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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

or

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

For the transition period from to

Commission File Number 1-5828

CARPENTER TECHNOLOGY CORPORATION

(Exact name of Registrant as specified in its Charter)

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

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

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

Yes þ No o

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

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

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

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

Yes o No þ

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

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CARPENTER TECHNOLOGY CORPORATION

FORM 10-Q

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PART I

Item 1. Financial Statements

CARPENTER TECHNOLOGY CORPORATION

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in millions, except share data)

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

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

See accompanying notes to consolidated financial statements

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CARPENTER TECHNOLOGY CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(in millions, except per share data)

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

See accompanying notes to consolidated financial statements

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CARPENTER TECHNOLOGY CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

($ in millions)

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

See accompanying notes to consolidated financial statements

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CARPENTER TECHNOLOGY CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

($ in millions)

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

See accompanying notes to consolidated financial statements

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CARPENTER TECHNOLOGY CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

(Unaudited)

($ in millions, except per share data)

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

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

See accompanying notes to consolidated financial statements

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CARPENTER TECHNOLOGY CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

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

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

2. Earnings Per Common Share

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

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CARPENTER TECHNOLOGY CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

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

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

CARPENTER TECHNOLOGY CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

3. Marketable Securities

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

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

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

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

4. Inventories

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

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

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

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CARPENTER TECHNOLOGY CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

5. Accrued Liabilities

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

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

6. Pension and Other Postretirement Benefits

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

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

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

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CARPENTER TECHNOLOGY CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

7. Debt

The Company has a $500 million syndicated credit agreement (Credit Agreement) that extends to June 2018. Interest on the borrowings under the Credit Agreement accrue at variable rates, based upon LIBOR or a defined Base Rate, both determined based upon the rating of the Company s senior unsecured long-term debt (the Debt Rating). The applicable margin to be added to LIBOR ranges from 0.75% to 1.90% (1.25% as of September 30, 2013), and for Base Rate-determined loans, from 0.00% to 0.90% (0.25% as of September 30, 2013). The Company also pays a quarterly commitment fee ranging from 0.075% to 0.375% (0.15% as of September 30, 2013), determined based upon the Debt Rating, of the unused portion of the $500 million commitment under the Credit Agreement. In addition, the Company must pay certain letter of credit fees, ranging from 0.75% to 1.90% (1.25% as of September 30, 2013), with respect to letters-of-credit issued under the Credit Agreement. The Company has the right to voluntarily prepay and reborrow loans and to terminate or reduce the commitments under the facility. As of September 30, 2013, the Company had $8.2 million of issued letters of credit under the Credit Agreement, with the balance of $491.8 million available for future borrowings.

The Company is subject to certain financial and restrictive covenants under the Credit Agreement, which, among other things, require the maintenance of a minimum interest coverage ratio of 3.50 to 1.00. The interest coverage ratio is defined in the Credit Agreement as, for any period, the ratio of consolidated earnings before interest, taxes, depreciation and amortization, and non-cash net pension expense (EBITDA) to consolidated interest expense for such period. The Credit Agreement also requires the Company to maintain a debt to capital ratio of less than 55%. The debt to capital ratio is defined in the Credit Agreement as the ratio of consolidated indebtedness, as defined therein, to consolidated capitalization, as defined therein. As of September 30, 2013 and June 30, 2013, the Company was in compliance with all of the covenants of the Credit Agreement.

8. Contingencies and Commitments

Environmental

The Company is subject to various federal, state, local and international environmental laws and regulations relating to pollution, protection of public health and the environment, natural resource damages and occupational safety and health. Although compliance with these laws and regulations may affect the costs of the Company s operations, compliance costs to date have not been material. The Company has environmental remediation liabilities at some of its owned operating facilities and has been designated as a potentially responsible party (PRP) with respect to certain third-party Superfund waste-disposal sites and other third party-owned sites. Additionally, the Company has been notified that it may be a PRP with respect to other Superfund sites as to which no proceedings have been instituted against the Company. Neither the exact amount of remediation costs nor the final method of their allocation among all designated PRP s at these Superfund sites has been determined. The liability for future environmental remediation costs is evaluated by management on a quarterly basis. The Company accrues amounts for environmental remediation costs that represent management s best estimate of the probable and reasonably estimable undiscounted future costs related to environmental remediation. During the three months ended September 30, 2013, we increased the liability for a company-owned former operating site by $0.1 million. The liabilities recorded for environmental remediation costs at Superfund sites, at other third party-owned sites and at Carpenter-owned current or former operating facilities remaining at September 30, 2013 and June 30, 2013 were $14.9 million and $14.8 million, respectively.

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CARPENTER TECHNOLOGY CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Other

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

9. Fair Value Measurements

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

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CARPENTER TECHNOLOGY CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

The Company s derivative financial instruments consist of commodity forward contracts, foreign exchange forward contracts and interest rate swaps. These instruments are measured at fair value using the market method valuation technique. The inputs to this technique utilize information related to foreign exchange rates, commodity prices and interest rates published by third-party leading financial news and data providers. Though based on observable data, the valuation of these instruments is not based on actual transactions for the same instruments and, as such, these instruments are classified as Level 2. The Company s use of derivatives and hedging policies are more fully discussed in Note 11.

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

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

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

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CARPENTER TECHNOLOGY CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

The fair values of long-term debt as of September 30, 2013 and June 30, 2013 were determined by using current interest rates for debt with terms and maturities similar to the Company s existing debt arrangements and accordingly would be classified as Level 2 inputs in the fair value hierarchy.

10. Other Income, Net

Other income, net consisted of the following:

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

11. Derivatives and Hedging Activities

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

Cash Flow Hedging Commodity forward contracts: The Company enters into commodity forward contracts to fix the price of a portion of anticipated future purchases of certain critical raw materials and energy to manage the risk of cash flow variability associated with volatile commodity prices. The commodity forward contracts have been designated as cash flow hedges. The qualifying hedge contracts are marked-to-market at each reporting date and any unrealized gains or losses are included in accumulated other comprehensive income to the extent effective, and reclassified to cost of sales in the period during which the hedged transaction affects earnings or it becomes probable that the forecasted transaction will not occur. As of September 30, 2013, that Company had forward contracts to purchase 34.7 million pounds of certain raw materials with settlement dates through December 2018.

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CARPENTER TECHNOLOGY CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Cash Flow Hedging Forward interest rate swaps: From time to time, the Company has entered into forward interest rate swap contracts to manage the risk of cash flow variability associated with fixed interest debt expected to be issued. The forward interest rate swaps have been designated as cash flow hedges. The qualifying hedge contracts are marked-to-market at each reporting date and any unrealized gains or losses are included in accumulated other comprehensive income to the extent effective, and reclassified to interest expense in the period during which the hedged transaction affects earnings or it becomes probable that the forecasted transaction will not occur. In connection with the issuance of the $300.0 million of fixed rate notes during the third quarter of fiscal year 2013, all outstanding forward interest rate swaps were settled resulting in a gain of $2.7 million that has been recognized in AOCI. This gain will be amortized as a reduction to interest expense over the term of the notes.

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

The Company also uses foreign currency forward contracts to protect certain short-term asset positions denominated in foreign currency against the effect of changes in exchange rates. These positions do not qualify for hedge accounting and accordingly, are marked-to-market at each reporting date through charges to other income and expense. As of September 30, 2013 and June 30, 2013, the fair value of the outstanding foreign currency forwards not designated as hedging instruments and the charges to income for changes in fair value for these contracts were not material.

Fair Value Hedging - Interest rate swaps: The Company uses interest rate swaps to achieve a level of floating rate debt relative to fixed rate debt where appropriate. The Company has designated fixed to floating interest rate swaps as fair value hedges. Accordingly, the changes in the fair value of these instruments are immediately recorded in earnings. The mark-to-market values of both the fair value hedging instruments and the underlying debt obligations are recorded as equal and offsetting gains and losses in interest expense in the Consolidated Statements of Income. For the three months ended September 30, 2013 and 2012, net gains of $0.1 million and $0.3 million, respectively, were recorded as a reduction to interest expense. These amounts include the impact of previously terminated swaps which are being amortized over the remaining term of the underlying debt.

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(Unaudited)

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

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

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

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(Unaudited)

Cash Flow Hedges

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of accumulated other comprehensive income (AOCI) and reclassified into earnings in the same period or periods during which the hedged transactions affect earnings. The following is a summary of the gains (losses) related to cash flow hedges recognized during the three months ended September 30, 2013 and 2012:

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

		Amount of (Loss) Gain Reclassified from AOCI into Income (Effective Portion)
($ in millions)	Location of (Loss) Gain	Three Months Ended