FINAL TRANSCRIPT

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PRESENTATION

Operator

Good morning and welcome to the Carpenter Technology's fourth-quarter 2009 earnings conference call. My name is Carol and I'll be your coordinator for today. At this time all participants will be in a listen-only mode. After the speakers' remarks, you will be invited to participate in a question-and-answer session towards the end of this call. At that time we will review the procedure for asking your questions.

I would now like to turn the call over to your host for today, Mr. Dave Christiansen, Vice President for Investor Relations and Business Development. Please proceed.

Dave Christiansen - *Carpenter Technology Corporation - VP IR & Business Development*

Thank you, Carol. Good morning, everyone. Welcome to Carpenter's earnings conference call for the fourth quarter and our fiscal year ended June 30, 2009. This call is also being broadcast over the Internet.

With me today are Anne Stevens, Chairman, President, and Chief Executive Officer; Doug Ralph, Senior Vice President and Chief Financial Officer; and Mike Shor, Executive Vice President for AMO and PAO operations; as well as other members of the management team.

Statements made by management during this conference call that are forward-looking statements are based on current expectations. Risk factors that could cause actual results to differ materially from these forward-looking statements can be found in Carpenter's most recent SEC filings including the Company's June 30, 2008, 10-K; it's September 31, 2008, December 301, 2008, and March 31, 2009, 10-Qs; and the exhibits attached to those filings.

I will now turn the call over to Anne.

Anne Stevens - *Carpenter Technology Corporation - Chairman, President, CEO*

Thank you, Dave. We said during our last earnings call that we expected market conditions to be challenging during our fourth quarter. They were. The results we reported this morning, including the operating loss, are consistent with the expectations we shared with you back then. Continued weak global manufacturing activity affected demand throughout our customer base, including our higher value products and energy and aerospace.

Yet despite these difficult economic conditions and a high level of capital investment, we achieved our financial goal of generating positive free cash flow for the year, which allows us to maintain a strong balance sheet. We are proud of this accomplishment. It demonstrates our ability to manage effectively through an economic downturn that is broader and more severe than the one we experienced in 2002/2003.

Specifically, the management actions we are taking to control costs through this downturn include reducing production hours by 30% to 40% and cutting labor rolls by over 300 positions; slashing SG&A spending; driving down inventories; and tightening control over credit and receivables. At the same time, management continues to take action to create a strong base so the Company can respond quickly to increased demand when the markets begin to recover.

In this respect, we have protected the core capabilities of our workforce; completed the capacity expansion of our premium melt program; closed our UK metal strip manufacturing facility; invested in new products and research and development; advanced new marketing programs that will grow our customer base; and focused resources on international growth opportunity. Our commitment to drive growth and operational excellence will yield results as volumes return.

Let me reiterate that Carpenter is a financially strong company with tremendous global growth opportunities. Our top financial goal for fiscal 2010 remains to generate positive free cash flow, which will maintain our strong balance sheet.

Now I'll review our end-use markets and then Doug will cover the financial highlights. To provide better insight into our performance, quarterly sales numbers and the year-over-year revenue comparisons exclude surcharges.

Aerospace sales were $98 million, a 31% decline over a year ago. Shipment volumes were down 32% from last year, reflecting the continued impact of a reduced airplane build schedule, lower overall passenger miles, and excess inventory in the jet engine market.

While the aerospace market has remained depressed, we have strengthened our market position with our customers. Since our last call, Aerospace fastener demand has weakened further. The impact was exaggerated by destocking in the fastener supply chain. We are encouraged by the recently updated Airline Monitor forecast. If this forecast were to materialize, we could see increased demand for jet engine materials in the middle of our fiscal 2010.

Carpenter's sales to the industrial market were $47 million, a decline of 50% compared with the fourth quarter last year on 53% less volume. Our performance was in line with industrial production.

We continue to experience volume losses in commodity-type products where pricing has become very competitive. We expect this market to bottom out in our first quarter and recover gradually throughout the rest of the fiscal year.

The medical market remains resilient, driven primarily by steady increases in the number of orthopedic implant procedures in North America, Japan, and the EU. On 3% higher volumes, our medical market sales in the fourth quarter were $23 million, a decrease of 26% compared with the fourth quarter of fiscal 2008.

The increase in medical shipments reflected higher demand for products for implant and medical instruments. The lower revenue in medical came from competitive market conditions and a leaner mix of products. Orthopedic implant procedures using our type of materials are projected to increase at a rate of 4% to 5% per year; and we expect to grow somewhat faster than the market, as we strengthen our position with key customers.

Carpenter's sales to the consumer market were $17 million, down 46% from last year on 38% lower volume. Housing starts declined 54% during the same quarter. The decline in consumer revenue reflected lower sales across all consumer segments primarily led by housing electronics. Supply chain inventories remain low and many customers and distributors conserve cash in light of tight credit markets.

We think the consumer market hit bottom near the end of the fourth quarter. House sales rose in June and are projected to increase gradually through fiscal 2010. On the other hand, consumer electronics remain difficult to project beyond the current quarter.

Our energy market sales were $17 million, down 68% on 77% lower volume. In oil and gas, the rig count declined 30% from its peak, and there continues to be significant excess inventory in the supply channels where we currently compete. Although we are expanding our customer base, we do not expect much improvement in our demand through fiscal 2010.

Power generation continues to stay weak, with no anticipated recovery through most of fiscal 2010, especially in the large-capacity units for which Carpenter is a key supplier.

Our sales to the automotive market were down 71% to $11 million, on 62% lower volume. This was in line with the overall decrease in market demand seen in the fourth quarter.

Sharply lower consumer spending and lower availability of automotive financing continued to suppress auto sales and production rates. We were very pleased with our accounts receivable collections during this challenging time for the automotive industry.

Market indicators predict an increase in the number of new cars being built, starting in our first quarter. Auto production levels are likely to plateau in subsequent quarters. We continue to evaluate opportunities for our materials in new fuel-efficient technologies under development at tier one suppliers for domestic and global manufacturers.

Including surcharge, Carpenter's international sales in the fiscal fourth quarter were $82 million, a 54% decrease over the 2008 fiscal fourth quarter. The reduction reflects declines in energy and aerospace demand, especially in Canada and Europe. International sales were 32% of our total fourth-quarter revenues, which is unchanged from last year.

At this point, let me turn it over to Doug so he can walk you through our financial results.

Doug Ralph - *Carpenter Technology Corporation - SVP Finance, CFO*

Thanks, Anne. As I stated on our last call, our primary financial objective during this downturn is to deliver positive free cash flow which will preserve our strong balance sheet. As we ended our fiscal year in June, we achieved this goal by overcoming a midyear free cash flow deficit of $72 million due to strong management actions.

We finished the year with cash on hand of $355 million, a slight reduction in debt to $279 million, and ending inventory levels slightly below the prior year. Our team also continues to do a very good job managing our customer receivables exposure in the current environment.

Positive free cash flow is also our top financial goal for fiscal 2010. In the current business environment, we will reduce our capital spending from $116 million last year to about $50 million this fiscal year.

Let me now move to our fourth-quarter income statement. Net sales in the quarter were $257 million or 54% below a year ago. Excluding raw material surcharge, sales were down 45%. Overall tonnage volume decreased 50% in the quarter, with stainless steel products down 54%, special alloy products off 41%, and titanium products down 29%.

Fourth-quarter gross profit was $8.4 million compared with $117.3 million a year ago. Excluding surcharge revenue, our gross margin in the period was 3.9% versus 30.1% last year.

Our SG&A expenses decreased 45% year-over-year. The decrease was 19% if you adjust out the impact of non-cash pension expense in both years and a special $21 million litigation reserve in the last quarter of fiscal-year 2008. The lower SG&A is the result of actions we've taken to reduce headcount and spending across the business as well as lower variable compensation expense.

We had a $7.3 million restructuring charge in the quarter from completion of the announced closure of our Crawley, UK, strip facility, with a total impact of $9.4 million for the fiscal year. The net cash outlay associated with this closure is about $3 million, with an ongoing profit improvement of $2 million per year.

For the quarter, we had an operating loss of $32.1 million compared with income of $57.2 million in last year's fourth quarter. Our operating margin, excluding surcharge, the Crawley restructuring costs, and the 2008 special litigation reserve, was a negative 11.6% for the quarter, down from a positive margin of 20% last year.

The lower gross and operating margins primarily result from reduced demand levels and related manufacturing inefficiencies. The margins were also adversely affected by a leaner mix of products due to lower demand for premium alloys for energy and aerospace applications.

In addition, fourth-quarter margins were negatively impacted by about $12 million of LIFO and other quarterly accounting effects, from nickel prices and lower inventory levels, as we discussed last quarter.

While our operating margin was negative for the quarter, we've done a good job reducing costs to adjust to the lower volume levels. We eliminated nearly all but essential overtime in the second half of the year and have most of the operation working on a reduced schedule, with lower staffing levels accomplished mainly through the termination of temporary workers coming and voluntary employee programs.

We're focusing on cost performance on a weekly basis and have put special emphasis on many areas of operating efficiency that are yielding positive results. We also had strong focus through the year on SG&A and manufacturing overhead costs, as reflected in our results.

Continuing down the income statement, our fourth-quarter tax provision was a benefit of $13.2 million or 38.8% of the pretax loss, compared with an income tax expense of $17.2 million or 31.5% of pretax income in the same period last year. The tax benefit reflects the operating loss and a $1.6 million favorable adjustment related to a prior tax period. Our full-year effective tax rate is 24%.

On the net income line, we reported a fourth-quarter loss of $20.8 million or $0.48 per diluted share versus comparable income from continuing operations of $37.4 million or $0.81 per diluted share a year ago.

Despite these difficult market conditions, we continue to maintain a strong and conservative balance sheet. We ended the year with a net cash position of $76 million and plenty of liquidity and cushion within our credit facility covenants. With debt markets improving, we will look to renew our unsecured credit facility sometime in the middle of this fiscal year.

Looking forward, our top financial goal for fiscal year '10 is to continue taking the necessary actions to deliver positive free cash flow through the current downturn. As discussed on our last call, we still think our volume and revenue level will hit bottom in the first quarter of this fiscal and gradually improve off that level during the year. Overall revenue for the year will likely be lower than our fiscal year '09 level.

Moving to earnings, we will see another significant increase in non-cash pension expense for fiscal year '10 to $61 million or $0.83 per share. This is based on pension asset values and other estimates as of June 30, 2009. The fiscal year '10 number is basically fixed at this point and will be spread evenly across the year.

Cash contributions to the pension plan will not be fully determined until the end of the calendar year. We currently expect to contribute about $45 million of cash during calendar year 2010, with only about $7 million falling into this fiscal year. There is discussion in Congress about additional funding relief that could still affect the timing of any cash contributions.

With the current volume level and product mix, we expect to post a net loss for the first quarter. We see earnings improving during the year as demand picks up and also expect to see less volatility in our quarterly results due to better inventory management. Based on current market expectations, even with the higher non-cash pension expense and lower projected revenue level, we would still expect to deliver positive EPS in fiscal year '10. We are prepared to take actions as appropriate to achieve our financial goals if the revenue picture turns out differently than we anticipate.

With that, let me now turn things back to Anne for some closing comments.

Anne Stevens - *Carpenter Technology Corporation - Chairman, President, CEO*

Thank you, Doug. Our previous actions and continued focus position the Company well for this extended downturn and eventual recovery. Although we do not yet see convincing signs of recovery in our results, our dashboard of leading indicators is starting to show improvement. For example, Airline Monitor is forecasting growth starting in 2009 and building into 2010. Auto production and housing start indicators are also beginning to point up. Any recovery, however, is expected to be gradual and uniquely timed for each of the markets.

This creates an ongoing challenge and an opportunity for management. We will continue to do more of what we're already doing -- tightly controlling costs; managing working capital; prioritizing and reducing capital expenditures; improving manufacturing inefficiencies; and taking the other actions necessary to generate positive free cash flow and maintain our strong balance sheet. We will also remain proactive in our new product and global marketing programs, leveraging our presence in the long-term international growth markets, and grow our market share in higher margin products. Equally important, we will remain close to our customers and be prepared to ramp up the production to meet their needs when demand returns.

With that, we will now open the lines for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Gautam Khanna, Cowen and Company.

Gautam Khanna - *Cowen and Company - Analyst*

Hi, Gautam Khanna of Cowen. I wanted to just ask a couple questions, Doug, about the LIFO effect in the quarter. Were you expecting a $20 million negative, and it was a $12 million? And if so, how should we think about whatever lingering impact there may be going forward?

Doug Ralph - *Carpenter Technology Corporation - SVP Finance, CFO*

Yes, Gautam, the primary difference between the $20 million that we were expecting and the $12 million is really due to the progress that we made on inventory. So our inventory levels finished lower than what we were anticipating, which actually created a bit of a positive LIFO decrement so to speak.

That would not have any impact carrying forward in fiscal year '10. Our intent is to manage to about that same inventory level at the end of fiscal year '10.

Gautam Khanna - *Cowen and Company - Analyst*

Okay. And when it comes to the dividend, given the balance sheet looks strong and you're looking for positive free cash flow generation, how do you view dividend policy? Any chance for a hike? Any risk of a cut?

Anne Stevens - *Carpenter Technology Corporation - Chairman, President, CEO*

Well, I can give you some comments on that. Obviously, it's a Board decision and we review it with them every quarter. But you know, as we've said before, we do have the cash, as you have pointed out, and we will continue to generate and expect to continue to generate the free cash flow on the business.

So the dividend right now costs a little bit more than $30 million. So we've got the financial flexibility to continue it if it's the right strategy for deploying the cash. Our yield is attractive versus industry and historic levels, but at the end of it, it's a Board decision. And it's a decision that has supported in the past continuing with a dividend.

Gautam Khanna - *Cowen and Company - Analyst*

Okay, and perhaps the last question and I will kick it over to someone else. When you talk about -- we haven't talked much about the automotive business as it's become smaller and smaller. But there is some talk about production rates coming up in the second half of the calendar year and in '10. What is your expectation through this year, your fiscal year, on automotive?

Mike Shor - *Carpenter Technology Corporation - EVP AMO & PAO*

This is Mike Shor speaking. We believe that automotive in particular is at or near bottom. We see a little inventory remaining in the supply chain, so we are preparing for short-term requirements as they come towards us. But this is a market that we do feel is either at or very close to the bottom.

Operator

Does that answer your question, sir?

Gautam Khanna - *Cowen and Company - Analyst*

Thank you.

Operator

Lloyd O'Carroll, Davenport & Company.

Lloyd O'Carroll - *Davenport & Company - Analyst*

Yes, a numbers question on the pension. The pension line in the statements doesn't seem to be the $20 million. Is that in the segments?

I'm thinking about modeling for fiscal '10. Should that be buried in the segments or spread across the pension line and the reconciliation?

Doug Ralph - *Carpenter Technology Corporation - SVP Finance, CFO*

Yes, Lloyd, we have -- there is a bit in the segments, and that's the annual service cost. Our pension EID, if you're familiar with that, is the difference between that and the $20 million. Our annual service cost runs about $20 million a year.

Lloyd O'Carroll - *Davenport & Company - Analyst*

Okay, so basically $20 million should be in the segments and everything else will be in the separate line?

Doug Ralph - *Carpenter Technology Corporation - SVP Finance, CFO*

That's right.

Lloyd O'Carroll - *Davenport & Company - Analyst*

Okay. Thank you.

Operator

Edward Marshall, Sidoti & Company.

Edward Marshall - *Sidoti & Company - Analyst*

Good morning, everyone. I am focusing on the inventory levels in both the aerospace and energy markets. What is your feel, based on what your customers are saying about the destocking efforts that they have made thus far? Will we see a sequential pickup throughout 2010, or fiscal 2010?

Anne Stevens - *Carpenter Technology Corporation - Chairman, President, CEO*

Well, you know, I think the first thing, there are different answers for the different markets, but let me address aerospace first. When we look at aerospace, for us the two large ones that we obviously look at are the inventory chain that's related to fastener, and then the chain that's related to the engine markets.

Now, as the Airline Monitor's numbers come to be factual, then we would expect the engine market to start pulling more material out of the system.

And the other thing with the two pieces of the market, there is different lead time with engine and fastener. Engine lead time is 12% to 18% versus the fastener leadtime is 6% -- maybe 6% to 12%. So we would expect that the pull will come from the engine market first.

The second thing is it will be a little bit slower on the fastener side. The one thing with the fastener, that one is tied to new plane builds. When you look at the engine obviously there is a replacement part on that one. But with the fastener side of the market, the production slowed quicker than the engine side, so we believe that there is more excess inventory out there.

Plus the other thing that we have on that one is the delay in the 787 will also impact some of the consumption on the titanium side. That's the aerospace side of the market. So, bottom line (multiple speakers) --

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Edward Marshall - *Sidoti & Company - Analyst*

If I can interrupt for just a second there, and I apologize, but how comfortable are you with the Airline Monitor's projection based on what conversations you've been having with your customer base?

Anne Stevens - *Carpenter Technology Corporation - Chairman, President, CEO*

Well, you know, I'm going to let Sanjay Guglani comment on that, because he did speak with them just this past week. So he can speak from an actual conversation.

Sanjay Guglani - *Carpenter Technology Corporation - VP & Chief Marketing Officer*

We have over the last couple of years started using the Airline Monitor, and we are quite comfortable with the forecast that they are giving. There has been a recent change in their forecast compared to six months ago, and that is based on the logic that a lot of the airlines have old, fuel-inefficient planes that they would like to change. And that has been backed up by some recent announcements by US-based airlines.

So we are actually basing acing our forecast on the Airline Monitor changed forecast and hoping that it will materialize.

Anne Stevens - *Carpenter Technology Corporation - Chairman, President, CEO*

So the basis of it, bottom-line, is that some of the domestics will start ordering planes, and we are seeing some activity in that direction. I think, typically in the past, what would you say? They are plus- minus 20% accurate?

Sanjay Guglani - *Carpenter Technology Corporation - VP & Chief Marketing Officer*

Actually, the first year their error rate is about 14% or 15%.

Anne Stevens - *Carpenter Technology Corporation - Chairman, President, CEO*

Yes, so if you kind of put the 15% plus-minus on that, it's reasonably well for a forecast. And obviously they work very closely with both Boeing and Airbus to develop the numbers.

On the other markets, I'm a bit more optimistic -- and again this is opinion -- on the aerospace coming back. I think that on the energy side there is more inventory in the supply chain, so the probability of those markets coming back in our fiscal 2010 I believe is lower than the probability on the aerospace side.

Medical market, I commented. I think that supply chain from what we see is pretty much in balance. They destocked and reduced inventories down back a couple years ago. So I think that will be as demand pull grows then we'll see those rates.

And industrial, basically I think they are reasonably well in balance in what we're seeing on that. Some of them in that segment have been drained to control their own cash since credit has been tight.

Edward Marshall - *Sidoti & Company - Analyst*

I see. Okay. Thank you guys very much.

Operator

(Operator Instructions) Mark Parr, KeyBanc Capital Markets.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

This is Phil Gibbs for Mark. Good morning. I just had a question. I just had a couple quick ones here.

As far as base pricing levels, average base pricing levels and stainless steel and specialty alloys, are we seeing some stability there, to some upside into the next quarter? Also, have surcharges also started moving up on those products?

Anne Stevens - *Carpenter Technology Corporation - Chairman, President, CEO*

I'm going to let Mike Shor answer this, because it's a bit different from the different segments.

Mike Shor - *Carpenter Technology Corporation - EVP AMO & PAO*

Good morning. As far as pricing, we are still continuing to feel the pressure of the supply-demand dynamics that are out there and the economic environment in general. Obviously, our customers in these times are always coming at us for looking for reduced prices, while we are constantly talking about the value that we add, high-value differentiated products.

I would say in premium products, those products that go through our premium melt facilities, we for the most part continue to maintain our pricing because a large portion of that business is through long-term agreements.

The transactional business that is out there for the most part, both on the premium side and the stainless side, is still a very tough environment because of supply and demand.

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Phil Gibbs - *KeyBanc Capital Markets - Analyst*

Okay. As far as margins going forward in the various segments, Advanced Metals obviously bore the brunt of probably all the inventory destocking and negative LIFO impacts in the June quarter. Premium metals -- Premium Alloys, rather, held up fairly well.

How are we supposed to be looking at that in the September quarter? Advanced Metals probably, obviously not going to be that bad probably for some time. But how are we supposed to look at that?

Anne Stevens - *Carpenter Technology Corporation - Chairman, President, CEO*

Well, a comment on the Advanced Metal part of the business. Most of our plant personnel and the cost in that really relate to the e finishing operations, which is related to the forms of those products, which the AMO business bears. Volume reductions that we had early in the downturn in the quarter recently have been skewed more to these commodity-type products, so that's how to view it in the past.

Going forward, when we talk about margins, we've done some analysis on that; and I'll let Doug share that with you.

Doug Ralph - *Carpenter Technology Corporation - SVP Finance, CFO*

Yes, I think your question, Phil, specific to the September quarter, is that the level of volume that we're at right now and the product mix, we are a little bit below our breakeven margin point, which is why we do expect to post a loss in the first quarter.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

Okay, and --?

Doug Ralph - *Carpenter Technology Corporation - SVP Finance, CFO*

Unless volume improves during the year, we would expect that to improve obviously.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

Then most of that is going to be in the Advanced Metals operation, just as it was in the June quarter as well?

Doug Ralph - *Carpenter Technology Corporation - SVP Finance, CFO*

Yes, as Anne had mentioned, I think the production inefficiencies as we were driving in the second half, lower demand levels on top of significant reductions in our inventories, some of that we'll see improve between fourth quarter and first quarter.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

Okay. Thank you. Good luck.

Doug Ralph - *Carpenter Technology Corporation - SVP Finance, CFO*

You're welcome.

Anne Stevens - *Carpenter Technology Corporation - Chairman, President, CEO*

Thanks.

Operator

Ladies and gentlemen, this concludes the question-and-answer portion of today's conference. I will now turn the call back over to Ms. Anne Stevens for her closing remarks. Ma'am?

Anne Stevens - *Carpenter Technology Corporation - Chairman, President, CEO*

Thank you, Carol. Thank all of you for the interest in Carpenter. Once again, we look forward to talking with you at our first-quarter conference call. Have a good day.

Operator

Ladies and gentlemen, this concludes your presentation for today. You may now disconnect. Have yourself a great day.