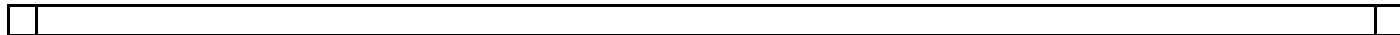


CARPENTER TECHNOLOGY CORP

Form 10-Q

November 02, 2012

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

or

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

For the transition period from _____ to _____

Commission File Number 1-5828

CARPENTER TECHNOLOGY CORPORATION

(Exact name of Registrant as specified in its Charter)

Delaware
(State or other jurisdiction of incorporation or organization)

23-0458500
(I.R.S. Employer Identification No.)

P.O. Box 14662

Reading, Pennsylvania
(Address of principal executive offices)

19610
(Zip Code)

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

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

Yes No

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

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

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

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

Yes No

The number of shares outstanding of the issuer's common stock as of October 26, 2012 was 52,634,883

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CARPENTER TECHNOLOGY CORPORATION

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Table of Contents**PART I****Item 1. Financial Statements****CARPENTER TECHNOLOGY CORPORATION****CONSOLIDATED BALANCE SHEETS****(Unaudited)**

(in millions, except share data)

	September 30, 2012	June 30, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 112.6	\$ 211.0
Accounts receivable, net	319.5	354.2
Inventories	722.2	642.0
Deferred income taxes	-	10.6
Other current assets	37.6	31.9
Total current assets	1,191.9	1,249.7
Property, plant and equipment, net	959.7	924.6
Goodwill	261.2	260.5
Other intangibles, net	106.5	109.9
Other assets	83.8	83.1
Total assets	\$ 2,603.1	\$ 2,627.8
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 235.8	\$ 236.1
Accrued liabilities	179.6	217.1
Deferred income taxes	2.5	-
Current portion of long-term debt	101.0	101.0
Total current liabilities	518.9	554.2
Long-term debt, net of current portion	305.6	305.9
Accrued pension liabilities	340.1	377.3
Accrued postretirement benefits	178.7	179.8
Deferred income taxes	32.2	31.4
Other liabilities	52.2	66.1
Total liabilities	1,427.7	1,514.7
Contingencies and commitments (see Note 9)		
STOCKHOLDERS EQUITY		
Common stock authorized 100,000,000 shares; issued 54,866,322 shares at September 30, 2012 and 54,809,735 shares at June 30, 2012; outstanding 52,632,511 shares at September 30, 2012 and 52,412,967 shares at June 30, 2012	274.3	274.0

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Capital in excess of par value	247.9	252.7
Reinvested earnings	1,139.2	1,109.6
Common stock in treasury (2,233,811 shares and 2,396,768 shares at September 30, 2012 and June 30, 2012, respectively), at cost	(111.7)	(120.0)
Accumulated other comprehensive loss	(384.1)	(412.5)
Total Carpenter stockholders' equity	1,165.6	1,103.8
Noncontrolling interest	9.8	9.3
Total equity	1,175.4	1,113.1
Total liabilities and equity	\$ 2,603.1	\$ 2,627.8

See accompanying notes to consolidated financial statements

Table of Contents**CARPENTER TECHNOLOGY CORPORATION****CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)**

(in millions, except per share data)

	Three Months Ended September 30,	
	2012	2011
NET SALES	\$ 544.9	\$ 414.1
Cost of sales	435.6	333.0
Gross profit	109.3	81.1
Selling, general and administrative expenses	47.7	35.7
Acquisition related costs	-	1.4
Operating income	61.6	44.0
Interest expense	(5.2)	(7.0)
Other income (expense), net	2.7	(0.7)
Income before income taxes	59.1	36.3
Income tax expense	19.6	12.6
Net income	39.5	23.7
Less: Net (income) loss attributable to noncontrolling interest	(0.3)	0.1
NET INCOME ATTRIBUTABLE TO CARPENTER	\$ 39.2	\$ 23.8
EARNINGS PER COMMON SHARE:		
Basic	\$ 0.74	\$ 0.53
Diluted	\$ 0.74	\$ 0.53
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	52.8	44.3
Diluted	53.4	45.1
Cash dividends per common share	\$ 0.18	\$ 0.18

See accompanying notes to consolidated financial statements

Table of Contents**CARPENTER TECHNOLOGY CORPORATION****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(Unaudited)**

(\$ in millions)

	Three Months Ended September 30,	
	2012	2011
Net income	\$ 39.5	\$ 23.7
Other comprehensive income (loss), net of tax Pension and post-retirement benefits, net of tax of \$(2.6) and \$(1.2), respectively	4.4	2.0
Net gain (loss) on derivative instruments, net of tax of \$(11.6) and \$19.9, respectively	19.7	(32.5)
Unrealized loss on marketable securities, net of tax of \$0.0 and \$0.1, respectively	-	(0.1)
Foreign currency translation	4.5	(11.4)
Other comprehensive income (loss)	28.6	(42.0)
Comprehensive income (loss)	68.1	(18.3)
Less: Comprehensive (income) loss attributable to the noncontrolling interest	(0.5)	0.7
Comprehensive income (loss) attributable to Carpenter	\$ 67.6	\$ (17.6)

See accompanying notes to consolidated financial statements

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CARPENTER TECHNOLOGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(\$ in millions)

	2012	Three Months Ended September 30,	2011
OPERATING ACTIVITIES			
Net income	\$	39.5	\$ 23.7
Adjustments to reconcile net income to net cash used for operating activities:			
Depreciation and amortization		25.5	18.5
Deferred income taxes		0.1	6.1
Net pension expense		17.2	9.9
Net loss on disposal of property and equipment		0.1	-
Changes in working capital and other:			
Accounts receivable		36.1	0.8
Inventories		(78.7)	(94.9)
Other current assets		(4.7)	(1.6)
Accounts payable		(0.5)	9.3
Accrued liabilities		(23.5)	(13.4)
Pension plan contributions		(48.1)	(11.6)
Boarhead Farms settlement		-	(21.8)
Other, net		0.3	1.0
Net cash used for operating activities		(36.7)	(74.0)
INVESTING ACTIVITIES			
Purchases of property, equipment and software		(56.4)	(27.3)
Proceeds from disposals of property and equipment		-	0.2
Proceeds from sales and maturities of marketable securities		-	30.4
Net cash (used for) provided from investing activities		(56.4)	3.3
FINANCING ACTIVITIES			
Payments on long-term debt		-	(100.0)
Dividends paid		(9.6)	(8.1)
Tax benefits on share-based compensation		3.0	0.6
Proceeds from stock options exercised		1.1	0.7
Net cash used for financing activities		(5.5)	(106.8)
Effect of exchange rate changes on cash and cash equivalents		0.2	(0.2)
DECREASE IN CASH AND CASH EQUIVALENTS		(98.4)	(177.7)
Cash and cash equivalents at beginning of period		211.0	492.5
Cash and cash equivalents at end of period	\$	112.6	\$ 314.8

See accompanying notes to consolidated financial statements

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CARPENTER TECHNOLOGY CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(Unaudited)

(\$ in millions, except per share data)

	Common Stock		Carpenter Stockholders' Equity		Accumulated Other Comprehensive Loss	Noncontrolling interest	Total Equity
	Par Value Of \$5	Capital in Excess of Par Value	Reinvested Earnings	Common Stock in Treasury			
Balances at June 30, 2012	\$ 274.0	\$ 252.7	\$ 1,109.6	\$ (120.0)	\$ (412.5)	\$ 9.3	\$ 1,113.1
Net income			39.2			0.3	39.5
Pension and post-retirement benefits, net of tax					4.4		4.4
Net gain on derivative instruments, net of tax					19.7		19.7
Foreign currency translation					4.3	0.2	4.5
Cash Dividends:							
Common @ \$0.18 per share			(9.6)				(9.6)
Share-based compensation plans		(8.6)		8.3			(0.3)
Stock options exercised	0.3	0.8					1.1
Treasury shares issued in connection with acquisition of business				-			-
Tax windfall on share-based compensation		3.0					3.0
Other							-
Balances at September 30, 2012	\$ 274.3	\$ 247.9	\$ 1,139.2	\$ (111.7)	\$ (384.1)	\$ 9.8	\$ 1,175.4
	Common Stock	Carpenter Stockholders' Equity		Accumulated Other Comprehensive Loss	Noncontrolling interest	Total Equity	
	Par Value Of \$5	Capital in Excess of Par Value	Reinvested Earnings				Common Stock in Treasury
Balances at June 30, 2011	\$ 273.7	\$ 235.4	\$ 1,022.1	\$ (532.2)	\$ (233.3)	\$ 10.3	\$ 776.0
Net income			23.8			(0.1)	23.7
Pension and post-retirement benefits, net of tax					2.0		2.0
Net loss on derivative instruments, net of tax					(32.5)		(32.5)
Unrealized loss on marketable securities, net of tax					(0.1)		(0.1)
Foreign currency translation					(10.8)	(0.6)	(11.4)
Cash Dividends:							
Common @ \$0.18 per share			(8.1)				(8.1)

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Share-based compensation plans		(0.9)		2.1				1.2
Stock options exercised	0.1	0.6						0.7
Tax windfall on share-based compensation		0.6						0.6
Balances at September 30, 2011	\$ 273.8	\$ 235.7	\$ 1,037.8	\$ (530.1)	\$ (274.7)	\$ 9.6	\$ 752.1	

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 ended September 30, 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 refer to 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.

Table of Contents**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 three months ended September 30, 2012, the Company increased the amounts allocated to Accounts payable and accrued liabilities by \$0.9 million, decreased amounts allocated to deferred income taxes by \$0.3 million, and increased amounts allocated to goodwill by \$0.6 million as a result of additional information that became available during the quarter ended September 30, 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 second quarter of fiscal year 2013 when all the necessary information is obtained to complete the analysis, which is principally associated with obtaining and analyzing certain income tax information for the acquired business.

(\$ in millions)		
Accounts receivable	\$	67.3
Inventory		241.2
Property, plant and equipment		172.4
Intangible assets		87.1
Other		10.6
Accounts Payable and accrued liabilities		(64.8)
Long-term debt		(153.7)
Pension and other postretirement liabilities		(100.8)
Deferred income taxes		(47.4)
Total identifiable net assets		211.9
Goodwill		215.1
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 ended September 30, 2012 includes approximately \$127.7 million of net sales related to the Latrobe business. The Company's operating income for the three months ended September 30, 2012 includes approximately \$16.3 million related to the operations of the acquired Latrobe business.

Table of Contents**CARPENTER TECHNOLOGY CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

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 ended September 30, 2011.

(\$ in millions)	Three Months Ended September 30,	
	2012	2011
Revenue	\$ 544.9	\$ 542.3
Earnings	\$ 39.2	\$ 23.5
Earnings per Common Share		
Basic	\$ 0.74	\$ 0.45
Diluted	\$ 0.74	\$ 0.44

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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CARPENTER TECHNOLOGY CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The calculations of basic and diluted earnings per common share for the three months ended September 30, 2012 and 2011 were as follows:

(in millions, except per share data)	Three Months Ended September 30,	
	2012	2011
Net income attributable to Carpenter	\$ 39.2	\$ 23.8
Less: earnings and dividends allocated to participating securities	(0.2)	(0.2)
Earnings available to Carpenter common stockholders	\$ 39.0	\$ 23.6
Weighted average number of common shares outstanding, basic	52.8	44.3
Effect of shares issuable under share based compensation plans	0.6	0.8
Weighted average number of common shares outstanding, diluted	53.4	45.1
Basic earnings per common share	\$ 0.74	\$ 0.53
Diluted earnings per common share	\$ 0.74	\$ 0.53

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:

(in millions)	Three Months Ended September 30,	
	2012	2011
Stock options	0.1	0.1

Table of Contents**CARPENTER TECHNOLOGY CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****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 September 30, 2012 and June 30, 2012. The following is a summary of marketable securities, all of which were classified as available-for-sale as of September 30, 2012 and June 30, 2012:

September 30, 2012 (\$ in millions)	Cost	Unrealized Losses	Estimated Fair Value
Non-current Municipal auction rate securities	\$ 6.0	\$ (1.0)	\$ 5.0
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 three months ended September 30, 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 September 30, 2012 and June 30, 2012:

(\$ in millions)	September 30, 2012	June 30, 2012
Raw materials and supplies	\$ 140.4	\$ 114.1
Work in process	352.7	312.4
Finished and purchased products	229.1	215.5
Total inventory	\$ 722.2	\$ 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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CARPENTER TECHNOLOGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

6. Accrued Liabilities

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

(\$ in millions)	September 30, 2012	June 30, 2012
Accrued pension liabilities	\$ 65.9	\$ 70.0
Accrued compensation	30.1	50.1
Accrued postretirement benefits	17.2	17.2
Derivative financial instruments	15.0	26.5
Other	51.4	53.3
Total accrued liabilities	\$ 179.6	\$ 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 ended September 30, 2012 and 2011 were as follows:

Three months ended September 30, (\$ in millions)	Pension Plans		Other Postretirement Plans	
	2012	2011	2012	2011
Service cost	\$ 8.1	\$ 5.6	\$ 1.1	\$ 0.7
Interest cost	13.3			