and 2010, respectively.

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

**Table of Contents****Notes to Consolidated Financial Statements (continued)****19. Other Income, Net**

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

| (\$ in millions)   | Year Ended June 30, |         |          |
|--|---------------------|---------|----------|
|  | 2011                | 2010    | 2009     |
| Equity in earnings (loss) of unconsolidated subsidiaries | \$ 2.6              | \$ 1.0  | \$ (0.1) |
| Continued Dumping and Subsidy Offset Act receipts        | 2.0                 | 5.7     | 6.1      |
| Interest income  | 1.1                 | 1.6     | 4.7      |
| Foreign exchange gain                                    | 0.1                 | 0.6     | 7.7      |
| Other  | 2.7                 | 1.9     | (3.3)    |
| Total other income, net                                  | \$ 8.5              | \$ 10.8 | \$ 15.1  |

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

The Company has three reportable business segments: Advanced Metals Operations, Premium Alloys Operations, and Emerging Ventures.

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 PAO segment. Also, sales in the AMO segment are spread across many 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 Emerging Ventures segment currently includes the operations of the recently completed acquisitions of Amega West and Oilfield Alloys, manufacturers and service provider of high-precision components for MWD and LWD housings, drill collars, stabilizers and other down-hole tools used for directional drilling. MWD and LWD technology is used to ensure critical data is obtained and transmitted to the surface to monitor progress of the well. The net sales of Amega West are to customers in the energy end use market.

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

**Table of Contents****Notes to Consolidated Financial Statements (continued)**

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, one customer, Precision Castparts Corporation, accounted for 10% (\$161.7 million and \$116.1 million) of the Company's sales for the years ended June 30, 2011 and 2010, respectively. There were no significant individual customer sales that accounted for more than 10 percent of the total sales during fiscal year 2009.

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

| Segment Data<br>(\$ in millions)       | Year Ended June 30, |            |            |
|--|---------------------|------------|------------|
|  | 2011                | 2010       | 2009       |
| <b>Net Sales:</b>                      |                     |            |            |
| Advanced Metals Operations             | \$ 1,141.1          | \$ 853.0   | \$ 957.4   |
| Premium Alloys Operations              | 533.0               | 348.3      | 413.2      |
| Emerging Ventures                      | 35.3                |            |            |
| Intersegment                           | (34.3)              | (2.7)      | (8.3)      |
| Consolidated net sales                 | \$ 1,675.1          | \$ 1,198.6 | \$ 1,362.3 |
| <b>Operating Income:</b>               |                     |            |            |
| Advanced Metals Operations             | \$ 62.3             | \$ 11.8    | \$ 34.1    |
| Premium Alloys Operations              | 110.2               | 71.2       | 76.9       |
| Emerging Ventures                      | 3.9                 |            |            |
| Corporate costs                        | (42.0)              | (33.5)     | (37.5)     |
| Pension earnings, interest & deferrals | (35.2)              | (37.9)     | (0.1)      |
| Restructuring costs                    |                     |            | (9.4)      |
| Intersegment                           | (2.8)               | 0.1        |            |
| Consolidated operating income          | \$ 96.4             | \$ 11.7    | \$ 64.0    |

| Geographic Data<br>(\$ in millions) | Year Ended June 30, |            |            |
|-------------------------------------|---------------------|------------|------------|
|                                     | 2011                | 2010       | 2009       |
| <b>Net Sales:<sup>(a)</sup></b>     |                     |            |            |
| United States                       | \$ 1,163.7          | \$ 829.5   | \$ 885.3   |
| Europe                              | 277.4               | 194.6      | 261.5      |
| Asia Pacific                        | 110.7               | 82.9       | 86.4       |
| Mexico                              | 67.1                | 49.3       | 72.0       |
| Canada                              | 36.6                | 31.6       | 34.2       |
| Other                               | 19.6                | 10.7       | 22.9       |
| Consolidated net sales              | \$ 1,675.1          | \$ 1,198.6 | \$ 1,362.3 |

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





**Table of Contents****Notes to Consolidated Financial Statements (continued)**

| Long-lived assets:<br>(\$ in millions) | June 30, |          |
|--|----------|----------|
|  | 2011     | 2010     |
| United States                          | \$ 646.8 | \$ 611.5 |
| Canada                                 | 6.9      |          |
| Europe                                 | 5.9      | 4.4      |
| Mexico                                 | 1.6      | 1.3      |
| Asia Pacific                           | 1.7      | 0.3      |
| Consolidated long-lived assets         | \$ 662.9 | \$ 617.5 |

| Product Data<br>(\$ in millions) | Year Ended June 30, |            |            |
|----------------------------------|---------------------|------------|------------|
|                                  | 2011                | 2010       | 2009       |
| Special alloys                   | \$ 841.8            | \$ 637.8   | \$ 694.6   |
| Stainless steels                 | 610.5               | 398.3      | 460.1      |
| Titanium products                | 140.7               | 112.4      | 141.4      |
| Other materials                  | 82.1                | 50.1       | 66.2       |
| Total net sales                  | \$ 1,675.1          | \$ 1,198.6 | \$ 1,362.3 |

**21. Recent Accounting Pronouncements**

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

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, *Presentation of Comprehensive Income* ( ASU 2011-05). ASU 2011-05 requires entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. The option to present items of other comprehensive income in the statement of changes in equity is eliminated. ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and is required to be applied retrospectively. The Company is evaluating if other comprehensive income will be presented in a single continuous statement of comprehensive income or in two separate but consecutive statements.

**Table of Contents****Notes to Consolidated Financial Statements (continued)****22. Supplemental Data**

The following are additional required disclosures and other material items:

| (\$ in millions)   | Year Ended June 30, |                  |            |
|--|---------------------|------------------|------------|
|  | 2011                | 2010             | 2009       |
| <b>Cost Data:</b>  |                     |                  |            |
| Repairs and maintenance costs                            | \$ 74.8             | \$ 60.4          | \$ 65.3    |
| <b>Cash Flow Data:</b>                                   |                     |                  |            |
| Cash paid during the year for:                           |                     |                  |            |
| Interest payments  | \$ 18.3             | \$ 19.8          | \$ 21.1    |
| Income tax payments (refunds), net                       | \$ 11.5             | \$ (13.7)        | \$ 33.3    |
| <br>   |                     |                  |            |
| (\$ in millions)   | 2011                | June 30,<br>2010 | 2009       |
| <b>Accumulated Other Comprehensive Loss:</b>             |                     |                  |            |
| Foreign currency translation adjustment                  | \$ (7.7)            | \$ (23.7)        | \$ (14.4)  |
| Pension and post-retirement benefits, net of tax         | (227.7)             | (344.5)          | (314.8)    |
| Net unrealized gains (losses) on derivatives, net of tax | 2.6                 | (2.4)            | (17.3)     |
| Unrealized losses on marketable securities, net of tax   | (0.5)               | (0.5)            |            |
|  | \$ (233.3)          | \$ (371.1)       | \$ (346.5) |

**23. Subsequent Event**

As discussed further in Note 12, Contingencies and Commitments, on July 19, 2011, the Company entered into a settlement agreement providing for a dismissal of the Boarhead Farms lawsuit. The settlement agreement provides for a complete release in the Company's favor by all parties to the litigation, in exchange for a payment of \$21.8 million. On August 16, 2011, the settlement was approved by the court.

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

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

| (dollars and shares in millions, except per share amounts) | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter |
|--|------------------|-------------------|------------------|-------------------|
| <b>Results of Operations</b>                               |                  |                   |                  |                   |
| <b>Fiscal Year 2011</b>                                    |                  |                   |                  |                   |
| Net sales  | \$ 351.7         | \$ 375.6          | \$ 464.2         | \$ 483.6          |
| Gross profit   | \$ 49.8          | \$ 49.1           | \$ 73.1          | \$ 77.0           |
| Operating income   | \$ 14.1          | \$ 12.1           | \$ 35.2          | \$ 35.0           |
| Net income   | \$ 7.6           | \$ 9.4            | \$ 28.8          | \$ 25.9           |
| Net income attributable to Carpenter                       | \$ 7.6           | \$ 9.3            | \$ 28.6          | \$ 25.5           |
| <b>Fiscal Year 2010</b>                                    |                  |                   |                  |                   |
| Net sales  | \$ 233.7         | \$ 263.8          | \$ 336.9         | \$ 364.2          |
| Gross profit   | \$ 19.2          | \$ 35.6           | \$ 46.3          | \$ 43.7           |
| Operating (loss) income                                    | \$ (13.3)        | \$ 2.0            | \$ 12.8          | \$ 10.2           |
| Net (loss) income  | \$ (9.3)         | \$ 3.5            | \$ 2.1           | \$ 5.9            |
| Net (loss) income attributable to Carpenter                | \$ 7.6           | \$ 9.3            | \$ 28.6          | \$ 25.5           |

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|   | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter |
|---|------------------|-------------------|------------------|-------------------|
| <b>Earnings per common share</b>                                |                  |                   |                  |                   |
| <b>Fiscal Year 2011</b>   |                  |                   |                  |                   |
| Basic earnings  | \$ 0.17          | \$ 0.21           | \$ 0.64          | \$ 0.57           |
| Diluted earnings  | \$ 0.17          | \$ 0.21           | \$ 0.64          | \$ 0.57           |
| <b>Fiscal Year 2010</b>   |                  |                   |                  |                   |
| Basic earnings  | \$ (0.21)        | \$ 0.08           | \$ 0.05          | \$ 0.13           |
| Diluted earnings  | \$ (0.21)        | \$ 0.08           | \$ 0.05          | \$ 0.13           |
| <b>Weighted average common shares outstanding (in millions)</b> |                  |                   |                  |                   |
| <b>Fiscal Year 2011</b>   |                  |                   |                  |                   |
| Basic   | 44.1             | 44.1              | 44.1             | 44.2              |
| Diluted   | 44.5             | 44.7              | 44.7             | 45.0              |
| <b>Fiscal Year 2010</b>   |                  |                   |                  |                   |
| Basic   | 43.9             | 44.0              | 44.0             | 44.0              |
| Diluted   | 43.9             | 44.2              | 44.4             | 44.5              |

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

Not applicable

**Item 9A. Controls and Procedures**

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

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended, (the Exchange Act) as of June 30, 2011. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures as of June 30, 2011 were effective in providing a reasonable level of assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods required under the Securities and Exchange Commission's rules and forms, including a reasonable level of assurance that information required to be disclosed by us in such reports is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

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

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

(c) Changes in Internal Controls over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2011 that have materially affected, or are likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information**

Not applicable

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**PART III**

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

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

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

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

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

Sunil Y. Widge was appointed to Senior Vice President – Strategic Business Development and Governmental Affairs on September 2, 2010. Prior to his current position, Dr. Widge served as Chief Technology Officer Emeritus since 2009. Dr. Widge previously served as Senior Vice President & Chief Technology Officer until his retirement in January 2009. During his nearly thirty three years with the Company, Dr. Widge led the expansion of Carpenter's world-renowned scientific capability in specialty alloys materials.

James D. Dee was appointed Vice President, General Counsel and Secretary on September 13, 2010. Mr. Dee most recently served as General Counsel, Secretary and Chief Administrative Officer at C&D Technologies. Mr. Dee is a graduate of the Marshall-Wythe School of Law of the College of William and Mary and the University of Pennsylvania. Mr. Dee is a member of the Bars of Pennsylvania, New Jersey and Florida and is admitted to practice before the United States Patent and Trademark Office.

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| Name                | Age | Position  | Assumed Present Position |
|---------------------|-----|---|--------------------------|
| William A. Wulfsohn | 49  | President and Chief Executive Officer                                       | July 2010                |
|                     |     | Director  |                          |
| K. Douglas Ralph    | 50  | Senior Vice President Finance and Chief Financial Officer                   | July 2007                |
| David L. Strobel    | 50  | Senior Vice President Global Operations                                     | September 2010           |
| Sunil Y Widge       | 61  | Senior Vice President Strategic Business Development & Governmental Affairs | September 2010           |
| James D. Dee        | 54  | Vice President, General Counsel & Secretary                                 | September 2010           |

The information required as to directors and the committees of the Board of Directors is incorporated herein by reference to the Company's fiscal year 2011 definitive Proxy Statement under the captions "Election of Directors" and "Corporate Governance."

The information concerning compliance with Section 16(a) of the Securities and Exchange Act of 1934, as amended, is incorporated herein by reference to the Company's fiscal year 2011 definitive Proxy Statement under the caption "Corporate Governance."

The information concerning Carpenter's Code of Ethics and certain additional information relating to the Company's Corporate Governance is incorporated herein by reference to the Company's fiscal year 2011 definitive Proxy Statement under the caption "Corporate Governance."

The information concerning the Audit Committee and its financial experts is incorporated herein by reference to the Company's fiscal year 2011 definitive Proxy Statement under the caption "Audit/Finance Committee Report."

The information concerning material changes to the procedures by which shareholders may recommend nominees to the Board of Directors is incorporated herein by reference to the Company's fiscal year 2011 definitive Proxy Statement under the caption "General Information."

On October 27, 2010, we filed with the New York Stock Exchange ( "NYSE" ) the Annual CEO Certification regarding our compliance with the NYSE's Corporate Governance listing standards as required by Section 303 A-12(a) of the NYSE Listed Company Manual. In addition, we have filed as exhibits to our annual report on Form 10-K for the fiscal year ended June 30, 2011, the applicable certifications of our Chief Executive Officer and our Chief Financial Officer required under Section 302 of the Sarbanes-Oxley Act of 2002, regarding the quality of Carpenter's public disclosures.

**Item 11. Executive Compensation**

Certain information required by this item is incorporated herein by reference to the Company's fiscal year 2011 definitive Proxy Statement under the captions "Compensation Discussion and Analysis" and "Executive Compensation."



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

The information required by this item is incorporated herein by reference to the Company's fiscal year 2011 definitive Proxy Statement under the caption Security Ownership of Certain Persons.

**Equity Compensation Plan Information**

The following table shows the securities authorized for issuance under equity compensation plans as of June 30, 2011:

| Plan category  | Equity Compensation Plan Information  |   | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
|--|---|---|---|
|  | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) |   |
| Equity compensation plans approved by security holders     | 956,807   | \$ 29.23  | 3,593,870 <sup>(1)</sup>  |
| Equity compensation plans not approved by security holders |   |   |   |
| <b>Total</b>   | <b>956,807</b>  | <b>\$ 29.23</b>   | <b>3,593,870<sup>(1)</sup></b>  |

<sup>(1)</sup> Includes 2,719,790 shares available for issuance under the Stock-Based Incentive Compensation Plan for Officers and Key Employees (which provides for the issuance of stock options, restricted stock, and restricted stock units) and 874,080 shares available under the Stock-Based Compensation Plan for Non-Employee Directors (which provides for issuance of stock options, stock units and performance units.)

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

The information required by this item is incorporated herein by reference to the Company's fiscal year 2011 definitive Proxy Statement under the captions Corporate Governance and Executive Compensation.

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

The information required by this item is incorporated herein by reference to the Company's fiscal year 2011 definitive Proxy Statement under the caption Approval of Appointment of Independent Registered Public Accounting Firm.

**Table of Contents****PART IV****Item 15. Exhibits, Financial Statement Schedules****(a) Financial Statement Schedule:**

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

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

**(b) Exhibits**

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

| Exhibit<br>No. | Description   |
|----------------|---|
| 3(A)           | Restated Certificate of Incorporation, dated October 26, 1998, is incorporated herein by reference to Exhibit 3(A) of Carpenter's 2005 Annual Report on Form 10-K filed on September 9, 2005.   |
| 3(B)           | By-Laws, amended as of April 19, 2011, incorporated by reference to Exhibit 3.2 of Carpenter's Current Report on Form 8-K filed April 21, 2011.   |
| 4(A)           | Restated Certificate of Incorporation and By-Laws set forth in Exhibit Nos. 3(A) and 3(B), above.   |
| 4(B)           | Carpenter's Registration Statement No. 333-44757, as filed on Form S-3 on January 22, 1998, and amended on February 13, 1998, with respect to issuance of Common Stock and unsecured debt is incorporated herein by reference.  |
| 4(C)           | Prospectus, dated February 13, 1998, and Prospectus Supplement, dated March 31, 1998, File No. 333-44757, with respect to issuance of \$198,000,000 of Medium Term Notes are incorporated by reference.   |
| 4(D)           | Indenture, dated January 6, 1994, between Carpenter and U.S. Bank Trust National Association, formerly known as First Trust of New York, National Association, as successor Trustee to Morgan Guaranty Trust Company of New York, related to Carpenter's (i) \$100,000,000 of unsecured medium term notes registered on Registration Statement No. 33-51613 and (ii) \$198,000,000 of unsecured medium term notes registered on Registration Statement No. 333-44757 is incorporated by reference to Exhibit 4(C) to Carpenter's Registration Statement No. 33-51613, as filed on January 12, 1994. |
| 4(E)           | Forms of Fixed Rate and Floating Rate Medium-Term Note, Series B are incorporated by reference to Exhibit 4(F) of Carpenter's 2004 Annual Report on Form 10-K filed September 3, 2004.  |
| 4(F)           | Pricing Supplements No. 1 through 25 dated and filed from April 2, 1998 to June 12, 1998, supplements to Prospectus dated February 13, 1998 and Prospectus Supplement dated March 31, 1998, File No. 333-44757, with respect to issuance of \$198,000,000 of Medium Term Notes are incorporated herein by reference.  |

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

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

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| Exhibit No. | Description   |
|-------------|---|
| 10(N)       | Revolving Credit Agreement, dated as of November 30, 2009, among Carpenter and certain of its subsidiaries as Borrowers and with JPMorgan Chase Bank NA, The Bank of Tokyo-Mitsubishi UFJ Trust Company, PNC Bank National Association and Keybank, National Association as Lenders is incorporated herein by reference to Exhibit 10.1 of Carpenter's Current Report on Form 8-K filed November 25, 2009.  |
| 10(O)       | Credit Agreement, dated as of June 21, 2011, among Carpenter as Borrower, Bank of America, N.A. as Administrative Agent, Swing Line Lender and L/C Issuer, the other lenders party thereto, JPMorgan Chase Bank, N.A. and Syndication Agent, PNC Bank, National Association, The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch and Sovereign Bank each as Documentation Agent, Merrill Lynch, Pierce & Smith Incorporated and J.P. Morgan Securities LLC as Joint Lead Arrangers and Joint Book Managers is incorporated herein by reference to Exhibit 10.1 of Carpenter's Current Report on Form 8-K filed June 21, 2011. |
| 10(P)       | Release and Termination of Employment Agreement executed November 6, 2009, between the Company and T. Kathleen Hanley is incorporated herein by reference to Exhibit 10.1 of Carpenter's Current Report on Form 8-K filed on November 12, 2009.   |
| 10(Q)       | Supplemental Separation Pay Agreement executed July 20, 2010 between the Company and Anne L Stevens is incorporated herein by reference to Exhibit 10.1 of Carpenter's Current Report on Form 8-K filed on July 22, 2010.   |
| 10(R)       | Employment Letter Agreement of K. Douglas Ralph, dated July 6, 2007, is incorporated herein by reference to Exhibit 99.2 of Carpenter's Current Report on Form 8-K filed July 11, 2007.   |
| 10(S)       | Employment Letter Agreement of William A. Wulfsohn, dated June 3, 2010, incorporated herein by reference to Exhibit 10.1 of Carpenter's Current Report on Form 8-K filed on June 7, 2010.   |
| 10(T)       | Employment Letter Agreement of David Strobel, dated September 2, 2010, is incorporated herein by reference to Exhibit 10(C) of Carpenter's Form 10-Q for the quarter ended September 30, 2010 filed November 5, 2010.   |
| 10(U)       | Employment Letter Agreement of Michael L. Shor, dated September 2, 2010, is incorporated herein by reference to Exhibit 10(D) of Carpenter's Form 10-Q for the quarter ended September 30, 2010 filed November 5, 2010.   |
| 10(V)       | Agreement, dated September 2, 2010, by and between the Company and Dr. Sunil Y. Widge is incorporated herein by reference to Exhibit 10(E) of Carpenter's Form 10-Q for the quarter ended September 30, 2010 filed November 5, 2010.  |
| 10(W)       | Employment Letter of Agreement of James Dee, dated August 13, 2010, is incorporated herein by reference to Exhibit 10(F) of Carpenter's Form 10-Q for the quarter ended September 30, 2010 filed November 5, 2010.  |
| 10(X)       | Severance Pay Plan for Executives of Carpenter Technology Corporation, as adopted July 1, 2010, incorporated herein by reference to Exhibit 10.1 of Carpenter's Current Report on Form 8-K filed on July 2, 2010.   |

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| Exhibit No. | Description   |
|-------------|---|
| 10(Y)       | Form of Restricted Stock Option Award Agreement (pursuant to Carpenter's Stock-Based Incentive Plan for Officers and Key Employees) (filed herewith).   |
| 10(Z)       | Form of Restricted Unit Award Agreement (pursuant to Carpenter's Stock-Based Incentive Plan for Officers and Key Employees) is incorporated herein by reference to Exhibit 10(B) of Carpenter's Form 10-Q for the quarter ended September 30, 2010 filed November 5, 2010.  |
| 10(BB)      | Agreement and Plan of Merger, dated as of June 20, 2011, by and among Carpenter, Hawke Acquisition Corp., HHEP-Latrobe, L.P. and Watermill-Toolrock Partners, L.P. is incorporated herein by reference to Exhibit 2.1 of Carpenter's Current Report on Form 8-K filed June 21, 2011.  |
| 12          | Computations of Ratios of Earnings to Fixed Charges (unaudited) (filed herewith)  |
| 21          | Subsidiaries of the Registrant (filed herewith)   |
| 23          | Consent of PricewaterhouseCoopers LLP (filed herewith)  |
| 24          | Powers of Attorney in favor of James D. Dee or K. Douglas Ralph (filed herewith)  |
| 31(A)       | Certification of Chief Executive Officer required by Securities and Exchange Commission Rule 13a-14(a)/15d-14(a) (filed herewith).  |
| 31(B)       | Certification of Chief Financial Officer required by Securities and Exchange Commission Rule 13a-14(a)/15d-14(a) (filed herewith).  |
| 32          | Certification pursuant to 18 U.S.C Section 1350 (filed herewith)  |
| 99          | Agreement to Furnish Debt Instruments (filed herewith)  |
| 101         | The following financial information from this Annual Report on Form 10-K for the fiscal year ended June 30, 2011, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Income; (iii) the Consolidated Statements of Comprehensive Income; (iv) the Consolidated Statements of Cash Flows; (v) the Consolidated Statements of Changes in Equity and (vi) the Notes to the Consolidated Financial Statements. |

Management contract or compensatory plan or arrangement

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

CARPENTER TECHNOLOGY CORPORATION

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

Date: August 24, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed by the following persons on behalf of the registrant in the capacities and on the dates indicated.

|  |  |                 |
|--|--|-----------------|
| /s/ William A. Wulfsohn<br>William A. Wulfsohn | President and Chief Executive Officer and Director (Principal Executive Officer) | August 24, 2011 |
| /s/ K. Douglas Ralph<br>K. Douglas Ralph       | Senior Vice President and Chief Financial Officer (Principal Financial Officer)  | August 24, 2011 |
| /s/ Thomas F. Cramsey<br>Thomas F. Cramsey     | Vice President and Chief Accounting Officer (Principal Accounting Officer)       | August 24, 2011 |
| *<br>Gregory A. Pratt                          | Chairman and Director  | August 24, 2011 |
| *<br>Carl G. Anderson, Jr.                     | Director   | August 24, 2011 |
| *<br>Robert R. McMaster                        | Director   | August 24, 2011 |
| *<br>I. Martin Inglis                          | Director   | August 24, 2011 |
| *<br>Peter N. Stephans                         | Director   | August 24, 2011 |
| *<br>Kathryn C. Turner                         | Director   | August 24, 2011 |
| *<br>Jeffrey Wadsworth                         | Director   | August 24, 2011 |

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\*  
Stephen M. Ward, Jr. Director August 24, 2011

\*  
Dr. Phillip M. Anderson Director August 24, 2011

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

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

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**Table of Contents****CARPENTER TECHNOLOGY CORPORATION AND SUBSIDIARIES****SCHEDULE II. VALUATION AND QUALIFYING ACCOUNTS**

(\$ in millions)

| Column A                                   | Column B                                | Column C<br>Additions                   |                                    | Column D   | Column E                       |
|--|---|---|------------------------------------|------------|--------------------------------|
| Description                                | Balance at<br>Beginning<br>of<br>Period | Charged<br>to<br>Costs<br>&<br>Expenses | Charged<br>to<br>Other<br>Accounts | Deductions | Balance at<br>End of<br>Period |
| <b>Year ended June 30, 2011</b>            |   |   |                                    |            |                                |
| Allowance for doubtful accounts receivable | \$ 2.7                                  | \$ (0.2)                                | \$                                 | \$ 0.2     | \$ 2.7                         |
| Deferred tax valuation allowance           | \$ 17.6                                 | \$ (0.2)                                | \$                                 | \$ 0.1     | \$ 17.5                        |
| Inventory reserves                         | \$ 15.2                                 | \$ (3.5)                                | \$                                 | \$ 0.3     | \$ 12.0                        |
| <b>Year ended June 30, 2010</b>            |   |   |                                    |            |                                |
| Allowance for doubtful accounts receivable | \$ 2.8                                  | \$ (0.1)                                | \$                                 | \$         | \$ 2.7                         |
| Deferred tax valuation allowance           | \$ 17.9                                 | \$ (0.4)                                | \$                                 | \$ 0.1     | \$ 17.6                        |
| Inventory reserves                         | \$ 16.0                                 | \$ (0.9)                                | \$                                 | \$ 0.1     | \$ 15.2                        |
| <b>Year ended June 30, 2009</b>            |   |   |                                    |            |                                |
| Allowance for doubtful accounts receivable | \$ 2.7                                  | \$ 1.2                                  | \$                                 | \$ (1.1)   | \$ 2.8                         |
| Deferred tax valuation allowance           | \$ 12.0                                 | \$ 5.9                                  | \$                                 | \$         | \$ 17.9                        |
| Inventory reserves                         | \$ 7.8                                  | \$ 11.1                                 | \$                                 | \$ (2.9)   | \$ 16.0                        |