

CARPENTER TECHNOLOGY CORP

Form 10-K

August 20, 2010

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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, 2010**

**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> (State or other jurisdiction of incorporation or organization)	<b>23-0458500</b> (I.R.S. Employer Identification No.)
<b>P.O. Box 14662</b>  <b>Reading, Pennsylvania</b> (Address of principal executive offices)	<b>19610</b> (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> Title of each class	<b>New York Stock Exchange</b> 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

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

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

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Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of the registrant's voting common stock held by non-affiliates at December 31, 2009 was \$1,178,058,288, based on the closing price per share of the registrant's common stock on that date of \$26.95 as reported on the New York Stock Exchange.

As of August 13, 2010, 43,965,853 shares of the registrant's common stock were outstanding

### **DOCUMENTS INCORPORATED BY REFERENCE**

Selected portions of the Company's fiscal year 2010 definitive Proxy Statement are incorporated by reference into Part III of this Report.

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**PART I**

**Item 1. Business**

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

Carpenter Technology Corporation 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 two reportable business segments: Advanced Metals Operations and Premium Alloys Operations. 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.

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.

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### **(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.

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, and have been especially volatile over the past few years. We use pricing surcharges, indexing mechanisms, base price adjustments and raw material forward contracts to reduce the impact of increased costs for the most significant of these materials. There can be delays between the time of the increase in the price of raw materials and the realization of the benefits of such mechanisms or actions that could have a short-term impact on our results and could affect the comparability of our results from period to period.

### **(4) Patents and Licenses:**

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

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

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

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

**Quarter Ended**

	2010	2009	2008
September 30,	19%	30%	23%
December 31,	22	27	23
March 31,	28	24	26
June 30,	31	19	28
	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, accounted for 10 percent of our net sales during fiscal year 2010. There were no significant individual customer sales that accounted for more than 10 percent of our net sales during fiscal years 2009 and 2008. See Note 20 to our consolidated financial statements included in Item 8 Financial Statements and Supplementary Data for additional information.

**(7) Backlog:**

As of June 30, 2010, we had a backlog of orders, believed to be firm, of approximately \$351 million, substantially all of which is expected to be shipped within fiscal year 2011. Our backlog as of June 30, 2009 was approximately \$230 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 several large domestic companies producing one or more similar products that we consider our major competitors for these demanding applications, particularly in our aerospace and energy end-use markets. 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.

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.

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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 establishes 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 \$5.7 million, \$6.1 million and \$8.4 million in fiscal years 2010, 2009 and 2008, respectively. We currently believe that we will not receive any additional significant distributions as the Act has expired.

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

Our expenditures for company-sponsored research and development were \$17.8 million, \$15.4 million and \$14.4 million in fiscal years 2010, 2009 and 2008, respectively. We believe that our ability to be an innovator in special material development and manufacturing processes is an important factor in the success of the Company. Our strong commitment to setting new industry standards is evidenced by our Specialty Alloys Research and Development Center, where teams work in areas such as physical metallurgy, analytical chemistry, applied physics and process and systems development. Our worldwide staff of expert metallurgists, research and development scientists, engineers and service professionals works closely with our customers to identify and provide innovative solutions to specific product requirements.

### **(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 \$10.7 million, \$12.6 million and \$12.6 million for fiscal years 2010, 2009 and 2008, respectively. The capital expenditures for environmental control equipment were \$0.1 million, \$0.4 million and \$0.2 million for fiscal years 2010, 2009 and 2008, respectively. We anticipate spending approximately \$1.7 million on major domestic environmental capital projects over the next five fiscal years. This includes approximately \$0.8 million in fiscal year 2011 and fiscal year 2012. Due to the possibility of future regulatory developments, the amount of future capital expenditures may vary from these estimates.



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**(11) Employees:**

As of June 30, 2010, our total workforce consisted of approximately 3,000 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 \$377.8 million, \$477.0 million and \$655.8 million in fiscal years 2010, 2009 and 2008, respectively. Long lived assets held outside of the United States were \$6.0 million and \$7.2 million as of June 30, 2010 and 2009.

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 .

**(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 2010. 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).

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### **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 are broader.

#### ***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.

The worldwide economic downturn has had a significant impact on global manufacturing activity, which in turn has affected demand throughout our customer base. If these global economic conditions do not improve or worsen, our results of operations and financial condition could be materially adversely affected.

#### ***A significant portion of our sales represents products sold to customers in the commercial aerospace and energy markets. The cyclical nature 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 cyclical nature of the energy market will impact our ability to expand successfully in this area. If we are not able to be successful in this regard, our results of operations, business and financial condition could be adversely affected.

#### ***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.

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We change prices on certain of our products from time-to-time. In addition to the above general competitive impact along with 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 pricing actions implemented will be able to maintain 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.***

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

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

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

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

We have obligations to provide substantial benefits to active and current employees, and most of these 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 \$4 million and \$19 million in required contributions to the plan during fiscal year 2011 and 2012, respectively. A decline in the value of plan investments in the future, an increase in costs or liabilities or unfavorable changes in laws or regulations that govern pension plan funding 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.

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***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 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. Among other things, we have used, and currently use and manufacture, substantial quantities of substances that are considered hazardous, extremely hazardous or toxic under worker safety and health laws and regulations. Although we implement controls and procedures designed to reduce continuing risk of adverse impacts and health and safety issues, we could incur substantial cleanup costs, fines and civil or criminal sanctions, third party property damage or personal injury claims as a result of violations, non-compliance or liabilities under these regulatory regimes required at our facilities.

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

When our liability is probable and we can reasonably estimate our costs, we record environmental liabilities in our financial statements. In many cases, we are not able to determine whether we are liable, or if liability is probable, to reasonably estimate the loss or range of loss. 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 in the United States as well as 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 which could have a material adverse impact on our results of operations, financial condition and cash flows.

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

We produce ultra high-strength, high temperature and corrosion-resistant alloys designed for our customers' demanding applications particularly in our aerospace and energy-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.***

These 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.

### ***A small number of our workforce is covered by a collective bargaining agreement and we may be subject to attempts to organize our other employees by a union which 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. The 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.

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

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

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

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

*We consider acquisition, joint ventures and other business combination opportunities, as well as possible business unit dispositions, as part of our overall business strategy, which matters 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 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 as 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. 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.

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*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; accounts receivable collection; export controls; changes in legal and regulatory requirements; policy changes affecting the markets for our products; changes in tax laws and tariffs; and exchange rate fluctuations (which may affect sales to international customers and the value of profits earned on international sales when converted into dollars). In addition, we will need to invest in building our capabilities and infrastructure to meet our international growth goals. Any of these factors could materially adversely affect our results for the period in which they occur.

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

The cost of our inventories is primarily determined using the Last-In First-Out ( LIFO ) method. Under the LIFO inventory valuation method, changes in the cost of raw materials and production activities are recognized in cost of sales in the current period even though these materials and other costs may have been incurred at significantly different values due to the length of time of our production cycle. Generally in a period of rising prices, LIFO recognizes higher costs of goods sold, which both reduces current income and assigns a lower value to the year-end inventory. Recent proposals have been initiated aimed at repealing the election to use the LIFO method for income tax purposes. According to these proposals, generally taxpayers that currently use the LIFO method would be required to revalue their LIFO inventory to its first-in, first-out ( FIFO ) value. As of June 30, 2010, if the FIFO method of inventory had been used instead of the LIFO method, our inventories would have been about \$332 million higher. This increase in inventory would result in a one time increase in taxable income which would be taken into account ratably over the first taxable year and 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.

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**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.

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**

We are, from time to time, a party to litigation arising in the normal course of business. We do not believe that any of these actions, individually or in the aggregate, will have a material adverse effect on our financial position, liquidity, or results of operations.



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

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 2010		Fiscal Year 2009	
	High	Low	High	Low
September 30,	\$ 25.66	\$ 16.87	\$ 42.65	\$ 24.79
December 31,	\$ 27.90	\$ 20.83	\$ 25.17	\$ 11.93
March 31,	\$ 36.60	\$ 26.54	\$ 23.89	\$ 12.15
June 30,	\$ 42.52	\$ 32.83	\$ 24.74	\$ 14.42
<b>Annual</b>	<b>\$ 42.52</b>	<b>\$ 16.87</b>	<b>\$ 42.65</b>	<b>\$ 11.93</b>

The range of our common stock price on the NYSE from July 1, 2010 to August 13, 2010 was \$31.67 to \$38.11. The closing price of the common stock was \$32.53 on August 13, 2010.

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 2010 and 2009.

As of August 13, 2010, there were 3,090 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, 2010. The cumulative total return assumes an investment of \$100 on June 30, 2005 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., Ladish Company 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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	6/05	6/06	6/07	6/08	6/09	6/10
Carpenter Technology Corporation	100.00	224.74	255.81	173.19	85.37	138.47
S&P Midcap 400	100.00	112.98	133.89	124.07	89.30	111.56
Peer Group	100.00	181.13	287.03	257.14	136.90	180.07

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

## Five-Year Financial Summary

In millions, except per share data

(Fiscal years ended June 30,)

	2010	2009 <sup>(a)</sup>	2008 <sup>(b)</sup>	2007	2006
<b>Summary of Operations:</b>					
Net sales	\$ 1,198.6	\$ 1,362.3	\$ 1,953.5	\$ 1,839.0	\$ 1,465.2
Operating income	11.7	64.0	293.6	304.4	293.4
Income from continuing operations	2.1	47.9	200.5	215.2	200.3
Income from discontinued operations, net			77.2	12.0	11.5
Net income	\$ 2.1	\$ 47.9	\$ 277.7	\$ 227.2	\$ 211.8
<b>Financial Position at Year-End:</b>					
Cash and cash equivalents	\$ 265.4	\$ 340.1	\$ 403.3	\$ 300.8	\$ 352.8
Marketable securities, current	\$ 105.2	\$ 15.0	\$ 5.3	\$ 372.7	\$ 141.8
Total assets	\$ 1,583.2	\$ 1,497.4	\$ 1,712.2	\$ 2,025.7	\$ 1,887.9
Long-term obligations, net of current portion (including convertible preferred stock)	\$ 259.6	\$ 258.6	\$ 276.7	\$ 299.5	\$ 351.1
<b>Per Common Share:</b>					
Net earnings:					
Basic					
Continuing operations	\$ 0.04	\$ 1.08	\$ 4.11	\$ 4.16	\$ 3.94
Discontinued operations	\$	\$	\$ 1.59	\$ 0.24	\$ 0.23
	\$ 0.04	\$ 1.08	\$ 5.70	\$ 4.40	\$ 4.17
Diluted					
Continuing operations	\$ 0.04	\$ 1.08	\$ 4.11	\$ 4.09	\$ 3.82
Discontinued operations	\$	\$	\$ 1.58	\$ 0.23	\$ 0.22
	\$ 0.04	\$ 1.08	\$ 5.69	\$ 4.32	\$ 4.04
Cash dividend-common	\$ 0.72	\$ 0.72	\$ 0.63	\$ 0.4875	\$ 0.30
<b>Weighted Average Common Shares Outstanding:</b>					
Basic	43.9	43.9	48.5	51.5	50.5
Diluted	44.4	44.2	48.7	52.5	52.2

- (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 "Restructuring Charges" footnote in the Notes to the Consolidated Financial Statements included in Item 8 "Financial Statements and Supplementary Data" of this report.
- (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 "Divestitures and Acquisition" footnote in the Notes to the Consolidated Financial Statements included in Item 8 "Financial Statements and Supplementary Data" of this report.



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

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

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

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

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.

**Business Trends**

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

(\$ in millions, except per share data)	Fiscal Year		
	2010	2009	2008
Net sales	\$ 1,198.6	\$ 1,362.3	\$ 1,953.5
Net sales excluding surcharges <sup>(1)</sup>	\$ 921.7	\$ 1,055.2	\$ 1,369.0
Operating income excluding pension EID expense and restructuring costs <sup>(1)</sup>	\$ 49.6	\$ 73.5	\$ 315.3
Income from continuing operations	\$ 2.1	\$ 47.9	\$ 200.5
Net income	\$ 2.1	\$ 47.9	\$ 277.7
Diluted earnings per share from continuing operations	\$ 0.04	\$ 1.08	\$ 4.12
Diluted earnings per share	\$ 0.04	\$ 1.08	\$ 5.70
Purchases of property, equipment and software	\$ 44.2	\$ 116.3	\$ 118.9
Free cash flow <sup>(1)</sup>	\$ 40.1	\$ 11.2	\$ 213.4
Pounds sold (in thousands) <sup>(2)</sup>	170,820	167,040	223,460

<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

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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)	Fiscal Year					
	2010		2009		2008	
Aerospace	\$ 519.7	43%	\$ 582.9	43%	\$ 744.4	38%
Industrial	275.0	23	310.4	23	465.4	23
Energy	79.8	7	152.0	11	229.5	12
Medical	104.4	9	113.5	8	132.1	7
Consumer	119.1	10	104.3	8	169.0	9
Automotive	100.6	8	99.2	7	213.1	11
<b>Total net sales</b>	<b>\$ 1,198.6</b>	<b>100%</b>	<b>\$ 1,362.3</b>	<b>100%</b>	<b>\$ 1,953.5</b>	<b>100%</b>

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

(\$ in millions)	Fiscal Year					
	2010		2009		2008	
Special alloys	\$ 637.8	54%	\$ 694.6	51%	\$ 1,019.8	53%
Stainless steels	398.3	33	460.1	34	668.1	34
Titanium products	112.4	9	141.4	10	180.6	9
Other materials	50.1	4	66.2	5	85.0	4
<b>Total net sales</b>	<b>\$ 1,198.6</b>	<b>100%</b>	<b>\$ 1,362.3</b>	<b>100%</b>	<b>\$ 1,953.5</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 may be calculated 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. 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

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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.

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

**Net Pension Expense (Income)**

Net pension expense (income), 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 2010, 2009 and 2008:

(\$ in millions)	Fiscal Year		
	2010	2009	2008
Cost of sales	\$ 44.6	\$ 12.0	\$ (3.7)
Selling, general and administrative expenses	16.7	8.6	3.6
Pension settlement charges included in restructuring charges		4.4	
Net pension expense (income)	\$ 61.3	\$ 25.0	\$ (0.1)

Net pension expense (income) 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 2010, 2009 and 2008:

(\$ in millions)	Fiscal Year		
	2010	2009	2008
Service cost	\$ 23.3	\$ 20.2	\$ 21.6
Pension earnings, interest and deferrals	38.0	0.4	(21.7)
Pension settlement charges included in restructuring charges		4.4	
Net pension expense (income)	\$ 61.3	\$ 25.0	\$ (0.1)

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 and 2009 principally due to the decline in market value of the securities held by the plans as of June 30, 2009 and 2008.

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### **Operating Performance Overview**

Market conditions were challenging at the start of fiscal year 2010. As we ended the fiscal year, we are encouraged with the strength and momentum of the business. Our forward order book is robust. Our utilization rates are increasing and we are adding production workers. It is critical that we remain well positioned to meet growing customer demand as it unfolds.

Fiscal year 2010 highlights include the following:

We increased our share in key markets by enhancing our relationships with key customers and diversifying our customer base.

We invested further in research and development, which will lead to a more robust new product pipeline and make an important contribution to overall growth.

We have increased our external collaboration efforts to position us at the forefront of new technology and innovation which will help us grow the strategic parts of our business.

We strengthened our financial position, which should enable us to pursue growth opportunities.

We had a solid year of cash flow performance and remain financially strong. We are excited about our long-term growth opportunities, particularly in aerospace and energy and we remain focused on ultimately exceeding our prior peak level of financial performance.

### **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 a year earlier on 3 percent higher volume.

Geographically, sales outside the United States decreased 21 percent from a year ago to \$377.8 million. International sales remained fairly consistent as a percentage of our total net sales, representing 32 percent and 35 percent for fiscal year 2010 and fiscal year 2009, respectively.



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

We sell to customers across diversified end-use markets. During fiscal year 2010, 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 2009 sales by end-use market balances to conform to the fiscal year 2010 presentation. The following table includes comparative information for our estimated net sales by principal end-use markets:

(\$ in millions)	Fiscal Year		\$	%
	2010	2009	Increase (Decrease)	Increase (Decrease)
Aerospace	\$ 519.7	\$ 582.9	\$ (63.2)	(11)%
Industrial	275.0	310.4	(35.4)	(11)
Energy	79.8	152.0	(72.2)	(48)
Medical	104.4	113.5	(9.1)	(8)
Consumer	119.1	104.3	14.8	14
Automotive	100.6	99.2	1.4	1
<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 (Decrease)	Increase (Decrease)
Aerospace	\$ 395.1	\$ 450.0	\$ (54.9)	(12)%
Industrial	207.9	228.4	(20.5)	(9)
Energy	63.9	126.7	(62.8)	(50)
Medical	86.9	94.7	(7.8)	(8)
Consumer	89.1	79.1	10.0	13
Automotive	78.8	76.3	2.5	3
<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 11 percent from fiscal year 2009 to \$519.7 million. Excluding surcharge revenue, such sales decreased 12 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.

Industrial market sales decreased 11 percent from fiscal year 2009 to \$275.0 million. Adjusted for surcharge revenue, such sales decreased approximately 9 percent while volumes increased 6 percent. The results reflect the higher demand for lower value products sold primarily through distributors. Industrial markets continue to show signs of steady improvement. With many of our larger customers in this segment, our first and second quarter backlogs of fiscal year 2011 are already full.

Sales to the energy market of \$79.8 million reflected a 48 percent decrease from the fiscal year 2009. Excluding surcharge revenue, such sales decreased 50 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.



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Sales to the medical market decreased 8 percent to \$104.4 million from a year ago. Adjusted for surcharge revenue, such sales decreased 8 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.

Sales to the consumer market increased 14 percent to \$119.1 million from a year ago. Adjusted for surcharge revenue, such sales increased 13 percent with shipment volume higher by 24 percent. The results reflect increased demand in all segments along with an unfavorable shift in product mix.

Automotive market sales increased 1 percent from the fiscal year 2009 to \$100.6 million. Excluding surcharge revenue, such sales increased 3 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 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>

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 a year ago. 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.

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Sales of titanium products decreased 21 percent as compared with a year ago 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), a year ago. 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
Net sales excluding surcharges	\$ 921.7	\$ 1,055.2
Gross profit	\$ 144.8	\$ 207.2
Gross margin	12.1%	15.2%
Gross margin excluding dilutive effect of surcharges	15.7%	19.6%

In addition to the impact of the surcharge mechanism, fluctuations in raw material prices (combined with fluctuations in inventory levels) have impacted our gross profit from year to year. We estimate that the effect of such combined fluctuations had no impact on gross margin in fiscal year 2010 and negatively impacted gross margin by 90 basis points in fiscal year 2009. We estimate that the lag effect of the surcharge mechanism negatively impacted gross margin by approximately 150 basis points during fiscal year 2010, compared to a positive impact on gross margin of approximately 100 basis points during fiscal year 2009.

**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.

**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.

**Table of Contents****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
Net sales excluding surcharges	\$ 921.7	\$ 1,055.2
Operating income	\$ 11.7	\$ 64.0
Add back: Pension EID expense	37.9	0.1
Add back: Restructuring costs		9.4
Operating income excluding pension EID expense and restructuring costs	\$ 49.6	\$ 73.5
Operating margin excluding surcharges, pension EID expense and restructuring costs	5.4%	7.0%

**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.

**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.

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### **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 due to the lapse of certain statutes of limitations. 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), a year ago. 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.

#### ***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.

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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.

**Results of Operations Fiscal Year 2009 Compared to Fiscal Year 2008**

For fiscal year 2009, we reported income from continuing operations of \$47.9 million, or \$1.08 per diluted share, compared with income from continuing operations of \$200.5 million, or \$4.12 per diluted share, a year earlier. Continued weak global manufacturing activity affected demand throughout our customer base, and especially in our higher margin markets of energy and aerospace.

**Net Sales**

Net sales for fiscal year 2009 were \$1,362.3 million, which was a 30 percent decrease from fiscal year 2008. Excluding surcharge revenues, sales were 23 percent lower than a year earlier.

Geographically, sales outside the United States decreased 27 percent in fiscal year 2009 to \$477.0 million. International sales remained fairly consistent as a percentage of our total net sales, representing 35 percent and 34 percent for fiscal year 2009 and fiscal year 2008, 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		\$	%
	2009	2008	Decrease	Decrease
Aerospace	\$ 582.9	\$ 744.4	\$ (161.5)	(22)%
Industrial	310.4	465.4	(155.0)	(33)
Energy	152.0	229.5	(77.5)	(34)
Medical	113.5	132.1	(18.6)	(14)
Consumer	104.3	169.0	(64.7)	(38)
Automotive	99.2	213.1	(113.9)	(53)
<b>Total net sales</b>	<b>\$ 1,362.3</b>	<b>\$ 1,953.5</b>	<b>\$ (591.2)</b>	<b>(30)%</b>

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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		\$	%
	2009	2008	Decrease	Decrease
Aerospace	\$ 450.0	\$ 520.5	\$ (70.5)	(14)%
Industrial	228.4	306.1	(77.7)	(25)
Energy	126.7	171.4	(44.7)	(26)
Medical	94.7	109.7	(15.0)	(14)
Consumer	79.1	113.1	(34.0)	(30)
Automotive	76.3	146.9	(70.6)	(48)
<b>Total net sales excluding surcharge revenues</b>	<b>\$ 1,055.2</b>	<b>\$ 1,367.7</b>	<b>\$ (312.5)</b>	<b>(23)%</b>

Sales to the aerospace market decreased 22 percent from fiscal year 2008 to \$582.9 million. Excluding surcharge revenue, such sales decreased 14 percent on 13 percent lower shipment volume. The sales decline reflects the continued impact of a reduction in airplane build schedules and lower overall passenger miles. Excess inventory in jet engines and fasteners also contributed to the lower volumes in fiscal year 2009.

Industrial market sales decreased 33 percent from fiscal year 2008 to \$310.4 million. Adjusted for surcharge revenue, such sales decreased approximately 25 percent as a result of a 26 percent decrease in shipment volume. The results reflect competitive pricing pressures in more commodity-oriented applications and reduced overall demand for materials used in valves, fittings, fasteners, and general industrial applications as customers are purchasing limited quantities on an as-needed basis.

Sales to the energy market of \$152.0 million reflected a 34 percent decrease from the fiscal year 2008. Excluding surcharge revenue, such sales decreased 26 percent from a year ago on lower shipment volume of 34 percent. The decline in energy sales and shipment volumes principally reflected lower oil and gas exploration activity in the face of weak demand for oil. Declining market demand and high customer inventory have also reduced shipments and sales levels to the power generation sector.

Sales to the medical market decreased 14 percent to \$113.5 million from a year ago. Adjusted for surcharge revenue, such sales decreased 14 percent, while volumes increased 10 percent. The strong shipment volume reflects higher demand in orthopedic implant and medical instrument applications, while the revenue decline reflects the impact of lower titanium costs and a leaner mix of products. Demand is driven primarily by steady increases in the number of implant procedures in the U.S., Japan and the EU.

Sales to the consumer market decreased 38 percent to \$104.3 million from a year ago. Adjusted for surcharge revenue, such sales decreased 30 percent with shipment volume lower by 21 percent. The decline reflects lower sales across all sectors, led by housing and electronics as customers and distributors attempt to conserve cash in light of credit availability concerns.

Automotive market sales decreased 53 percent from the fiscal year 2008 to \$99.2 million. Excluding surcharge revenue, such sales decreased 48 percent on 44 percent lower shipment volume. Sharply lower consumer spending and tighter credit continued to suppress auto sales, resulting in the further deterioration in production rates. Lower inventory levels in the supply chain reflect customers with demand focused on spot purchases of material with short lead times.



**Table of Contents****Sales by Product Class**

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

(\$ in millions)	Fiscal Year		\$ Decrease	% Decrease
	2009	2008		
Special alloys	\$ 694.6	\$ 1,019.8	\$ (325.2)	(32)%
Stainless steels	460.1	668.1	(208.0)	(31)
Titanium products	141.4	180.6	(39.2)	(22)
Other materials	66.2	85.0	(18.8)	(22)
<b>Total net sales</b>	<b>\$ 1,362.3</b>	<b>\$ 1,953.5</b>	<b>\$ (591.2)</b>	<b>(30)%</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		\$ Decrease	% Decrease
	2009	2008		
Special alloys	\$ 499.2	\$ 647.1	\$ (147.9)	(23)%
Stainless steels	349.8	458.4	(108.6)	(24)
Titanium products	141.4	180.6	(39.2)	(22)
Other materials	64.8	81.6	(16.8)	(21)
<b>Total net sales excluding surcharge revenues</b>	<b>\$ 1,055.2</b>	<b>\$ 1,367.7</b>	<b>\$ (312.5)</b>	<b>(23)%</b>

Sales of special alloys products decreased 32 percent in fiscal year 2009 as compared with a year ago to \$694.6 million. The sales decrease principally reflects the decline in demand from the aerospace and energy markets.

Sales of stainless steels decreased 31 percent as compared with a year ago. Excluding surcharge revenues, such sales decreased by 24 percent on 28 percent lower shipment volume. The decrease resulted primarily from reduced shipments of materials used in the automotive, industrial and consumer markets.

Sales of titanium products decreased 22 percent as compared with a year ago on 10 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, which was partially offset by an increase in demand in the medical end-use market.

**Gross Profit**

Gross profit in fiscal year 2009 decreased to \$207.2 million, or 15.2 percent of net sales (19.6 percent of net sales excluding surcharges), from \$457.2 million, or 23.4 percent of net sales (33.4 percent of net sales excluding surcharges), a year ago. The results primarily reflected the reduced demand levels and related manufacturing inefficiencies associated with the lower volume.

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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 2009 and 2008. See the section Non-GAAP Financial Measures below for further discussion of these financial metrics.

(\$ in millions)	Fiscal Year	
	2009	2008
Net sales	\$ 1,362.3	\$ 1,953.5
Less: surcharge revenue	307.1	585.8
<b>Net sales excluding surcharges</b>	<b>\$ 1,055.2</b>	<b>\$ 1,367.7</b>
Gross profit	\$ 207.2	\$ 457.2
<b>Gross margin</b>	<b>15.2%</b>	<b>23.4%</b>
Gross margin excluding dilutive effect of surcharges	19.6%	33.4%

In addition to the impact of the surcharge mechanism, fluctuations in raw material prices (combined with fluctuations in inventory levels) have impacted our gross profit from year to year. We estimate that the effect of such combined fluctuations negatively impacted gross margin by 90 basis points in fiscal year 2009 and negatively impacted gross margin by 40 basis points in fiscal year 2008. We estimate that the lag effect of the surcharge mechanism positively impacted gross margin by approximately 100 basis points during fiscal year 2009, compared to a positive impact on gross margin of approximately 40 basis points during fiscal year 2008.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses in fiscal year 2009 were \$133.8 million, or 9.8 percent of net sales (12.7 of net sales excluding surcharges), compared to \$163.6 million, or 8.4 percent of net sales (12.0 percent of net sales excluding surcharges), in fiscal year 2008. Excluding the impact of changes in net pension expense discussed above, expenses improved by 22 percent over fiscal year 2008. The reduction reflects the \$21.0 million charge for a legal matter that was recorded in the fourth quarter of fiscal year 2008 in addition to reductions in variable compensation and actions taken to reduce headcount and spending across the business.

**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 U.K. The closure is expected to reduce our fixed costs and to utilize existing production capacity more efficiently. 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.

**Interest Expense**

Fiscal year 2009 interest expense of \$16.1 million decreased 22 percent from \$20.5 million in fiscal 2008. Interest on substantially all of our debt was at a fixed rate. The decrease in interest expense is attributable to the reductions in outstanding debt related to current year repayments, as well as a \$1.7 million increase in the amount of interest capitalized associated with ongoing construction projects during fiscal year 2009 as compared with fiscal year 2008.

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### **Other Income, Net**

Other income for fiscal year 2009 was \$15.1 million as compared with \$24.2 million a year ago. The decrease principally reflected lower returns on invested cash balances which were partially offset by the favorable impacts of foreign exchange in fiscal year 2009 as compared with fiscal year 2008.

### **Income Taxes**

Our effective tax rate (income tax expense as a percent of income before taxes) for fiscal year 2009 was 24.0 percent as compared to 32.6 percent in fiscal year 2008. 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.

The fiscal year 2008 tax rate was also lower than the statutory rate of 35 percent, primarily due to the following items. We recorded a reduction in income tax expense of \$2.3 million, or 0.8 percent of pretax income, reflecting the reversal of valuation allowances that had been recorded against state net operating loss carryforwards in prior years. Valuation allowances are reviewed each year and an assessment is made as to the likelihood of recovery of those deferred taxes. Based on the then-current year and forecasted taxable income in certain jurisdictions, we determined that it was appropriate to reverse a portion of this valuation allowance in fiscal year 2008. We recognized a benefit of \$5.7 million, or 1.9 percent of pretax income, in connection with the domestic manufacturing deduction, which was part of the American Jobs Creation Act of 2004 allowing a special deduction for qualified manufacturing activities. The Act also provided for a two-year phase-out of the existing extraterritorial income exclusion deduction. As a result, we recognized an increase in income tax expense year over year, reflecting the phase-out of the deduction in 2007, and the repeal in 2008.

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 2009 for the AMO segment were \$957.4 million, as compared with \$1,390.7 million in fiscal year 2008. Excluding surcharge revenues, sales decreased 24 percent from a year ago. The fiscal year 2009 net sales reflected a reduction in pounds shipped of 26 percent as compared to fiscal year 2008. Both the sales and shipment volume decreases primarily reflect lower demand in the automotive, industrial and consumer markets.

Operating income for the AMO segment in fiscal year 2009 was \$34.1 million, or 3.6 percent of net sales (4.5 percent of net sales excluding surcharge revenues), compared to \$188.7 million, or 13.6 percent of net sales (19.0 percent of net sales excluding surcharge revenues), a year ago. The decrease in operating income reflects lower shipment volume coupled with the negative fixed cost impacts related to both the lower shipment volume levels and our inventory reduction efforts.

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

Net sales for fiscal year 2009 for the PAO segment decreased 28 percent to \$413.2 million as compared with \$575.7 million for fiscal year 2008. Excluding surcharge revenues, net sales decreased 20 percent on 24 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 2009 was \$76.9 million, or 18.6 percent of net sales (24.7 percent of net sales excluding surcharge revenues), as compared with \$144.7 million, or 25.1 percent of net sales (37.2 percent of net sales excluding surcharge revenues) for fiscal year 2008. The decrease in operating income principally reflects lower shipment volume and the negative timing impacts from raw material hedges.

**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 \$371 million as of June 30, 2010, together with cash generated from operations and available borrowing capacity of approximately \$196 million under our credit facilities, will be sufficient to fund our operating activities, planned capital expenditures, and other obligations for the foreseeable future.

In November 2009, we entered into a new revolving credit facility that expires November 2012 and contains a revolving credit commitment amount of \$200 million. As of June 30, 2010, we had \$3.8 million of issued letters of credit under the revolving credit facility. The balance of the revolving credit facility (\$196.2 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, 2010, 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, 2010:

	Covenant Requirement	Actual Ratio
Consolidated interest coverage	3.0 to 1.0 (minimum)	7.8 to 1.0
Consolidated debt to capital	55% (maximum)	31%

During the fiscal year 2010, our free cash flow, which we define under Non-GAAP Financial Measures below, was \$40.1 million as compared to \$11.2 million for the same period a year ago. The free cash flow in the fiscal year 2010 as compared with the prior year principally reflects the lower capital expenditures in the current period partially offset by the lower fiscal year 2010 net income levels. We continue to actively manage working capital levels through robust processes that balance our cash objectives.

Capital expenditures for plant, equipment and software were \$44.2 million for fiscal year 2010 as compared with \$116.3 million for the prior year. A significant portion of the prior year period's capital expenditures related to the expansion of our premium melt facilities.

Dividends for the fiscal year 2010 were \$31.9 million, as compared with \$31.5 million in the prior year, and were paid at the same quarterly rate of \$0.18 per share of common stock in both periods.

During fiscal year 2009, we used \$46.1 million to purchase 1,218,900 shares of our common stock pursuant to the terms of share repurchase programs authorized by our Board of Directors.

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For fiscal years 2010, 2009 and 2008, interest cost totaled \$18.8 million, \$20.1 million, and \$22.8 million, respectively, of which \$1.0 million, \$4.0 million, and \$2.3 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 Sales and Gross Margin Excluding Surcharges***

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

#### ***Operating Income and Operating Margin Excluding Surcharges, Pension EID Expense and 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.

**Table of Contents****Free Cash Flow**

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

(\$ in millions)	Fiscal Year		
	2010	2009	2008
Net cash provided from operating activities	\$ 115.2	\$ 145.5	\$ 218.5
Payment of income tax liability associated with gain on sales of businesses			41.3
Purchases of property, equipment and software	(44.2)	(116.3)	(118.9)
Dividends paid	(31.9)	(31.5)	(30.6)
Proceeds from disposals of plant and equipment	1.0	0.1	1.5
Free cash flow excluding impact of sales and acquisition of businesses	40.1	(2.2)	111.8
Payment of income tax liability associated with gain on sales of businesses			(41.3)
Net proceeds from sales of businesses		13.4	149.5
Acquisition of business			(6.6)
Free cash flow	\$ 40.1	\$ 11.2	\$ 213.4

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.

**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.

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### ***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 Citigroup Pension Discount Curve with maturities that approximate the anticipated cash outflows from the plan. 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 \$1.7 million. If the discount rate was changed by 0.25 percent, the net pension expense would change by approximately \$2.0 million.

### ***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, 2010 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.

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### ***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 probable (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.

### ***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 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.



**Table of Contents*****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.

**Contractual Obligations**

At June 30, 2010, we had the following contractual obligations and other commercial commitments and contingencies:

(\$ in millions)	Total	Fiscal Year					There- after
		2011	2012	2013	2014	2015	
Long-term debt <sup>(1)</sup>	\$ 256.0	\$	\$ 100.0	\$ 101.0	\$	\$	\$ 55.0
Estimated interest payments <sup>(2)</sup>	58.1	18.2	11.5	9.7	3.9	3.9	10.9
Operating leases	18.2	6.5	5.0	2.9	1.9	1.4	0.5
Pension plan contributions <sup>(3)</sup>	23.3	3.9	19.4	N/A	N/A	N/A	N/A
Accrued post-retirement benefits <sup>(4)</sup>	150.2	13.1	13.7	14.2	14.7	15.1	79.4
Purchase obligations <sup>(5)</sup>	175.8	130.8	21.0	16.3	7.7		
Pension benefits <sup>(6)</sup>	29.8	3.2	3.1	3.1	3.0	3.0	14.4
<b>Total</b>	<b>\$ 711.4</b>	<b>\$ 175.7</b>	<b>\$ 173.7</b>	<b>\$ 147.2</b>	<b>\$ 31.2</b>	<b>\$ 23.4</b>	<b>\$ 160.2</b>

<sup>(1)</sup> Refer to Note 9 of Notes to Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data. In addition, we had \$3.8 million of outstanding letters of credit as of June 30, 2010.

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

<sup>(3)</sup> Pension plan contributions represent required minimum contributions for the plan year beginning January 1, 2010 and quarterly installment contributions for plan year beginning January 1, 2011. These amounts were calculated based on actuarial valuations as prescribed by pension funding regulations in the United States. Required pension contributions in future periods are dependent on actuarial valuations to be prepared in future periods.

<sup>(4)</sup> 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.

<sup>(5)</sup> 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, 2010 raw material prices for commitments with variable pricing.

<sup>(6)</sup> 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.

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As of June 30, 2010, the noncurrent portion of our income tax liabilities, including accrued interest and penalties related to unrecognized tax benefits was approximately \$2.3 million. The settlement period for these income tax liabilities cannot be determined and were therefore excluded from the table above.

### **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 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. During fiscal year 2008, no additional accruals were recorded. 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, 2010 and 2009, were \$4.9 million and \$6.9 million, respectively.

Estimates of the amount and timing of future costs of environmental remediation requirements are inherently imprecise because of the continuing evolution of environmental laws and regulatory requirements, the availability and application of technology, the identification of currently unknown remediation sites and the allocation of costs among the 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 Farms***

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 engaged to dispose of certain wastes during the 1970 s. The plaintiff group was individually named as PRP s for the Boarhead site in the EPA s Record of Decision in November 1998. Their suit, in June of 2002, against various defendants, including Carpenter, sought contributions for a portion of costs incurred for various site cleanup activities as well as contributions to future cleanup efforts. The suit went to trial in June 2008. Prior to trial, all of the named co-defendants, except for Carpenter, reached an out of court settlement with the plaintiffs. 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,

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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. We intend to continue to defend against the claims in this case, but are unable to predict the outcome of the proceedings at this time. As of June 30, 2010 and June 30, 2009, we recorded a liability related to this case of \$21.8 and \$21.5 million, respectively.

### ***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 U.S. Customs' investigation of this matter. As of the date of this filing, our internal review remains ongoing due to the extensive amount of documentation that must be compiled and reviewed.

During the period our customs broker was filing claims on our behalf, July 2003 through December 2006, we applied for and received refund claims totaling \$6.9 million. While the ultimate outcome of the U.S. Customs investigation and our internal review is not yet known, based on current facts we believe that the reserve recorded of \$2.5 million as of June 30, 2010 is a reasonable estimate of the probable loss that will result from the investigation. We do not expect that any additional material liabilities will be incurred related to this matter.

### ***Export Regulations Violations***

In the third quarter of 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, 2010.

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### *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 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 cyclical nature of our business and certain end-use markets, including aerospace, industrial, automotive, consumer, medical and energy, or other influences on our business such as new competitors, the consolidation of customers and suppliers or the transfer of manufacturing capacity from the United States to foreign countries; (2) our ability to achieve cost savings, productivity improvements or process changes; (3) the volatility of, and our ability to recoup increases in the costs of energy and raw materials or other factors; (4) domestic and foreign excess manufacturing capacity for certain metals; (5) fluctuations in currency exchange rates; (6) the degree of success of government trade actions; (7) the valuation of the assets and liabilities in our pension trusts; (8) possible labor disputes or work stoppages; and (9) the potential that our customers may substitute alternate materials or adopt different manufacturing practices that replace or limit the suitability of our products. 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.

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

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

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

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

Our pension plan assets are invested in different asset classes including large-, mid- and small-cap growth and value funds, index and international equity funds, short-term and medium-term duration fixed-income funds and high yield funds. The plan's current allocation policy is to 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, 2010 is provided in Note 17 to the consolidated financial statements included in Item 8., Financial Statements and Supplementary Data. Assuming on June 30, 2010, (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.

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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, 2010. 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, 2010, 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, 2010 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 Finance 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, 2010 and June 30, 2009, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2010 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, 2010, 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.

As discussed in Note 18 to the consolidated financial statements, the Company changed the manner in which it accounts for uncertain tax positions in 2008.

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 17, 2010



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

Carpenter Technology Corporation

For the Years Ended June 30, 2010, 2009 and 2008

(\$ in millions, except per share data)	2010	2009	2008
<b>NET SALES</b>	<b>\$ 1,198.6</b>	<b>\$ 1,362.3</b>	<b>\$ 1,953.5</b>
Cost of sales	1,053.8	1,155.1	1,496.3
<b>Gross profit</b>	<b>144.8</b>	<b>207.2</b>	<b>457.2</b>
Selling, general and administrative expenses	133.1	133.8	163.6
Restructuring charges		9.4	
<b>Operating income</b>	<b>11.7</b>	<b>64.0</b>	<b>293.6</b>
Interest expense	(17.8)	(16.1)	(20.5)
Other income, net	10.8	15.1	24.2
<b>Income before income taxes</b>	<b>4.7</b>	<b>63.0</b>	<b>297.3</b>
Income tax expense	2.6	15.1	96.8
<b>Income from continuing operations</b>	<b>2.1</b>	<b>47.9</b>	<b>200.5</b>
Income from discontinued operations			77.2
<b>NET INCOME</b>	<b>\$ 2.1</b>	<b>\$ 47.9</b>	<b>\$ 277.7</b>
<b>EARNINGS PER COMMON SHARE:</b>			
<b>Basic:</b>			
Income from continuing operations	\$ 0.04	\$ 1.08	\$ 4.14
Income from discontinued operations			1.59
<b>Net income</b>	<b>\$ 0.04</b>	<b>\$ 1.08</b>	<b>\$ 5.73</b>
<b>Diluted:</b>			
Income from continuing operations	\$ 0.04	\$ 1.08	\$ 4.12
Income from discontinued operations			1.58
<b>Net income</b>	<b>\$ 0.04</b>	<b>\$ 1.08</b>	<b>\$ 5.70</b>
<b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:</b>			
Basic	43.9	43.9	48.5
Diluted	44.4	44.2	48.7

See accompanying notes to consolidated financial statements.



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

Carpenter Technology Corporation

For the Years Ended June 30, 2010, 2009 and 2008

(\$ in millions)	2010	2009	2008
<b>OPERATING ACTIVITIES</b>			
Net income	\$ 2.1	\$ 47.9	\$ 277.7
Adjustments to reconcile net income to net cash provided from operating activities:			
Depreciation and amortization	59.1	52.7	49.2
Deferred income taxes	(1.8)	16.4	(4.0)
Net pension expense (income)	61.3	20.6	(0.1)
Net loss (gain) on disposal of property and equipment	2.0	1.7	(0.9)
Gain on sales of businesses			(109.6)
Changes in working capital and other:			
Accounts receivable	(62.5)	144.0	6.3
Inventories	(19.1)	13.4	17.4
Other current assets	24.2	(26.7)	(8.3)
Accounts payable	60.8	(85.7)	(56.1)
Accrued current liabilities	13.4	(33.5)	28.5
Other, net	(24.3)	(5.3)	18.4
Net cash provided from operating activities	115.2	145.5	218.5
<b>INVESTING ACTIVITIES</b>			
Purchases of property, equipment and software	(44.2)	(116.3)	(118.9)
Proceeds from disposals of property and equipment	1.0	0.1	1.5
Net proceeds from sales of businesses		13.4	149.5
Acquisition of business			(6.6)
Purchases of marketable securities	(145.0)	(49.5)	(366.2)
Proceeds from sales and maturities of marketable securities	55.3	44.8	722.2
Net cash (used for) provided from investing activities	(132.9)	(107.5)	381.5
<b>FINANCING ACTIVITIES</b>			
Payments on long-term debt	(20.0)	(23.0)	(33.2)
Dividends paid	(31.9)	(31.5)	(30.6)
Payments of debt issue costs	(2.0)		
Purchases of treasury stock		(46.1)	(425.2)
Tax benefits on share-based compensation	0.2		1.0
Proceeds from common stock options exercised	0.2	0.1	0.7
Net cash used for financing activities	(53.5)	(100.5)	(487.3)
Effect of exchange rate changes on cash and cash equivalents	(3.5)	(0.7)	(10.2)
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(74.7)</b>	<b>(63.2)</b>	<b>102.5</b>
Cash and cash equivalents at beginning of year	340.1	403.3	300.8
Cash and cash equivalents at end of year	\$ 265.4	\$ 340.1	\$ 403.3

See accompanying notes to consolidated financial statements.



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

Carpenter Technology Corporation

June 30, 2010 and 2009

(\$ in millions, except share data)	2010	2009
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 265.4	\$ 340.1
Marketable securities	105.2	15.0
Accounts receivable, net of allowance for doubtful accounts of \$2.7 and \$2.8 at June 30, 2010 and 2009, respectively	188.5	130.8
Inventories	203.6	185.4
Deferred income taxes	21.5	23.8
Other current assets	36.0	54.6
<b>Total current assets</b>	<b>820.2</b>	<b>749.7</b>
Property, plant and equipment, net	617.5	634.1
Goodwill	35.2	35.2
Other intangibles, net	17.6	18.7
Deferred income taxes	16.2	
Other assets	76.5	59.7
<b>Total assets</b>	<b>\$ 1,583.2</b>	<b>\$ 1,497.4</b>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 130.5	\$ 70.2
Accrued liabilities	87.6	108.3
Current portion of long-term debt		20.0
<b>Total current liabilities</b>	<b>218.1</b>	<b>198.5</b>
Long-term debt, net of current portion	259.6	258.6
Accrued pension liabilities	322.6	240.4
Accrued postretirement benefits	146.7	127.7
Deferred income taxes		1.6
Other liabilities	62.8	53.6
<b>Total liabilities</b>	<b>1,009.8</b>	<b>880.4</b>
Contingencies and commitments (see Note 12)		
<b>STOCKHOLDERS EQUITY</b>		
Common stock authorized 100,000,000 shares; issued 54,644,401 shares at June 30, 2010 and 54,614,842 shares at June 30, 2009; outstanding 43,967,084 shares at June 30, 2010 and 44,029,025 shares at June 30, 2009	273.2	273.1
Capital in excess of par value	223.3	208.9
Reinvested earnings	983.2	1,013.0
Common stock in treasury (10,677,317 shares and 10,585,817 shares at June 30, 2010 and 2009, respectively), at cost	(535.2)	(531.5)
Accumulated other comprehensive loss	(371.1)	(346.5)
<b>Total stockholders equity</b>	<b>573.4</b>	<b>617.0</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 1,583.2</b>	<b>\$ 1,497.4</b>

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, 2010, 2009 and 2008

(\$ in millions, except per share data)	Common Stock Par Value Of \$5	Capital in Excess of Par Value	Reinvested Earnings	Common Stock in Treasury	Accumulated Other Comprehensive Loss	Total Stock- Holders Equity
<b>Balances at June 30, 2007</b>	<b>272.8</b>	<b>191.6</b>	<b>751.3</b>	<b>(65.7)</b>	<b>(82.3)</b>	<b>1,067.7</b>
Net income			277.7			277.7
Pension and post-retirement benefits, net of tax					(57.7)	(57.7)
Net losses on derivative instruments, net of tax					(13.8)	(13.8)
Foreign currency translation					9.9	9.9
Purchase of treasury stock				(425.2)		(425.2)
Cash Dividends:						
Common @ \$0.63 per share			(30.6)			(30.6)
Share-based compensation		5.0		8.2		13.2
Stock options exercised	0.2	0.5				0.7
Tax benefit on share-based compensation		1.0				1.0
Adjustment to initially apply FIN 48			(1.8)			(1.8)
Other		(0.6)		(1.3)		(1.9)
<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>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>

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, 2010, 2009 and 2008

	Common Shares		
	Issued	Treasury	Net Outstanding
Balances at June 30, 2007	54,552,244	(2,308,702)	52,243,542
Stock options exercised	55,550		55,550
Share-based compensation plans	348	131,741	132,089
Purchases of treasury stock		(7,135,411)	(7,135,411)
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

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

Carpenter Technology Corporation

For the years ended June 30, 2010, 2009 and 2008

(\$ in millions)	2010	2009	2008
Net income	\$ 2.1	\$ 47.9	\$ 277.7
Pension and post-retirement benefits, net of tax of \$23.5, \$110.3, and \$36.7, respectively	(29.7)	(176.4)	(57.7)
Net gain (loss) on derivative instruments, net of tax of (\$9.2), \$3.7, and \$8.8, respectively	14.9	(5.9)	(13.8)
Unrealized loss on marketable securities, net of tax of \$0.3, \$ , \$ respectively	(0.5)		
Foreign currency translation	(9.3)	(20.3)	9.9
Comprehensive (loss) income	\$ (22.5)	\$ (154.7)	\$ 216.1

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.

***Stock Split***

On October 16, 2007, the Company announced that its Board of Directors approved a two-for-one split of the Company's common stock to be effected in the form of a stock dividend. The stock split was distributed on November 15, 2007 to stockholders of record at the close of business on November 6, 2007. All share and per share information has been retroactively adjusted and restated to reflect the impact of the split.

***Discontinued Operations***

During fiscal year 2008, the Company completed the sale of the ceramics and metal shapes businesses. The results of operations for the disposed businesses and the gain on sale have been classified as discontinued operations in the consolidated statements of income for all periods presented. Cash flows related to our disposed operations have not been separately disclosed.

***Revenue Recognition***

Revenue, net of related discounts and allowances, is recognized when product is shipped and title and risk of loss has transferred to the customer.

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

Freight and handling costs billed separately to customers are included as part of 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 \$17.8 million, \$15.4 million and \$14.4 million in fiscal year 2010, 2009 and 2008, 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.

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

***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.

***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, 2010 and 2009, \$60.8 million and \$56.0 million of inventory, respectively, was accounted for using a method other than the LIFO method.

***Fixed Assets 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 \$4.4 million, \$2.1 million and \$1.3 million for the years ended June 30, 2010, 2009 and 2008, 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.

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

***Intangible assets***

The costs of intangible assets, consisting principally of trademarks, trade names and customer relationships are amortized on a straight-line basis over the estimated useful lives ranging from 15 to 30 years.

***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.

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

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.

***Earnings per Share***

Beginning in fiscal year 2010 the Company adopted the FASB's guidance on the determination of participating securities as it relates to 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 and retrospectively adjusted earnings per share data to conform to the current presentation. 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 is divided by the weighted average number of shares for the period in each class. Because the participating securities have no obligation to share in net losses, losses are not allocated to the participating securities in this calculation.

***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. One customer accounted for 10% of total net sales in fiscal year 2010. No single customer accounted for more than 10% or more of total sales in fiscal years 2009 and 2008.

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

*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.

**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 facility's customers will be serviced by existing operations and through arrangements with other suppliers. 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. Divestitures and Acquisition**

*Divestitures*

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

On June 30, 2008, the Company completed the sale of our metal shapes business, Rathbone Precision Metals ( Rathbone ), to Calvi Holdings, S.r.l. Rathbone is engaged in the business of designing, manufacturing and selling precision formed shape components in a variety of alloys. The operations of Rathbone were historically included on our Engineered Products Operations business segment. The net sales price was \$17.4 million, of which \$5.0 million was received at closing with the remaining \$12.5 million in the form of a note receivable which was paid in full in July 2008. The net proceeds also reflect \$0.1 million of deal related costs. In conjunction with the sale, Carpenter entered into a long-term supply agreement to provide the buyer with certain raw materials over a five-year period.

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

The following table summarizes the components of discontinued operations:

(\$ in millions)	Year Ended June 30,		
	2010	2009	2008
Net sales	\$	\$	\$ 88.9
Income before income taxes	\$	\$	\$ 13.2
Less: income tax expense			4.3
Income from operations of discontinued businesses, net of tax			8.9
Gain on sale of discontinued operations			109.6
Less: income tax expense on gain			41.3
Income from discontinued operations, net of tax	\$	\$	\$ 77.2

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

***Acquisition***

On March 27, 2008, the Company acquired substantially all the assets of Ultrafine Powder Technology, a manufacturer of fine gas atomized powders used by the metal injection molding industry and other specialty markets located in Woonsocket, RI. The purchase price was \$6.6 million and was paid in cash at closing. The consideration paid was allocated to \$1.8 million of current assets, principally accounts receivable and inventory, \$3.2 million of property, plant and equipment, \$1.7 million of intangible assets, \$0.6 million of goodwill and \$0.7 million to accounts payable and accrued expenses.

**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, 2010, 2009 and 2008 were as follows:

(\$ in millions, except per share data)	Year Ended June 30,		
	2010	2009	2008
Net income from continuing operations	\$ 2.1	\$ 47.9	\$ 200.5
Less: earnings and dividends allocated to participating securities	(0.2)	(0.1)	(1.2)
<b>Earnings available for common shareholders</b>	<b>\$ 1.9</b>	<b>\$ 47.8</b>	<b>\$ 199.3</b>
Weighted average number of common shares outstanding for basic earnings per common share	43.9	43.9	48.5
Effect of shares issuable under share based compensation plans	0.5	0.3	0.2
Weighted average number of common shares outstanding for diluted earnings per common share	44.4	44.2	48.7
<b>Basic earnings per common share from continuing operations</b>	<b>\$ 0.04</b>	<b>\$ 1.08</b>	<b>\$ 4.11</b>
Diluted earnings per common share from continuing operations	\$ 0.04	\$ 1.08	\$ 4.11

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,		
	2010	2009	2008
Stock options	0.4	0.4	0.2
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, 2010 and 2009. The following is a summary of marketable securities, all of which were classified as available-for-sale as of June 30, 2010 and 2009:

<b>June 30, 2010</b>			
(\$ 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
<b>June 30, 2009</b>			
(\$ in millions)	Cost	Unrealized Losses	Estimated Fair Value
<b>Current</b>			
Certificate of deposit	\$ 15.0	\$	\$ 15.0
<b>Non-current</b>			
Municipal auction rate securities	\$ 6.3	\$	\$ 6.3

For the fiscal years ended June 30, 2010, 2009 and 2008, proceeds from sales and maturities of marketable securities were \$55.3 million, \$44.8 million and \$722.2 million, respectively.

***Municipal Auction Rate Securities***

As of June 30, 2010 and June 30, 2009, the Company's marketable securities included municipal auction rate securities with a par value of \$6.2 million and \$6.3 million, respectively. The municipal auction rate securities are callable at par at the option of the issuer. As of June 30, 2010, the Company recorded \$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,	
	2010	2009
Raw materials and supplies	\$ 30.7	\$ 29.5
Work in process	109.1	90.8
Finished and purchased products	63.8	65.1
	\$ 203.6	\$ 185.4

If the first-in, first-out method of inventory had been used instead of the LIFO method, inventories would have been \$331.8 and \$305.8 million higher as of June 30, 2010 and 2009, respectively. Current cost of LIFO-valued inventories was \$474.4 million at June 30, 2010 and \$435.1 million at June 30, 2009. The reductions in LIFO-valued inventories decreased cost of sales by \$7.0 million during fiscal year 2010, \$8.0 million during fiscal year 2009 and \$23.4 million during fiscal year 2008.

**7. Property, Plant and Equipment**

(\$ in millions)	June 30,	
	2010	2009
Land	\$ 8.1	\$ 8.1
Buildings and building equipment	263.4	259.5
Machinery and equipment	1,176.1	1,209.4
Construction in progress	18.6	32.4
Total at cost	1,466.2	1,509.4
Less: accumulated depreciation and amortization	848.7	875.3
	\$ 617.5	\$ 634.1

The estimated useful lives of depreciable assets are as follows:

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

Depreciation and amortization for the years ended June 30, 2010, 2009 and 2008 was \$53.6 million, \$49.5 million and \$46.8 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, 2010 and 2009 and determined that there was no goodwill impairment. At June 30, 2010 and 2009 the goodwill recorded was associated with the Advanced Metals Operations segment. There were no changes in the carrying amount of goodwill as of June 30, 2010 and 2009.

	2010	2009
Goodwill	\$ 69.9	\$ 69.9
Accumulated impairment losses	(34.7)	(34.7)
	\$ 35.2	\$ 35.2

**Other Intangible Assets, Net**

(in millions)	2010		June 30,		2009	
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trademarks and trade names	\$ 30.6	\$ (13.7)	\$ 16.9	\$ 30.6	\$ (12.7)	\$ 17.9
Other	0.9	(0.2)	0.7	0.9	(0.1)	0.8
<b>Total</b>	<b>\$ 31.5</b>	<b>\$ (13.9)</b>	<b>\$ 17.6</b>	<b>\$ 31.5</b>	<b>\$ (12.8)</b>	<b>\$ 18.7</b>

Carpenter recorded \$1.1 million of amortization expense during fiscal year 2010, \$1.1 million during fiscal year 2009, and \$1.0 million during fiscal year 2008. The estimated annual amortization expense for each of the succeeding five fiscal years is \$1.1 million.

**9. Debt**

On November 24, 2009, the Company entered into a new revolving credit facility ( Credit Agreement ). The Credit Agreement replaced the Company's previous Five-Year Revolving Credit Agreement, dated as of August 31, 2005, which had been set to expire in August 2010. During the fiscal year ended June 30, 2010, the Company capitalized \$2.0 million of debt issue costs paid in connection with the Credit Agreement.

The Credit Agreement extends to November 24, 2012, permits the Company to borrow funds for working capital and other general corporate purposes; contains a revolving credit commitment amount of \$200 million subject to the Company's right, from time to time, to request an increase of the commitment to \$300 million in the aggregate; and provides for the issuance of Letters of Credit within such amount. Borrowings under the Credit Agreement bear interest, at the election of the Company, at either the base rate or the Eurocurrency rate in effect at such time plus, in each case, the applicable margin based on the Company's debt rating. 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, 2010, the Company had \$3.8 million of issued letters of credit under the Credit Agreement, with the balance of \$196.2 million available for future borrowings.

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

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 3.0 to 1.0 for the period through September 30, 2010, 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, 2010, the Company was in compliance with all of the covenants of the Credit Agreement.

In connection with the Company entering into the Credit Agreement discussed above, the Company simultaneously terminated its separate \$50 million accounts receivable purchase facility, dated as of December 20, 2001.

Long-term debt outstanding as of June 30, 2010 and 2009 consisted of the following:

(\$ in millions)	June 30,	
	2010	2009
Senior unsecured notes, 6.625% due May 2013 (face value of \$100.0 million at June 30, 2010 and 2009)	\$ 102.8	\$ 101.6
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, 2010 and \$76.0 million at June 30, 2009)	56.0	76.0
Medium-term notes, Series C at 7.625% due August 2011 (face value of \$100.0 million at June 30, 2010 and 2009)	100.8	101.0
Total	259.6	278.6
Less amounts due within one year		20.0
Long-term debt, net of current portion	\$ 259.6	\$ 258.6

The carrying value of the notes as of June 30, 2010 and 2009 includes fair value adjustments for interest rate swap contracts of \$0.7 million and \$1.0 million, respectively, for deferred gains on settled interest rate swaps. The deferred gains on settled interest rate swap contracts are being recognized as reductions to interest expense over the remaining term of the notes, which ranges from one to three years.

Aggregate maturities of long-term debt for the 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, 2010, 2009 and 2008, interest costs totaled \$18.8 million, \$20.1 million and \$22.8 million, respectively, of which \$1.0 million, \$4.0 million and \$2.3 million, respectively, were capitalized as part of the cost of property, plant, equipment and software.

**Table of Contents****Notes to Consolidated Financial Statements (continued)****10. Accrued Liabilities**

(\$ in millions)	June 30,	
	2010	2009
Compensation	\$ 38.6	\$ 19.5
Employee benefits	25.9	28.3
Interest	4.5	4.4
Deferred revenue	2.9	4.1
Derivative financial instruments	1.9	22.1
Taxes, other than income	1.9	1.6
Environmental costs	1.3	1.0
Legal	0.3	14.1
Professional services	0.1	0.3
Other	10.2	12.9
	\$ 87.6	\$ 108.3

**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.

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 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	
	2010	2009	2010	2009
<b>Change in projected benefit obligation:</b>				
Projected benefit obligation at beginning of year	\$ 829.9	\$ 777.0	\$ 199.8	\$ 185.4
Service cost	21.0	18.0	2.3	2.2
Interest cost	50.2	50.4	12.1	12.1
Benefits paid	(58.6)	(59.7)	(11.1)	(11.9)
Actuarial loss (gain)	115.1	54.3	21.0	12.6
Plan settlements		(8.3)		
Plan amendments	(0.4)		(0.3)	
Other		(1.8)	0.8	(0.6)
Projected benefit obligation at end of year	\$ 957.2	\$ 829.9	\$ 224.6	\$ 199.8
<b>Change in plan assets:</b>				
Fair value of plan assets at beginning of year	\$ 586.6	\$ 789.4	\$ 57.0	\$ 78.3
Actual return on plan assets	100.0	(142.8)	6.4	(21.0)
Benefits paid from plan assets	(58.6)	(59.7)	(11.1)	(11.9)
Contributions	3.5	8.0	10.9	11.6
Plan settlements		(8.3)		
Fair value of plan assets at end of year	\$ 631.5	\$ 586.6	\$ 63.2	\$ 57.0
Funded status of the plans	\$ (325.7)	\$ (243.3)	\$ (161.4)	\$ (142.8)
<b>Amounts recognized in the Consolidated Balance Sheets:</b>				
Other assets - noncurrent	\$ 0.2	\$ 0.1	\$	\$
Accrued liabilities - current	(3.3)	(3.0)	(14.7)	(15.1)
Accrued pension liabilities - noncurrent	(322.6)	(240.4)		
Accrued postretirement benefits			(146.7)	(127.7)
	\$ (325.7)	\$ (243.3)	\$ (161.4)	\$ (142.8)

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

(\$ in millions)	Pension Plans		Postretirement Plans	
	2010	2009	2010	2009
<b>Amounts recognized in accumulated other comprehensive loss:</b>				
Net actuarial loss	\$ 486.5	\$ 453.4	\$ 95.1	\$ 81.0
Prior service cost (credit)	5.0	6.5	(20.0)	(27.6)
<b>Total</b>	<b>\$ 491.5</b>	<b>\$ 459.9</b>	<b>\$ 75.1</b>	<b>\$ 53.4</b>
<b>Additional information:</b>				
Accumulated benefit obligation for all pension plans	\$ 875.8	\$ 754.5	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, 2010 and 2009:

(\$ in millions)	Pension Plans		Other Postretirement Plans	
	2010	2009	2010	2009
Projected benefit obligation	\$ 957.2	\$ 829.8	\$ 224.6	\$ 199.8
Fair value of plan assets	\$ 631.5	\$ 586.4	\$ 63.2	\$ 57.0

The following additional information is for plans with accumulated benefit obligations in excess of plan assets as of June 30, 2010 and 2009:

(\$ in millions)	Pension Plans		Other Postretirement Plans	
	2010	2009	2010	2009
Accumulated benefit obligation	\$ 875.8	\$ 754.4	\$ 224.5	\$ 199.8
Fair value of plan assets	\$ 631.5	\$ 586.4	\$ 63.2	\$ 57.0

The components of the net periodic benefit cost related to the Company's pension and other postretirement benefits for the years ended June 30, 2010, 2009 and 2008 are as follows:

(\$ in millions)	Pension Plans			Other Postretirement Plans		
	2010	2009	2008	2010	2009	2008
Service cost	\$ 21.0	\$ 18.0	\$ 19.0	\$ 2.3	\$ 2.2	\$ 2.6
Interest cost	50.2	50.4	49.1	12.1	12.1	11.6
Expected return on plan assets	(45.0)	(60.9)	(73.8)	(4.6)	(6.2)	(7.4)
Amortization of net loss	27.0	9.7	3.5	5.0	2.1	1.9
Amortization of prior service cost (benefit)	1.1	1.1	1.1	(7.8)	(7.9)	(7.9)
Curtailment			0.2			
Plan settlement expense		4.4				
<b>Net pension expense (income)</b>	<b>\$ 54.3</b>	<b>\$ 22.7</b>	<b>\$ (0.9)</b>	<b>\$ 7.0</b>	<b>\$ 2.3</b>	<b>\$ 0.8</b>

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

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.

As discussed in Note 3, the Company completed the sale of certain business units during fiscal year 2008. As a result of the Company's decision to divest these business units, the Company recognized a curtailment loss of \$0.2 million in fiscal year 2008. The curtailment loss recorded is due to the significant reduction in the expected aggregate years of future service as a result of the divestitures.

The service cost component of Carpenter's net pension (income) 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.

Principal actuarial assumptions at June 30:

	Pension Plans			Other Postretirement Plans		
	2010	2009	2008	2010	2009	2008
Weighted-average assumptions used to determine benefit obligations at fiscal year end						
Discount rate	5.00%	6.25%	6.75%	5.00%	6.25%	6.75%
Rate of compensation increase	3.66%	3.65%	3.65%	N/A	N/A	N/A
	Pension Plans			Other Postretirement Plans		
	2010	2009	2008	2010	2009	2008
Weighted-average assumptions used to determine net periodic benefit cost for the fiscal year						
Discount rate	6.25%	6.75%	6.25%	6.25%	6.75%	6.25%
Expected long-term rate of return on plan assets	8.00%	8.00%	8.50%	8.00%	8.00%	8.50%
Long-term rate of compensation increase	3.65%	3.65%	3.64%	N/A	N/A	N/A



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

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,	
	2010	2009
Assumed health care cost trend rate	9%	10%
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	2015

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 \$0.5 million and increase the postretirement benefit obligation by \$8.8 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 \$7.7 million.

Net pension expense in the year ended June 30, 2011 is estimated to be \$60.6 million, comprised of \$53.8 million of net periodic benefit costs for pension plans and \$6.8 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 pension expense for the year ended June 30, 2011 were 5.00 percent and 7.50 percent, respectively.

Amounts in other comprehensive loss that are expected to be recognized as components of net periodic benefit cost in the year ended June 30, 2011 are:

(\$ in millions)	Pension Plans	Other Postretirement Plans	Total
Amortization of prior service cost (credit)	\$ 1.0	\$ (7.9)	\$ (6.9)
Amortization of net actuarial loss	29.1	6.1	35.2
Amortization of accumulated other comprehensive loss	\$ 30.1	\$ (1.8)	\$ 28.3

Carpenter's U.S. pension plans' weighted-average asset allocations at June 30, 2010 and 2009, by asset category are as follows:

	2010	2009
Equity securities	49.1%	58.4%
Fixed income securities	33.0	37.9
Cash and cash equivalents	17.9	3.7
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.

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

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, 2010 and 2009.

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

	Fair Value		
	Level 1	Level 2	Total
Short-term investments	\$	\$ 121.5	\$ 121.5
Domestic and international equities	253.8	0.9	254.7
Commingled funds		112.7	112.7
Government agency bonds	65.0		65.0
Corporate bonds		63.0	63.0
Mortgage backed securities		13.5	13.5
Asset backed securities and other		1.1	1.1
	\$ 318.8	\$ 312.7	\$ 631.5

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

	Fair Value		
	Level 1	Level 2	Total
Short-term investments	\$	\$ 4.3	\$ 4.3
Domestic and international equities	23.6	0.4	24.0
Commingled fund		34.9	34.9
	\$ 23.6	\$ 39.6	\$ 63.2

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.

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

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.

***Cash Flows Employer Contributions***

The Company was not required to make contributions to the plans during fiscal years 2010, 2009 or 2008. The Company currently expects to make approximately \$3.9 million in required contributions to the Company's pension plan during fiscal year 2011.

***Estimated Future Benefit Payments***

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

(\$ in millions)	Pension Benefits	Other Benefits
2011	\$ 58.9	\$ 13.1
2012	\$ 61.2	\$ 13.7
2013	\$ 62.5	\$ 14.2
2014	\$ 64.0	\$ 14.7
2015	\$ 65.6	\$ 15.1
2016-2020	\$ 349.4	\$ 79.4

***Other Benefit Plans***

Carpenter also maintains defined contribution retirement and savings plans for substantially all domestic employees. Company contributions were \$4.0 million in fiscal year 2010, \$4.9 million in fiscal year 2009 and \$5.6 million in fiscal year 2008.

**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 2010, Carpenter decreased the liabilities recorded for environmental remediation costs by \$2.0 million related to two

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

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. During fiscal year 2008, no additional accruals were recorded. 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, 2010 and 2009, were \$4.9 million and \$6.9 million, respectively.

Estimates of the amount and timing of future costs of environmental remediation requirements are inherently imprecise because of the continuing evolution of environmental laws and regulatory requirements, the availability and application of technology, the identification of currently unknown remediation sites and the allocation of costs among the 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 engaged to dispose of certain wastes during the 1970's. The plaintiff group was individually named as PRP's for the Boarhead site in the EPA's Record of Decision in November 1998. Their suit, in June of 2002, against various defendants, including Carpenter, sought contributions for a portion of costs incurred for various site cleanup activities as well as contributions to future cleanup efforts. The suit went to trial in June 2008. Prior to trial, all of the named co-defendants, except for Carpenter, reached an out of court settlement with the plaintiffs. Carpenter denied the claims made by the plaintiff group. On August 18, 2008, the Court awarded the plaintiffs judgment against the Company for 80 percent of the plaintiffs' past costs of remediating the site, including prejudgment interest from June 18, 2002 to January 1, 2008, and held the Company liable for 80 percent of future costs of the cleanup activities at the site. 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. The Company intends to continue to defend against the claims in this case, but is unable to predict the outcome of the proceedings at this time. As of June 30, 2010 and June 30, 2009, the Company has recorded a liability related to this case of \$21.8 and \$21.5 million, respectively.

***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 intends to cooperate fully with U.S. Customs' investigation of this matter. As of the date of this filing, the Company's internal review remains ongoing due to the extensive amount of documentation which must be compiled and reviewed.

During the period the Company's customs broker was filing claims on the Company's behalf, July 2003 through December 2006, the Company applied for and received refund claims totaling \$6.9 million. While the ultimate outcome of the U.S. Customs investigation and the Company's internal review is not yet known, based on current facts we believe that the reserve recorded of \$2.5 million as of June 30, 2010 is a reasonable estimate of the probable loss that will result from the investigation. The Company does not expect that any additional material liabilities will be incurred related to this matter.

***Export Regulations Violations***

In the third quarter of fiscal year 2008, the Company became aware of potential violations of federal export regulations at a business unit that was 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, 2010.

***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 and equipment 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, 2010 raw material prices for commitments with variable pricing. The purchase commitments covered by these agreements aggregate to approximately \$175.8 million as of June 30, 2010. Of this amount, \$130.8 million relates to fiscal year 2011, \$21.0 million to fiscal year 2012, \$16.3 million to fiscal year 2013, and \$7.7 million to fiscal year 2014.

**13. Operating Leases**

The Company leases certain facilities and equipment under operating leases. Total rent expense was \$6.8 million, \$6.4 million and \$6.6 million for the fiscal years ended June 30, 2010, 2009 and 2008, respectively.

Future minimum payments for non-cancellable operating leases in effect at June 30, 2010 are: \$6.5 million in fiscal year 2011, \$5.0 million in fiscal year 2012, \$2.9 million in fiscal year 2013, \$1.9 million in fiscal year 2014, \$1.4 million in fiscal year 2015 and \$0.5 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, 2010 (in millions)	Fair Value Measurements Using 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

June 30, 2009 (in millions)	Fair Value Measurements Using Input Type		Total
	Level 1	Level 2	
<b>Assets:</b>			
Marketable securities			
Certificate of deposit	\$ 15.0	\$	\$ 15.0
Municipal auction rate securities		6.3	6.3
Derivative financial instruments		2.6	2.6
<b>Total assets</b>	<b>\$ 15.0</b>	<b>\$ 8.9</b>	<b>\$ 23.9</b>
<b>Liabilities:</b>			
Derivative financial instruments	\$	\$ 32.5	\$ 32.5

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, 2010		June 30, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Company-owned life insurance	\$ 9.3	\$ 9.3	\$ 8.1	\$ 8.1
Long-term debt	\$ 259.6	\$ 267.9	\$ 278.6	\$ 272.5

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, 2010 and June 30, 2009 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 and 7,135,411 shares of its common stock on the open market for \$46.1 million and \$425.2 million during the years ended June 30, 2009 and 2008, respectively.

**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 \$7.4 million, \$10.3 million, and \$13.3 million for the years ended June 30, 2010, 2009 and 2008, 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, 2010, 3,554,185 shares were available for awards which may be granted under this plan.

***Director's Plan***

The Director's plan provides for the granting of stock options, performance units and stock units to non-employee Directors. As of June 30, 2010, 921,972 shares were reserved for awards which may be granted under this plan.





**Table of Contents****Notes to Consolidated Financial Statements (continued)*****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 year 2010, 2009 and 2008 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,		
	2010	2009	2008
Expected volatility	54%	45%	46%
Dividend yield	2%	2%	2%
Risk-free interest rate	2.6%	2.9%	3.5%
Expected term (in years)	5.0	5.0	5.0

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

	Number of Awards	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (In Millions)
Outstanding at June 30, 2007	252,780	\$ 24.50		
Granted	232,876	46.43		
Exercised	(55,550)	12.81		
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	7.9 Years	\$ 8.7
Exercisable at June 30, 2010	343,657	\$ 33.34	6.4 Years	\$ 2.8

**Table of Contents****Notes to Consolidated Financial Statements (continued)*****Outstanding and Exercisable Options:***

Exercise Price Range	Number Outstanding at June 30, 2010	Weighted Average Remaining Contractual Term (in Years)	Weighted Average Exercise Price	Number Exercisable at June 30, 2010	Weighted Average Exercise Price
\$5 - \$10	38,000	3.0	\$ 8.25	38,000	\$ 8.25
\$10 - \$20	352,113	8.0	16.65	54,623	13.18
\$21 - \$65	430,542	8.3	36.22	251,034	41.53
	820,655		\$ 26.53	343,657	\$ 33.34

The weighted average grant date fair value of options awarded during fiscal year 2010, 2009 and 2008 was \$7.77, \$10.34 and \$18.42, respectively. Share based compensation charged against income related to stock options for the years ended June 30, 2010, 2009 and 2008 was \$2.2 million, \$3.3 million and \$2.0 million, respectively. As of June 30, 2010, \$1.6 million of compensation cost related to non vested stock options remains to be recognized over a weighted average remaining life of 1.1 years.

Of the options outstanding at June 30, 2010, 610,549 relate to the 1993 plan and 210,106 relate to the Directors' Plan.

***Nonvested Stock Awards (all plans):***

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

Performance-based restricted share awards are earned only if Carpenter achieves certain performance goals during a specified performance period according to the terms determined by the Board at the date of the grant. These shares vest from one to two years from the date of the attainment of the specified performance goals. Compensation cost is determined and charged to expense beginning in the performance period through the vesting period. 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 \$3.4 million, \$5.9 million and \$10.8 million for the years end June 30, 2010, 2009 and 2008, respectively. As of June 30, 2010, \$4.0 million of compensation cost related to nonvested restricted stock awards remains to be recognized over a weighted average remaining life of 1.7 years.

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

	Number of Awards	Weighted- Average Grant Date Fair Value
<b>Nonvested Balance at June 30, 2007</b>	353,974	\$ 46.33
Time-based granted	97,938	\$ 54.70
Performance-based earned	133,325	\$ 67.57
Vested	(68,558)	\$ 56.67
Forfeited	(75,480)	\$ 40.54
<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

***Total Stockholder Return Awards***

The Company granted Total Stockholder Return (TSR) awards in fiscal year 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 both fiscal years 2010 and 2009 related to TSR awards was \$0.6 million.

***Director Stock Units***

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

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

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

	Number of Units	Weighted- Average Grant Date Fair Value
<b>Outstanding at June 30, 2007</b>	67,463	\$ 22.71
Granted	7,099	\$ 62.86
Dividend equivalents	800	\$
<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

Compensation cost is determined using the grant-date fair value and charged to expense over the vesting period of one year and amounted to \$1.2 million, \$0.5 million and \$0.5 million for the years ended June 30, 2010, 2009 and 2008, respectively. As of June 30, 2010, \$0.1 million of compensation cost related to director stock units remains to be recognized over a weighted average remaining life of 0.3 years.

**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 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.

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

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, 2010, the fair value of the outstanding foreign currency forwards not designated as hedging instruments and the charges to income for changes in fair value for these contracts was not material.

*Fair Value Hedging - Interest rate swaps:* The Company has used interest rate swaps to achieve a level of floating rate debt relative to fixed rate debt where appropriate. The Company has designated fixed to floating interest rate swaps as fair value hedges. Accordingly, the changes in the fair value of these instruments are immediately recorded in earnings. The mark-to-market values of both the fair value hedging instruments and the underlying debt obligations are recorded as equal and offsetting gains and losses in interest expense in the consolidated statements of income. As of June 30, 2010 and 2009, the total notional amounts of floating interest rate contracts were \$65.0 million and \$45.0 million, respectively. For the years ended June 30, 2010 and 2009, net gains of \$2.4 million and \$1.5 million were recorded as a reduction to interest expense. These amounts include the impact of previously terminated swaps which are being amortized over the remaining term of the underlying debt.

The fair value and location of outstanding derivative contracts recorded in the accompanying consolidated balance sheets were as follows as of June 30, 2010 and 2009:

June 30, 2010	Interest	Foreign	Commodity	Total
(\$ in millions)	Rate Swaps	Currency	Contracts	Derivatives
<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)**

June 30, 2009		Interest	Foreign	Commodity	Total
(\$ in millions)		Rate Swaps	Currency	Contracts	Derivatives
<b>Asset Derivatives:</b>					
<i>Derivatives designated as hedging instruments:</i>					
Other current assets	\$		\$ 0.2	\$	\$ 0.2
Other assets		2.4			2.4
<b>Total asset derivatives</b>	<b>\$</b>	<b>2.4</b>	<b>\$ 0.2</b>	<b>\$</b>	<b>\$ 2.6</b>
<b>Liability Derivatives:</b>					
<i>Derivatives designated as hedging instruments:</i>					
Accrued liabilities	\$		\$	\$ 22.1	\$ 22.1
Other liabilities				10.4	10.4
<b>Total liability derivatives</b>	<b>\$</b>		<b>\$</b>	<b>\$ 32.5</b>	<b>\$ 32.5</b>

**Cash Flow Hedges**

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income ( OCI ) and reclassified into earnings in the same period or periods during which the hedged transactions affects earnings 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, 2010 and 2009:

(\$ in millions)		Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)	
		Years Ended June 30, 2010	2009
<b>Derivatives in Cash Flow Hedging Relationship:</b>			
Commodity contracts		\$ 23.3	\$ (12.2)
Foreign exchange contracts		0.7	2.5
<b>Total</b>		<b>\$ 24.0</b>	<b>\$ (9.7)</b>
(\$ in millions)		Amount of (Loss) Gain Reclassified from Accumulated OCI into Income (Effective Portion)	
	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Years Ended June 30, 2010	2009
<b>Derivatives in Cash Flow Hedging Relationship:</b>			
Commodity contracts	Cost of sales	\$ (3.2)	\$ (71.2)
Foreign exchange contracts	Net sales	1.3	1.9
<b>Total</b>		<b>\$ (1.9)</b>	<b>\$ (69.3)</b>





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

The Company estimates that \$0.4 million of net derivative gains included in OCI as of June 30, 2010 will be reclassified into earnings within the next 12 months. No significant cash flow hedges were discontinued during the year ended June 30, 2010. Ineffectiveness was not material during the year ended June 30, 2010.

The changes in other accumulated comprehensive income associated with derivative hedging activities during the years ended June 30, 2010, 2009 and 2008 were as follows:

	2010	2009	2008
Balance at July 1	\$ (17.3)	\$ (11.4)	\$ 2.4
Current period changes in fair value, net of tax	11.6	(41.8)	(15.2)
Reclassification to earnings, net of tax	3.3	35.9	1.4
Balance at June 30	\$ (2.4)	\$ (17.3)	\$ (11.4)

According to the provisions of the Company's derivative arrangements, in the event that the fair value of outstanding derivative positions with certain counterparties exceeds certain thresholds, the Company may be required to issue cash collateral to the counterparties. The Company's contracts with these counterparties allow for netting of derivative instrument positions executed under each contract. As of June 30, 2010 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 international operations was as follows:

(\$ in millions)	Years Ended June 30,		
	2010	2009	2008
Domestic	\$ (7.4)	\$ 50.0	\$ 262.1
International	12.1	13.0	35.2
Income before income taxes	\$ 4.7	\$ 63.0	\$ 297.3

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

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

(\$ in millions)	Years Ended June 30,		
	2010	2009	2008
<b>Current:</b>			
Federal	\$	\$ (8.5)	\$ 83.4
State	0.7	0.3	7.9
Foreign	2.8	6.9	9.9
<b>Deferred:</b>			
Federal	2.2	16.5	(1.9)
State	(4.1)	1.8	(3.1)
Foreign	1.0	(1.9)	0.6
	\$ 2.6	\$ 15.1	\$ 96.8

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

(% of pre-tax income )	Years Ended June 30,		
	2010	2009	2008
Statutory federal income tax rate	35.0%	35.0%	35.0%
Healthcare reform	126.9		
Adjustment of prior years' income taxes	57.8		
Research and development tax credit	(6.0)	(5.6)	(0.3)
Change in tax position on previously filed tax return		(3.4)	
Changes in uncertain tax positions, net	(104.8)	(5.2)	
State income taxes, net of federal tax benefit	(13.5)	(1.1)	2.0
State valuation allowances	7.9	7.4	(0.8)
Domestic manufacturing deduction	(13.7)	(0.5)	(1.9)
Nontaxable income	(27.3)	(2.1)	(1.5)
Other, net	(7.0)	(0.5)	0.1
Effective income tax rate	55.3%	24.0%	32.6%

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

Deferred taxes are recorded based upon temporary differences between financial statement and tax bases of assets and liabilities. The following deferred tax liabilities and assets were recorded as of June 30, 2010 and 2009:

(\$ in millions)	June 30,	
	2010	2009
<b>Deferred tax assets:</b>		
Postretirement provisions	\$ 61.6	\$ 60.8
Net operating loss carryforwards	20.2	18.1
Other reserve provisions	17.5	30.2
Pensions	125.6	96.9
Environmental	12.5	13.5
Tax credit carryforwards	0.3	0.3
Valuation allowances	(17.9)	(17.8)
<b>Total deferred tax assets</b>	<b>219.8</b>	<b>202.0</b>
<b>Deferred tax liabilities:</b>		
Depreciation	(170.9)	(172.0)
Intangible assets	(7.8)	(4.6)
Inventories	(3.4)	(3.2)
<b>Total deferred tax liabilities</b>	<b>(182.1)</b>	<b>(179.8)</b>
<b>Net deferred tax asset</b>	<b>\$ 37.7</b>	<b>\$ 22.2</b>

As of June 30, 2010, the Company had state net operating losses of \$329.4 million available to be carried forward to future years. The state net operating losses begin to expire in 2011.

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. The Company has recorded a valuation allowance against certain state net operating loss carryforwards. As of June 30, 2010 and 2009, the valuation allowance was \$17.9 million and \$17.8 million, respectively. During the years ended June 30, 2010 and 2009, the Company increased its valuation allowance in the amount of \$0.1 million and \$5.9 million, respectively. During the year ended June 30, 2008, state tax benefits were recognized through reductions of the valuation allowance in the amount of \$2.3 million.

At June 30, 2010, the Company had undistributed earnings of international subsidiaries, amounting to \$101.9 million on which deferred income taxes have not been provided because earnings are expected to be reinvested indefinitely outside of the U.S. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to U.S. income taxes including any adjustments for foreign tax credit, state income taxes, and withholding taxes payable to the various foreign countries.

Carpenter is routinely under audit by federal, state or local authorities in the areas of income taxes and the remittance of sales and use taxes. These audits include questioning the timing and amount of deductions, the nexus of income among various tax jurisdictions and compliance with federal, state and local tax laws. The Company has settled all IRS examinations through June 30, 2006.

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

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

(\$ in millions)	Years Ended June 30,		
	2010	2009	2008
Balance, beginning	\$ 14.3	\$ 19.8	\$ 19.4
Additions based on tax positions of prior years		1.5	0.6
Additions based on tax positions of current years		1.7	0.7
Reductions as a result of a lapse of statute of limitations	(8.2)	(8.7)	
Reductions based on tax positions of prior year	(1.9)		(0.6)
Settlements	(0.6)		(0.3)
<b>Balance, ending</b>	<b>\$ 3.6</b>	<b>\$ 14.3</b>	<b>\$ 19.8</b>

It is the Company's policy to classify interest and penalties recognized on uncertain tax positions as a component of income tax expense. The Company's income tax expense included a benefit of \$1.7 million, a benefit of \$1.4 million, and expense of \$1.7 million in the years ended June 30, 2010, 2009 and 2008, respectively, related to interest and penalties. As of June 30, 2010 and 2009, the amount of interest and penalties accrued was \$0.6 million and \$2.3 million, respectively.

Including tax positions for which the Company determined that the tax position would not meet the more-likely-than-not recognition threshold upon examination by the taxing authorities based upon the technical merits of the position, the total estimated unrecognized tax benefit that, if recognized at June 30, 2010, would affect the Company's effective tax rate was approximately 2.8 million. The total estimated unrecognized tax benefit that, if recognized at June 30, 2010, would be recorded in stockholders' equity was approximately \$1.4 million. It is reasonably possible that the amount of the unrecognized tax benefits will decrease by approximately \$1.5 - \$2.5 million within the next 12 months of the reporting date of the Company's consolidated financial statements as a result of the expiration of the statutes of limitations in certain jurisdictions.

The Company, and/or one of its subsidiaries, files income tax returns in the U.S. Federal jurisdiction and in various states and foreign jurisdictions. A summary of tax years that remain subject to examination, by major tax jurisdiction, is as follows:

Jurisdiction	Earliest Year Open to Examination
U.S. Federal	2007
States:	
Pennsylvania	2007
California	2008
Illinois	2007
Foreign:	
Belgium	2005
Mexico	2004

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

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

(\$ in millions)	Years Ended June 30,		
	2010	2009	2008
Continued Dumping and Subsidy Offset Act receipts	\$ 5.7	\$ 6.1	\$ 8.4
Foreign exchange gain (loss)	0.6	7.7	(2.5)
Interest income	1.6	4.7	16.5
Other	2.9	(3.4)	1.8
	\$ 10.8	\$ 15.1	\$ 24.2

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

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

The Advanced Metals Operations (AMO) segment includes the manufacturing and distribution of high temperature and high strength metal alloys, stainless steels, and titanium in the form of small bars and rods, wire, narrow strip and powder. Products in this segment typically go through more finishing operations, such as rolling, turning, grinding, drawing, and atomization, than products in our 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 Company's consolidated total assets are managed as corporate-level assets and, therefore, are not allocated to the business segments. Only a portion of the expenses related to these assets, principally depreciation and amortization, is allocated to the individual business segments for inclusion in their respective measures of operating income.

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

On a consolidated basis, one customer, Precision Castparts Corporation, accounted for 10% (\$116.1 million) of the Company's sales for the year ended June 30, 2010. There were no significant individual customer sales that accounted for more than 10 percent of the total sales during fiscal years 2009 and 2008.

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

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

Segment Data (\$ in millions)	Year Ended June 30,		
	2010	2009	2008
<b>Net Sales:</b>			
Advanced Metals Operations	\$ 853.0	\$ 957.4	\$ 1,390.7
Premium Alloys Operations	348.3	413.2	575.7
Intersegment	(2.7)	(8.3)	(12.9)
Consolidated net sales	\$ 1,198.6	\$ 1,362.3	\$ 1,953.5

<b>Operating Income:</b>			
Advanced Metals Operations	\$ 11.8	\$ 34.1	\$ 188.7
Premium Alloys Operations	71.2	76.9	144.7
Corporate costs	(33.5)	(37.5)	(61.8)
Pension earnings, interest & deferrals	(37.9)	(0.1)	21.7
Restructuring costs		(9.4)	
Intersegment	0.1		0.3
Consolidated operating income	\$ 11.7	\$ 64.0	\$ 293.6

Geographic Data (\$ in millions)	Year Ended June 30,		
	2010	2009	2008
<b>Net Sales:<sup>(a)</sup></b>			
United States	\$ 820.8	\$ 885.3	\$ 1,297.7
Europe	194.6	261.5	372.2
Asia Pacific	82.9	86.4	114.9
Mexico	57.9	72.0	79.8
Canada	31.6	34.2	52.7
Other	10.8	22.9	36.2
Consolidated net sales	\$ 1,198.6	\$ 1,362.3	\$ 1,953.5

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

Long-lived assets: (\$ in millions)	June 30,	
	2010	2009
United States	\$ 611.5	\$ 626.9
Europe	4.4	5.2
Mexico	1.3	1.5
Asia Pacific	0.3	0.5
Consolidated long-lived assets	\$ 617.5	\$ 634.1



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

Product Data (\$ in millions)	Year Ended June 30,		
	2010	2009	2008
Special alloys	\$ 637.8	\$ 694.6	\$ 1,019.8
Stainless steels	398.3	460.1	668.1
Titanium products	112.4	141.4	180.6
Other materials	50.1	66.2	85.0
Total net sales	\$ 1,198.6	\$ 1,362.3	\$ 1,953.5

**21. Recent Accounting Pronouncements*****Accounting Standards Codification***

The Accounting Standards Codification ( ASC ) has become the sole source of authoritative U.S. generally accepted accounting principles ( U.S. GAAP ). The ASC only affects the way companies reference U.S. GAAP and was not intended to change existing U.S. GAAP.

***Fair Value Measurements***

During the quarter ended September 30, 2009, the Company adopted new accounting guidance included in ASC 820, Fair Value Measurements and Disclosures , which delayed the effective date for disclosing all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value on a recurring basis (at least annually). The adoption of this guidance did not have a material impact on the Company s financial condition or results of operations. See fair value disclosures included in Note 14.

In January 2010, the FASB issued guidance on improving disclosures about fair value measurements. This guidance requires new disclosures about transfers in and out of Level 1 and 2 measurements. In addition, this guidance clarifies existing fair value disclosures about the level of disaggregation and the input and valuation techniques used to measure fair value. The guidance only relates to disclosure and does not impact the Company s consolidated financial statements. During the quarter ended March 31, 2010, the Company adopted this guidance in and there was no significant impact to the Company s disclosures upon adoption.

In December 2008, the FASB issued accounting guidance that is included in ASC 715, Compensation-Retirement Benefits. This guidance includes objectives for disclosing information about an employer s plan assets of a defined benefit pension or other postretirement plan and is effective for fiscal years ending after December 15, 2009. The adoption of this guidance did not have a material impact on the Company s financial condition or results of operations. See disclosures related to pension and other postretirement plans in Note 11.

***Participating Securities & the Two-class Method of Computing Earnings Per Share***

During the quarter ended September 30, 2009, the Company adopted new accounting guidance included in ASC 260, Earnings Per Share. According to the guidance, unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents are participating securities and should be included in the computation of earnings per share using the two-class method. The guidance requires that all prior period earnings per share data be adjusted retrospectively. The adoption of this guidance did not have a material impact on the Company s financial condition or results of operations. See earnings per common share disclosures in Note 4.



**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,		
	2010	2009	2008
<b>Cost Data:</b>			
Repairs and maintenance costs	\$ 60.4	\$ 65.3	\$ 68.2
<b>Cash Flow Data:</b>			
Cash paid during the year for:			
Interest payments	\$ 19.8	\$ 21.1	\$ 23.5
Income tax payments, net	\$ 13.7	\$ 33.3	\$ 148.8
(\$ in millions)	2010	June 30, 2009	2008
<b>Accumulated Other Comprehensive Loss:</b>			
Foreign currency translation adjustment	\$ (23.7)	\$ (14.4)	\$ 5.9
Pension and post-retirement benefits, net of tax	(344.5)	(314.8)	(138.4)
Net unrealized losses on derivatives, net of tax	(2.4)	(17.3)	(11.4)
Unrealized losses on marketable securities, net of tax	(0.5)		
	\$ (371.1)	\$ (346.5)	\$ (143.9)

**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 as we experienced during the last two fiscal years can alter this pattern.

(dollars and shares in millions, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>Results of Operations</b>				
<b>Fiscal Year 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
<b>Fiscal Year 2009</b>				
Net sales	\$ 413.7	\$ 361.7	\$ 330.0	\$ 256.9
Gross profit	\$ 73.7	\$ 75.9	\$ 49.2	\$ 8.4
Operating income (loss)	\$ 40.3	\$ 39.7	\$ 16.1	\$ (32.1)
Net income (loss)	\$ 25.8	\$ 29.8	\$ 13.1	\$ (20.8)

**Table of Contents****Earnings per common share**

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>Fiscal Year 2010</b>				
<b>Basic earnings</b>				
Net income (loss)	\$ (0.21)	\$ 0.08	\$ 0.05	\$ 0.13
<b>Diluted earnings</b>				
Net income (loss)	\$ (0.21)	\$ 0.08	\$ 0.05	\$ 0.13
<b>Fiscal Year 2009</b>				
<b>Basic earnings</b>				
Net income (loss)	\$ 0.58	\$ 0.68	\$ 0.30	\$ (0.48)
<b>Diluted earnings</b>				
Net income (loss)	\$ 0.58	\$ 0.68	\$ 0.30	\$ (0.48)
<b>Weighted average common shares outstanding (in millions)</b>				
<b>Fiscal Year 2010</b>				
Basic	43.9	44.0	44.0	44.0
Diluted	43.9	44.2	44.4	44.5
<b>Fiscal Year 2009</b>				
Basic	44.3	43.7	43.8	43.8
Diluted	44.5	44.0	44.0	43.8

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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, 2010. 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, 2010 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, 2010 that have materially affected, or are likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information**

Not applicable

**Table of Contents****PART III****Item 10. Directors and Executive Officers and Corporate Governance**

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

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

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

Michael L. Shor was appointed Executive Vice President - Advanced Metals Operations & Premium Alloys Operations, effective October 21, 2008. In this position, Shor is responsible for leading Carpenter's business and operations both domestic and abroad. Prior to this position, Shor served as Sr. Vice President - Premium Alloys Operations where he was responsible for revenue growth and operational effectiveness for Carpenter's Reading based manufacturing operations. Prior to that, Shor served as Sr. Vice President - Engineered Products from 2004 to 2007. Previously, Shor served as Senior Vice President, Specialty Alloys Operations of Carpenter from 2000 to 2004. In this position, he had overall responsibility for the restructuring of Carpenter's largest division while leading it to long-term sustainable revenue and profit growth.

Name	Age	Positions	Assumed Present Position
William A. Wulfsohn	48	President and Chief Executive Officer Director	July 2010
K. Douglas Ralph	49	Senior Vice President - Finance and Chief Financial Officer	July 2007
Michael L. Shor	51	Executive Vice President - Advanced Metals Operations & Premium Alloys Operations	October 2008

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 2010 definitive Proxy Statement under the captions "Election of Directors" and "Corporate Governance."

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The information concerning compliance with Section 16(a) of the Securities and Exchange Act of 1934, as amended, is incorporate herein by reference to the Company's fiscal year 2010 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 2010 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 2010 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 2010 definitive Proxy Statement under the caption General Information.

On November 2, 2009, 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, 2010, 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 2010 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 2010 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, 2010:

## Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	820,655	\$ 26.53	4,476,157 <sup>(1)</sup>
Equity compensation plans not approved by security holders			
<b>Total</b>	<b>820,655</b>	<b>\$ 26.53</b>	<b>4,476,157<sup>(1)</sup></b>

<sup>(1)</sup> Includes 3,554,185 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 921,972 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 2010 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 2010 definitive Proxy Statement under the caption Approval of Appointment of Independent Registered Public Accounting Firm.

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**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 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 October 11, 2009, are attached as an Exhibit to this Annual Report on Form 10-K.
4(A)	Restated Certificate of Incorporation and By-Laws set forth in Exhibit Nos. 3A and 3B, 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 as of January 12, 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 Form S-3 on January 6, 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 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)	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(J)	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.
10(A)	Supplemental Retirement Plan for Executives of Carpenter Technology Corporation as amended on June 29, 2010 is attached as an Exhibit to this Annual Report on Form 10-K.
10(B)	Management and Officers Capital Appreciation Plan, an Incentive Stock Option Plan, amended as of April 26, 2001, is incorporated herein by reference to Exhibit 10(B) of Carpenter's 2006 Annual Report on Form 10-K filed August 29, 2006.
10(C)	Deferred Compensation Plan for Non-Management Directors of Carpenter Technology Corporation, amended as of June 29, 2010, is attached as an Exhibit to this Annual Report on Form 10-K.
10(D)	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(E)	Executive Bonus Compensation Plan, restated June 29, 2006 and further amended as of August 24, 2006 to be effective June 29, 2006 is incorporated herein by reference to Exhibit 10(A) of Carpenter's Form 10-Q for the quarter ended September 30, 2006 filed November 3, 2006.
10(F)	Stock-Based Compensation Plan For Non-Employee Directors, as amended on June 29, 2010 is attached as an Exhibit to this Annual Report on Form 10-K.
10(G)	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.

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Exhibit No.	Description
10(H)	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(I)	Form of Indemnification Agreement, entered into between Carpenter and each of the directors and the following executive officers: K. Douglas Ralph and Michael L. Shor, is incorporated herein by reference to Exhibit 10 (J) of Carpenter's 2005 Annual Report on Form 10-K filed September 9, 2005.
10(J)	Stock-Based Incentive Compensation Plan for Officers and Key Employees, as amended effective June 30, 2009 is incorporated herein by reference to Exhibit 10(J) of Carpenter's 2009 Annual Report on Form 10-K filed August 20, 2009.
10(K)	Carpenter Technology Corporation Change of Control Severance Plan, adopted April 26, 2001 and amended as of August 20, 2007, is incorporated herein by reference to Exhibit 10(K) of Carpenter's 2007 Annual Report on Form 10-K filed August 29, 2007.
10(L)	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(M)	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(N)	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(O)	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.
10(P)	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 Carpenter's Current Report on Form 8-K filed November 25, 2009.

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Exhibit No.	Description
10(Q)	Release and Termination of Employment Agreement executed November 6, 2009, between the Company and T. Kathleen Hanley is incorporated herein by reference to Carpenter's Current Report on Form 8-K filed on November 12, 2009.
10(R)	Supplemental Separation Pay Agreement executed July 20, 2010 between the Company and Anne L Stevens is incorporated herein by reference to Carpenter's Current Report on Form 8-K filed on July 22, 2010.
10(S)	Employment Letter Agreement of William A. Wulfsohn, dated June 3, 2010, incorporated herein by reference to Carpenter's Current Report on Form 8-K filed on June 7, 2010.
10(T)	Severance Pay Plan for Executives of Carpenter Technology Corporation, as adopted July 1, 2010, incorporated herein by reference to Carpenter's Current Report on Form 8-K filed on July 2, 2010.
10(U)	Form of Restricted Stock Unit Award Agreement (pursuant to Carpenter's Stock-Based Incentive Plan for Officers and Key Employees) is incorporated herein by reference to Exhibit 10(A) of Carpenter's 10-Q for the quarter ended December 31, 2009 filed February 3, 2010.
10(V)	Form of Stock Option Award Agreement (pursuant to Carpenter's Stock-Based Incentive Compensation Plan for Officers and Key Employees) is incorporated herein by reference to Exhibit 10(B) of Carpenter's 10-Q for the quarter ended December 31, 2009 filed February 3, 2010.
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 William A. Wulfsohn 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)

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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 Finance and  
 Chief Financial Officer

Date: August 20, 2010

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 William A. Wulfsohn	President and Chief Executive Officer and Director  (Principal Executive Officer)	August 20, 2010
/s/ K. Douglas Ralph K. Douglas Ralph	Senior Vice President Finance and Chief Financial Officer (Principal Financial Officer)	August 20, 2010
/s/ Thomas F. Cramsey Thomas F. Cramsey	Vice President and Chief Accounting Officer (Principal Accounting Officer)	August 20, 2010
* Gregory A. Pratt	Chairman and Director	August 20, 2010
* Carl G. Anderson, Jr.	Director	August 20, 2010
* Robert R. McMaster	Director	August 20, 2010
* I. Martin Inglis	Director	August 20, 2010
* Peter N. Stephans	Director	August 20, 2010
* Kathryn C. Turner	Director	August 20, 2010

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* Jeffrey Wadsworth	Director	August 20, 2010
* Stephen M. Ward, Jr.	Director	August 20, 2010
* Dr. Phillip M. Anderson	Director	August 20, 2010

Original Powers of Attorney authorizing William A. Wulfsohn 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/ K. Douglas Ralph  
K. Douglas Ralph  
Attorney-in-fact

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

(\$ in millions)

Column A	Column B	Column C Additions		Column D	Column E
Description	Balance at Beginning of Period	Charged to Costs & Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
<b>Year ended June 30, 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
<b>Year ended June 30, 2008</b>					
Allowance for doubtful accounts receivable	\$ 4.0	\$ 1.1	\$	\$ (2.4)	\$ 2.7
Deferred tax valuation allowance	\$ 14.1	\$	\$	\$ (2.1)	\$ 12.0
Inventory reserves	\$ 8.3	\$	\$	\$ (0.5)	\$ 7.8