CARPENTER TECHNOLOGY CORP
Form 11-K
June 24, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

ANNUAL REPORT

Pursuant to Section 15(d) of the

Securities Exchange Act of 1934

For the fiscal year ended December 31, 2008

Commission File Number 1-5828

SAVINGS PLAN OF

CARPENTER TECHNOLOGY CORPORATION

(Full title of the plan)

CARPENTER TECHNOLOGY CORPORATION

(Name of issuer of the securities held pursuant to the plan)

P.O. Box 14662

Reading, Pennsylvania, 19610

(Address of principal executive office of the issuer)

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Financial Statements and Exhibits

(a) Financial Statements
The financial statements filed as part of this report are listed in the Index to Financial Statements included herein.

(b) Exhibits

23.1 Consent of Independent Registered Public Accounting Firm

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SAVINGS PLAN OF CARPENTER TECHNOLOGY CORPORATION

INDEX TO FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

To the Participants and Administrator of

the Savings Plan of Carpenter Technology Corporation

We have audited the accompanying statements of net assets available for benefits of the Savings Plan of Carpenter Technology Corporation (the Plan) as of December 31, 2008 and 2007, and the related statements of changes in net assets available for benefits for the years then ended. The Plan s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2008 and 2007, and the changes in net assets available for benefits for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedule of assets (held at end of year) as of December 31, 2008 is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplementary schedule is the responsibility of the Plan s management. The supplementary schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ Beard Miller Company LLP

Beard Miller Company LLP

Reading, Pennsylvania

June 23, 2009

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Savings Plan of Carpenter Technology Corporation

Statements of Net Assets Available for Benefits

December 31, 2008 and 2007

Dollars in thousands	**2008**	**2007**
Investments, at fair value	$ 335,392	$ 511,595
Receivables:		
Participant contributions		544
Employer contribution		182
Total receivables		726
Net assets reflecting investments at fair value	335,392	512,321
Adjustment from fair value to contract value for fully benefit-responsive investment contracts	3,727	278
Net assets available for benefits	$ 339,119	$ 512,599

See accompanying notes to financial statements.

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Savings Plan of Carpenter Technology Corporation

Statements of Changes in Net Assets Available for Benefits

Years Ended December 31, 2008 and 2007

Dollars in thousands	**2008**	**2007**
Investment (loss) income:		
Net (depreciation) appreciation in fair value of investments	$ (170,061)	$ 32,199
Interest and dividends	16,143	20,337
Total investment (loss) income	(153,918)	52,536
Contributions:		
Participant	13,313	12,617
Participant rollover	927	1,534
Employer	5,290	5,187
Total contributions	19,530	19,338
Transfers in (Note 1)		63,844
Transfers out (Note 1)	(10,545)	
Benefits paid to participants	(28,243)	(26,214)
Administrative expenses	(304)	(294)
Net (decrease) increase	(173,480)	109,210
Net assets available for benefits, beginning of year	512,599	403,389
Net assets available for benefits, end of year	$ 339,119	$ 512,599

See accompanying notes to financial statements.

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Savings Plan of Carpenter Technology Corporation

Notes to Financial Statements

December 31, 2008 and 2007

Note 1 - Description of Plan

The following description of the Savings Plan of Carpenter Technology Corporation (the Plan) provides general information. A more comprehensive description of the Plan s provisions can be found in the Plan document, which is available to participants upon request from Carpenter Technology Corporation, or any participating affiliate (collectively referred to as the Company).

General

The Plan is a profit-sharing and stock bonus plan which covers substantially all domestic non-union employees of the Company. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended.

Transfers In

As a result of the Company s decision to spin off and merge into the Plan a portion of the Employee Stock Ownership Plan of Carpenter Technology Corporation, a qualified plan, assets of certain participants in that plan, having a fair value of $63,844,000, were transferred into the Plan on March 19, 2007. Upon transfer, participants directed these assets to the investment fund(s) of their choice.

Transfers Out

Pursuant to the sales of certain subsidiaries of the Company, completed during 2008, the assets of certain participants, having a fair value of $10,545,000, were transferred out of the Plan in 2008.

Contributions

As defined in the Plan, each year, participants may contribute up to 35% of annual compensation on a pre-tax basis, and up to 35% of annual compensation on an after-tax basis. The combined contributions cannot exceed 35% of total compensation. Participants who are age 50 or older may make catch-up contributions , which are additional pre-tax contributions. Participants may also contribute amounts representing rollover distributions from other qualified pension plans. The Company contributes an amount equal to 3% of each employee s base pay. Contributions are subject to certain limitations.

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Savings Plan of Carpenter Technology Corporation

Notes to Financial Statements

December 31, 2008 and 2007

Note 1 - Description of Plan (Continued)

Participants Accounts

Several accounts, all participant directed, are maintained for each participant, as follows:

- Employee pre-tax salary deferral account - credited with participant pre-tax contributions
- Employee after-tax account - credited with participant after-tax contributions
- Company basic contribution account - credited with Company contributions
- Rollover contribution account - credited with participant rollover contributions
- Inter-plan transfer account - credited with transfers from other Company plans

Vesting

All contributions and Plan earnings thereon are fully vested and non-forfeitable.

Participant Loans

Loans are available for active employees of the Company. Participants are subject to certain restrictions on their number of loans, amount and terms of repayment. Interest is charged at the prime rate for commercial lenders at the time the loan is initiated, plus 1%. Loan repayments are required with each pay, and payment in full is required in the event of the participant s separation from service.

Benefits Paid to Participants

Benefits paid to participants include participant distributions and withdrawals. Participants are entitled to a lump sum distribution upon separation from service. Upon separation, a participant may elect to defer such distribution, provided the account balance is at least $5,000. The total distribution of benefits to all separated participants must occur by April 15 of the year following the year in which the participant attains age 70- $^{1}/2$. Hardship and non-hardship in-service withdrawals, and withdrawals after age 59- $^{1}/2$, are permitted subject to certain restrictions. Benefits paid to participants are in cash, except for those accounts which consist of investments in the Carpenter Technology Stock Fund, which can be made in shares of the Company s common stock or cash, at the participant s option.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Plan are prepared under the accrual method of accounting.

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Savings Plan of Carpenter Technology Corporation

Notes to Financial Statements

December 31, 2008 and 2007

Note 2 - Summary of Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

The Plan accounts for fully benefit-responsive investment contracts in accordance with Financial Accounting Standards Board (FASB) Staff Position AAG INV-1 and SOP 94-4-1, *Reporting of Fully Benefit-Responsive Investment Contracts held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans* (the FSP). The FSP defines the circumstances in which an investment contract is considered fully benefit-responsive and provides certain reporting and disclosure requirements for fully benefit-responsive investment contracts in defined contribution plans. As required by the FSP, investments in the accompanying Statements of Net Assets Available for Benefits include fully benefit-responsive investment contracts recognized at fair value. AICPA Statement of Position 94-4-1, *Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined Contribution Pension Plans*, as amended, requires fully benefit-responsive investment contracts to be reported at fair value in the Plan s Statements of Net Assets Available for Benefits with a corresponding adjustment to reflect these investments at contract value. The Statements of Changes in Net Assets Available for Benefits are prepared on a contract value basis.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein, and disclosure of contingent assets and liabilities. Significant estimates include the determination of the fair value of plan assets. Actual results could differ from those estimates.

Investment Valuation and Income Recognition

The Plan s investments in registered investment companies and employer securities are stated at fair value, by reference to the closing price reported on the active market on which the securities are traded. The common/collective trust fund is valued at unit value, which represents fair value of the underlying assets. The methodology of determining the fair value of the underlying assets, which are deemed fully benefit-responsive investment contracts, is dependent on the type of underlying asset and includes using unadjusted quoted prices in active markets for identical assets, market values provided by third party vendors, and matrix pricing provided by third party vendors. Participant loans are valued at their outstanding balance, which approximates fair value.

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Savings Plan of Carpenter Technology Corporation

Notes to Financial Statements

December 31, 2008 and 2007

Note 2 - Summary of Significant Accounting Policies (Continued)

Investment Valuation and Income Recognition (Continued)

Purchases and sales of investments are recorded on a trade-date basis. Gain or loss on sales of investments is based on average cost. Dividend income is recorded on the ex-dividend date. Income from other investments is recorded as earned on an accrual basis.

The net appreciation or depreciation in the fair value of investments in the Statements of Changes in Net Assets Available for Benefits consists of realized gains and losses and unrealized appreciation and depreciation on investments.

Payment of Benefits

Benefits are recorded when paid.

Administrative Expenses

Investment management fees, trustee fees, and transaction fees are paid by the Plan. A portion of these fees are netted against investment income. All other fees are paid by the Company.

New Accounting Pronouncements

In December 2008, the Financial Accounting Standards Board (FASB) issued FSP No. FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*. The FSP defers the effective date of FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, to be effective for fiscal years beginning after December 15, 2008 for certain nonpublic enterprises. The FSP requires a nonpublic enterprise that elects to defer the application of FIN 48 to explicitly disclose that fact and also requires the disclosure of the enterprise s accounting policy for evaluating uncertain tax positions for each set of financial statements where the deferral applies. The Plan is exempt from federal income taxes under the Internal Revenue Code.

The Plan has elected to defer the application of FIN 48. For the years ended December 31, 2008 and 2007, the Plan has accounted for uncertain tax positions, if any, in accordance with Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies.*

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Savings Plan of Carpenter Technology Corporation

Notes to Financial Statements

December 31, 2008 and 2007

Note 3 - Investments

The following table presents fair value of investments at December 31:

Dollars in thousands	**2008**	**2007**
Registered investment companies	$ 215,348	$ 328,618
Employer securities	31,997	84,530
Common/collective trust*	77,123	86,612
Participant loans	10,924	11,835
	$ 335,392	$ 511,595

* Contract value (in thousands) at December 2008 and 2007 is $80,850 and $86,890, respectively.

The following table presents investments that represent 5% or more of the Plan s net assets at December 31:

Dollars in thousands	**2008**	**2007**
Standish Mellon Stable Value Fund	$ 77,123	$ 86,612
Vanguard 500 Index Fund	42,634	72,667
Carpenter Technology Stock Fund	31,997	84,530
PIMCO Total Return Fund	31,346	26,585
American Funds EuroPacific Growth Fund	25,780	45,842
Vanguard Prime Money Market Fund	18,801	**
Dodge & Cox Stock Fund	**	33,256
Vanguard Mid-Cap Index Fund	**	31,747

** Fund does not represent 5% or more of the Plan s net assets at December 31

During 2008 and 2007, the Plan s investments (including realized gains and losses on investments bought and sold, as well as unrealized appreciation and depreciation on investments held during the year) appreciated (depreciated) in value, as follows:

Dollars in thousands	**2008**	**2007**
Registered investment companies	$ (106,702)	$ 2,674
Employer securities	(63,359)	29,525
	$ (170,061)	$ 32,199

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Savings Plan of Carpenter Technology Corporation

Notes to Financial Statements

December 31, 2008 and 2007

Note 4 - Standish Mellon Stable Value Fund

The Plan invests in the Standish Mellon Stable Value Fund (the Fund), which is a common/ collective trust fund. This fund is only available to participants of the Plan. The following charts show the underlying assets of the Fund at December 31, 2008 and 2007:

Dollars in thousands

2008	Major Credit Ratings	Investment at Fair Value	Wrapper Contract at Fair Value	Adjustment to Contract Value	Contract Value
Insurance Company General Accounts:					
Natixis Financial Products, Inc.	AA+/Aa1	$ 21,439	$ 41	$ 1,825	$ 23,305
Monumental Life Aegon	AA+/Aa1	20,479	47	1,710	22,236
		41,918	88	3,535	45,541
Other (Buy-Hold Synthetic Contracts):					
Rabobank	AAA/Aaa	5,053	6	(94)	4,965
Bank of America, N.A.	AAA/Aaa	14,133	9	235	14,377
JP Morgan Chase Bank	AAA/Aaa	11,944	7	51	12,002
		31,130	22	192	31,344
Interest Bearing Cash:					
Mellon Bank (STIF)	N/A	3,965			3,965
		3,965			3,965
Total Fund		$ 77,013	$ 110	$ 3,727	$ 80,850

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Savings Plan of Carpenter Technology Corporation

Notes to Financial Statements

December 31, 2008 and 2007

Note 4 - Standish Mellon Stable Value Fund (Continued)

Dollars in thousands

2007	**Major Credit Ratings**	**Investment at Fair Value**	**Wrapper Contract at Fair Value**	**Adjustment to Contract Value**	**Contract Value**
Insurance Company General Accounts:					
Canada Life (P46145)	AA/Aa3	$ 1,003	$	$	$ 1,003
Canada Life (P46151)	AA/Aa3	709			709
Natixis Financial Products, Inc.	AA+/Aa1	20,947	(11)	208	21,144
Monumental Life Aegon (MDA00572TR)	AA+/Aa1	18,735	(3)	142	18,874
Ohio National	AA/A1	853			853
Principal Life	AA/Aa2	868			868
Protective Life	AA/Aa3	870			870
		43,985	(14)	350	44,321
Other (Buy-Hold Synthetic Contracts):					
Rabobank	AAA/Aaa	7,357	1	(12)	7,346
Bank of America, N.A.	AAA/Aaa	12,683	(1)	29	12,711
JP Morgan Chase Bank (C03)	AAA/Aaa	1,135		(1)	1,134
JP Morgan Chase Bank (C02)	AAA/Aaa	395		(3)	392
Monumental Life Aegon (MDA00201TR3)	AAA/Aaa	186		(6)	180
UBS AG	AAA/Aaa	14,942	(1)	(79)	14,862