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)

x **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)

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

610-208-2000

(Registrant s telephone number, including area code)

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

Common Stock, $5 Par Value	**New York Stock Exchange**
Title of each class	**Name of each exchange on which registered**

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

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

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 x

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

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.

Large accelerated filer x	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 x

The aggregate market value of the registrants 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 Techno 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.

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(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.cartech.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.

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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 cyclicality 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 cyclicality 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.

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 affects on our cash flows and financial condition.

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

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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.

	Fiscal Year 2010		Fiscal Year 2009	
Quarter Ended:	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
Annual	$ 42.52	$ 16.87	$ 42.65	$ 11.93

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

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Item 6. Selected Financial Data

Five-Year Financial Summary

In millions, except per share data

(Fiscal years ended June 30,)

	2010	2009[(a)]	2008[(b)]	2007	2006
Summary of Operations:					
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
Financial Position at Year-End:					
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
Per Common Share:					
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
Weighted Average Common Shares Outstanding:					
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:

	Fiscal Year		
($ in millions, except per share data)	2010	2009	2008
Net sales	$ 1,198.6	$ 1,362.3	$ 1,953.5
Net sales excluding surcharges (1)	$ 921.7	$ 1,055.2	$ 1,369.0
Operating income excluding pension EID expense and restructuring costs (1)	$ 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 (1)	$ 40.1	$ 11.2	$ 213.4
Pounds sold (in thousands) (2)	170,820	167,040	223,460

(1) See the section Non-GAAP Financial Measures below for further discussion of these financial measures.
(2) Includes specialty and titanium alloys, stainless steel and powder materials

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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.

	Fiscal Year					
($ in millions)	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
Total net sales	$ 1,198.6	100%	$ 1,362.3	100%	$ 1,953.5	100%

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

	Fiscal Year					
($ in millions)	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
Total net sales	$ 1,198.6	100%	$ 1,362.3	100%	$ 1,953.5	100%

Impact of Raw Material Prices and Product Mix

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

The volatility of the costs of raw materials has impacted our operations over the past several years. We, and others in our industry, generally have been able to pass cost increases on major raw materials through to our customers using surcharges that are structured to recover increases in raw material costs. Generally, the formula used to calculate a surcharge is based on published prices of the respective raw materials for the previous month, which correlates to the prices we pay for our raw material purchases. However, a portion of our surcharges 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:

	Fiscal Year		
($ in millions)	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:

	Fiscal Year		
($ in millions)	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.

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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	Fiscal Year 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
Total net sales	$ 1,198.6	$ 1,362.3	$ (163.7)	(12)%

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	Fiscal Year 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
Total net sales excluding surcharge revenues	$ 921.7	$ 1,055.2	$ (133.5)	(13)%

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)
Total net sales	$ 1,198.6	$ 1,362.3	(163.7)	(12)%

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)
Total net sales excluding surcharge revenues	$ 921.7	$ 1,055.2	$ (133.5)	(13)%

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.

	Fiscal Year	
($ in millions)	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.

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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:

	Fiscal Year		$	%
($ in millions)	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)
Total net sales	$ 1,362.3	$ 1,953.5	$ (591.2)	(30)%

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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)
Total net sales excluding surcharge revenues	$ 1,055.2	$ 1,367.7	$ (312.5)	(23)%

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.

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Sales by Product Class

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

($ in millions)	Fiscal Year 2009	2008	$ Decrease	% Decrease
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)
Total net sales	$ 1,362.3	$ 1,953.5	$ (591.2)	(30)%

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

($ in millions)	Fiscal Year 2009	2008	$ Decrease	% Decrease
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)
Total net sales excluding surcharge revenues	$ 1,055.2	$ 1,367.7	$ (312.5)	(23)%

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.

	Fiscal Year	
($ in millions)	2009	2008
Net sales	$ 1,362.3	$ 1,953.5
Less: surcharge revenue	307.1	585.8
Net sales excluding surcharges	$ 1,055.2	$ 1,367.7
Gross profit	$ 207.2	$ 457.2
Gross margin	15.2%	23.4%
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.

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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.

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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.

		Fiscal Year	
($ in millions)	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.

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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:

				Fiscal Year			There-
($ in millions)	Total	2011	2012	2013	2014	2015	after
Long-term debt [1]	$ 256.0	$	$ 100.0	$ 101.0	$	$	$ 55.0
Estimated interest payments[2]	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[3]	23.3	3.9	19.4	N/A	N/A	N/A	N/A
Accrued post-retirement benefits[4]	150.2	13.1	13.7	14.2	14.7	15.1	79.4
Purchase obligations [5]	175.8	130.8	21.0	16.3	7.7		
Pension benefits [6]	29.8	3.2	3.1	3.1	3.0	3.0	14.4
Total	$ 711.4	$ 175.7	$ 173.7	$ 147.2	$ 31.2	$ 23.4	$ 160.2

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

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

(3) Pension plan contributions represent required minimum contributions for the plan year beginning January 1, 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.

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

(5) We have entered into purchase commitments primarily for various key raw materials and equipment purchases at market related prices, all made in the normal course of business. The commitments include both fixed and variable price provisions. We used June 30, 2010 raw material prices for commitments with variable pricing.

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

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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, 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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Item 8. Financial Statements and Supplementary Data
Index to Consolidated Financial Statements and Supplementary Data

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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

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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
NET SALES	$ 1,198.6	$ 1,362.3	$ 1,953.5
Cost of sales	1,053.8	1,155.1	1,496.3
Gross profit	144.8	207.2	457.2
Selling, general and administrative expenses	133.1	133.8	163.6
Restructuring charges		9.4	