DEERE & CO
Form DEF 14A
January 13, 2012

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant [X]
Filed by a Party other than the Registrant [ ]

Check the appropriate box:

[ ] Preliminary Proxy Statement
[ ] Soliciting Material Under Rule 14a-12
[ ] Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
[X] Definitive Proxy Statement
[ ] Definitive Additional Materials

Deere & Company
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

[X] No fee required.
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1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

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1) Amount previously paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

DEERE & COMPANY

One John Deere Place
Moline, Illinois 61265

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

February 29, 2012

Deere s Annual Meeting of Stockholders will be held on Wednesday, February 29, 2012, at 10:00 a.m. Central Standard Time at Deere s headquarters at One John Deere Place, Moline, in Rock Island County, Illinois. You can find directions to our headquarters on the back cover of the Proxy Statement. At the meeting, stockholders will be asked to:

1. Elect the following directors *(see page 5)*:
   Crandall C. Bowles
   Vance D. Coffman
   Charles O. Holliday, Jr.
   Dipak C. Jain
   Clayton M. Jones
   Joachim Milberg
   Richard B. Myers
   Thomas H. Patrick
   Sherry M. Smith

2. Cast a non-binding vote on executive compensation (say-on-pay) *(see page 11)*

3. Approve the Deere & Company Nonemployee Director Stock Ownership Plan (*see page 12*)

4. Ratify the appointment of Deloitte & Touche LLP as Deere s independent registered public accounting firm for fiscal 2012 *(see page 16)*

5. Consider any other business properly brought before the meeting

You may vote at the meeting if you were a Deere stockholder of record at the close of business on December 31, 2011.

This year, we are using the Securities and Exchange Commission s Notice and Access model (Notice and Access) that allows us to deliver proxy materials via the Internet. We believe Notice and Access provides stockholders with a convenient method to access the proxy materials and vote, while allowing us to conserve natural resources and reduce the costs of printing and distributing the proxy materials. On January 13, 2012, we mailed certain stockholders of record a Notice of Internet Availability of Proxy Materials with instructions on how to access the proxy materials electronically.

To be sure that your shares are properly represented at the meeting, whether you attend or not, please sign, date, and promptly mail the enclosed proxy card or voter instruction form in the enclosed envelope, or vote using the telephone or Internet voting procedures described on the proxy card. If your shares are held in the name of a bank, broker, or other holder of record, telephone or Internet voting will be available to you only if offered by them. Their procedures should be described on the voting form they send to you.

YOUR VOTE IS IMPORTANT

WE URGE YOU TO VOTE USING TELEPHONE OR INTERNET VOTING, IF AVAILABLE TO YOU, OR BY SIGNING, DATING, AND RETURNING THE ENCLOSED PROXY CARD PROMPTLY IN THE ENCLOSED RETURN ENVELOPE. NO POSTAGE IS NECESSARY IF IT IS MAILED IN THE UNITED STATES. PLEASE NOTE THAT IF YOUR SHARES ARE HELD BY A BROKER, BANK, OR OTHER HOLDER OF RECORD AND YOU WISH TO VOTE THEM AT THE MEETING, YOU MUST OBTAIN A LEGAL PROXY FROM THAT RECORD HOLDER.

Along with the attached Proxy Statement, we are also sending you our Annual Report, which includes our fiscal 2011 financial statements. Most of you can elect to view future proxy statements and annual reports over the Internet instead of receiving paper copies in the mail. Please refer to your proxy card and the section Electronic Delivery of Proxy Statement and Annual Report on page 4 of the Proxy Statement for further information.

For the Board of Directors,

Moline, Illinois
January 13, 2012

GREGORY R. NOE
Secretary

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PROXY STATEMENT

Why am I receiving this proxy statement?

The Deere & Company Board of Directors (the Board) has made available to you the Notice of Annual Meeting, this proxy statement (Proxy Statement), our annual report for the year ended October 31, 2011 (Annual Report), proxy card, and voter instruction card (collectively, Proxy Solicitation Materials) either on the Internet or by mail in connection with the Deere & Company (Deere, the Company, we, or us) 2012 Annual Meeting of Stockholders (the meeting or Annual Meeting). You are receiving this Proxy Statement because you owned shares of Deere common stock at the close of business on December 31, 2011, and that entitles you to vote at the Annual Meeting. By use of a proxy, you can vote whether or not you attend the Annual Meeting. This Proxy Statement describes the matters on which we would like you to vote and provides information on those matters so that you can make an informed decision.

The Proxy Solicitation Materials are being mailed to, or can be accessed online by, stockholders on or about January 13, 2012.

What is Notice & Access and why did Deere elect to use it?

We make the Proxy Solicitation Materials available to stockholders electronically via the Internet under the Notice and Access regulations of the Securities and Exchange Commission (the SEC).

Most of our stockholders have received a Notice of Electronic Availability (Notice) in lieu of receiving a full set of Proxy Solicitation Materials in the mail. This Notice includes information on how to access and review the Proxy Solicitation Materials, and how to vote, via the Internet. We believe this method of delivery will decrease costs, expedite distribution of Proxy Solicitation Materials to you, and reduce our environmental impact.

Stockholders who received a Notice but would like to receive a printed copy of the Proxy Solicitation Materials in the mail should follow the instructions in the Notice for requesting such materials.

What will I be voting on?

- Election of directors *(see page 5)*
- Non-binding resolution on executive compensation (say-on-pay) as disclosed in this Proxy Statement *(see page 11)*
- Approval of the Deere & Company Nonemployee Director Stock Ownership Plan (*see page 12*)
- Ratification of the independent registered public accounting firm *(see page 16)*

How do I vote?

You can vote either *in person* at the Annual Meeting or *by proxy* without attending the meeting. We urge you to vote by proxy even if you plan to attend the Annual Meeting so that we will know as soon as possible that enough votes will be present for us to hold the meeting. If you attend the meeting in person, you may vote at the meeting and your proxy will not be counted.

To vote your shares, follow the instructions in the Notice, voting instruction form, or the enclosed proxy card. Telephone and Internet voting is available to all registered and most beneficial holders.

Stockholders voting by proxy may use one of the following three options:

- fill out the enclosed *voter instruction form or proxy card*, sign it, and mail it in the enclosed postage-paid envelope;

- vote by *Internet* (if available, instructions are on the voter instruction form, proxy card, or Notice); or
- vote by *telephone* (if available, instructions are on the voter instruction form, proxy card, or Notice).

If you hold your shares in street name, please refer to the information forwarded by your bank, broker, or other holder of record to see the options available to you.

The telephone and Internet voting facilities for stockholders will close at 11:59 p.m. Eastern Standard Time on February 28, 2012. If you vote over the Internet, you may incur costs, such as telephone and Internet access charges, for which you will be responsible. The telephone and Internet voting procedures are designed to authenticate stockholders and to allow you to confirm that your instructions have been properly recorded.

If you hold shares through one of our employee savings plans, your vote must be received by the plan administrator by February 24, 2012, or the shares represented by the card will not be voted.

Can I change my proxy vote?
Yes. At any time before your shares are voted by proxy, you may change your vote by:

- revoking it by written notice to Gregory R. Noe, our Secretary, at the address on the cover of this Proxy Statement;
- delivering a later-dated proxy (including a telephone or Internet vote); or
- voting in person at the meeting.

If you hold your shares in street name, please refer to the information forwarded by your bank, broker, or other holder of record for procedures on revoking or changing your proxy.

How many votes do I have?
You will have one vote for each share of Deere common stock that you owned at the close of business on December 31, 2011.

How many shares are entitled to vote?
There are 403,389,732 shares of Deere common stock outstanding as of December 31, 2011 and entitled to vote at the meeting. Each share is entitled to one vote. There is no cumulative voting.

How many votes must be present to hold the meeting?
Under our Bylaws, a majority of the votes that can be cast must be present in person or by proxy to hold the Annual Meeting.

How many votes are needed for the proposals to pass?

- Nominees for director who receive a majority of for votes cast will be elected as directors. The number of shares voted for a nominee must exceed the number of shares voted against that nominee. In the event the number of nominees exceeds the number of directors to be elected, the nominees who receive the most votes will be elected as directors.
- The affirmative vote of a majority of the shares present in person or by proxy must be cast in favor of the non-binding vote to adopt the resolution approving the Company s executive compensation as disclosed in this Proxy Statement.
- The affirmative vote of a majority of the shares present in person or by proxy must be cast in favor of the Nonemployee Director Stock Ownership Plan.
- The affirmative vote of a majority of the shares present in person or by proxy must be cast in favor of the ratification of the appointment of the independent registered public accounting firm.

What if I vote abstain ?

A vote to abstain on the election of directors will have *no effect* on the outcome. A vote to abstain on the other proposals will have the effect of a vote *against*.

If you vote abstain, your shares will be counted as present for purposes of determining whether enough votes are present to hold the Annual Meeting.

What if I don t return my proxy card and don t attend the Annual Meeting?

If you are a holder of record (that is, your shares are registered in your own name with our transfer agent) and you do not vote your shares, your shares will not be voted.

If you hold your shares in street name, and you do not give your bank, broker, or other holder of record specific voting instructions for your shares, your record holder can vote your shares on the ratification of the independent registered public accounting firm. However, your record holder cannot vote your shares without your specific instructions on the election of directors, the advisory vote on executive compensation, and the approval of the Nonemployee Director Stock Ownership Plan.

For the aforementioned proposals on which a broker cannot vote without your instruction, if you do not provide voting instructions to your broker, the votes will be considered broker non-votes and will not be counted in determining the outcome of the vote. Broker non-votes will be counted as present for purposes of determining whether enough votes are present to hold the Annual Meeting.

What happens if a nominee for director declines or is unable to accept election?

If you vote by proxy, and if unforeseen circumstances make it necessary for the Board to substitute another person for a nominee, we will vote your shares for that other person.

Is my vote confidential?

Yes. Your voting records will not be disclosed to us except:

- as required by law;
- to the inspectors of voting; or
- if the election is contested.

The tabulator, the proxy solicitation agent, and the inspectors of voting must comply with confidentiality guidelines that prohibit disclosure of votes to Deere. The tabulator of the votes and at least one of the inspectors of voting will be independent of Deere and our officers and directors.

If you are a holder of record or an employee savings plan participant, and you write comments on your proxy card, your comments will be provided to us but your vote will remain confidential.

ANNUAL REPORT

Will I receive a copy of Deere s Annual Report?

Unless you have previously elected to view our annual reports over the Internet, we have either mailed to you our annual report for the year ended October 31, 2011 (Annual Report) with this Proxy Statement or provided the web address in the Notice for you to access the Annual Report online. The Annual Report includes our audited financial statements and other financial information, and we urge you to read it carefully.

How can I receive a copy of Deere s 10-K?
You can obtain, free of charge, a copy of our Annual Report on Form 10-K for the year ended October 31, 2011 (the Form 10-K), by:

- accessing our Internet site at www.deere.com/stock; or
- writing to:

Deere & Company
Stockholder Relations
One John Deere Place
Moline, Illinois 61265-8098

You can also obtain a copy of our Form 10-K and other periodic filings with the Securities and Exchange Commission (SEC) from the SEC s EDGAR database at www.sec.gov.

ELECTRONIC DELIVERY OF PROXY STATEMENT AND ANNUAL REPORT

Can I access Deere s proxy materials and Annual Report electronically?
Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to be Held on February 29, 2012:

The Proxy Statement and Annual Report to security holders are available on our Internet site at www.deere.com/stock.

Most stockholders can elect to view future proxy statements and annual reports over the Internet instead of receiving copies in the mail.

You can choose this option and save us the cost of producing and mailing these documents by:

- following the instructions provided on your proxy card, voter instruction form, or Notice; or
- going to www.proxyvote.com and following the instructions provided.

If you choose to receive future proxy statements and annual reports over the Internet, you will receive an e-mail message next year containing the Internet address to access future proxy statements and annual reports. The e-mail will include instructions for voting over the Internet. If you have not elected electronic delivery, you will receive a Notice indicating that proxy solicitation materials are available at www.proxyvote.com.

INFORMATION NOT INCORPORATED INTO THIS PROXY STATEMENT

The information on our website (www.deere.com) is not, and shall not be deemed to be, a part of this Proxy Statement nor, by reference or otherwise, incorporated into any other filings we make with the SEC.

HOUSEHOLDING INFORMATION

What is householding?
Either a single copy of the Proxy Solicitation Materials or the Notice, as applicable, will be sent to households at which two or more stockholders reside if they appear to be members of the same family,

unless one of the stockholders at that address notifies us that they wish to receive individual copies. This procedure reduces our printing costs and fees. Householding will not affect dividend check mailings in any way.

A number of brokerage firms have instituted householding. If you hold your shares in street name, please contact your bank, broker, or other holder of record to request information about householding.

If Proxy Solicitation Materials were delivered to an address that you share with another stockholder, we will promptly deliver a separate copy if you make a written or verbal request to Deere & Company Stockholder Relations, One John Deere Place, Moline, Illinois 61265-8098, (309) 765-4539.

How do I revoke my consent to the householding program?
You must revoke your consent to the householding program by contacting Broadridge Financial Solutions, Inc. (Broadridge), either by calling toll free at (800) 542-1061 or by writing to Broadridge, Householding Department, 51 Mercedes Way, Edgewood, New York 11717. You will be removed from the householding program within 30 days of receipt of the revocation of your consent.

ELECTION OF DIRECTORS

Crandall C. Bowles, Vance D. Coffman, Charles O. Holliday, Jr., Dipak C. Jain, Clayton M. Jones, Joachim Milberg, Richard B. Myers, Thomas H. Patrick, and Sherry M. Smith are to be elected for terms expiring at the annual meeting in 2013. On February 24, 2010, stockholders approved an amendment to the Company s Certificate of Incorporation to provide for the annual election of directors. Beginning in 2013, all members of the Board will be elected annually.

The Corporate Governance Committee of the Board recommended these individuals to the Board and the Board nominated them.

Each nominee s age at December 31, 2011, present position, directorships at public companies and registered investment companies during the past five or more years, positions with Deere, current directorships in other companies, and key qualifications, experiences, and attributes qualifying them to serve on the Company s Board appear below.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR ALL NINE NOMINEES.

Crandall C. Bowles (64) Chairman of Springs Industries, Inc. and Chairman, The Springs Company

- Chairman of Springs Industries, Inc. (home furnishings) and The Springs Company since August 2007
- Co-Chairman and Co-Chief Executive Officer of Springs Global US, Inc. and Springs Global Participacoes S. A. - January 2006 to August 2007
- Chairman and Chief Executive Officer of Springs Industries, Inc. - April 1998 to January 2006
- Director of Deere from 1990 to 1994 and since 1999. Chair of Corporate Governance Committee and member of Compensation and Executive Committees
- Other current directorships: JP Morgan Chase & Company and Sara Lee Corporation

Key Qualifications, Experiences, and Attributes:
In addition to her professional background and prior Deere Board experience, the following qualifications led the Board to conclude that Ms. Bowles should serve on Deere s Board of Directors: her leadership qualities developed from her service as Chairman and Chief Executive Officer of Springs Industries, the breadth of her experiences in auditing, risk management, and other areas of oversight while serving as a member of the Board of Directors of other global corporations, and her subject matter knowledge in the areas of economics and sales and marketing of consumer products.

Vance D. Coffman (67) Retired Chairman of Lockheed Martin Corporation

- Retired Chairman of Lockheed Martin Corporation (aerospace, defense, and information technology) since April 2005
- Chairman of Lockheed Martin Corporation - April 1998 to April 2005
- Chief Executive Officer of Lockheed Martin Corporation - August 1997 to August 2004
- Director of Deere since 2004. Chair of Compensation Committee and member of Corporate Governance and Executive Committees
- Other current directorships: 3M Company and Amgen Inc.
- Other previous directorships: Bristol-Myers Squibb Company

Key Qualifications, Experiences, and Attributes:
In addition to his professional background and prior Deere Board experience, the following qualifications led the Board to conclude that Mr. Coffman should serve on Deere s Board of Directors: his leadership qualities developed from his service as Chairman and Chief Executive Officer of Lockheed Martin Corporation, the breadth of his experiences in auditing, corporate governance, and other areas of oversight while serving as a member of the Board of Directors of other global corporations, and his subject matter knowledge in the areas of engineering, manufacturing, and finance.

Charles O. Holliday, Jr. (63) Chairman of the Board, Bank of America Corporation

- Chairman of Bank of America Corporation (banking, investing, and asset management) since April 2010
- Chairman from January 1999 to December 2009 and Chief Executive Officer from 1998 through 2008 of DuPont (agricultural, electronics, materials science, safety and security, and biotechnology)
- Director of Deere since May 2007. Presiding Director of the Board since May 2009. Chair of Audit Review Committee and member of Corporate Governance and Executive Committees
- Other current directorships: CH2M HILL Companies, Ltd. and Royal Dutch Shell plc
- Other previous directorships: E.I. du Pont de Nemours and Company and HCA Inc.

Key Qualifications, Experiences, and Attributes:
In addition to his professional background and prior Deere Board experience, the following qualifications led the Board to conclude that Mr. Holliday should serve on Deere s Board of Directors: his leadership qualities developed from his experiences while serving as Chairman of Bank of America Corporation and Chairman and Chief Executive Officer of DuPont, the breadth of his experiences in auditing, compensation, and other areas of oversight while serving as a member of the Board of Directors of other global corporations, and his subject matter knowledge in the areas of engineering, finance, business development, and corporate responsibility.

Dipak C. Jain (54) Dean, INSEAD

- Dean, INSEAD (international graduate business school) since March 2011
- Dean, Kellogg School of Management, Northwestern University, Evanston, Illinois - July 2001-August 2009
- Associate Dean for Academic Affairs, Kellogg School of Management, Northwestern University - 1996 to 2001
- Sandy and Morton Goldman Professor of Entrepreneurial Studies and Professor of Marketing, Kellogg School of Management, Northwestern University - 1994 to 2011
- Visiting professor of marketing at Sasin Graduate Institute of Business Administration at Chulalongkorn University, Bangkok, Thailand; Nijenrode University, The Netherlands; Indian School of Business, Hyderabad, India
- Director of Deere since 2002. Member of Audit Review and Pension Plan Oversight Committees
- Other current directorships: Northern Trust Corporation, Reliance Industries Limited, India, and Global Logistics Properties Limited, Singapore
- Other previous directorships: Hartmarx Corporation, Peoples Energy Corporation, and UAL Corp

Key Qualifications, Experiences, and Attributes:
In addition to his professional background and prior Deere Board experience, the following qualifications led the Board to conclude that Mr. Jain should serve on Deere s Board of Directors: his leadership qualities developed from his experiences while serving as Dean of INSEAD, Dean of the Kellogg School of Management, and as a foreign affairs adviser for the Prime Minister of Thailand, the breadth of his experiences in compensation, corporate governance, and other areas of oversight while serving as a member of the Board of Directors of other global corporations, and his subject matter knowledge in the areas of marketing, global product diffusion, and new product forecasting and development.

Clayton M. Jones (62) Chairman, President, and Chief Executive Officer of Rockwell Collins, Inc.

- Chairman, President, and Chief Executive Officer of Rockwell Collins, Inc. (aviation electronics and communications) since June 2002
- Director of Deere since August 2007. Member of Compensation and Pension Plan Oversight Committees
- Other current directorships: Rockwell Collins, Inc.
- Other previous directorships: Unisys Corporation

Key Qualifications, Experiences, and Attributes:
In addition to his professional background and prior Deere Board experience, the following qualifications led the Board to conclude that Mr. Jones should serve on Deere s Board of Directors: his leadership qualities developed from his service as Chairman, President, and Chief Executive Officer of Rockwell Collins, Inc., the breadth of his experiences in finance, compensation, and other areas of oversight while serving as a member of the Board of Directors of Unisys Corporation, and his subject matter knowledge in the areas of government affairs and marketing.

Joachim Milberg (68) Chairman of the Supervisory Board of Bayerische Motoren Werke (BMW) AG

- Chairman of the Supervisory Board of Bayerische Motoren Werke (BMW) AG (motor vehicles) since May 2004
- Retired Chief Executive Officer of BMW AG since May 2002
- Chairman of the Board of Management and Chief Executive Officer of BMW AG - February 1999 to May 2002
- Director of Deere since 2003. Member of Audit Review and Corporate Governance Committees
- Other current directorships: Bertelsmann AG, BMW AG, Festo AG, SAP AG, and ZF Friedrichshafen AG
- Other previous directorships: Allianz Versicherungs AG and MAN AG

Key Qualifications, Experiences, and Attributes:
In addition to his professional background and prior Deere Board experience, the following qualifications led the Board to conclude that Mr. Milberg should serve on Deere s Board of Directors: his leadership qualities developed from his experiences while serving as Chief Executive Officer of BMW and Chairman of BMW s Board of Management and Supervisory Board, the breadth of his global experiences from his service as a member of the Board of Directors of non-U.S.-based corporations, and his subject matter knowledge in the areas of engineering, production automation, and robotic technology.

Richard B. Myers (69) Retired Chairman of the Joint Chiefs of Staff and Retired General of the United States Air Force

- Retired Chairman of the Joint Chiefs of Staff (principal military advisor to the President, the Secretary of Defense, and the National Security Council) and Retired General of the United States Air Force since September 2005
- Colin L. Powell Chair for National Security, Leadership, Character, and Ethics at the National Defense University since March 2006
- Foundation Professor of Military History and Leadership at Kansas State University since February 2006
- Chairman of the Joint Chiefs of Staff and General of the United States Air Force - October 2001 to September 2005
- Director of Deere since April 2006. Member of Compensation and Pension Plan Oversight Committees
- Other current directorships: Aon Corporation, Northrop Grumman Corporation, and United Technologies Corporation

Key Qualifications, Experiences, and Attributes:
In addition to his professional background and prior Deere Board experience, the following qualifications led the Board to conclude that Mr. Myers should serve on Deere s Board of Directors: his leadership qualities developed from his service as the 15th Chairman of the Joint Chiefs of Staff, the breadth of his experiences in compliance, finance, and other areas of oversight while serving as a member of the Board of Directors of other global corporations, and his subject matter knowledge in the areas of crisis management, national security, and international geo-politics.

Thomas H. Patrick (68) Chairman of New Vernon Capital, LLC

- Chairman of New Vernon Capital, LLC (private equity fund) since 2003
- Executive Vice Chairman of Merrill Lynch & Co., Inc. - November 2002 to July 2003
- Executive Vice President and Chief Financial Officer of Merrill Lynch & Co., Inc. - February 2000 to November 2002
- Director of Deere since 2000. Chair of Pension Plan Oversight Committee and member of Audit Review and Executive Committees
- Other directorships: Baldwin & Lyons, Inc. and Computer Sciences Corporation
- Other previous directorships: optionsXpress Holdings, Inc.

Key Qualifications, Experiences, and Attributes:
In addition to his professional background and prior Deere Board experience, the following qualifications led the Board to conclude that Mr. Patrick should serve on Deere s Board of Directors: his leadership qualities developed from his service as an executive officer of Merrill Lynch & Co., Inc., the breadth of his experiences in auditing, corporate governance, and other areas of oversight while serving as a member of the Board of Directors of other corporations, and his subject matter knowledge in the areas of finance, economics, and asset management.

Sherry M. Smith (50) Executive Vice President, Chief Financial Officer of SUPERVALU INC.

- Executive Vice President, Chief Financial Officer of Supervalu Inc. since December 2010
- Senior Vice President, Finance of Supervalu Inc. 2005 to 2010
- Senior Vice President, Finance and Treasurer of SUPERVALU INC. 2002 to 2005
- Director of Deere since December 2011. Member of Audit Review and Pension Plan Oversight Committees.

Key Qualifications, Experiences and Attributes:
In addition to her professional background, the following qualifications led the Board to conclude that Ms. Smith should serve on Deere s Board of Directors: her leadership qualities developed from her experience while serving as a senior executive and as Chief Financial Officer of SUPERVALU INC., the breadth of her experiences in auditing, finance, accounting, compensation, strategic planning, and other areas of oversight, her family farming background, and her subject matter knowledge in the areas of finance, accounting, and food and supply chain management.

DIRECTORS CONTINUING IN OFFICE

The three persons named below are currently serving as our directors. Their terms will expire at the annual meeting in 2013. Each director s age, present position, directorships at public companies and registered investment companies during the past five or more years, positions with Deere, current directorships in other companies, and key qualifications, experiences, and attributes qualifying them to serve on the Company s Board appear below.

Samuel R. Allen (58) Chairman and Chief Executive Officer of Deere

- Chairman and Chief Executive Officer of Deere since February 2010
- President and Chief Executive Officer of Deere - August 2009 to February 2010
- President and Chief Operating Officer of Deere June 2009 to August 2009
- President, Worldwide Construction & Forestry Division and John Deere Power Systems of Deere March 2005 to June 2009
- President, Global Financial Services, John Deere Power Systems, and Corporate Human Resources of Deere November 2003 to March 2005
- Director of Deere since June 2009. Chair of Executive Committee
- Other current directorships: Whirlpool Corporation

Key Qualifications, Experiences, and Attributes:
In addition to his professional background and prior Deere Board experience, the following qualifications led the Board to conclude that Mr. Allen should serve on Deere s Board of Directors: his leadership experience as an officer of Deere since 2001, the breadth of his management experiences within and knowledge of each of Deere s major global operations, and his subject matter knowledge in the areas of engineering, manufacturing, and industrial management.

Aulana L. Peters (70) Retired Partner of Gibson, Dunn & Crutcher LLP

- Retired Partner of Gibson, Dunn & Crutcher LLP (law firm) since 2000
- Member of the International Public Interest Oversight Board for auditing, ethics, and accounting education standards since February 2005
- Member of the Public Oversight Board of the American Institute of Certified Public Accountants - January 2001 to March 2002
- Commissioner of the Securities and Exchange Commission - 1984 to 1988
- Director of Deere since 2002. Member of Audit Review and Corporate Governance Committees
- Other current directorships: 3M Company and Northrop Grumman Corporation
- Other previous directorships: Merrill Lynch & Co., Inc.

Key Qualifications, Experiences, and Attributes:
In addition to her professional background and prior Deere Board experience, the following qualifications led the Board to conclude that Ms. Peters should serve on Deere s Board of Directors: her leadership qualities developed from her experiences while serving as a partner of a global law firm and as Commissioner of the SEC, the breadth of her experiences in auditing, finance, and other areas of oversight while serving as a member of the Board of Directors of other major global corporations, and her subject matter knowledge in the areas of corporate governance, Sarbanes-Oxley compliance, and corporate ethics and professional standards.

David B. Speer (60) Chairman and Chief Executive Officer of Illinois Tool Works Inc.

- Chairman and Chief Executive Officer of Illinois Tool Works Inc. (engineered components,industrial systems, and consumables) since May 2006
- Chief Executive Officer and President of Illinois Tool Works Inc. - August 2005 to May 2006
- President of Illinois Tool Works Inc. - August 2004 to August 2005
- Executive Vice President of Illinois Tool Works Inc. - October 1995 to August 2004
- Director of Deere since November 2008. Member of Compensation and Pension Plan Oversight Committees
- Other current directorships: Illinois Tool Works Inc. and Rockwell Automation, Inc.

Key Qualifications, Experiences, and Attributes:
In addition to his professional background and prior Deere Board experience, the following qualifications led the Board to conclude that Mr. Speer should serve on Deere s Board of Directors: his leadership qualities developed from his experiences while serving as Chairman and Chief Executive Officer of Illinois Tool Works Inc., the breadth of his experiences in auditing, corporate governance, and other areas of oversight while serving as a member of the Board of Directors of other global corporations, and his subject matter knowledge in the areas of engineering, manufacturing, and the construction product business.

NON-BINDING VOTE ON EXECUTIVE COMPENSATION

Section 951 of the Dodd-Frank Wall Street Reform and Consumer Protection Act requires that Deere seek a non-binding vote from its stockholders to approve the compensation of the executives named in the Summary Compensation Table of this Proxy Statement (the Named Executive Officers or NEOs) as disclosed in the Compensation Discussion & Analysis (CD&A) and tabular disclosures of this Proxy Statement. As approved by its stockholders at last year s annual meeting, the Company is submitting this non-binding vote on an annual basis.

SUPPORTING STATEMENT

Pay for Performance

Deere s compensation philosophy is to pay for performance, support Deere s business strategies, and offer competitive compensation arrangements. Our compensation programs consist of elements designed to complement each other and reward achievement of short-term and long-term objectives. The metrics used for our incentive programs are associated with operating metrics or based upon a function of the Company s stock price with linkage to revenue growth and Total Shareholder Return. See the Deere & Company Pay for Performance graph in the Executive Summary of the CD&A which highlights our success in aligning executive compensation with the Company s financial performance.

Program Design

In the CD&A, we have provided stockholders with a description of our compensation programs, including the philosophy and strategy underpinning the programs, the individual elements of the compensation programs, and how our compensation plans are administered. Our compensation approach, which we call our Total Rewards Strategy, is supported by the following principles, among others, as fully described in the section, Total Rewards Strategy in the CD&A:

- Attracting, retaining, and motivating high-caliber executives
- With greater responsibility, placing a larger portion of their total compensation at-risk with a larger portion tied to long-term incentives
- Recognizing the cyclical nature of our equipment businesses and the need to manage value throughout the business cycle
- Providing opportunity for NEOs to be long-term stockholders of Deere
- Structuring compensation programs to be regarded positively by our stockholders and employees

Best Practices in Executive Compensation

- We include a double-trigger change in control provision in our current Omnibus Plan and such provision is included in the Nonemployee Director Stock Ownership Plan as submitted to stockholders for approval
- We do not provide tax gross ups for executives, except for those available to all employees (including moving expenses and international assignments)
- We do not have retirement programs uniquely applicable to executive officers
- We have adopted an Executive Incentive Compensation Recoupment Policy to ensure accountability in the presentation of our financial statements
- We have established Stock Ownership Guidelines to encourage the retention of stock by our executives and strengthen the relationship between compensation and performance

- We have adopted a policy precluding all directors and employees, including our executive officers, and their Related Persons from engaging in short sales of the Company s stock or trading in instruments designed to hedge against the Company s stock

The Board believes that the executive compensation as disclosed in the CD&A, tabular disclosures, and other narrative executive compensation disclosures in this Proxy Statement coincides with our compensation philosophy and aligns with the pay practices of our peer group.

FOR THE REASONS STATED, DEERE S BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE FOLLOWING NON-BINDING RESOLUTION:

RESOLVED, that the stockholders approve the compensation of the NEOs as disclosed in this Proxy Statement pursuant to the compensation disclosure rules of the SEC, including the CD&A, tabular disclosures, and other narrative executive compensation disclosures.

Effect of Proposal

The say-on-pay resolution is non-binding. The approval or disapproval of this proposal by stockholders will not require the Board or the Committee to take any action regarding the Company s executive compensation practices. The final decision on the compensation and benefits of our NEOs and on whether, and if so, how, to address stockholder disapproval remains with the Board and the Committee.

The Board believes that the Committee is in the best position to consider the extensive information and factors necessary to make independent, objective, and competitive compensation recommendations and decisions that are in the best interest of Deere and its stockholders.

The Board values the opinions of the Company s stockholders as expressed through their votes and other communications. Although the resolution is non-binding, the Board will carefully consider the outcome of the non-binding vote and those opinions when making future compensation decisions.

APPROVAL OF THE NONEMPLOYEE DIRECTOR STOCK OWNERSHIP PLAN

Summary of the Proposal

The Board has approved the Deere & Company Nonemployee Director Stock Ownership Plan in the form attached hereto as Appendix A (for purposes of this section of the Proxy Statement, the Plan), subject to approval by the stockholders of the Company. The Plan succeeds the 2002 Deere & Company Nonemployee Director Stock Ownership Plan (the Predecessor Plan) under which grants can no longer be made after March 7, 2012. The description of the Plan which follows is qualified in its entirety by reference to the text of the Plan as set forth in Appendix A. The Plan provides for annual awards to each nonemployee director of shares or units of Company common stock which will be subject to certain restrictions until the director s retirement, death, or disability. The number of shares of common stock reserved for all awards under the Plan is 500,000. No awards may be granted under the Plan after March 10, 2022.

Stockholder approval of the Plan requires the affirmative vote of a majority of the shares present or represented and entitled to vote at the Annual Meeting.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE APPROVAL OF THE DEERE & COMPANY NONEMPLOYEE DIRECTOR STOCK OWNERSHIP PLAN.

Description of the Plan

Establishment
Subject to stockholder approval, the Plan will become effective on February 29, 2012.

Purpose
The purpose of the Plan is to further the growth, development, and financial success of the Company by strengthening the Company s ability to attract and retain the services of experienced and knowledgeable nonemployee directors. The Plan is designed to enable nonemployee directors to participate in the Company s growth and to link their personal interests to those of Company stockholders.

Operation
Eligibility and the amount and timing of awards under the Plan are determined pursuant to Plan provisions. The Plan provides for annual awards to nonemployee directors of restricted stock units (RSUs) or shares of restricted common stock of the Company in an amount recommended by the Corporate Governance Committee and approved by the Board. In 2011, each nonemployee director received RSU awards equivalent to $100,000 under the Predecessor Plan. The number of RSUs or shares awarded in any year will be based on the fair market value of the common stock as of the date one week following the annual meeting of stockholders. The award is subject to risks of forfeiture and other terms and conditions (the Restrictions). Pro rata awards will be made to nonemployee directors elected by the Board between annual meetings. In the year of retirement or resignation from the Board, the last award made to the nonemployee director will be prorated.

Restrictions on restricted shares remain in effect during a nonemployee director s service on the Board. Restricted shares are held by the Company, and the shares are non-transferable and subject to forfeiture as provided in the Plan. Recipients of restricted stock receive dividends and are entitled to vote the restricted stock. Subject to proration of a nonemployee director s last award in the year of retirement or resignation, in the event of a nonemployee director s death, total and permanent disability, retirement, or resignation, the Restrictions attached to any award of restricted shares will lapse and the shares covered by such award will be delivered to the participant or the decedent s beneficiary. If a nonemployee director s service terminates other than by reason of death, total and permanent disability, retirement, or resignation, all of the director s outstanding restricted shares are automatically forfeited.

Restrictions on awards of RSUs remain in effect until the awards are settled by delivery of the corresponding shares of common stock. Recipients of RSUs receive dividend equivalents but are not entitled to vote the underlying shares until the units convert to stock. Subject to proration of a nonemployee director s last award in the year of retirement or resignation, settlement of RSUs occurs upon a nonemployee director s termination of service on the Board or, if later, the first day of a calendar month specified by the director (but not later than 10 years following termination of service on the Board). However, if a nonemployee director s service terminates other than by reason of death, total and permanent disability, retirement, or resignation, all of the director s unsettled RSUs are automatically forfeited.

In the event of a change of control of the Company and a qualifying termination of a nonemployee director s service on the Board, the Restrictions will lapse and the shares covered by awards pursuant to the Plan will be delivered to the participant. For purposes of awards under the Plan, a change of control is defined, generally, to include: (i) the acquisition by a third party or persons acting as a group of 30% or more of the combined voting power of the Company s outstanding stock; (ii) a change in a majority of the incumbent Board of Directors of the Company (other than through election of nominees who are approved by a vote of at least two-thirds of the directors then in office); (iii) any merger, consolidation, or business combination of the Company (other than certain transactions

that do not result in a substantial change in proportional ownership of the Company); or (iv) the complete liquidation or a sale of all or substantially all of the Company s assets. A nonemployee director generally will be considered to have experienced a qualifying termination if within six months preceding or within 24 calendar months following a change of control of the Company, the nonemployee director s service terminates: (i) upon the nonemployee director s resignation from the Board at the request of the Company or another party to the transaction constituting the change of control; (ii) because the nonemployee director is not appointed to the Board as constituted following consummation of the transaction constituting the change of control; or (iii) as a result of the Company s failure to nominate the nonemployee director for re-election to the Board.

The lapse of Restrictions and delivery of shares in the event of a change of control may have the incidental effect of increasing the net cost of such change of control by a relatively small amount and thus could theoretically render more difficult or discourage such a change of control, even if such change of control would be beneficial to stockholders generally.

The total number of shares which may be granted under the Plan is 500,000. Shares awarded and later forfeited may become available for subsequent award grants. It is anticipated that at the time of stockholder approval, eleven nonemployee directors will participate in the Plan.

Administration

The Plan is administered by and under the direction of the Board, which is authorized to interpret the Plan. The determinations of the Board are final, binding, and conclusive upon all persons.

Federal Income Tax Consequences

RSUs are not taxable to the participant at the time of the grant. Dividend equivalents received on the units are taxable to the participant as compensation during the period of the Restrictions and also are deductible by the Company as compensation during such period. The participant is taxed when the RSUs are settled by delivery of the corresponding shares of common stock on the then-current fair market value of the stock, and the Company is entitled to a tax deduction at the same time and in the same amount.

One-twelfth of a participant s restricted stock award is taxable to the participant at the time of grant based on the fair market value of the stock at that time, and the Company is entitled to a deduction at the same time and in the same amount. The remaining eleven-twelfths of the award are not taxable to the participant at the time of the grant, unless the participant elects, under Internal Revenue Code Section 83(b), to be taxed on the value of the stock at that time. If this election is made, the Company is entitled to a corresponding deduction and dividends on the stock are taxable to the participant and are no longer deductible by the Company. If such an election is not made, dividends received on the stock are taxable to the participant as compensation during the period that the restricted shares remain subject to a substantial risk of forfeiture (as defined in Section 83 of the Internal Revenue Code) and are deductible by the Company as compensation during such period. If such an election is not made, the participant is taxed when the substantial risk of forfeiture lapses which, under the terms of the Plan, occurs with respect to one-twelfth of the number of shares included in the award as of each month following the month during which the award is made, on the then-current fair market value of the stock, and the Company is entitled to a tax deduction at the same time and in the same amount.

Amendment

The Board may at any time amend or terminate the Plan, but may not amend the amount, price, or timing of awards more than once every six months, except to conform with changes in laws. The Board may not materially increase the maximum number of shares that may be issued under the Plan, may not materially increase total benefits under the Plan, and may not materially change eligibility requirements without such further approval of the stockholders as is required by law. No amendment or termination of the Plan may materially impair the rights of a participant under an award without the participant s consent. The Plan provides for adjustment of awards and the maximum number of shares available for awards in the event of a stock dividend or split; a merger, reorganization, consolidation, or recapitalization; or similar events.

Plan Benefits

The number of RSUs and shares that will be received in the future under the Plan by any participant is not determinable at this time. As described above, under the Plan, annual awards are made in an amount recommended by the Corporate Governance Committee and approved by the Board. For 2011, each nonemployee director received annual awards of RSUs under the Predecessor Plan equivalent to $100,000 based on the market value of the Company s common stock on the date of grant. At the December 2011 meeting, the Board increased the equity award to $120,000, as recommended by the Corporate Governance Committee, effective January 1, 2012. The table below shows the restricted units granted in fiscal 2011 under the Predecessor Plan to the individuals and groups indicated.

Name and Position	Dollar Value (1)	Number of Restricted Stock Units
Samuel R. Allen Chairman and Chief Executive Officer(2)	None	None
James M. Field Senior Vice President and Chief Financial Officer(2)	None	None
David C. Everitt President, Agriculture & Equipment Operations(2)	None	None
James R. Jenkins Senior Vice President and General Counsel(2)	None	None
Michael J. Mack President, WW Construction & Forestry Operations(2)	None	None
Executive Group(2)	None	None
Non-Executive Director Group	$999,150	11,140
Non-Executive Officer Employee Group(2)	None	None

(1) Represents the fair market value based on the mean of the high and low sales prices of Company common stock on the grant date, without giving effect to the diminution in value attributable to the restrictions on the units.

(2) Employees of the Company are not eligible to participate in the Plan.

RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Review Committee has approved the selection of Deloitte & Touche LLP to serve as the independent registered public accounting firm to audit Deere s financial statements and internal controls over financial reporting for fiscal 2012. The Audit Review Committee and the Board are requesting that stockholders ratify this appointment as a means of soliciting stockholders opinions and as a matter of good corporate practice.

The affirmative vote of a majority of the shares present in person or by proxy and entitled to vote at the meeting is required to ratify the selection of Deloitte & Touche LLP. If the stockholders do not ratify the selection, the Audit Review Committee will consider any information submitted by the stockholders in connection with the selection of the independent registered public accounting firm for the next fiscal year. Even if the selection is ratified, the Audit Review Committee, in its discretion, may direct the appointment of a different independent registered public accounting firm at any time during the year if the Audit Review Committee believes such a change would be in the best interest of Deere and its stockholders.

We expect that a representative of Deloitte & Touche LLP will be at the Annual Meeting. This representative will have an opportunity to make a statement and will be available to respond to appropriate questions.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE RATIFICATION OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

FEES PAID TO THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

For the years ended October 31, 2011 and 2010, professional services were performed by Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, Limited, and their respective affiliates (collectively, Deloitte & Touche).

Audit Fees

The aggregate fees billed include amounts for the audit of Deere s annual financial statements and the reviews of the financial statements included in Deere s Quarterly Reports on Form 10-Q, including services related thereto such as comfort letters, statutory audits, attest services, consents, and accounting consultations. Audit fees for the fiscal years ended October 31, 2011 and 2010 were $15.2 million and $14.5 million, respectively.

Audit-Related Fees

During the last two fiscal years, Deloitte & Touche has provided Deere with assurance and related services that are reasonably related to the performance of the audit of our financial statements. The aggregate fees billed for such audit-related services for the fiscal years ended October 31, 2011 and 2010 were $0.6 million and $0.8 million, respectively. These services included audits of financial statements of employee benefit plans, various attestation services, and other consultations.

Tax Fees

There were no fees billed for tax services for the fiscal years ended October 31, 2011 and October 31, 2010.

All Other Fees

There were no fees billed for services not included above for the fiscal years ended October 31, 2011 and October 31, 2010.

Pre-approval of Services by the Independent Registered Public Accounting Firm

The Audit Review Committee has adopted a policy for pre-approval of audit and permitted non-audit services provided by Deere s independent registered public accounting firm. The Audit Review Committee will consider annually and, if appropriate, approve the provision of audit services by its independent registered public accounting firm and consider and, if appropriate, pre-approve the provision of certain defined audit and non-audit services. The Audit Review Committee will also consider on a case-by-case basis and, if appropriate, approve specific services that are not otherwise pre-approved.

Any proposed engagement that does not fit within the definition of a pre-approved service may be presented to the Audit Review Committee for consideration at its next regular meeting or, if earlier consideration is required, to the Audit Review Committee or one or more of its members between regular meetings. The member or members to whom such authority is delegated shall report any specific approval of services at its next regular meeting. The Audit Review Committee will regularly review summary reports detailing all services being provided to Deere by its independent registered public accounting firm.

During fiscal 2011, all services by Deere s independent registered public accounting firm were pre-approved by the Audit Review Committee in accordance with this policy.

OTHER MATTERS

We do not know of any other matters that will be considered at the Annual Meeting. If, however, any other appropriate business should properly come before the meeting, the Board will have discretionary authority to vote according to its best judgment.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table shows the number of shares of Deere common stock beneficially owned as of December 31, 2011, (unless otherwise indicated) by:

- each person, who, to our knowledge, beneficially owns more than 5% of our common stock;
- each of our nonemployee directors;
- each of our NEOs; and
- all individuals who served as directors or executive officers on December 31, 2011, as a group.

A beneficial owner of stock is a person who has sole or shared voting power, meaning the power to control voting decisions, or sole or shared investment power, meaning the power to cause the sale or other disposition of the stock. A person is also considered the beneficial owner of shares as to which the person has the right to acquire beneficial ownership (within the meaning of the preceding sentence) within 60 days. For this reason, the following table includes exercisable stock options, shares underlying RSUs that are scheduled to settle within 60 days of December 31, 2011, and options and RSUs that would become exercisable or be settled within 60 days of December 31, 2011 at the discretion of an individual identified in the table (for example, upon retirement).

All individuals listed in the table have sole voting and investment power over the shares unless otherwise noted. As of December 31, 2011, Deere had no preferred stock issued or outstanding.

	Shares					
				84.3	212.0	165.5
Selling, general and administrative expenses	49.9	38.0	97.7	73.8		
Acquisition-related costs	-	2.4	-	3.8		
Operating income	52.7	43.9	114.3	87.9		
Interest expense	(4.4)	(5.8)	(9.6)	(12.7)		
Other income (expense), net	1.3	0.4	3.9	(0.4)		
Income before income taxes	49.6	38.5	108.6	74.8		
Income tax expense	16.4	14.7	35.9	27.2		
Net income	33.2	23.8	72.7	47.6		
Less: Net income attributable to noncontrolling interest	(0.2)	(0.2)	(0.5)	(0.2)		
NET INCOME ATTRIBUTABLE TO CARPENTER	$ 33.0	$ 23.6	$ 72.2	$ 47.4		
EARNINGS PER COMMON SHARE:						
Basic	$ 0.62	$ 0.53	$ 1.36	$ 1.06		
Diluted	$ 0.62	$ 0.52	$ 1.35	$ 1.05		
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:						
Basic	52.9	44.4	52.8	44.4		
Diluted	53.5	45.1	53.4	45.1		
Cash dividends per common share	$ 0.18	$ 0.18	$ 0.36	$ 0.36		

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 December 31,		Six Months Ended December 31,	
	2012	2011	2012	2011
Net income	$ 33.2	$ 23.8	$ 72.7	$ 47.6
Other comprehensive income (loss), net of tax				
Pension and post-retirement benefits, net of tax of $(2.6) $(1.2), $(5.2) and $(2.4), respectively	4.4	2.0	8.8	4.0
Net gain (loss) on derivative instruments, net of tax of $8.1, $(4.6), $(3.5) and $15.3, respectively	(13.8)	7.5	5.9	(25.0)
Unrealized gain (loss) on marketable securities, net of tax of $0.0, $0.0, $0.0 and $0.1, respectively	0.1	-	0.1	(0.2)
Foreign currency translation	1.3	(5.1)	5.8	(16.5)
Other comprehensive (loss) income	(8.0)	4.4	20.6	(37.7)
Comprehensive income	25.2	28.2	93.3	9.9
Less: Comprehensive (income) loss attributable to the noncontrolling interest	(0.2)	0.2	(0.7)	0.9
Comprehensive income attributable to Carpenter	$ 25.0	$ 28.4	$ 92.6	$ 10.8

See accompanying notes to consolidated financial statements

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CARPENTER TECHNOLOGY CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

($ in millions)

	Six Months Ended December 31,	
	2012	2011
OPERATING ACTIVITIES		
Net income	$ 72.7	$ 47.6
Adjustments to reconcile net income to net cash provided from (used for) operating activities:		
Depreciation and amortization	51.1	37.2
Deferred income taxes	(0.3)	13.6
Net pension expense	34.3	19.7
Net loss on disposal of property and equipment	0.5	0.4
Changes in working capital and other:		
Accounts receivable	69.8	22.5
Inventories	(88.8)	(110.3)
Other current assets	(8.3)	1.9
Accounts payable	(48.0)	(21.5)
Accrued liabilities	(20.4)	(4.1)
Pension plan contributions	(57.9)	(15.4)
Boarhead Farms settlement	-	(21.8)
Other, net	(2.5)	2.4
Net cash provided from (used for) operating activities	2.2	(27.8)
INVESTING ACTIVITIES		
Purchases of property, equipment and software	(136.9)	(60.3)
Proceeds from disposals of property and equipment	0.1	0.2
Acquisition of business	-	(1.4)
Proceeds from sale of equity method investment	7.9	-
Proceeds from sales and maturities of marketable securities	-	30.4
Net cash used for investing activities	(128.9)	(31.1)
FINANCING ACTIVITIES		
Payments on long-term debt	-	(100.0)
Dividends paid	(19.1)	(16.2)
Purchase of subsidiary shares from noncontrolling interest	(8.4)	-
Tax benefits on share-based compensation	3.3	0.8
Proceeds from stock options exercised	1.9	1.5
Net cash used for financing activities	(22.3)	(113.9)
Effect of exchange rate changes on cash and cash equivalents	1.1	(0.9)
DECREASE IN CASH AND CASH EQUIVALENTS	(147.9)	(173.7)
Cash and cash equivalents at beginning of period	211.0	492.5
Cash and cash equivalents at end of period	$ 63.1	$ 318.8

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CARPENTER TECHNOLOGY CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED DECEMBER 31, 2012 AND 2011

(Unaudited)

($ in millions, except per share data)

	Carpenter Stockholders Equity						
	Common Stock						
	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			72.2			0.5	72.7
Pension and post-retirement benefits, net of tax					8.8		8.8
Net gain on derivative instruments, net of tax					5.9		5.9
Purchase of subsidiary shares from noncontrolling interest		1.6				(10.0)	(8.4)
Unrealized loss on marketable securities, net of tax					0.1		0.1
Foreign currency translation					5.6	0.2	5.8
Cash Dividends:							
Common @ $0.36 per share			(19.1)				(19.1)
Share-based compensation plans		(5.2)		8.4			3.2
Stock options exercised	0.5	1.4					1.9
Tax windfall on share-based compensation		3.3					3.3
Balances at December 31, 2012	**$ 274.5**	**$ 253.8**	**$ 1,162.7**	**$ (111.6)**	**$ (392.1)**	**$ 0.0**	**$ 1,187.3**

	Carpenter Stockholders Equity						
	Common Stock						
	Par Value Of $5	Capital in Excess of Par Value	Reinvested Earnings	Common Stock in Treasury	Accumulated Other Comprehensive Loss	Noncontrolling interest	Total Equity
Balances at June 30, 2011	**$ 273.7**	**$ 235.4**	**$ 1,022.1**	**$ (532.2)**	**$ (233.3)**	**$ 10.3**	**$ 776.0**
Net income			47.4			0.2	47.6
Pension and post-retirement benefits, net of tax					4.0		4.0
Net loss on derivative instruments, net of tax					(25.0)		(25.0)
Unrealized loss on marketable securities, net of tax					(0.2)		(0.2)
Foreign currency translation					(15.4)	(1.1)	(16.5)
Cash Dividends:							
Common @ $0.36 per share			(16.2)				(16.2)
Share-based compensation plans		2.4		2.1			4.5
Stock options exercised	0.3	1.2					1.5
Tax windfall on share-based compensation		0.8					0.8
Balances at December 31, 2011	**$ 274.0**	**$ 239.8**	**$ 1,053.3**	**$ (530.1)**	**$ (269.9)**	**$ 9.4**	**$ 776.5**

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, 2012 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, 2012 (the 2012 Form 10-K). Operating results for the three months and six months ended December 31, 2012 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. Acquisition

Latrobe Specialty Metals, Inc.

On February 29, 2012, the Company completed the acquisition of Latrobe Specialty Metals, Inc. (Latrobe) for a total purchase price of $427.0 million, net of cash acquired (the Latrobe Acquisition). The purchase price includes the issuance of 8.1 million shares of the Company s common stock to former Latrobe stockholders in exchange for their Latrobe capital stock and $11.5 million of cash paid at closing, net of cash acquired of $2.5 million, to satisfy certain costs of the sellers. The fair value of the shares issued as part of the consideration paid for Latrobe was determined based on the closing market price of the Company s shares on the acquisition date. The Company also assumed $153.7 million of indebtedness which was paid off in cash concurrently with the closing of the acquisition.

Latrobe manufactures and distributes high-performance specialty metals serving customers across end-use markets including the aerospace and defense, energy and industrial markets. The manufacturing operations of Latrobe are based principally in Latrobe, Pennsylvania.

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CARPENTER TECHNOLOGY CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following is a summary of the preliminary purchase price allocation in connection with the Latrobe Acquisition. During the quarter ended December 31, 2012, the Company decreased the amount allocated to goodwill by $4.4 million principally as a result of inventory and current and deferred income tax adjustments to opening balance sheet amounts as a result of additional information that became available during the three months ended December 31, 2012. The amounts in the preliminary purchase price allocation are not yet final and are subject to change. The final allocation of the purchase price is expected to be completed during the third quarter of fiscal year 2013 when all the necessary information is obtained to the complete the analysis, which is principally associated with obtaining and analyzing certain information related to product quality issues related to product manufactured prior to acquisition.

($ in millions)		
Accounts receivable	$	67.0
Inventory		242.6
Property, plant and equipment		172.4
Intangible assets		87.1
Other		9.8
Accounts Payable and accrued liabilities		(64.1)
Long-term debt		(153.7)
Pension and other postretirement liabilities		(100.8)
Deferred income taxes		(43.9)
Total identifiable net assets		216.4
Goodwill		210.6
Total purchase price, net of cash acquired	$	427.0

The goodwill recognized in connection with the Latrobe Acquisition consists of the value associated with the immediate increase in the Company s premium melt capacity to meet strong customer demand, improvements in the Company s position in attractive end use markets such as aerospace and defense and energy, the complementary asset capabilities which the Company expects will lead to enriched, higher margin product mix and operating cost synergies as well as the capabilities for commercialization of new Carpenter products under development. None of the goodwill recognized is deductible for income tax purposes.

In connection with the Latrobe Acquisition, the Company incurred approximately $11.7 million and $2.4 million of acquisition-related costs during the fiscal years ended June 30, 2012 and 2011, respectively. These costs were expensed as incurred and represent incremental legal, accounting and investment banking fees incurred in connection with the transaction as well as approximately $5.2 million of liability for costs associated with the sale of certain Latrobe assets necessary to obtain approval for the transaction from the Federal Trade Commission (FTC). As part of the FTC approval, the Company entered into a consent decree to transfer assets and technical knowledge to Eramet S.A. and its subsidiaries, Aubert & Duval and Brown Europe, which will allow them to become a second manufacturer of two specific alloys in order to provide customers with a supply alternative in the marketplace.

The consolidated net sales for the three months and six months ended December 31, 2012 includes approximately $95.2 million and $209.8 million, respectively of net sales related to the Latrobe business. The Company s operating income for the three months and six months ended December 31, 2012 includes approximately $13.2 million and $29.5 million, respectively related to the operations of the acquired Latrobe

business.

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The unaudited pro forma results presented below include the effects of the Latrobe Acquisition as if it had occurred as of July 1, 2011. The unaudited pro forma results reflect certain adjustments related to the acquisition, such as the depreciation and amortization associated with estimates for the fair value of the property and equipment and acquired intangible assets and the impacts of the elimination of Latrobe debt that was repaid at closing. The supplemental proforma earnings were adjusted to exclude acquisition-related costs in the three months and six months ended December 31, 2011.

	Three Months Ended December 31,		Six Months Ended December 31,	
($ in millions, except per share data)	2012	2011	2012	2011
Revenue	$ 533.5	$ 531.7	$ 1,078.5	$ 1,074.0
Earnings	$ 33.0	$ 40.8	$ 72.2	$ 64.3
Earnings per Common Share				
Basic	$ 0.62	$ 0.77	$ 1.36	$ 1.22
Diluted	$ 0.62	$ 0.77	$ 1.35	$ 1.21

The pro forma results do not include any anticipated synergies or other expected benefits of the acquisition. Accordingly, the unaudited pro forma financial information above is not necessarily indicative of either future results of operations or results that might have been achieved had the acquisition been completed on the dates indicated.

3. 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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The calculations of basic and diluted earnings per common share for the three months and six months ended December 31, 2012 and 2011 were as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
(in millions, except per share data)	2012	2011	2012	2011
Net income attributable to Carpenter	$ 33.0	$ 23.6	$ 72.2	$ 47.4
Less: earnings and dividends allocated to participating securities	(0.2)	(0.2)	(0.4)	(0.4)
Earnings available to Carpenter common stockholders	$ 32.8	$ 23.4	$ 71.8	$ 47.0
Weighted average number of common shares outstanding, basic	52.9	44.4	52.8	44.4
Effect of shares issuable under share based compensation plans	0.6	0.7	0.6	0.7
Weighted average number of common shares outstanding, diluted	53.5	45.1	53.4	45.1
Basic earnings per common share	$ 0.62	$ 0.53	$ 1.36	$ 1.06
Diluted earnings per common share	$ 0.62	$ 0.52	$ 1.35	$ 1.05

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 December 31,		Six Months Ended December 31,	
(in millions)	2012	2011	2012	2011
Stock options	0.3	0.1	0.3	0.1

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4. Marketable Securities

The fair value of the Company s marketable securities was based on quoted market prices or estimates of fair value as of December 31, 2012 and June 30, 2012. The following is a summary of marketable securities, all of which were classified as available-for-sale as of December 31, 2012 and June 30, 2012:

December 31, 2012 ($ in millions)	Cost	Unrealized Losses	Estimated Fair Value
Non-current			
Municipal auction rate securities	$ 6.0	$ (0.9)	$ 5.1

June 30, 2012 ($ in millions)	Cost	Unrealized Losses	Estimated Fair Value
Non-current			
Municipal auction rate securities	$ 6.0	$ (1.0)	$ 5.0

For the six months ended December 31, 2012 and 2011, proceeds from sales and maturities of marketable securities were $0.0 million and $30.4 million, respectively.

5. Inventories

Inventories consisted of the following components as of December 31, 2012 and June 30, 2012:

($ in millions)	December 31, 2012	June 30, 2012
Raw materials and supplies	$ 137.5	$ 114.1
Work in process	355.2	312.4
Finished and purchased products	240.9	215.5
Total inventory	$ 733.6	$ 642.0

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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6. Accrued Liabilities

Accrued liabilities consisted of the following as of December 31, 2012 and June 30, 2012:

($ in millions)	December 31, 2012	June 30, 2012
Accrued pension liabilities	$ 66.6	$ 70.0
Accrued compensation	30.4	50.1
Accrued postretirement benefits	17.2	17.2
Derivative financial instruments	18.9	26.5
Other	53.5	53.3
Total accrued liabilities	$ 186.6	$ 217.1

7. 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 and six months ended December 31, 2012 and 2011 were as follows:

Three months ended December 31, ($ in millions)	Pension Plans		Other Postretirement Plans	
	2012	2011	2012	2011
Service cost	$ 8.0	$ 5.5	$ 1.1	$ 0.7
Interest cost	13.3	12.3	3.0	2.7
Expected return on plan assets	(13.7)	(13.0)	(1.6)	(1.6)
Amortization of net loss	7.0	4.3	0.8	0.6
Amortization of prior service cost (benefit)	0.2	0.2	(1.0)	(1.9)
Net pension expense	$ 14.8	$ 9.3	$ 2.3	$ 0.5

Six months ended December 31, ($ in millions)	Pension Plans		Other Postretirement Plans	
	2012	2011	2012	2011
Service cost	$ 16.1	$ 11.1	$ 2.2	$ 1.4
Interest cost	26.5	24.6	6.1	5.4
Expected return on plan assets	(27.4)	(26.0)	(3.2)	(3.2)
Amortization of net loss	14.0	8.7	1.6	1.2

Amortization of prior service cost (benefit)		0.4		0.4		(2.0)		(3.9)
Net pension expense	$	29.6	$	18.8	$	4.7	$	0.9

During the six months ended December 31, 2012 and 2011, the Company made $57.9 million and $15.4 million, respectively of required contributions to its defined benefit pension plans. The Company currently expects to make approximately $24.0 million in required contributions to its defined benefit pension plans during the remainder of fiscal year 2013.

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8. Revolving Credit Agreement

The Company has a $350.0 million syndicated credit agreement (Credit Agreement) that extends to June 2016. 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 0.65% to 1.95% (1.20% as of December 31, 2012), and for Base Rate-determined loans, from 0.0% to 0.95% (0.2% as of December 31, 2012). The Company also pays a quarterly facility fee ranging from 0.10% to 0.45% (0.2% as of December 31, 2012), determined based upon the Debt Rating, of the $350 million commitment under the Credit Agreement. In addition, the Company must pay certain letter of credit fees, ranging from 0.65% to 1.95% (1.20% as of December 31, 2012), 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 December 31, 2012, the Company had $7.2 million of issued letters of credit under the Credit Agreement, with the balance of $342.8 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 (3.5 to 1.0 for December 31, 2012). 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 December 31, 2012 and June 30, 2012, the Company was in compliance with all of the covenants of the Credit Agreement.

9. 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 and six months ended December 31, 2012, 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 were $4.9 million at both December 31, 2012 and June 30, 2012.

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

Boarhead Farms

In June 2002, the Company was named as a defendant in a lawsuit filed by a group of plaintiffs in the District Court for the Eastern District of Pennsylvania titled *Boarhead Farm Agreement Group v. Advanced Environmental Technology Corporation et al.* (since amended to include the individual members). The suit alleges that the Company and the other named defendants contributed to damages caused at Boarhead Farms, a Superfund site located in Bridgeton, Pennsylvania. The Boarhead Farms site was the home of a now defunct chemical and waste hauling company that the Company and many others engaged to dispose of certain wastes during the 1970 s. The plaintiff group was individually named as PRP s for the Boarhead site in the EPA s Record of Decision in November 1998. Their June 2002 lawsuit against various defendants, including Carpenter, sought contributions for a portion of costs incurred for various site cleanup activities as well as contributions to future cleanup efforts. The suit went to trial in June 2008. Prior to trial, all of the named co-defendants, except for Carpenter, reached an out of court settlement with the plaintiffs. Carpenter denied the claims made by the plaintiff group. On August 18, 2008, the Court awarded the plaintiffs judgment against the Company for 80 percent of the plaintiffs past costs of remediating the site, including prejudgment interest from June 18, 2002 to January 1, 2008, and held the Company liable for 80 percent of future costs of the cleanup activities at the site. The Company appealed the Court s decision and oral arguments took place before the United States Court of Appeals for the Third Circuit on December 17, 2009. On April 12, 2010, the Court of Appeals for the Third Circuit vacated the previous judgment by the District Court and remanded the case for further proceedings. On July 19, 2011, the Company entered into a settlement agreement providing for a dismissal of the lawsuit and a complete release, in the Company s favor, by all parties to the litigation in exchange for a payment of $21.8 million, which the Company paid in September 2011. The Company expects that no additional liabilities will be incurred related to this matter.

Export Regulations Violations

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

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Commerce. As a result, the Company has not recorded any liability for potential penalties as of December 31, 2012.

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, from time to time, the Company 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.

10. 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.

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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.

December 31, 2012	Fair Value Measurements Using Input Type		
($ in millions)	Level 1	Level 2	Total
Assets:			
Marketable securities			
Municipal auction rate securities	$ -	$ 5.1	$ 5.1
Derivative financial instruments	-	0.2	0.2
Total assets	$ -	$ 5.3	$ 5.3
Liabilities:			
Derivative financial instruments	$ -	$ 46.6	$ 46.6

June 30, 2012	Fair Value Measurements Using Input Type		
($ in millions)	Level 1	Level 2	Total
Assets:			
Marketable securities			
Municipal auction rate securities	$ -	$ 5.0	$ 5.0
Derivative financial instruments	-	2.6	2.6
Total assets	$ -	$ 7.6	$ 7.6
Liabilities:			
Derivative financial instruments	$ -	$ 56.5	$ 56.5

The Company s derivative financial instruments consist of commodity forward contracts, foreign exchange forward contracts, interest rate swaps and forward interest rate swaps. These instruments are measured at fair value using the market method valuation technique. The inputs to this technique utilize information related to foreign exchange rates, commodity prices and interest rates published by third-party leading financial news and data providers. This is observable data; however, the valuation of these instruments is not based on actual transactions for the same instruments 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 12.

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.

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

($ in millions)	December 31, 2012 Carrying Value	December 31, 2012 Fair Value	June 30, 2012 Carrying Value	June 30, 2012 Fair Value
Long-term debt, including current portion	$ 406.2	$ 433.4	$ 406.9	$ 427.7
Company-owned life insurance	$ 13.8	$ 13.8	$ 11.0	$ 11.0

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 December 31, 2012 and June 30, 2012 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.

11. Other Income (Expense), Net

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

	Three Months Ended December 31,		Six Months Ended December 31,	
($ in millions)	2012	2011	2012	2011
(Losses) gains on company owned life insurance contracts and investments held in rabbi trusts	$ (0.2)	$ 0.7	$ 2.2	$ (0.6)
Equity in earnings (losses) of unconsolidated subsidiaries	1.9	(1.1)	1.3	(0.3)
Interest income	0.1	0.3	0.2	0.6
Other (expense) income	(0.5)	0.5	0.2	(0.1)
Total other income (expense), net	$ 1.3	$ 0.4	$ 3.9	$ (0.4)

12. 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.

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*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. As of December 31, 2012 and June 30, 2012, the total notional amount of forward interest rate swaps was $200.0 million and $0.0 million, respectively.

*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 December 31, 2012 and June 30, 2012, 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. As of both December 31, 2012 and June 30, 2012, the total notional amount of floating interest rate contracts was $45.0 million. For the three months ended December 31, 2012 and 2011, net gains of $0.4 million and $0.4 million, respectively, were recorded as a reduction to interest expense. For the six months ended December 31, 2012 and 2011, net gains of $0.9 million and $0.7 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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The fair value and location of outstanding derivative contracts recorded in the accompanying consolidated balance sheets were as follows as of December 31, 2012 and June 30, 2012:

December 31, 2012 ($ in millions)	Interest Rate Swaps	Foreign Currency Contracts	Commodity Contracts	Total Derivatives
Asset Derivatives:				
Derivatives designated as hedging instruments:				
Other current assets	$ (0.6)	$ 0.2	$ 0.1	$ (0.3)
Other assets	0.5	-	-	0.5
Total asset derivatives	$ (0.1)	$ 0.2	$ 0.1	$ 0.2
Liability Derivatives:				
Derivatives designated as hedging instruments:				
Accrued liabilities	$ -	$ 1.6	$ 17.3	$ 18.9
Other liabilities	-	-	27.7	27.7
Total liability derivatives	$ -	$ 1.6	$ 45.0	$ 46.6

June 30, 2012 ($ in millions)	Interest Rate Swaps	Foreign Currency Contracts	Commodity Contracts	Total Derivatives
Asset Derivatives:				
Derivatives designated as hedging instruments:				
Other current assets	$ 0.2	$ 1.2	$ -	$ 1.4
Other assets	1.2	-	-	1.2
Total asset derivatives	$ 1.4	$ 1.2	$ -	$ 2.6
Liability Derivatives:				
Derivatives designated as hedging instruments:				
Accrued liabilities	$ -	$ 1.5	$ 25.0	$ 26.5
Other liabilities	-	0.4	29.6	30.0
Total liability derivatives	$ -	$ 1.9	$ 54.6	$ 56.5

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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 (losses) gains related to cash flow hedges recognized during the three months and six months ended December 31, 2012 and 2011:

	Amount of Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)			
	Three Months Ended		Six Months Ended	
($ in millions)	December 31,		December 31,	
Derivatives in Cash Flow Hedging Relationship:	2012	2011	2012	2011
Commodity contracts	$ (30.6)	$ 13.4	$ (6.6)	$ (40.3)
Foreign exchange contracts	0.7	(1.2)	0.6	0.2
Forward interest rate swaps	0.8	-	(0.9)	-
Total	$ (29.1)	$ 12.2	$ (6.9)	$ (40.1)

($ in millions)		Amount of (Loss) Gain Reclassified from AOCI into Income (Effective Portion)			
	Location of (Loss) Gain Reclassified from AOCI into	Three Months Ended December 31,		Six Months Ended December 31,	
Derivatives in Cash Flow Hedging Relationship:	Income (Effective Portion)	2012	2011	2012	2011

The Company estimates that $10.2 million of net derivative losses included in AOCI as of December 31, 2012 will be reclassified into earnings within the next 12 months. No significant cash flow hedges were discontinued during the quarter ended December 31, 2012. There was no ineffectiveness during the three months and six months ended December 31, 2012 and 2011.

The changes in AOCI associated with derivative hedging activities during the three months and six months ended December 31, 2012 and 2011 were as follows:

($ in millions)	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011	Six Months Ended December 31, 2012	Six Months Ended December 31, 2011
Balance, beginning	$ (13.1)	$ (29.9)	$ (32.8)	$ 2.6
Current period changes in fair value, net of tax	(18.3)	3.5	(4.3)	(29.7)
Reclassification to earnings, net of tax	4.5	4.0	10.2	4.7
Balance, ending	$ (26.9)	$ (22.4)	$ (26.9)	$ (22.4)

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According to the provisions of the Company s derivative arrangements, in the event that the fair value of outstanding derivative positions with certain counterparties exceeds certain thresholds, the Company may be required to issue cash collateral to the counterparties. The Company s contracts with these counterparties allow for netting of derivative instrument positions executed under each contract. As of December 31, 2012 and June 30, 2012, the Company had no cash collateral held by counterparties.

The Company is exposed to credit loss in the event of nonperformance by counterparties on its derivative instruments as well as credit or performance risk with respect to its customer commitments to perform. Although nonperformance is possible, the Company does not anticipate nonperformance by any of the parties. In addition, various master netting arrangements are in place with counterparties to facilitate settlement of gains and losses on these contracts.

13. Income Taxes

The effective tax rate used for interim periods is the estimated annual effective consolidated tax rate, based on the current estimate of full year results, except that taxes related to specific events, if any, are recorded in the interim period in which they occur.

Income tax expense for the three months ended December 31, 2012 was $16.4 million, or 33.1 percent of pre-tax income as compared with $14.7 million, or 38.2 percent of pre-tax income for the three months ended December 31, 2011. For the six months ended December 31, 2012, income tax expense was $35.9 million, or 33.1 percent of pre-tax income, as compared with income tax expense of $27.2 million, or 36.4 percent of pre-tax income, for the six months ended December 31, 2011. The prior year periods were negatively impacted by a state tax legislative change and non-deductible acquisition related expenses related to the Latrobe Acquisition.

14. Dissolution of Strategic Partnership

In November 2012, the Company dissolved its strategic partnership with Sandvik Materials Technology (Sandvik). Prior to the dissolution of the strategic partnership, the Company owned a 40 percent interest in Sandvik Powdermet AB, which the Company accounted for as an equity method investment. In addition, Sandvik owned a 40 percent interest in Carpenter Powder Products AB which has historically been reported as a noncontrolling interest. Under the terms of the dissolution agreement, the Company received $7.9 million of proceeds from the sale of its investment in Sandvik Powdermet AB and paid $8.4 million to repurchase the shares of Carpenter Products AB from Sandvik. During the quarter ended, December 31, 2012, the dissolution resulted in a $1.9 million gain related to the sale of the investment in Sandvik Powdermet. No gain or loss was recognized related to the repurchase of the Carpenter Powder Products AB shares.

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CARPENTER TECHNOLOGY CORPORATION

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(Unaudited)

15. Business Segments

In January 2012, the Company changed its reportable segments, beginning with the second quarter results of fiscal year 2012, to align with a new operating model in which the integrated steel mill operations are managed distinctly from the collection of other differentiated business unit operations. In addition, during the first quarter of fiscal year 2013, the Company moved the Specialty Steel Supply (SSS) business acquired in connection with the Latrobe Acquisition from the Latrobe segment to the Performance Engineered Products segment. The Company has three reportable segments, Specialty Alloys Operations (SAO), Latrobe, and Performance Engineered Products (PEP). Previously, the Company s reportable segments consisted of Premium Alloys Operations, Advanced Metals Operations and Emerging Ventures.

The SAO segment is comprised of the Company s major premium alloy and stainless steel manufacturing operations. This includes operations performed at mills primarily in Reading, Pennsylvania and the surrounding area, South Carolina, and the new premium products manufacturing facility being built in Limestone County, Alabama. The combined assets of the SAO operations are managed in an integrated manner to optimize efficiency and profitability across the total system.

The Latrobe segment is comprised of the operations of the Latrobe business acquired effective February 29, 2012. The Latrobe segment provides management with the focus and visibility into the business performance of these newly acquired operations. The Latrobe segment also includes the results of Carpenter s distribution business in Mexico. As the Latrobe business becomes integrated with Carpenter, its results will likely be combined and reported together with the SAO business segment sometime in the future.

The PEP segment is comprised of the Company s differentiated operations. This includes the Dynamet titanium business, the Carpenter Powder Products business, the Amega West business and the SSS distribution business that was acquired in connection with the Latrobe Acquisition. The businesses in the PEP segment are managed with an entrepreneurial structure to promote speed and flexibility and drive overall revenue and profit growth.

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

On a consolidated basis, there were no significant individual customers that accounted for more than 10 percent of the total net sales during the three months and six months ended December 31, 2012 and 2011, respectively.

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The historical segment information for the three months and six months ended December 31, 2011, which is set forth below, was recast to conform to the fiscal year 2013 presentation.

Segment Data	Three Months Ended December 31,		Six Months Ended December 31,	
($ in millions)	2012	2011	2012	2011
Net Sales:				
Specialty Alloys Operations	$ 368.3	$ 360.5	$ 730.0	$ 696.3
Latrobe	113.9	9.5	235.8	19.6
Performance Engineered Products	92.9	82.3	191.6	166.5
Intersegment	(41.6)	(21.2)	(78.9)	(37.2)
Consolidated net sales	$ 533.5	$ 431.1	$ 1,078.5	$ 845.2
Operating Income:				
Specialty Alloys Operations	$ 49.6	$ 50.9	$ 104.1	$ 97.2
Latrobe	13.2	0.7	28.9	1.2
Performance Engineered Products	8.9	10.4	20.4	22.2
Corporate costs	(10.6)	(12.6)	(20.9)	(22.8)
Pension earnings, interest & deferrals	(8.0)	(3.6)	(16.0)	(7.2)
Intersegment	(0.4)	(1.9)	(2.2)	(2.7)
Consolidated operating income	$ 52.7	$ 43.9	$ 114.3	$ 87.9
Depreciation and Amortization:				
Specialty Alloys Operations	$ 13.8	$ 13.0	$ 27.5	$ 26.1
Latrobe	5.7	0.1	11.4	0.2
Performance Engineered Products	4.7	4.3	9.4	8.5
Corporate	1.4	1.3	3.0	2.6
Intersegment	(0.1)	(0.1)	(0.2)	(0.2)
Consolidated depreciation and amortization	$ 25.5	$ 18.6	$ 51.1	$ 37.2
Capital Expenditures:				
Specialty Alloys Operations	$ 68.2	$ 22.0	$ 106.8	$ 39.6
Latrobe	7.1	-	15.3	-
Performance Engineered Products	4.1	10.2	12.6	18.8
Corporate	1.5	1.5	3.1	3.3
Intersegment	(0.4)	(0.7)	(0.9)	(1.4)
Consolidated capital expenditures	$ 80.5	$ 33.0	$ 136.9	$ 60.3

	December 31, 2012	June 30, 2012
Total Assets:		
Specialty Alloys Operations	$ 1,332.6	$ 1,293.3
Latrobe	796.1	807.5
Performance Engineered Products	398.6	394.7
Corporate	112.7	151.0

Intersegment		(57.8)		(18.7)
Consolidated total assets	$	2,582.2	$	2,627.8

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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16. Recent Accounting Standards

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, *Intangibles Goodwill and Other* (ASU 2011-08). ASU 2011-08 amends previous guidance on the testing of goodwill for impairment and is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The amended guidance provides entities with the option of first assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If it is determined, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not less than the carrying amount, the two-step impairment test would still be required. The adoption of ASU 2011-08 is not expected to have a significant impact on the Company s Consolidated Financial Statements.

In September 2011, the FASB issued Accounting Standards Update No. 2011-09, *Compensation Retirement Benefits Multiemployer Plans* (ASU 2011-09). ASU 2011-09 requires that employers that participate in multiemployer pension and postretirement plans provide additional enhanced separate quantitative and qualitative disclosures for such plans. The additional disclosures provide information about the overall health of the plan and the level of the employer s participation in the plan. The guidance in ASU 2011-09 is effective for public entities for fiscal years beginning after December 15, 2011, with early adoption permitted. Retrospective application of the guidance will be required upon adoption. The Company is evaluating the impact of the adoption of ASU 2011-09 and does not expect the adoption to have a significant impact on the Company s Consolidated Financial Statements.

In December 2011, the FASB issued Accounting Standards Update No. 2011-11, *Disclosures about Offsetting Assets and Liabilities* (ASU 2011-11). ASU 2011-11 requires disclosures to provide information to help reconcile differences in offsetting requirements under U.S. GAAP and International Financial Reporting Standards (IFRS). The new disclosure requirements in ASU 2011-11 mandate that entities disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position as well as instruments and transactions subject to an agreement similar to a master netting arrangement. The guidance in ASU 2011-11 is required to be applied for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The Company is evaluating the impact of the adoption of ASU 2011-11 and does not expect the adoption to have a significant impact on the Company s Consolidated Financial Statements.

In July 2012, the FASB issued Accounting Standards Update No. 2012-02, *Intangibles Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment* (ASU 2012-02). The guidance in ASU 2012-02 is intended to reduce the cost and complexity of testing indefinite-lived intangible assets other than goodwill for impairment by providing entities with an option to perform a qualitative assessment to determine whether further impairment testing is necessary. The guidance includes examples of events and circumstances that might indicate that it is more likely than not that an indefinite-lived intangible asset is impaired. The qualitative assessment may be performed on none, some or all of its indefinite-lived intangible assets. An entity may also choose to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to the quantitative impairment test and then choose to perform the qualitative assessment in any subsequent period. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 with early adoption permitted. The adoption of ASU 2011-08 is not expected to have a significant impact on the Company s Consolidated Financial Statements.

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

Background and General

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. We are also a manufacturer and service provider of high-precision components for measurement while drilling (MWD) and logging while drilling (LWD), drill collars, stabilizers and other down-hole tools used for directional drilling. MWD and LWD technology is used to ensure critical data is obtained and transmitted to the surface to monitor progress of the well.

On February 29, 2012, following approval of the acquisition by the U.S. Federal Trade Commission (FTC), we completed the acquisition of Latrobe Specialty Metals, Inc. (Latrobe) through the merger of a wholly-owned subsidiary of the Company with and into Latrobe (the Latrobe Acquisition). In connection with the Latrobe Acquisition, former owners of Latrobe received 8.1 million shares of Carpenter stock. In addition, pursuant to the terms of the related merger agreement, Carpenter paid $11.5 million in cash at closing, net of $2.5 million of cash acquired, in addition to a payment of approximately $154 million in order to pay off Latrobe debt. A key benefit of the Latrobe Acquisition is a substantial increase in production which will increase Carpenter s capacity to meet strong customer demand for premium products. As a condition of the FTC approval, Carpenter entered into a consent decree (the Consent Decree) to transfer certain assets and technical knowledge to Eramet S.A and its subsidiaries, Aubert & Duval and Brown Europe (collectively, the Transferees), which will allow the Transferees, as a group, to become a second manufacturer of two specific alloys in order to provide customers with a supply alternative in the marketplace. The alloys have minimal sales impact and will cause no material change to the economics of the Latrobe Acquisition. As part of the Consent Decrees, Carpenter agreed to transfer certain assets as well as fund the cost of acquiring assets in an amount up to approximately $5.0 million; Carpenter recorded a charge for this liability in the quarter ended March 31, 2012.

In August 2012, we announced that we have commenced a process to sell the Latrobe and Mexico distribution businesses. As of December 31, 2012, we have not met the criteria to qualify to report these businesses as held for sale or discontinued operations. If successful, we intend to eventually reinvest the proceeds from the sales of the businesses in other, more strategic businesses.

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.

Our discussions below in this Item 2 are based upon the more detailed discussions about our business, operations and financial condition included in Item 8 of our 2012 Form 10-K. Our discussions here focus on our results during or as of the three-month and six-month period ended December 31, 2012 and the comparable periods of fiscal year 2012, and, to the extent applicable, on material changes from information discussed in the 2012 Form 10-K or other important intervening developments or information that we have reported on Form 8-K. These discussions should be read in conjunction with the 2012 Form 10-K for detailed background information and with any such intervening Form 8-K.

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Changes to Segment Reporting

In January 2012, we changed our reportable segments, beginning with our second quarter results of fiscal year 2012, to align with a new operating model in which our integrated steel mill operations are managed distinctly from the collection of other differentiated business unit operations. In addition, during the first quarter of fiscal year 2013, we moved the Specialty Steel Supply (SSS) business acquired in connection with the Latrobe Acquisition from the Latrobe segment to the Performance Engineered Products segment. We now have three reportable segments, Specialty Alloys Operations (SAO), Latrobe and Performance Engineered Products (PEP). Previously, the Company s reportable segments consisted of Premium Alloys Operations, Advanced Metals Operations and Emerging Ventures.

The SAO segment is comprised of Carpenter s major premium alloy and stainless steel manufacturing operations. This includes operations performed at mills primarily in Reading, Pennsylvania and the surrounding area, South Carolina, and the new premium products manufacturing facility being built in Limestone County, Alabama. The combined assets of the SAO operations are managed in an integrated manner to optimize efficiency and profitability across the total system.

The Latrobe segment is comprised of the operations of the Latrobe business acquired effective February 29, 2012. The Latrobe segment provides management with the focus and visibility into the business performance of these newly acquired operations. The Latrobe segment also includes the results of Carpenter s distribution business in Mexico, which is being managed together with the Latrobe distribution business. As the Latrobe business becomes integrated with Carpenter, its results will likely be combined and reported together with the SAO business segment sometime in the future.

The PEP segment is comprised of Carpenter s differentiated operations. This includes the Dynamet business, the Carpenter Powder Products business, the Amega West business and the SSS business that was acquired in connection with the Latrobe Acquisition. The businesses in the PEP segment are managed with an entrepreneurial structure to promote speed and flexibility, and drive overall revenue and profit growth.

In conjunction with the segment reporting changes, we also made a few modifications to our supplemental end-use market and product class reporting. For end-use market reporting, Aerospace end-use market sales was broadened to incorporate Aerospace and Defense. Industrial and Consumer end-use market sales were combined as Industrial and Consumer. The Automotive end-use market was broadened to Transportation to reflect sales in non-automotive markets like marine. All distribution businesses sales are being reported as a separate end-use market called Distribution. For product class reporting, sales of powder metal products were broken out and a new category of Alloy and Tool Steels was added. The changes are intended to better segregate growth areas of premium products such as high temperature nickel-based special alloys, titanium products and powder metals, while also reflecting the product classes and businesses gained through the Latrobe Acquisition. All prior period information has been reclassified to conform to the fiscal year 2013 presentation.

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.

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

Approximately 25 percent our net sales are sales to customers under firm price sales arrangements. Firm price sales arrangements involve a risk of profit margin fluctuations, particularly when raw material prices are volatile. In order to reduce the risk of fluctuating profit margins on these sales, we enter into commodity forward contracts to purchase certain critical raw materials necessary to produce the related products sold. Firm price sales arrangements generally include certain annual purchasing commitments and consumption schedules agreed to by the customers at selling prices based on raw material prices at the time the arrangements are established. If a customer fails to meet the volume commitments (or the consumption schedule deviates from the agreed-upon terms of the firm price sales arrangements), the Company may need to absorb the gains or losses associated with the commodity forward contracts on a temporary basis. Gains or losses associated with commodity forward contracts are reclassified to earnings/loss when earnings are impacted by the hedged transaction. Because we value most of our inventory under the LIFO costing methodology, changes in the cost of raw materials and production activities are recognized in cost of sales in the current period attempting to match the most recently incurred costs with revenues. Gains or losses on the commodity forward contracts are reclassified from other comprehensive income together with the actual purchase price of the underlying commodities when the underlying commodities are purchased and recorded in inventory. To the extent that the total purchase price of the commodities, inclusive of the gains or losses on the commodity forward contracts, are higher or lower relative to the beginning of year costs, our costs of goods sold reflect such amounts. Accordingly, the gains and/or losses associated with commodity forward contracts may not impact the same period that the firm price sales arrangements revenue is recognized, and comparisons of gross profit from period to period may be impacted. These firm price sales arrangements are expected to continue as we look to strengthen our long-term customer relationships by expanding, renewing and in certain cases extending to a longer term, our customer long-term arrangements.

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

Net Pension Expense

Net pension expense, as we define it below, includes the net periodic benefit costs related to both our pension and other postretirement plans. The current quarter s results include non-cash net pension expense of $17.1 million, or $0.21 per diluted share, versus $9.8 million, or $0.13 per diluted share, in the same quarter last year. Net pension expense for the six months ended December 31, 2012 was $34.3 million, or $0.42 per diluted share, as compared with $19.7 million, or $0.27 per diluted share, during the six months ended December 31, 2011. See the section Non-GAAP Financial Measures below for further discussions of these financial measures.

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Net pension expense is determined annually based on beginning of year balances and is recorded ratably throughout the fiscal year, unless a significant re-measurement event occurs. We currently expect that the total net pension expense for fiscal year 2013 will be $68.3 million as compared with $42.1 million recorded in fiscal year 2012.

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 Consolidated Statements of Income. The following is a summary of the classification of net pension expense for the three months and six months ended December 31, 2012 and 2011:

	Three Months Ended December 31,		Six Months Ended December 31,	
($ in millions)	2012	2011	2012	2011

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. The following is a summary of the components of net pension expense during the three months and six months ended December 31, 2012 and 2011:

	Three Months Ended December 31,		Six Months Ended December 31,	
($ in millions)	2012	2011	2012	2011

Latrobe Acquisition Impacts

We closed the Latrobe Acquisition on February 29, 2012. After ten months of ownership, the Latrobe results remain strong and we continue to exceed our plan for operational synergies track ahead of our deal economics. The net accretion from Latrobe s operating results offset by a higher share count, contributed $0.05 and $0.12, respectively per diluted share for the three months and six months ended December 31, 2012. This accretion excludes the synergies realized on our existing SAO business. These measures below have not been determined in accordance with U.S. GAAP. See further discussion of these measures in the Non-GAAP Financial Measures discussion below.

Operating Performance Overview

For the quarter ended December 31, 2012, we reported net income attributable to Carpenter of $33.0 million, or $0.62 per diluted share, compared with income attributable to Carpenter for the same period a year earlier of $23.6 million, or $0.52 per diluted share. The results

principally reflect the addition of the Latrobe business, which continues to outperform expectations for operational synergies and the benefits of our continued strong product mix. At the same time, the results reflect the weaker demand for lower value mill product lines and destocking in the titanium medical supply chain.

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There are several initiatives that will have an impact on our results this fiscal year, including costs associated with the following: (i.) the start-up of our Athens, Alabama premium products manufacturing facility, (ii.) manufacturing footprint optimization opportunities, and (iii.) an inventory reduction initiative. See below for further discussion of these costs. During the three months and six months ended December 31, 2012, these initiatives impacted our operating margin excluding surcharge by 0.6 percent ($2.5 million) and 0.5 percent ($4.1 million), respectively and negatively impacted our diluted earnings per share by $0.03 per diluted share and $0.05 per diluted share, respectively.

In the first quarter of fiscal year 2012, we announced our plans to construct a new 400,000 square foot state-of-the-art manufacturing facility in response to strong customer demand for premium products primarily in the fast-growing aerospace and energy industries. We expect that the new facility will ultimately be capable of producing approximately 27,000 tons per year of additional premium product and be operational by April 2014. The facility is being built on a 230 acre greenfield site located in Limestone County, Alabama at a total cost of approximately $500 million. The new facility will include forge, re-melting and associated finishing and testing capabilities and will play a key role in further developing our capabilities in the production of our premium products. During the three months and six months ended December 31, 2012, we incurred facility start-up costs of $1.3 million and $2.2 million, respectively. We currently expect that the facility startup costs will amount to approximately $6.0 million in fiscal year 2013.

We are currently evaluating opportunities with respect to manufacturing footprint optimization principally as a result of the Latrobe Acquisition and other changes we believe are necessary to manage our business as an integrated steel mill operation. In August 2012, we announced plans to close our wire production facility in Orangeburg, South Carolina and move certain assets as we expand the Wauseon, Ohio facility acquired in connection with the Latrobe Acquisition. We are currently evaluating other, smaller consolidation opportunities related to the Latrobe acquisition and continue to evaluate opportunities to optimize the broader footprint of our mill assets. Total costs incurred in connection with the footprint optimization were approximately $0.2 million and $0.3 million, respectively, during the three months and six months ended December 31, 2012. We currently expect to incur approximately $3.0 million in costs related to the footprint optimization activities during fiscal year 2013.

In connection with the Latrobe Acquisition, we initiated a third party consulting study to identify opportunities to potentially reduce inventory levels across our integrated mill system, including Latrobe. Our inventory turns performance is below average as compared with peers in our industry, with Latrobe at even lower average turns than our SAO business. The consulting study was completed in the quarter ended December 31, 2012 and we believe there are potential opportunities to reduce inventory levels and improve our inventory turns performance from historical levels. Specific action plans have been developed, and we expect to see the benefits of improvements in our inventory performance during the second half our fiscal year 2013. During the three months and six months ended December 31, 2012, we incurred $1.0 million and $1.6 million, respectively, of costs associated with the inventory reduction initiative which consists of consulting costs associated with the study. We estimate that we will incur approximately $3.0 million of total consulting fees to develop and execute our inventory reduction initiative during fiscal year 2013 and expect this project to continue through fiscal year 2015.

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Results of Operations Three Months Ended December 31, 2012 vs. Three Months Ended December 31, 2011

Net Sales

Net sales for the three months ended December 31, 2012 were $533.5 million, which was a 24 percent increase over the same period a year ago. Excluding surcharge revenue, sales increased 30 percent. Overall, pounds shipped were 28 percent higher than the second fiscal quarter a year ago. Excluding the Latrobe impact, our recent second quarter net sales excluding surcharge revenues increased 5 percent on 2 percent higher volume. Net sales excluding surcharge revenues in our SAO segment increased 7 percent on 1 percent higher volume, while net sales excluding surcharge revenues in our PEP segment increased 13 percent on 6 percent lower shipment volume. The results reflect our continued deliberate actions to grow premium products and strengthen overall product mix.

Geographically, sales outside the United States increased 11 percent from the same period a year ago to $158.1 million. International growth was led by 30 percent growth in Asia-Pacific sales, 49 percent increase in Canada sales and 3 percent increase in European sales. Growth in Asia-Pacific was led by sales into aerospace end markets. Growth in Canada and Europe were led by increased demand for materials used for aerospace and oil and gas applications. Total international sales in the quarter represented 30 percent of total net sales, compared with 33 percent in the prior year. Excluding the impact of Latrobe, total international net sales in the current quarter represented 34 percent of total net sales.

Sales by End-Use Markets

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

($ in millions)	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011	$ Increase (Decrease)	% Increase (Decrease)
Aerospace and defense	$ 250.3	$ 192.2	$ 58.1	30 %
Industrial and consumer	111.6	105.0	6.6	6
Energy	79.5	61.3	18.2	30
Medical	26.6	31.7	(5.1)	(16)
Transportation	31.8	31.4	0.4	1
Distribution	33.7	9.5	24.2	255
Total net sales	$ 533.5	$ 431.1	$ 102.4	24 %

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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 revenue:

($ in millions)	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011	$ Increase (Decrease)	% Increase (Decrease)
Aerospace and defense	$ 194.6	$ 142.6	$ 52.0	36 %
Industrial and consumer	85.4	75.8	9.6	13
Energy	69.0	51.7	17.3	33
Medical	24.2	28.2	(4.0)	(14)
Transportation	24.2	22.5	1.7	8
Distribution	33.3	9.5	23.8	251
Total net sales excluding surcharge revenues	$ 430.7	$ 330.3	$ 100.4	30 %

Sales to the aerospace and defense market increased 30 percent from the second quarter a year ago to $250.3 million. Excluding surcharge revenue, sales increased 36 percent from the second quarter a year ago on 83 percent higher shipment volume (or up 10 percent on 8 percent higher shipment volume excluding Latrobe). Demand for super-alloy engine materials remains strong due to higher build rates and initial pull through for new engine programs. Demand for nickel and stainless fastener material increased year-over-year for the tenth consecutive quarter while shipments of titanium fastener material set a new second quarter record, up slightly from the very strong year-ago period. The addition of Latrobe s structural, bearing and other complementary products also contributed to the year-to-year growth rate.

Industrial and consumer market sales increased 6 percent from the second quarter a year ago to $111.6 million. Excluding surcharge revenue, sales increased 13 percent on an 8 percent increase in shipment volume (or up 4 percent on 1 percent lower shipment volume excluding Latrobe). This market remains more sensitive to economic uncertainty which is reflected in the powder metals portion of the PEP segment and value products within Latrobe. Carpenter s strategy to focus on specialized, premium and ultra-premium niche applications with strategically important customers has offset overall demand softness in more commodity type products and distributor channels.

Sales to the energy market of $79.5 million reflected a 30 percent increase from the second quarter a year ago. Excluding surcharge revenue, sales increased 33 percent from a year ago on higher shipment volume of 23 percent (or up 6 percent excluding Latrobe). Demand growth for material used in oil and gas applications outpaced weaker demand for power generation materials. Despite lower North American rig activity, demand for Carpenter materials used in oil and gas drilling increased as Amega West remained strong by expanding its footprint and gaining share. In addition, there are a significant number of wells that have been drilled and still require completions, which is leading to growth of Ultra-Premium products. Build schedules at major industrial gas turbine manufacturers are pointing toward stronger second half growth in that sector after temporary slowness in this area.

Sales to the medical market decreased 16 percent from a year ago to $26.6 million. Excluding surcharge revenue, sales decreased 14 percent on lower shipment volume of 21 percent (relatively unchanged without Latrobe). Uncertainty surrounding pending legislative impacts and economic sentiment continues to affect short term demand for medical materials. In addition, as largely seen in the PEP segment results, continued inventory destocking within the titanium distribution supply chain is being influenced by falling titanium prices.

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Transportation market sales increased 1 percent from the second quarter a year ago to $31.8 million. Excluding surcharge revenue, sales increased 8 percent on 1 percent lower shipment volume (or up 5 percent on 3 percent lower volume without Latrobe) from the second quarter a year ago. Increasing fuel efficiency standards require automobiles to become lighter and engines to operate at higher temperatures. These design specifications continue to create demand for premium materials used for turbo-charger, gasket, valve and fuel system applications which has led to revenue growth outpacing volume growth.

Distribution sales increased 255 percent from the second quarter a year ago to $33.7 million. Excluding surcharge revenue, sales increased 251 percent from the second quarter a year ago. The increase is primarily attributable to the addition of the Latrobe distribution business, which globally sources and distributes corrosion resistant steels, tool steels and powder metals for a wide range of industries.

Sales by Product Class

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

($ in millions)	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011	$ Increase (Decrease)	% Increase (Decrease)
Special alloys	$ 226.0	$ 205.7	$ 20.3	10 %
Stainless steels	162.4	149.4	13.0	9
Alloy and Tool steel	55.5	5.2	50.3	967
Titanium products	36.5	36.7	(0.2)	(1)
Powder metals	13.4	16.3	(2.9)	(18)
Distribution and other	39.7	17.8	21.9	123
Total net sales	$ 533.5	$ 431.1	$ 102.4	24 %

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

($ in millions)	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011	$ Increase (Decrease)	% Increase (Decrease)
Special alloys	$ 157.5	$ 136.3	$ 21.2	16 %
Stainless steels	139.3	120.4	18.9	16
Alloy and Tool steel	46.2	4.1	42.1	1,027
Titanium products	36.5	36.7	(0.2)	(1)
Powder metals	12.2	15.2	(3.0)	(20)
Distribution and other	39.0	17.6	21.4	122
Total net sales excluding surcharge revenues	$ 430.7	$ 330.3	$ 100.4	30 %

Sales of special alloys products increased 10 percent from a year ago to $226.0 million. Excluding surcharge revenues, sales increased 16 percent on an 11 percent increase in shipment volume (or up 15 percent on 8 percent higher volume without Latrobe). The results for the current quarter reflect overall sales increases in our premium and ultra-premium alloys used in the aerospace and energy markets.

Sales of stainless steels increased 9 percent from a year ago to $162.4 million. Excluding surcharge revenues, sales increased 16 percent on 7 percent higher shipment volume (or relatively unchanged revenue and volume without Latrobe).

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Sales of alloy and tool steel increased 967 percent from a year ago to $55.5 million. Excluding surcharge revenues, sales increased 1,027 percent on a similar significant increase in shipment volumes. The results principally reflect the addition of the Latrobe business.

Sales of titanium products decreased 1 percent from a year ago to $36.5 million on 5 percent lower volume. The results reflect some weakening demand in the titanium distributor channel, including the medical end-use market.

Sales of powder metals decreased 18 percent from a year ago to $13.4 million on a 19 percent decrease in shipment volume. The results reflect the impacts of continued weakness in Europe and other lower value parts of the portfolio.

Gross Profit

Our gross profit in the second quarter increased 22 percent to $102.6 million, or 19.2 percent of net sales (23.8 percent of net sales excluding surcharges), as compared with $84.3 million, or 19.6 percent of net sales (25.5 percent of net sales excluding surcharges), in the same quarter a year ago. The higher gross profit in this year s second quarter was driven by the addition of Latrobe, and improvement in SAO due to higher profit per pound from an improved product mix and higher prices.

Our surcharge mechanism is structured to recover increases in raw material costs, although in certain cases with a lag effect as discussed above. 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 the comparative three-month periods. See the section Non-GAAP Financial Measures below for further discussion of these financial measures.

	Three Months Ended December 31,	
($ in millions)	2012	2011
Net sales	$ 533.5	$ 431.1
Less: surcharge revenue	102.8	100.8
Net sales excluding surcharge revenues	$ 430.7	$ 330.3
Gross profit	$ 102.6	$ 84.3
Gross margin	19.2 %	19.6 %
Gross margin excluding dilutive effect of surcharge revenues	23.8 %	25.5 %

Selling, General and Administrative Expenses

Selling, general and administrative expenses of $49.9 million were 9.4 percent of net sales (11.6 percent of net sales excluding surcharges) as compared with $38.0 million or 8.8 percent of net sales (11.5 percent of net sales excluding surcharges) in the same quarter a year ago. The

increase principally reflects the inclusion of Latrobe overhead costs as well as increases in net pension expense as compared with the prior year period.

Acquisition-Related Costs

In connection with the Latrobe Acquisition, we incurred approximately $2.4 million of acquisition-related costs during the three months ended December 31, 2011. These costs represent direct incremental legal, accounting and investment banking fees incurred in connection with the Latrobe Acquisition.

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Operating Income

Our operating income in the recent second quarter increased to $52.7 million as compared with $43.9 million in the same period a year ago. Excluding surcharge revenue and pension earnings, interest and deferrals, and acquisition-related costs operating margin was 14.1 percent for the current quarter as compared with 15.1 percent a year ago.

Operating income has been significantly impacted by our pension earnings, interest and deferrals (pension EID) expense, which may be volatile based on conditions in the financial markets as well as the total acquisition costs related to the Latrobe Acquisition. 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 total acquisition costs from operating income. We present and discuss these financial measures because management believes removing the impact of volatile and non-recurring 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)	Three Months Ended December 31, 2012	2011
Net sales	$ 533.5	$ 431.1
Less: surcharge revenue	102.8	100.8
Net sales excluding surcharges	$ 430.7	$ 330.3
Operating income	$ 52.7	$ 43.9
Add back: pension EID expense	8.0	3.6
Operating income excluding pension EID expense	$ 60.7	$ 47.5
Total acquisition related costs	-	2.4
Operating income excluding pension EID expense and total acquisition related costs	$ 60.7	$ 49.9
Operating margin excluding surcharges and pension EID expense	14.1 %	14.4 %
Operating margin excluding pension EID expense and total acquisition related costs	14.1 %	15.1 %

In addition to the impacts of the surcharge mechanism and pension EID expense, fluctuations in raw material prices (combined with fluctuations in inventory levels) and the lag effect of the surcharge mechanism have impacted our operating income from quarter to quarter. We estimate that the effect of such combined fluctuations positively impacted operating margin, excluding surcharges, by 30 basis points during the recent second quarter and negatively impacted our operating margin, excluding surcharges, by 70 basis points during the prior year s second quarter.

Interest Expense

Interest expense for the quarter was $4.4 million compared with $5.8 million in the year-ago period due to the inclusion of capitalized interest in connection with the premium products facility construction project underway in Alabama.

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Other Income (Expense), Net

Other income was $1.3 million for the recent quarter compared to $0.4 million in the second quarter a year ago due to the $1.9 million gain recorded in connection with the dissolution of the strategic partnership with Sandvik Materials Technology.

Income Taxes

Income taxes in the recent second quarter were $16.4 million, or 33.1 percent of pre-tax income versus $14.7 million, or 38.2 percent of pre-tax income in the same quarter a year ago. The prior year period was negatively impacted by a state tax legislative change and non-deductible acquisition-related costs incurred in connection with the Latrobe Acquisition.

On January 2, 2013, the American Taxpayer Relief Act of 2012 was enacted which retroactively extended the research and development tax credit as well as bonus depreciation. As a result, we expect to record a tax benefit of approximately $2.0 million in the third quarter of fiscal year 2013.

Business Segment Results

We have three reportable business segments: Specialty Alloys Operations (SAO), Latrobe and Performance Engineered Products (PEP).

The following table includes comparative information for volumes by business segment:

	Three Months Ended December 31,			%
(Pounds sold, in thousands)	2012	2011	Increase (Decrease)	Increase (Decrease)
Specialty Alloys Operations	47,572	47,078	494	1 %
Latrobe	14,464	-	14,464	N/A
Performance Engineered Products	3,228	3,434	(206)	(6)
Intersegment	(2,682)	(1,470)	(1,212)	(82)
Consolidated pounds sold	62,582	49,042	13,540	28 %

The following table includes comparative information for net sales by business segment:

($ in millions)	Three Months Ended December 31, 2012	2011	$ Increase (Decrease)	% Increase (Decrease)
Specialty Alloys Operations	$ 368.3	$ 360.5	$ 7.8	2 %
Latrobe	113.9	9.5	104.4	1,099
Performance Engineered Products	92.9	82.3	10.6	13
Intersegment	(41.6)	(21.2)	(20.4)	(96)
Total net sales	$ 533.5	$ 431.1	$ 102.4	24 %

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The following table includes comparative information for our net sales by business segment, but excluding surcharge revenues:

($ in millions)	Three Months Ended December 31, 2012	2011	$ Increase (Decrease)	% Increase (Decrease)
Specialty Alloys Operations	$ 277.1	$ 258.1	$ 19.0	7 %
Latrobe	101.4	9.5	91.9	967
Performance Engineered Products	91.7	81.2	10.5	13
Intersegment	(39.5)	(18.5)	(21.0)	(114)
Total net sales excluding surcharge revenues	$ 430.7	$ 330.3	$ 100.4	30 %

Specialty Alloys Operations Segment

Net sales for the quarter ended December 31, 2012 for the SAO segment increased 2 percent to $368.3 million, as compared with $360.5 million in the same quarter a year ago. Excluding surcharge revenue, net sales increased 7 percent on 1 percent higher shipment volume from a year ago. Most of the growth in the current period was attributable to our premium and ultra-premium products.

Operating income for the SAO segment was $49.6 million or 13.5 percent of net sales (17.9 percent of net sales excluding surcharge revenue) in the recent second quarter, as compared with $50.9 million or 14.1 percent of net sales (19.7 percent of net sales excluding surcharge revenue) in the same quarter a year ago. The decrease in operating income reflects the continued improvements in our product mix more than offset by increased manufacturing costs related to lower production levels.

Latrobe Segment

Net sales for the quarter ended December 31, 2012 for the Latrobe segment were $113.9 million, as compared with $9.5 million in the same quarter a year ago. Excluding surcharge revenue, net sales were $101.4 million in the current quarter. The sales in the Latrobe segment are concentrated in the aerospace and defense, industrial and consumer, and energy end-use markets as well as distribution.

Operating income for the Latrobe segment was $13.2 million or 11.6 percent of net sales (13.0 percent of net sales excluding surcharge revenue) in the quarter ended December 31, 2012. Latrobe continues to perform ahead of the deal economics with strong progress on the operational synergies.

Performance Engineered Products Segment

Net sales for the quarter ended December 31, 2012 for the PEP segment increased 13 percent to $92.9 million, as compared with $82.3 million in the same quarter a year ago. Excluding surcharge revenue, net sales increased 13 percent from a year ago. The increase in net sales is due the

contribution of the SSS business that was acquired as part of the Latrobe acquisition.

Operating income for the PEP segment was $8.9 million or 9.6 percent of net sales (9.7 percent of net sales excluding surcharge revenue) in the recent second quarter, compared with $10.4 million or 12.6 percent of net sales (12.8 percent of net sales excluding surcharge revenue) in the same quarter a year ago. Our Powder revenue and earnings are down due to continued weakness in Europe and other lower value parts of the portfolio. Revenue and earnings also decreased in the Dynamet Titanium business with aero fasteners continuing to grow, but more than offset by very weak near-term shipments in the Distributor-channel, particularly Medical products. The revenue and earnings in the Amega West energy business grew compared to the same quarter a year ago. The Amega West business continues to perform well in a market where overall rig counts are off by about 5 to 10 percent.

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Results of Operations Six Months Ended December 31, 2012 vs. Six Months Ended December 31, 2011

Net Sales

Net sales for the six months ended December 31, 2012 were $1,078.5 million, which was a 28 percent increase over the same period a year ago. Excluding surcharge revenue, sales increased 35 percent. Overall, pounds shipped were 32 percent higher than the same period a year ago. Excluding the Latrobe impact, net sales excluding surcharge revenues for the six months ended December 31, 2012 increased 7 percent on 3 percent higher volume. The results reflect our continued deliberate actions to grow premium products and strengthen overall product mix. Net sales excluding surcharge revenues in our SAO segment increased 12 percent on 4 percent higher volume, while net sales excluding surcharge revenues in our PEP segment increased 15 percent on 4 percent lower shipment volume.

Geographically, sales outside the United States increased 15 percent from the same period a year ago to $321.9 million. International growth was led by 35 percent growth in Asia-Pacific sales, 28 percent increase in Canada sales and 8 percent increase in Europe. Growth in Asia-Pacific was led by sales into aerospace and energy end markets. Growth in Canada and Europe was led by increased demand for materials used for aerospace and oil and gas applications. Total international sales in the quarter represented 30 percent of total net sales, compared with 33 percent in the prior year.

Sales by End-Use Markets

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

	Six Months Ended December 31,		$ Increase	% Increase
($ in millions)	2012	2011	(Decrease)	(Decrease)
Aerospace and defense	$ 502.9	$ 366.9	$ 136.0	37 %
Industrial and consumer	225.6	210.5	15.1	7
Energy	156.8	120.5	36.3	30
Transportation	66.2	62.8	3.4	5
Medical	57.1	64.9	(7.8)	(12)
Distribution	69.9	19.6	50.3	257
Total net sales	$ 1,078.5	$ 845.2	$ 233.3	28 %

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

Six Months Ended December 31,	$ Increase	% Increase

($ in millions)	2012	2011	(Decrease)	(Decrease)
Aerospace and defense	$ 389.9	$ 271.0	$ 118.9	44 %
Industrial and consumer	172.0	149.3	22.7	15
Energy	138.4	102.1	36.3	36
Transportation	50.3	44.5	5.8	13
Medical	52.0	57.4	(5.4)	(9)
Distribution	68.9	19.6	49.3	252
Total net sales excluding surcharge revenues	$ 871.5	$ 643.9	$ 227.6	35 %

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Sales to the aerospace and defense market increased 37 percent from the same period a year ago to $502.9 million. Excluding surcharge revenue, sales increased 44 percent from the same period a year ago on 93 percent higher shipment volume (or up 14 percent on 10 percent higher shipment volume excluding Latrobe). Aerospace growth continues to reflect strong demand for premium and ultra-premium products. Increased demand for super-alloy engine materials is being driven by the higher build rate and initial pull through for new engine programs. Demand for nickel and stainless fastener material has shown significant growth over the last year. Sales of our Custom-series stainless alloys and the addition of Latrobe s structural, bearing and other complementary products also contributed to the year-to-year growth rate.

Industrial and consumer market sales increased 7 percent from the same period a year ago to $225.6 million. Excluding surcharge revenue, sales increased 15 percent on an 11 percent increase in shipment volume (or up 3 percent on flat shipment volume excluding Latrobe). Although this market is more sensitive to economic uncertainty, our strategy has been to focus on specialized, premium and ultra-premium niche applications with strategically important customers. This strategy offsets softness in more commodity type products and distributor channel sales.

Sales to the energy market of $156.8 million reflected a 30 percent increase from the same period a year ago. Excluding surcharge revenue, sales increased 36 percent from a year ago on higher shipment volume of 22 percent (or up 3 percent on 10 percent higher volume excluding impact of the Latrobe businesses). While North American rig activity has been slow, demand for Carpenter materials used in oil and gas drilling increased as Amega West remained strong by expanding its footprint and gaining share. Market trends supporting increased use of industrial gas turbines are pointing toward anticipated strong second half growth in that sector after temporary slowness in this area.

Sales to the medical market decreased 12 percent from a year ago to $57.1 million. Excluding surcharge revenue, sales decreased 9 percent on lower shipment volume of 17 percent (or down 10 percent on 17 percent lower volume excluding the impact of Latrobe). The results reflect revenue decrease attributable to continued inventory destocking within the titanium distribution supply chain which is being influenced by falling titanium prices. In addition, uncertainty and economic sentiment is affecting short term demand. Longer term, Carpenter remains well positioned to support the anticipated positive demand trend for medical market materials.

Transportation market sales increased 5 percent from the same period a year ago to $66.2 million. Excluding surcharge revenue, sales increased 13 percent on 1 percent higher shipment volume (or up 10 percent on flat volume without Latrobe) from the same period a year ago. Revenue growth in excess of volume growth reflects our continued focus on high-end specialty automotive applications required to meet increasing fuel efficiency standards. Demand continues to grow for materials required in turbo-charger, gaskets and fuel system applications. In addition, commodity stainless steel materials are being replaced by premium and ultra-premium nickel based alloys for engine valve applications to support higher operating temperatures. The recent announcement with United States Steel to develop additional high volume transportation applications from Carpenter s proprietary high-strength, low weight alloy, Temper ToughTM, further demonstrates the strong growth opportunities within this end-market.

Distribution sales increased 257 percent from the same period a year ago to $69.9 million. Excluding surcharge revenue, sales increased 252 percent from a year ago. The increase is primarily attributable to the addition of the Latrobe distribution business, which globally sources and distributes corrosion resistant steels, tool steels and powder metals for a wide range of industries.

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Sales by Product Class

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

($ in millions)	Six Months Ended December 31, 2012	2011	$ Increase (Decrease)	% Increase (Decrease)
Special alloys	$ 461.8	$ 401.7	$ 60.1	15%
Stainless steels	305.9	291.0	14.9	5
Titanium products	76.3	75.4	0.9	1
Powder metals	29.3	31.2	(1.9)	(6)
Alloy and Tool steel	122.3	12.0	110.3	919
Distribution and other	82.9	33.9	49.0	145
Total net sales	$ 1,078.5	$ 845.2	$ 233.3	28%

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

($ in millions)	Six Months Ended December 31, 2012	2011	$ Increase (Decrease)	% Increase (Decrease)
Special alloys	$ 326.4	$ 264.3	$ 62.1	24%
Stainless steels	260.2	232.2	28.0	12
Titanium products	76.2	75.4	0.8	1
Powder metals	27.0	29.0	(2.0)	(7)
Alloy and Tool steel	100.2	9.3	90.9	977
Distribution and other	81.5	33.7	47.8	142
Total net sales excluding surcharge revenues	$ 871.5	$ 643.9	$ 227.6	35%

Sales of special alloys products increased 15 percent from a year ago to $461.8 million. Excluding surcharge revenues, sales increased 24 percent on a 13 percent increase in shipment volume (or up 17 percent on 8 percent higher volume without Latrobe). The results for the period reflect overall sales increases in our higher value alloys used in the aerospace and energy markets.

Sales of stainless steels increased 5 percent from a year ago to $305.9 million. Excluding surcharge revenues, sales increased 12 percent on 8 percent higher shipment volume (or flat on 1 percent higher volume without Latrobe).

Sales of alloy and tool steel increased 919 percent from a year ago to $122.3 million. Excluding surcharge revenues, sales increased 977 percent on a similar significant increase in shipment volumes. The results principally reflect the addition of the Latrobe business.

Sales of titanium products increased 1 percent from a year ago to $76.3 million on 5 percent lower volume. The results reflect some weakening demand in the titanium distributor channel, including the medical end-use market.

Sales of powder metals decreased 6 percent from a year ago to $29.3 million on an 11 percent decrease in shipment volume. The results reflect the impacts of continued weakness in Europe and other lower value parts of the portfolio.

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Gross Profit

Our gross profit in the six months ended December 31, 2012 increased 28 percent to $212.0 million, or 19.7 percent of net sales (24.3 percent of net sales excluding surcharges), as compared with $165.5 million, or 19.6 percent of net sales (25.7 percent of net sales excluding surcharges), in the same period a year ago. The higher gross profit in the six months ended December 31, 2012 was driven by the addition of Latrobe and increased volume offset by the impacts of higher manufacturing costs due to lower production levels.

Our surcharge mechanism is structured to recover increases in raw material costs, although in certain cases with a lag effect as discussed above. 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 the comparative six-month periods. See the section Non-GAAP Financial Measures below for further discussion of these financial measures.

	Six Months Ended December 31,	
($ in millions)	2012	2011
Net sales	$ 1,078.5	$ 845.2
Less: surcharge revenue	207.0	201.3
Net sales excluding surcharges	$ 871.5	$ 643.9
Gross profit	$ 212.0	$ 165.5
Gross margin	19.7 %	19.6 %
Gross margin excluding dilutive effect of surcharges	24.3 %	25.7 %

Selling, General and Administrative Expenses

Selling, general and administrative expenses of $97.7 million were 9.1 percent of net sales (11.2 percent of net sales excluding surcharges) as compared with $73.8 million or 8.7 percent of net sales (11.5 percent of net sales excluding surcharges) in the same period a year ago. The increase principally reflects the inclusion of selling, general and administrative costs associated with Latrobe overhead costs as well as increases in net pension expense as compared with the prior year period.

Acquisition-Related Costs

In connection with the Latrobe Acquisition, we incurred approximately $3.8 million of acquisition-related costs during the six months ended December 31, 2011. These costs represent direct incremental legal, accounting and investment banking fees incurred in connection with the Latrobe Acquisition.

Operating Income

Our operating income in the recent six months ended December 31, 2012 increased to $114.3 million as compared with $87.9 million in the same period a year ago. Excluding surcharge revenue and pension earnings, interest and deferrals and acquisition-related costs, operating margin was 15.0 percent for the six months ended December 31, 2012 as compared with 15.4 percent a year ago.

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Operating income has been significantly impacted by our pension earnings, interest and deferrals (pension EID) expense, which may be volatile based on conditions in the financial markets as well as the total acquisition costs related to the Latrobe Acquisition. 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 total acquisition costs from operating income. We present and discuss these financial measures because management believes removing the impact of volatile and non-recurring 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)	Six Months Ended December 31, 2012	2011
Net sales	$ 1,078.5	$ 845.2
Less: surcharge revenue	207.0	201.3
Net sales excluding surcharges	$ 871.5	$ 643.9
Operating income	$ 114.3	$ 87.9
Add back: pension EID expense	16.0	7.2
Operating income excluding pension EID expense	$ 130.3	$ 95.1
Total acquisition related costs	-	3.8
Operating income excluding pension EID expense and total acquisition related costs	$ 130.3	$ 98.9
Operating margin excluding surcharges and pension EID expense	15.0 %	14.8 %
Operating margin excluding pension EID expense and total acquisition related costs	15.0 %	15.4 %

In addition to the impacts of the surcharge mechanism and pension EID expense, fluctuations in raw material prices (combined with fluctuations in inventory levels) and the lag effect of the surcharge mechanism have impacted our operating income from quarter to quarter. We estimate that the effect of such combined fluctuations positively impacted operating margin, excluding surcharges, by 20 basis points during the recent period and had no impact on our operating margin, excluding surcharges, during the prior year s period.

Interest Expense

Interest expense for the six months ended December 31, 2012 was $9.6 million compared with $12.7 million in the year-ago period where the debt level was temporarily higher due to the timing of debt refinancing and increase in the amount of interest capitalized associated with ongoing construction projects during fiscal year 2013.

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Other Income (Expense), Net

Other income was $3.9 million for the six months ended compared with other expense of $0.4 million in the same period a year ago, due to the $1.9 million gain recorded in connection with the dissolution of the Sandvik strategic partnership as well as the increased gains in investments associated supporting certain employee benefit plans during the six months ended December 31, 2012 as compared to the prior year period.

Income Taxes

Income taxes in the six months ended December 31, 2012 were $35.9 million, or 33.1 percent of pre-tax income versus $27.2 million, or 36.4 percent of pre-tax income for the six months ended December 31, 2011. The prior year period was negatively impacted by a state tax legislative change and non-deductible acquisition-related costs incurred in connection with the Latrobe Acquisition.

On January 2, 2013, the American Taxpayer Relief Act of 2012 was enacted which retroactively extended the research and development tax credit as well as bonus depreciation. As a result, we expect to record a tax benefit of approximately $2.0 million in the third quarter of fiscal year 2013.

Business Segment Results

We have three reportable business segments: Specialty Alloys Operations (SAO), Latrobe and Performance Engineered Products (PEP).

The following table includes comparative information for volumes by business segment:

(Pounds sold, in thousands)	Six Months Ended December 31, 2012	2011	Increase (Decrease)	% Increase (Decrease)
Specialty Alloys Operations	94,784	91,288	3,496	4%
Latrobe	30,570	-	30,570	N/A
Performance Engineered Products	6,612	6,872	(260)	(4)
Intersegment	(5,370)	(2,094)	(3,276)	156
Consolidated pounds sold	126,596	96,066	30,530	32%

The following table includes comparative information for net sales by business segment:

($ in millions)	Six Months Ended December 31, 2012	2011	$ Increase (Decrease)	% Increase
Specialty Alloys Operations	$ 730.0	$ 696.3	$ 33.7	5%
Latrobe	235.8	19.6	216.2	1,103
Performance Engineered Products	191.6	166.5	25.1	15
Intersegment	(78.9)	(37.2)	(41.7)	112
Total net sales	$ 1,078.5	$ 845.2	$ 233.3	28%

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The following table includes comparative information for our net sales by business segment, but excluding surcharge revenues:

($ in millions)	Six Months Ended December 31, 2012	2011	$ Increase (Decrease)	% Increase
Specialty Alloys Operations	$ 550.0	$ 492.6	$ 57.4	12%
Latrobe	207.6	19.6	188.0	959
Performance Engineered Products	189.3	164.2	25.1	15
Intersegment	(75.4)	(32.5)	(42.9)	132
Total net sales excluding surcharge revenues	$ 871.5	$ 643.9	$ 227.6	35%

Specialty Alloys Operations Segment

Net sales for the six months ended December 31, 2012 for the SAO segment increased 5 percent to $730.0 million, as compared with $696.3 million in the same period a year ago. Excluding surcharge revenue, net sales increased 12 percent on 4 percent higher shipment volume from a year ago. Most of the growth in the current period was attributable to our premium and ultra-premium products.

Operating income for the SAO segment was $104.1 million or 14.3 percent of net sales (18.9 percent of net sales excluding surcharge revenue) in the recent six month period, as compared with $97.2 million or 14.0 percent of net sales (19.7 percent of net sales excluding surcharge revenue) in the same period a year ago. The increase in operating income reflects the impacts of a strong product mix and improvements to our operating cost performance.

Latrobe Segment

Net sales for the six months ended December 31, 2012 for the Latrobe segment were $235.8 million, as compared with $19.6 million in the same period a year ago. Excluding surcharge revenue, net sales were $207.6 million in the current six month period. The sales in the Latrobe segment are concentrated in the aerospace and defense, industrial and consumer, and energy end-use markets as well as distribution.

Operating income for the Latrobe segment was $28.9 million or 12.3 percent of net sales (13.9 percent of net sales excluding surcharge revenue) in the six month period December 31, 2012. Latrobe continues to perform ahead of the deal economics with strong progress on the operational synergies.

Performance Engineered Products Segment

Net sales for the six months ended December 31, 2012 for the PEP segment increased 15 percent to $191.6 million, as compared with $166.5 million in the same period a year ago. Excluding surcharge revenue, net sales increased 15 percent from a year ago. The increase in net sales is

principally due the contribution of the SSS business that was acquired as part of the Latrobe acquisition.

Operating income for the PEP segment was $20.4 million or 10.6 percent of net sales (10.8 percent of net sales excluding surcharge revenue) in the recent six months ended December 31, 2012, compared with $22.2 million or 13.3 percent of net sales (13.5 percent of net sales excluding surcharge revenue) in the same period a year ago. The results largely reflect the inclusion of SSS more than offset by some weakening of demand in the titanium distributor channel including medical, continued weakness in Europe and other lower value parts of the portfolio.

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Liquidity and Financial Condition

During the six months ended December 31, 2012, our free cash flow, which we define under Non-GAAP Financial Measures below, was negative $154.2 million as compared to negative $105.5 million for the same period a year ago. The negative free cash flow in the six months ended December 31, 2012 reflects the strong net income offset by higher capital spending, largely related to the Athens facility construction, pension contributions and increased working capital levels. Pension contributions were $57.9 million for the six months ended December 31, 2012 as compared to $15.4 million in the same period a year ago. In addition, capital expenditures for plant, equipment and software were $136.9 million for the six months ended December 31, 2012, as compared with $60.3 million for the same period a year ago. The increase in capital spending principally reflects the spending associated with our premium products greenfield expansion project in Alabama. We expect to finish the fiscal year with about $350.0 million of capital expenditures.

Dividends during the six months ended December 31, 2012 were $19.1 million as compared to $16.2 million in the six months ended December 31, 2011 and were paid at the same quarterly rate of $0.18 per share of common stock in both periods.

We have demonstrated 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 of approximately $63.0 million as of December 31, 2012, together with cash generated from operations and available borrowing capacity of approximately $343.0 million under our credit facilities will be sufficient to fund our cash needs over the foreseeable future. From time to time, during the quarter ended December 31, 2012 we have borrowed under our Credit Agreement and subsequently repaid any outstanding borrowings prior to December 31, 2012. The weighted average daily borrowing under the Credit Agreement during the quarter ended December 31, 2012 was approximately $2.6 million with daily outstanding borrowing ranging from $0.0 million to $24.3 million during the period.

We continue to look at options to proactively deal with pension plan funding impacts as well as the earnings impacts associated with our pension plans. During the six months ended December 31, 2012, we made $57.9 million in cash contributions to our pension plans and expect to make approximately $24.0 million of cash contributions to the pension plans for the remainder of fiscal year 2013. Over the next five years, current estimates indicate that we could be required to contribute approximately $400.0 million to our pension plans in minimum required contributions, subject to market returns and interest rate assumptions. If market conditions allow, we currently anticipate a debt refinancing during the second half of fiscal year 2013 that could combine a discretionary pension cash contribution up to approximately $165.0 million and the $101.0 million current portion of long-term debt that matures in May 2013 and take advantage of current favorable credit market conditions.

We generally target minimum liquidity, consisting of cash and cash equivalents added to available borrowing capacity under our credit agreement, of $150.0 million. Our syndicated revolving credit agreement (Credit Agreement) contains a revolving credit commitment of $350.0 million and expires in June 2016. As of December 31, 2012, we had $7.2 million of issued letters of credit under the Credit Agreement. The balance of the Credit Agreement ($342.8 million) remains available to us. As of December 31, 2012, we had total liquidity of approximately $406 million, of which we expect to fund the maturity of $101.0 million of long-term debt in May 2013, if necessary. We also evaluate liquidity needs for alternative uses including funding external growth opportunities and pension plan contributions as well as funding consistent dividend payments to stockholders.

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As of December 31, 2012, we had cash and cash equivalents of approximately $32 million held at various foreign subsidiaries. Our global cash deployment considers, among other things, the geographic location of our subsidiaries cash balances, the locations of our anticipated liquidity needs, and the cost to access international cash balances, as necessary. The repatriation of cash from certain foreign subsidiaries could have adverse tax consequences as we may be required to pay and record U.S. income taxes and foreign withholding taxes in various tax jurisdictions on these funds to the extent they were previously considered permanently reinvested. We are currently evaluating additional opportunities to repatriate cash from foreign jurisdictions. Our current plans consider repatriating cash only at levels that would result in minimal or no net adverse tax consequences in the near term. From time to time, we may make short-term intercompany borrowings against our cash held outside the United States in order to reduce or eliminate any required borrowing under our Credit Agreement. As of December 31, 2012, our cash and cash equivalents included approximately $48 million of cash in our U.S. accounts that have been borrowed from cash held at various foreign subsidiaries. In January 2013, $48.0 million of our U.S. cash was used to repay the loans from our foreign subsidiaries.

We are subject to certain financial and restrictive covenants under the Credit Agreement, which, among other things, require the maintenance of a minimum interest coverage ratio (3.5 to 1.0 as of December 31, 2012). The interest coverage ratio is defined in the Credit Agreement as, for any period, the ratio of consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) to consolidated interest expense for such period. The Credit Agreement also requires the Company to maintain a debt to capital ratio of less than 55%. The debt to capital ratio is defined in the Credit Agreement as the ratio of consolidated indebtedness, defined as total long-term debt added to outstanding capital lease obligations and outstanding letters of credit, to consolidated capitalization, defined as consolidated indebtedness added to total equity. As of December 31, 2012, the Company was in compliance with all of the covenants of the Credit Agreement.

The following table shows our actual ratio performance with respect to the financial covenants, as of December 31, 2012:

	Covenant Requirement	Actual Ratio
Consolidated interest coverage	3.5 to 1.0 (minimum)	19.66 to 1.0
Consolidated debt to capital	55% (maximum)	26%

We continue to believe that we will maintain compliance with the financial and restrictive covenants in future periods. To the extent that we do not comply with the covenants under the Credit Agreement, this could reduce our liquidity and flexibility due to potential restrictions on borrowings available to us unless we are able to obtain waivers or modification of the covenants.

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Non-GAAP Financial Measures

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

Net Pension Expense per Diluted Share

($ in millions, except per share data)	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011	Six Months Ended December 31, 2012	Six Months Ended December 31, 2011
Pension plans expense	$ 14.8	$ 9.3	$ 29.6	$ 18.8
Other postretirement benefit plans expense	2.3	0.5	4.7	0.9
	17.1	9.8	34.3	19.7
Income tax benefit	(6.0)	(3.8)	(12.0)	(7.5)
Net pension expense	$ 11.1	$ 6.0	$ 22.3	$ 12.2
Weighted average diluted common shares	53.5	45.1	53.4	45.1
Net pension expense per diluted share	$ 0.21	$ 0.13	$ 0.42	$ 0.27

Management believes that net pension expense per diluted share is helpful in analyzing the operational performance of the Company from period to period.

Net Sales and Gross Margin Excluding Surcharge Revenues

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 Total Acquisition Related 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 total acquisition-related 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 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 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 report, to its most directly comparable U.S. GAAP financial measures:

	Six Months Ended December 31,	
($ in millions)	2012	2011
Net cash provided from (used for) operating activities	$ 2.2	$ (27.8)
Purchases of property, equipment, and software	(136.9)	(60.3)
Proceeds from disposals of property and equipment	0.1	0.2
Purchase of subsidiary shares from noncontrolling interest	(8.4)	-
Proceeds from sale of equity method investment	7.9	-
Acquisition of business, net of cash acquired	-	(1.4)
Dividends paid	(19.1)	(16.2)
Free cash flow	$ (154.2)	$ (105.5)

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

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Impacts of Latrobe Acquisition

This report includes discussions of net income attributable to Carpenter as adjusted to exclude the impact of Latrobe operating results and total acquisition-related 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 that removing the impacts of the adjusted Latrobe operating results and the total acquisition-related costs is useful when comparing results of operations from period to period. The following provides a reconciliation of the measures used in the Impacts of Latrobe Acquisition discussion and reconciliation to its most directly comparable U.S. GAAP financial measures:

	Three Months Ended December 31,		Six Months Ended December 31,	
(in millions, except per share data)	2012	2011	2012	2011
Net income attributable to Carpenter before adjusted	$ 13.2	$ 0.7	$ 28.9	$ 1.2
Specialty Steel Supply operating income included in Performance Engineered Products segment results	0.8	-	2.7	-
Carpenter distribution business operating income in Mexico included in Latrobe segment results	(0.2)	(0.7)	(0.9)	(1.2)
Latrobe pension EID included in pension EID expense	(0.6)	-	(1.2)	-
Adjusted Latrobe operating results before income taxes	13.2	-	29.5	-
Income taxes	(4.6)	-	(10.3)	-
Adjusted Latrobe operating results	$ 8.6	$ -	$ 19.2	$ -
Adjusted Latrobe operating results per diluted share	$ 0.16	$ -	$ 0.36	$ -
Dilutive impact of shares issued in connection with the Latrobe acquisition*	(0.11)	-	(0.24)	-
Net accretion from Latrobe s operating results**	$ 0.05	$ -	0.12	$ -
Weighted average diluted shares outstanding	53.5	45.1	53.4	45.1

* In connection with the Latrobe Acquisition, Carpenter issued shares of common stock to the former owners which resulted in an additional 8.1 million weighted average shares during the three months and six months ended December 31, 2012.

** The net accretion from Latrobe s operating results excludes the impacts of synergies realized by our existing SAO business as result of the Latrobe Acquisition.

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Impacts of Facility Start-up, Manufacturing Footprint Optimization and Inventory Reduction Initiative Costs

This report includes discussion of the operating margin and earnings per share impacts of costs associated with Facility Start-up, Manufacturing Footprint Optimization and Inventory Reduction Initiative. Management believes that removing the impacts of costs associated with (i) the start-up of our Athens, Alabama facility, (ii) manufacturing footprint optimization associated with evaluating and executing opportunities primarily as a result of the Latrobe acquisition to optimize manufacturing efficiencies, and (iii) an inventory reduction initiative aimed at identifying opportunities to reduce inventory levels and improve inventory turnover across the mill operations are helpful in analyzing the operating performance of the Company, as these costs are expected to be nonrecurring in nature and may result in significant fluctuations in operating results from period to period during fiscal years 2013 and 2014. The following provides a reconciliation of the measures used in the Impacts of Facility Start-up, Manufacturing Footprint Optimization and Inventory Reduction Initiative Costs discussion and reconciliation to its most directly comparable U.S. GAAP financial measures:

IMPACTS OF FACILITY START-UP, MANUFACTURING FOOTPRINT OPTIMIZATION AND INVENTORY REDUCTION INITIATIVE COSTS	Three Months Ended December 31,		Six Months Ended December 31,	
	2012	2011	2012	2011
Facility start-up costs	$ 1.3	$ -	$ 2.2	$ -
Manufacturing footprint optimization costs	0.2	-	0.3	-
Inventory reduction initiative costs	1.0	-	1.6	-
Operating income impact	$ 2.5	$ -	$ 4.1	$ -
Consolidated net sales excluding surcharges	$ 430.7	$ 330.3	$ 871.5	$ 643.9
Impact of facility start-up, manufacturing footprint optimization and inventory reduction initiative costs on operating margin excluding surcharges	0.6%	0.0%	0.5%	0.0%
Operating income impact	$ 2.5	$ -	$ 4.1	$ -
Income tax benefit	(0.9)	-	(1.4)	-
Net income impact	$ 1.6	$ -	$ 2.7	$ -
Impact per diluted share	$ 0.03	$ -	$ 0.05	$ -
Weighted average shares outstanding	53.5	45.1	53.4	45.1

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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 the three months and six months ended December 31, 2012, there were no changes to the environmental liability. 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 December 31, 2012 and June 30, 2012, were $4.9 million and $4.9 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.

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 and many other companies engaged to dispose of certain wastes during the 1970 s. The plaintiff group was individually named as PRP s for the Boarhead site in the Environmental Protection Agency s Record of Decision in November 1998. Their June of 2002 lawsuit against various defendants, including Carpenter, sought contributions for a portion of costs incurred for various site cleanup activities as well as contributions to future cleanup efforts. The suit went to trial in June 2008. Prior to trial, all of the named co-defendants, except for Carpenter, reached an out of court settlement with the plaintiffs. We denied the claims made by the plaintiff group. On August 18, 2008, the Court awarded the plaintiffs judgment against us for 80 percent of the plaintiffs past costs of remediating the site, including prejudgment interest from June 18, 2002 to January 1, 2008, and held us liable for 80 percent of future costs of the cleanup activities at the site. We appealed the Court s decision and oral arguments took place before the United States Court of Appeals for the Third Circuit on December 17, 2009. On April 12, 2010, the Court of Appeals for the Third Circuit vacated the previous judgment by the District Court and remanded the case for further proceedings. On July 19, 2011, we entered into a settlement agreement providing for a dismissal of the lawsuit against us and a complete release in our favor by all parties to the litigation, in exchange for a payment by us of $21.8 million which we paid during in September 2011. We expect that no additional material liabilities will be incurred related to this matter.

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Export Regulations Violations

In fiscal year 2008, we became aware of potential violations of federal export regulations at a business unit that had been 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 December 31, 2012.

Other

We are defending various routine claims and legal actions that are incidental to our business, and that are common to our 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, from time to time, we have been named as a defendant in lawsuits alleging personal injury as a result of exposure to chemicals and substances in the workplace. 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.

Critical Accounting Policies and Estimates

Inventories

Inventories are stated at the lower of cost or market. The cost of inventories is primarily determined using the last in, first out (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. Because 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.

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Other Critical Accounting Policies and Estimates

A summary of other significant accounting policies is discussed in our 2012 Form 10-K Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, and in Note 1, Summary of Significant Accounting Policies, of the Notes to our Consolidated Financial Statements included in Part II, Item 8 thereto.

Forward-Looking Statements

This Quarterly Report on Form 10-Q 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 our 2012 Form 10-K. They include but are not limited to: (1) expectations with respect to the synergies, costs and other anticipated financial impacts of the Latrobe Acquisition could differ from actual synergies realized, costs incurred and financial impacts experienced as a result of the transaction; (2) the cyclical nature of the specialty materials business and certain end-use markets, including aerospace, industrial and consumer, medical, transportation and energy, or other influences on our business such as new competitors, the consolidation of competitors, customers, and suppliers or the transfer of manufacturing capacity from the United States to foreign countries; (3) our ability to achieve cost savings, productivity improvements or process changes; (4) the ability to recoup increases in the cost of energy, raw materials, freight or other factors; (5) domestic and foreign excess manufacturing capacity for certain metals; (6) fluctuations in currency exchange rates; (7) the degree of success of government trade actions; (8) the valuation of the assets and liabilities in our pension trusts and the accounting for pension plans; (9) possible labor disputes or work stoppages; (10) the potential that our customers may substitute alternate materials or adopt different manufacturing practices that replace or limit the suitability of our products; (11) the ability to successfully acquire and integrate acquisitions, including the Latrobe Acquisition; (12) the availability of credit facilities to and other financing sources to us, our customers or other members of the supply chain; (13) the ability to obtain energy or raw materials, especially from suppliers located in countries that may be subject to unstable political or economic conditions; (14) the fact that our manufacturing processes are dependent upon highly specialized equipment located primarily in one facility in Reading, Pennsylvania for which there may be limited alternatives if there are significant equipment failures or catastrophic event; and (15) the fact that our future success depends on the continued service and availability of key personnel, including members of our executive management team, management, metallurgists and other skilled personnel and the loss of these key personnel could affect our ability to perform until suitable replacements are found. Any of these factors could have an adverse and/or fluctuating effect on our results of operations. The forward-looking statements in this document are intended to be subject to the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. we undertake no obligation to update or revise any forward-looking statements.

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Item 3. 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 Note 12 to the consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, Financial Statements , 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. As of December 31, 2012, we had approximately $38.1 million of deferred losses related to commodity forward contracts to purchase certain raw materials. A large portion of this balance is related to commodity forward contracts to support firm price sales arrangements associated with many customers. However, approximately 70 percent of these deferred losses relate to commodity forward contracts entered into to support sales under firm price sales arrangements with one customer in addition to the credit already extended to this customer in connection with outstanding trade receivables. Our customers have historically performed under these arrangements, and we believe that they will honor such obligations in the future.

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. Our current allocation policy is to invest approximately 60 percent of plan assets in U.S. and international equities and 40 percent of plan assets in fixed income securities.

The status of our financial instruments as of December 31, 2012 is provided in Note 10 to the consolidated financial statements included in Part I, Item 1, Financial Statements of this Quarterly Report on Form 10-Q. Assuming either of the following occurred on December 31, 2012, (a) an instantaneous 10 percent decrease in the price of raw materials and energy for which we have commodity forward contracts, or (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 in either scenario.

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Item 4. Controls and Procedures

(a) Evaluation of Effectiveness of Disclosure Controls and Procedures

The Company s management, with the participation of the Company s Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company s disclosure controls and procedures as defined in Rules 13a 15(e) and 15d 15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act), as of December 31, 2012. Based on that evaluation, our management including the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures as of December 31, 2012 were effective in providing a reasonable level of assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods required under the Securities and Exchange Commission s rules and forms, including a reasonable level of assurance that information required to be disclosed by us in such reports is accumulated and communicated to the Company s management, including the Company s Chief Executive Officer and Vice President and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control over Financial Reporting

There have been no changes in the Company s internal control over financial reporting that occurred during the quarter ended December 31, 2012 that have materially affected, or are likely to materially affect, the Company s internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Pending legal proceedings involve ordinary routine litigation incidental to our business, which we do not believe would have a material adverse effect on our business regardless of their outcome.

Item 1A. Risk Factors

We have evaluated the risks associated with our business and operations and determined that those risk factors included in Part 1, Item 1A of our 2012 Annual Report on Form 10-K adequately disclose the material risks that we face.

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Item 6. Exhibits

Exhibit No.	Description
10.1	Employment Terms for Tony R. Thene dated December 10, 2012, by and between Carpenter Technology Corporation and Tony R. Thene is incorporated herein by reference to Exhibit 10.1 of Carpenter s Current Report on Form 8-K filed January 9, 2013.
31 (A)	Certification of Chief Executive Officer pursuant to Rule 13a 14(a) and Rule 15d 14(a) of the Securities Exchange Act, as amended. (filed herewith)
31 (B)	Certification of Vice President and Chief Accounting Officer pursuant to Rule 13a 14(a) and Rule 15d 14(a) of the Securities Exchange Act, as amended. (filed herewith)
32	Certification of Chief Executive Officer and Vice President and Chief Accounting Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (filed herewith)
101	The following financial information from this Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2012, formatted in XBRL (Extensible Business Reporting Language) and filed electronically herewith: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Income; (iii) the Consolidated Statements of Comprehensive Income (Loss); (iv) the Consolidated Statements of Cash Flows; (v) the Consolidated Statements of Changes in Equity; and (vi) the Notes to the Consolidated Financial Statements.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized officer.

Carpenter Technology Corporation
(Registrant)

Date: February 8, 2013

/s/ Thomas F. Cramsey
Thomas F. Cramsey
Vice President and
Chief Accounting Officer

(duly authorized officer
and principal accounting officer)

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Exhibit Index

Exhibit No.	Description
31 (A)	Certification of Chief Executive Officer pursuant to Rule 13a 14(a) and Rule 15d 14(a) of the Securities Exchange Act, as amended.
31 (B)	Certification of Chief Financial Officer pursuant to Rule 13a 14(a) and Rule 15d 14(a) of the Securities Exchange Act, as amended.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial information from this Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2012, formatted in XBRL (Extensible Business Reporting Language) and filed electronically herewith: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Income; (iii) the Consolidated Statements of Comprehensive Income (Loss); (iv) the Consolidated Statements of Cash Flows; (v) the Consolidated Statements of Changes in Equity; and (vi) the Notes to the Consolidated Financial Statements.